

VILLAGE OF PENTWATER
Oceana County, Michigan

FINANCIAL STATEMENTS
March 31, 2016

VILLAGE OF PENTWATER

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INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Pentwater
Oceana County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Pentwater as of and for the year ended March 31, 2016, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Pentwater as of March 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle and Emphasis of Matter

During the year ended March 31, 2016, the Village adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 8), schedule of changes in net pension liability and related ratios (page 45), schedule of defined benefit plan pension contributions (page 46), schedules of other postemployment benefits funding progress and employer contributions (page 47), and budgetary comparison information (pages 48 through 50) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Pentwater's basic financial statements. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2016 on our consideration of the Village of Pentwater's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village of Pentwater's internal control over financial reporting and compliance.

Bertchume & Co.

Saginaw Michigan
August 11, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

VILLAGE OF PENTWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2016

As management of the Village of Pentwater (the "Village"), we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended March 31, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS:

- The Village's combined total net position is reported as \$7,047,718 for the fiscal year ended March 31, 2016, compared to \$7,030,772 for the fiscal year ended March 31, 2015.
- In the Village's governmental activities, revenues generated were \$1,532,604 while expenses totaled \$1,259,867.
- In the Village's business-type activities, revenues generated were \$1,036,160 while expenses totaled \$970,633.
- Total net position increased by \$338,264.

OVERVIEW OF THE FINANCIAL STATEMENTS:

This discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements:

The government-wide statements are designed to provide readers with a broad overview of the Village's finances, as a whole, in a manner similar to a private sector business. The *statement of net position* presents information on all of the Village's assets and liabilities, with the difference between the two reported as net position. The *statement of activities* presents all of the Village's revenues and expenses, and is reported based on when the underlying event giving rise to the revenue or expense occurs, regardless of when cash is received or paid.

The government-wide statements of the Village of Pentwater are divided into two categories:

Governmental Activities – Most of the Village's basic services are included here, such as the public safety, public works, recreation departments, and general administration. Property taxes, state shared revenue, and charges for services finance most of these activities.

Business-type Activities – The Village charges fees to customers to recover all or a significant portion of certain services it provides. These business-type activities include water distribution, wastewater collection, and marina.

Fund Financial Statements:

The fund financial statements provide more detailed information about the Village's most significant funds, not the Village as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

VILLAGE OF PENTWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2016

The Village has three types of funds:

Governmental Funds – Many of the Village's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out. The funds also show the balances left at year-end that are available for spending.

The governmental funds focus on a short-term view, rather than the long-term focus of the government-wide statements, so additional information is provided after each of the governmental fund statements that explain the relationship of differences between the fund and government-wide statements.

The Village maintains six (6) individual governmental funds. Separate information is presented for the General Fund and Local Street Fund, which are considered to be "major" funds. Data from the other four (4) governmental funds, considered to be "nonmajor" funds, are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The Village adopts an annual budget for each of its governmental funds, except for its debt service fund. Budgetary comparison statements have been provided for major governmental funds to demonstrate compliance with those budgets.

Proprietary Funds – Proprietary funds are used to report services where the Village charges a fee to the customer to recover most or all of the cost of the service rendered. Proprietary funds provide both long- and short-term financial information. The two types of proprietary funds are enterprise and internal service funds.

- Enterprise funds and business-type funds are the same, but the fund statements provide more detail and additional information such as cash flows.
- Internal service funds are used to report activities that provide supplies and services to the Village's other programs. The Village's internal service fund is the Motor Pool Fund.

Fiduciary Funds – Fiduciary funds are used to account for the resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of the funds are not available to support the Village's own programs.

Notes to the Financial Statements:

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information:

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Village. The combining statements referred to earlier in connection with the nonmajor governmental funds are presented immediately following the required supplementary information.

VILLAGE OF PENTWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2016

THE VILLAGE OF PENTWATER AS A WHOLE:

The Village's total combined net position for the fiscal year ended March 31, 2016 is \$7,047,718, consisting of \$1,768,857 in governmental activities and \$5,278,861 in business-type activities.

Combined unrestricted net position, that part of net position that can be used to finance day-to-day operations, is \$2,756,472. Governmental activities unrestricted total is \$500,454, while business-type activities is \$2,256,018.

The following table shows comparisons of total assets, total deferred outflows, total liabilities, and total net position in a condensed format as of March 31, 2016 and March 31, 2015.

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Assets:						
Current and other assets	\$ 1,698,222	\$ 1,512,503	\$ 2,789,463	\$ 2,610,199	\$ 4,487,685	\$ 4,122,702
Capital assets	941,930	918,744	8,003,691	8,264,722	8,945,621	9,183,466
Total assets	<u>2,640,152</u>	<u>2,431,247</u>	<u>10,793,154</u>	<u>10,874,921</u>	<u>13,433,306</u>	<u>13,306,168</u>
Deferred outflows	<u>98,078</u>	<u>-</u>	<u>23,006</u>	<u>-</u>	<u>121,084</u>	<u>-</u>
Liabilities:						
Other liabilities	47,914	56,450	16,087	37,890	64,001	94,340
Long-term liabilities	921,459	618,410	5,521,212	5,562,646	6,442,671	6,181,056
Total liabilities	<u>969,373</u>	<u>674,860</u>	<u>5,537,299</u>	<u>5,600,536</u>	<u>6,506,672</u>	<u>6,275,396</u>
Net position:						
Net investment in capital assets	841,930	733,744	2,627,338	2,758,369	3,469,268	3,492,113
Restricted	426,473	383,174	395,505	328,143	821,978	711,317
Unrestricted	<u>500,454</u>	<u>639,469</u>	<u>2,256,018</u>	<u>2,187,873</u>	<u>2,756,472</u>	<u>2,827,342</u>
Total net position	<u>\$ 1,768,857</u>	<u>\$ 1,756,387</u>	<u>\$ 5,278,861</u>	<u>\$ 5,274,385</u>	<u>\$ 7,047,718</u>	<u>\$ 7,030,772</u>

The Village's combined total net position increased by \$338,264 during the current fiscal year. Governmental activities increased by \$272,737 while business-type activities increased by \$65,527.

Governmental Activities:

The Village's total governmental revenue is reported at \$1,532,604, an increase of \$24,378 from the prior fiscal year. Total expenses decreased by \$74,970 from the prior fiscal year.

Business-type Activities:

The Village's total business-type revenue is reported at \$1,036,160, a decrease of \$23,012 from the prior fiscal year. Total expenses decreased by \$52,043 from the prior fiscal year.

VILLAGE OF PENTWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2016

The following table shows the comparison of the change in net position in a condensed format for the fiscal years ended March 31, 2016 and March 31, 2015.

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	
	<i>Activities</i>		<i>Activities</i>			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues						
Charges for services	342,722	332,996	979,066	951,708	1,321,788	1,284,704
Operating grants	125,018	119,846	5,500	-	130,518	119,846
Capital grants	125	8,660	-	32,510	125	41,170
General revenues						
Property taxes	948,370	927,769	-	-	948,370	927,769
Franchise fees	32,097	31,122	-	-	32,097	31,122
State revenue sharing	64,467	66,055	-	-	64,467	66,055
Investment earnings	3,774	2,399	10,789	42,721	14,563	45,120
Other	16,031	19,379	40,805	32,233	56,836	51,612
Total revenues	<u>1,532,604</u>	<u>1,508,226</u>	<u>1,036,160</u>	<u>1,059,172</u>	<u>2,568,764</u>	<u>2,567,398</u>
Expenses:						
General government	337,935	324,960	-	-	337,935	324,960
Public safety	281,879	349,636	-	-	281,879	349,636
Public works	395,410	414,223	-	-	395,410	414,223
Community and economic development	59,278	59,097	-	-	59,278	59,097
Recreation and culture	172,672	170,888	-	-	172,672	170,888
Interest on long-term debt	12,693	16,033	-	-	12,693	16,033
Sewer	-	-	648,735	701,442	648,735	701,442
Water	-	-	211,492	231,092	211,492	231,092
Marina	-	-	110,406	90,142	110,406	90,142
Total expenses	<u>1,259,867</u>	<u>1,334,837</u>	<u>970,633</u>	<u>1,022,676</u>	<u>2,230,500</u>	<u>2,357,513</u>
Changes in net position	<u>272,737</u>	<u>173,389</u>	<u>65,527</u>	<u>36,496</u>	<u>338,264</u>	<u>209,885</u>
Net position, beginning of year	<u>1,496,120</u>	<u>1,322,731</u> *	<u>5,213,334</u>	<u>5,176,838</u> *	<u>6,709,454</u>	<u>6,499,569</u>
Net position, end of year	<u>\$ 1,768,857</u>	<u>\$ 1,496,120</u>	<u>\$ 5,278,861</u>	<u>\$ 5,213,334</u>	<u>\$ 7,047,718</u>	<u>\$ 6,709,454</u>

* Restated for GASB Statement No. 68, see Note 13

VILLAGE OF PENTWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2016

THE VILLAGE OF PENTWATER'S FUNDS:

Presentation of the Village of Pentwater's major funds and aggregate nonmajor funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Village as a whole. Funds are created to help manage money for specific purposes, as well as show accountability for certain activities, such as specific property tax millages and restricted receipts from Federal and State sources.

The General Fund is the Village's largest governmental fund and one of two governmental funds that is considered a major fund. It pays for most of the Village's government services. Its major components of revenue are property taxes and state shared revenue. For the year ended March 31, 2016, General Fund financing sources exceeded its financing uses by \$142,117, increasing its ending fund balance to \$993,072. The Village's second major governmental fund, the Local Street Fund decreased its ending fund balance by \$16,331.

General Fund Budgetary Highlights:

The General Fund, as originally adopted, projected a zero change in fund balance. During the year, the Village made budget amendments which changed the projection to a net decrease in fund balance of \$50,000. The actual results for the year yielded an increase in fund balance of \$142,117.

Capital Assets and Debt Administration:

At March 31, 2016, the Village of Pentwater had \$8,945,621 invested in a range of capital assets including land, buildings, equipment, vehicles, water and sewer lines, streets, and other infrastructure, net of accumulated depreciation. At March 31, 2015, this total was \$9,183,466. Additional information about the Village's capital assets is presented in Note 1 and Note 5 of the Notes to the Financial Statements.

At March 31, 2016, the Village of Pentwater's total indebtedness (not including compensated absences, net OPEB obligation, and net pension liability) was \$5,476,353. Of this amount, the Village pledges its limited tax full faith and credit on the outstanding amount of \$762,353 and its full faith and credit on the outstanding amount of \$100,000. The remaining outstanding amount of \$4,614,000 was backed by specific revenue sources. Additional information about the Village's indebtedness is presented in Note 6 of the Notes to the Financial Statements.

Economic Factors:

We are continuing to plan for the long term, and will continue to balance the budgets through controls over spending, while striving to provide the Village's residents with the same level of service to which they have been accustomed. However, should State-shared revenues be reduced further, reductions in services are inevitable.

Contacting the Village's Financial Management:

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Village of Pentwater, 327 South Hancock Street, Pentwater, Michigan, 49449.

BASIC FINANCIAL STATEMENTS

VILLAGE OF PENTWATER

STATEMENT OF NET POSITION

March 31, 2016

	<i>Governmental</i>	<i>Business-type</i>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 1,592,919	\$ 2,130,408	\$ 3,723,327
Receivables	96,978	221,053	318,031
Inventory	-	32,350	32,350
Prepaid expenses	8,325	10,147	18,472
Restricted cash and cash equivalents	-	395,505	395,505
Capital assets not being depreciated	74,306	214,583	288,889
Capital assets being depreciated, net	<u>867,624</u>	<u>7,789,108</u>	<u>8,656,732</u>
Total assets	<u>2,640,152</u>	<u>10,793,154</u>	<u>13,433,306</u>
Deferred outflows of resources:			
Pension	<u>98,078</u>	<u>23,006</u>	<u>121,084</u>
Liabilities:			
Accounts payable and accrued expenses	47,914	3,842	51,756
Unearned revenue	-	12,245	12,245
Long-term liabilities:			
Due within one year			
Current portion of long-term debt	-	55,000	55,000
Due in more than one year			
Long-term debt	100,000	5,321,353	5,421,353
Compensated absences	21,476	2,026	23,502
Net OPEB obligation	414,409	52,388	466,797
Net pension liability	<u>385,574</u>	<u>90,445</u>	<u>476,019</u>
Total liabilities	<u>969,373</u>	<u>5,537,299</u>	<u>6,506,672</u>
Net position:			
Net investment in capital assets	841,930	2,627,338	3,469,268
Restricted for:			
Debt service	42,781	395,505	438,286
Downtown development	35,341	-	35,341
Friendship Center	51,138	-	51,138
Streets	297,213	-	297,213
Unrestricted	<u>500,454</u>	<u>2,256,018</u>	<u>2,756,472</u>
Total net position	<u>\$ 1,768,857</u>	<u>\$ 5,278,861</u>	<u>\$ 7,047,718</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PENTWATER

STATEMENT OF ACTIVITIES

Year Ended March 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<i>Governmental activities:</i>					
General government	\$ 337,935	\$ 173,014	\$ -	\$ -	\$ (164,921)
Public safety	281,879	1,111	3,260	-	(277,508)
Public works	395,410	141,789	115,587	-	(138,034)
Community and economic development	59,278	3,324	-	-	(55,954)
Recreation and culture	172,672	23,484	6,171	125	(142,892)
Interest on long-term debt	12,693	-	-	-	(12,693)
Total governmental activities	<u>\$ 1,259,867</u>	<u>\$ 342,722</u>	<u>\$ 125,018</u>	<u>\$ 125</u>	<u>\$ (792,002)</u>
<i>Business-type activities:</i>					
Sewer	\$ 648,735	\$ 591,618	\$ -	\$ -	\$ (57,117)
Water	211,492	279,985	3,500	-	71,993
Marina	110,406	107,463	2,000	-	(943)
Total business-type activities	<u>\$ 970,633</u>	<u>\$ 979,066</u>	<u>\$ 5,500</u>	<u>\$ -</u>	<u>\$ 13,933</u>

continued

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PENTWATER

STATEMENT OF ACTIVITIES, CONTINUED

Year Ended March 31, 2016

	<i><u>Governmental Activities</u></i>	<i><u>Business- type Activities</u></i>	<i><u>Total</u></i>
<i>Changes in net position:</i>			
Net (Expense) Revenue	\$ (792,002)	\$ 13,933	\$ (778,069)
General revenues:			
Taxes:			
Property taxes, levied for general purpose	734,490	-	734,490
Property taxes, levied for specific purposes	102,834	-	102,834
Property taxes, levied for debt service	111,046	-	111,046
Franchise fees	32,097	-	32,097
Grants and contributions not restricted to specific programs	64,467	-	64,467
Unrestricted investment earnings	3,774	10,789	14,563
Other	16,031	40,805	56,836
Total general revenues	<u>1,064,739</u>	<u>51,594</u>	<u>1,116,333</u>
Changes in net position	272,737	65,527	338,264
Net position, beginning of year, restated	<u>1,496,120</u>	<u>5,213,334</u>	<u>6,709,454</u>
Net position, end of year	<u>\$ 1,768,857</u>	<u>\$ 5,278,861</u>	<u>\$ 7,047,718</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PENTWATER

GOVERNMENTAL FUNDS

BALANCE SHEET

March 31, 2016

	<u>General Fund</u>	<u>Local Street Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 962,292	\$ 118,735	\$ 284,080	\$ 1,365,107
Taxes receivable	19,524	1,295	4,430	25,249
Accounts receivable	34,474	-	-	34,474
Due from other governmental units	10,995	15,037	11,223	37,255
Prepaid expenditures	6,349	967	776	8,092
Total assets	<u>\$ 1,033,634</u>	<u>\$ 136,034</u>	<u>\$ 300,509</u>	<u>\$ 1,470,177</u>
Liabilities:				
Accounts payable	\$ 22,592	\$ 3,703	\$ 849	\$ 27,144
Accrued expenses	17,970	805	300	19,075
Deposits payable	-	-	600	600
Total liabilities	<u>40,562</u>	<u>4,508</u>	<u>1,749</u>	<u>46,819</u>
Deferred outflows of resources:				
Unavailable state grant	-	3,813	-	3,813
Fund balances:				
Nonspendable:				
Prepaid expenditures	6,349	967	776	8,092
Restricted for:				
Debt service	-	-	42,781	42,781
Downtown development	-	-	35,341	35,341
Friendship Center	-	-	51,091	51,091
Streets	-	126,746	168,771	295,517
Unassigned	<u>986,723</u>	<u>-</u>	<u>-</u>	<u>986,723</u>
Total fund balances	<u>993,072</u>	<u>127,713</u>	<u>298,760</u>	<u>1,419,545</u>
Total liabilities, deferred outflows of resources and fund balances	<u>\$ 1,033,634</u>	<u>\$ 136,034</u>	<u>\$ 300,509</u>	<u>\$ 1,470,177</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PENTWATER

RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES

March 31, 2016

Fund balances of governmental funds	\$ 1,419,545
Net position reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Capital assets not being depreciated	74,306
Capital assets being depreciated, net	867,624
Capital assets accounted for in the internal service fund	(142,828)
Deferred outflows of resources from the differences between projected and actual investment earnings of the pension plan as well as Village contributions made after the measurement date of the net pension liability are not reported in the funds.	98,078
Deferred inflows of resources are reported in the governmental funds because they are not available but are reported in the statement of activities as revenue because it is earned.	3,813
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds.	
Compensated absences payable	(21,476)
Bonds payable	(100,000)
Net OPEB obligation	(392,570)
Net pension liability	(385,574)
An internal service fund is used by management to charge the costs of certain activities, such as equipment usage, to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities.	<u>347,939</u>
Net position of governmental activities	<u>\$ 1,768,857</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PENTWATER

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended March 31, 2016

	<u>General Fund</u>	<u>Local Street Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues:				
Property taxes	\$ 746,388	\$ 48,783	\$ 165,232	\$ 960,403
Licenses and permits	32,097	-	-	32,097
Federal grants	-	-	-	-
State grants	67,727	49,661	66,337	183,725
Contributions from other units	3,500	-	-	3,500
Charges for services	308,151	-	-	308,151
Fines and forfeits	910	-	-	910
Interest and rents	24,969	143	4,101	29,213
Other revenue	16,604	1,165	1,058	18,827
Total revenues	<u>1,200,346</u>	<u>99,752</u>	<u>236,728</u>	<u>1,536,826</u>
Expenditures:				
Current				
General government	344,159	-	-	344,159
Public safety	269,647	-	-	269,647
Public works	226,724	95,788	37,205	359,717
Community and economic development	50,527	-	8,751	59,278
Recreation and culture	121,464	-	29,379	150,843
Other	5,708	-	-	5,708
Capital outlay	-	60,295	-	60,295
Debt service				
Principal	-	-	85,000	85,000
Interest and fees	-	-	12,693	12,693
Total expenditures	<u>1,018,229</u>	<u>156,083</u>	<u>173,028</u>	<u>1,347,340</u>
Excess (deficiency) of revenues over expenditures	<u>182,117</u>	<u>(56,331)</u>	<u>63,700</u>	<u>189,486</u>
Other financing sources (uses):				
Transfers from (to) other funds	<u>(40,000)</u>	<u>40,000</u>	<u>(5,400)</u>	<u>(5,400)</u>
Changes in fund balances	142,117	(16,331)	58,300	184,086
Fund balances, beginning of year	<u>850,955</u>	<u>144,044</u>	<u>240,460</u>	<u>1,235,459</u>
Fund balances, end of year	<u>\$ 993,072</u>	<u>\$ 127,713</u>	<u>\$ 298,760</u>	<u>\$ 1,419,545</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PENTWATER

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2016

Changes in fund balances of governmental funds	\$ 184,086
Change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.	
Purchases of capital assets	97,260
Depreciation expense	(74,074)
Purchases of capital assets accounted for in the internal service fund	(33,565)
Depreciation expense accounted for in the internal service fund	27,219
Revenues are recorded in the statement of activities when they are earned; they are recognized in the governmental funds when they are available.	(411)
Payments of principal on long-term obligations are expenditures in governmental funds but the payments reduce long-term liabilities in the statement of net position.	85,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in compensated absences payable	2,435
Change in net OPEB obligation	(3,647)
Change in net pension liability and related deferred outflow of resources	(27,229)
An internal service fund is used by management to charge the costs of certain activities, such as equipment usage, to individual funds. The net revenues (expenses) are recorded in the governmental activities.	
Operating income in the internal service fund	10,023
Interest income in the internal service fund	240
Transfer from other fund in the internal service fund	<u>5,400</u>
Change in net position of governmental activities	<u>\$ 272,737</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PENTWATER

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

March 31, 2016

	<i>Enterprise Funds</i>				<i>Internal Service Fund</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Total</i>	
Assets:					
Current assets:					
Cash and cash equivalents	\$ 1,456,545	\$ 656,909	\$ 16,954	\$ 2,130,408	\$ 227,812
Accounts receivable	154,855	66,198	-	221,053	-
Inventory	-	32,350	-	32,350	-
Prepaid expenses	890	909	8,348	10,147	233
Total current assets	<u>1,612,290</u>	<u>756,366</u>	<u>25,302</u>	<u>2,393,958</u>	<u>228,045</u>
Noncurrent assets:					
Restricted cash and cash equivalents	395,505	-	-	395,505	-
Capital assets not being depreciated	2,196	-	212,387	214,583	-
Capital assets being depreciated, net	6,318,001	1,367,991	103,116	7,789,108	142,828
Total noncurrent assets	<u>6,715,702</u>	<u>1,367,991</u>	<u>315,503</u>	<u>8,399,196</u>	<u>142,828</u>
Total assets	<u>8,327,992</u>	<u>2,124,357</u>	<u>340,805</u>	<u>10,793,154</u>	<u>370,873</u>
Deferred outflows of resources:					
Pension	10,898	12,108	-	23,006	-
Liabilities:					
Current liabilities:					
Accounts payable	2,056	98	192	2,346	773
Accrued expenses	537	537	422	1,496	322
Unearned revenue	-	-	12,245	12,245	-
Current portion of long-term debt	-	55,000	-	55,000	-
Total current liabilities	<u>2,593</u>	<u>55,635</u>	<u>12,859</u>	<u>71,087</u>	<u>1,095</u>
Noncurrent liabilities:					
Compensated absences payable	941	1,085	-	2,026	-
Bonds payable, net of current portion	4,614,000	707,353	-	5,321,353	-
Net OPEB obligation	23,769	28,619	-	52,388	21,839
Net pension liability	42,842	47,603	-	90,445	-
Total noncurrent liabilities	<u>4,681,552</u>	<u>784,660</u>	<u>-</u>	<u>5,466,212</u>	<u>21,839</u>
Total liabilities	<u>4,684,145</u>	<u>840,295</u>	<u>12,859</u>	<u>5,537,299</u>	<u>22,934</u>
Net position:					
Net investment in capital assets	1,706,197	605,638	315,503	2,627,338	142,828
Restricted for:					
Debt service	395,505	-	-	395,505	-
Unrestricted	<u>1,553,043</u>	<u>690,532</u>	<u>12,443</u>	<u>2,256,018</u>	<u>205,111</u>
Total net position	<u>\$ 3,654,745</u>	<u>\$1,296,170</u>	<u>\$ 327,946</u>	<u>\$ 5,278,861</u>	<u>\$ 347,939</u>

The accompanying notes are an integral part of these financial statements

VILLAGE OF PENTWATER

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Year Ended March 31, 2016

	<i>Enterprise Funds</i>				<i>Internal Service Fund</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Total</i>	
Operating revenues:					
Charges for services	\$ 568,755	\$ 267,383	\$ 107,213	\$ 943,351	\$ -
Penalties	6,863	2,759	-	9,622	-
Equipment rental	-	-	-	-	90,334
Other	16,000	9,843	250	26,093	13,843
Total operating revenues	591,618	279,985	107,463	979,066	104,177
Operating expenses:					
Personal services	34,732	35,006	51,500	121,238	8,685
Supplies	21,083	9,113	3,893	34,089	23,236
Contracted services	62,186	26,091	17,978	106,255	-
Administrative expense	93,000	42,000	4,200	139,200	9,600
Other services and charges	94,872	38,361	24,016	157,249	25,414
Depreciation	208,075	44,137	8,819	261,031	27,219
Total operating expenses	513,948	194,708	110,406	819,062	94,154
Operating income (loss)	77,670	85,277	(2,943)	160,004	10,023
Non-operating revenues (expenses):					
State grants	-	3,500	2,000	5,500	-
Interest income	10,219	530	40	10,789	240
Rental income	-	40,805	-	40,805	-
Interest expense	(134,787)	(16,784)	-	(151,571)	-
Net non-operating revenues (expenses)	(124,568)	28,051	2,040	(94,477)	240
Changes in fund net position before transfers	(46,898)	113,328	(903)	65,527	10,263
Transfer from other fund	-	-	-	-	5,400
Changes in fund net position	(46,898)	113,328	(903)	65,527	15,663
Net position, beginning of year, restated	3,701,643	1,182,842	328,849	5,213,334	332,276
Net position, end of year	\$ 3,654,745	\$ 1,296,170	\$ 327,946	\$ 5,278,861	\$ 347,939

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PENTWATER

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

Year Ended March 31, 2016

	<i>Enterprise Funds</i>				<i>Internal Service Fund</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Total</i>	
Cash flow from operating activities:					
Cash received from customers	\$ 589,313	\$ 277,641	\$ 95,034	\$ 961,988	\$ -
Cash received for interfund services	-	-	-	-	104,177
Cash payments to and on behalf of employees	(34,204)	(33,330)	(52,066)	(119,600)	(8,583)
Cash payments to suppliers for goods and services	<u>(270,246)</u>	<u>(122,321)</u>	<u>(64,135)</u>	<u>(456,702)</u>	<u>(58,920)</u>
Net cash provided (used) by operating activities	<u>284,863</u>	<u>121,990</u>	<u>(21,167)</u>	<u>385,686</u>	<u>36,674</u>
Cash flows from non-capital financing activities:					
State grants	-	3,500	2,000	5,500	-
Transfer from other fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,400</u>
Net cash provided by non-capital financing activities	<u>-</u>	<u>3,500</u>	<u>2,000</u>	<u>5,500</u>	<u>5,400</u>
Cash flows from capital and related financing activities:					
Acquisition of capital assets	-	-	-	-	(33,565)
Principal payments	(75,000)	(55,000)	-	(130,000)	-
Interest paid	<u>(134,787)</u>	<u>(16,784)</u>	<u>-</u>	<u>(151,571)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(209,787)</u>	<u>(71,784)</u>	<u>-</u>	<u>(281,571)</u>	<u>(33,565)</u>
Cash flows from investing activities:					
Interest received	10,219	530	40	10,789	240
Rent received	<u>-</u>	<u>40,805</u>	<u>-</u>	<u>40,805</u>	<u>-</u>
Net cash provided by investing activities	<u>10,219</u>	<u>41,335</u>	<u>40</u>	<u>51,594</u>	<u>240</u>
Net increase (decrease) in cash and cash equivalents	85,295	95,041	(19,127)	161,209	8,749
Cash and cash equivalents, beginning of year	<u>1,766,755</u>	<u>561,868</u>	<u>36,081</u>	<u>2,364,704</u>	<u>219,063</u>
Cash and cash equivalents, end of year	<u>\$ 1,852,050</u>	<u>\$ 656,909</u>	<u>\$ 16,954</u>	<u>\$ 2,525,913</u>	<u>\$ 227,812</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PENTWATER

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS, CONTINUED

Year Ended March 31, 2016

	<i>Enterprise Funds</i>				<i>Internal Service Fund</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Total</i>	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 77,670	\$ 85,277	\$ (2,943)	\$ 160,004	\$ 10,023
Adjustments:					
Depreciation	208,075	44,137	8,819	261,031	27,219
Change in assets and liabilities:					
Accounts receivable	(2,305)	(2,344)	-	(4,649)	-
Inventory	-	(5,512)	-	(5,512)	-
Prepaid expenses	(136)	(165)	(7,593)	(7,894)	(64)
Accounts payable	1,031	(1,079)	(6,455)	(6,503)	(606)
Accrued expenses	(1,427)	(878)	(566)	(2,871)	(1,161)
Unearned revenue	-	-	(12,429)	(12,429)	-
Compensated absences payable	(120)	(139)	-	(259)	-
Net OPEB obligation	(950)	(670)	-	(1,620)	1,263
Net pension liability and related deferred outflow	3,025	3,363	-	6,388	-
Net cash provided (used) by operating activities	<u>\$ 284,863</u>	<u>\$ 121,990</u>	<u>\$ (21,167)</u>	<u>\$ 385,686</u>	<u>\$ 36,674</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PENTWATER

FIDUCIARY FUND

STATEMENT OF FIDUCIARY NET POSITION

March 31, 2016

	<i>OPEB Trust Fund</i>
Assets:	
Investments held in OPEB trust	<u>\$ 57,142</u>
Net position:	
Held in trust for retiree health insurance	<u>\$ 57,142</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PENTWATER

FIDUCIARY FUND

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended March 31, 2016

	<i>OPEB Trust Fund</i>
Additions:	
Employer contribution	\$ 10,000
Net investment income (loss)	<u>(457)</u>
Total additions	<u>9,543</u>
Deductions:	
Fees	<u>229</u>
Net increase	<u>9,314</u>
Net position, beginning of year	<u>47,828</u>
Net position, end of year	<u><u>\$ 57,142</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF PENTWATER

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies used by the Village of Pentwater, (the "Village"):

Reporting Entity:

The Village of Pentwater is governed by a seven-member Council. The Village provides the following services: general administrative services, police protection, highway and street maintenance, recreation and other governmental functions.

The accompanying financial statements present the Village as the primary government. Component units are separate legal entities for which the Village is financially accountable. Blended component units are, in substance, part of the primary government's operations, and presented as funds of the primary government. Discretely presented component units are reported in separate columns in the government-wide financial statements. The Village has determined that it has one component unit and that it should be blended.

Blended Component Unit:

Downtown Development Authority – The Village appoints all board members and approves annual budgets for the Downtown Development Authority (DDA), and the legal liability for the general obligation debt of the DDA, if any, remains with the Village. The DDA is reported as a special revenue fund. The DDA is included with the Village financial statements using the blended presentation method because it serves as a financing source for capital projects and debt service payments benefiting the Village's operations.

Joint Venture:

Pentwater Fire Department – The Village of Pentwater and the Pentwater Township entered into an agreement effective June 1, 2008 under which the Township assumed responsibility for the accounting of the Pentwater Fire Department. The Fire Department is jointly operated by the Village and the Township. The Pentwater Fire Department is reported as a discretely presented component unit of Pentwater Township. Financial statements can be obtained by contacting the Village Office at 327 S. Hancock Street, Pentwater, MI.

Accounting and Reporting Principles:

The Village follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Government Accounting Standards Board.

Report Presentation:

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

VILLAGE OF PENTWATER

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenues are reported instead as general revenue.

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the Village's enterprise functions and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund Accounting:

The Village accounts for its various activities in several different funds in order to demonstrate accountability for how it has spent certain resources - separate funds allow the Village to show the particular expenditures that specific revenues were used for. The various funds are aggregated into three broad fund types:

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, and capital project funds.

Proprietary funds provide goods or services to users in exchange for charges or fees.

Fiduciary funds account for the resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of the funds are not available to support the Village's own programs.

The Village reports the following major governmental funds:

General Fund – The General Fund is the Village's primary operating fund. It accounts for all financial resources, except for those required to be accounted for in another fund.

Special Revenue Fund – Local Street Fund – The Local Street Fund accounts for the maintenance and construction of streets designated by the Michigan Department of Transportation as local streets in the Village.

The Village reports the following major proprietary funds:

Enterprise Fund – Sewer Fund – The Sewer Fund accounts for the operation and maintenance of the Village's sewage disposal system.

Enterprise Fund – Water Fund – The Water Fund account for the operation and maintenance of the Village's water supply system.

VILLAGE OF PENTWATER

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Additionally, the Village reports the following fund types:

Special Revenue Funds – Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds – Debt service funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Internal Service Funds – Internal service funds account for the financing of goods or services provided by one department to other departments of the Village, on a cost-reimbursement basis. The Village reports on one internal service fund: 1) the motor pool fund is used for the purchase and maintenance of the Village's fleet through rental charges for equipment to other funds.

Basis of Accounting:

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources. Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree health care related costs, or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenues are not recognized until they are collected, or collected soon enough after the end of the year that they are available to pay for obligations outstanding at the end of the year. For this purpose, the Village considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: most state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period.

Proprietary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Specific Balances and Transactions:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments, if any, are stated at fair value. For purposes of the statement of cash flows, the Village considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

Restricted Assets – Certain resources set aside for repayment of bonds and to meet bond covenants, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants.

Inventories – Inventories are valued at cost, on a first-in, first-out basis. Inventories of the Water Fund are recorded as expenses when consumed rather than when purchased.

VILLAGE OF PENTWATER

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are defined by the Village as assets with an individual cost in excess of \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10-40 years
Infrastructure	20-30 years
Land Improvements	10-20 years
Equipment	3-10 years
Docks	10 years
Water System	10-50 years
Sewer System	20-100 years

Long-term Obligations – In the government-wide financial statements and the proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. The General Fund is generally used to liquidate governmental long-term debt.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue qualifies for reporting in this category and arises only under a modified accrual basis of accounting.

Net Position Flow Assumption – Sometimes the Village will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Village's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumption – Sometimes the Village will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

VILLAGE OF PENTWATER

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

It is the Village's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies – In the fund financial statements, fund balance may be presented in five possible categories, each of which identifies the extent to which the Village is bound to honor constraints on the specific purpose for which amounts can be spent:

Nonspendable – Amounts that are not in spendable form or are legally or contractually required to be maintained intact.

Restricted – Amounts that are legally restricted by outside parties, constitutional provisions or enabling legislation for use for a specific purpose.

Committed – Amounts that have been formally set aside by the Village Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Village Council.

Assigned – Amounts that are intended to be used for specific purposes expressed by the Village Council.

Unassigned – Amounts that do not fall into any category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

Property Taxes – Village property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before September 14. The 2015 taxable valuation of the Village totaled \$91,927,005 (exclusive of any Michigan Tax Tribunal or Board of Review adjustments), on which ad valorem taxes levied consisted of 8.0123 mills for the Village's operating purposes, .5316 mills for street improvements, .3473 mills for the Friendship Center, and 1.21 mills for village improvement projects (debt service). An additional 1.5555 mills are levied on the \$14,436,504 taxable valuation in the Downtown Development Authority District. The delinquent real property taxes of the Village are purchased by Oceana County. The delinquent real property taxes are received soon enough after year end to be recorded as revenue in the current year.

Compensated Absences (Vacation and Sick Leave) – Village employees are granted vacation and sick leave in varying amounts based on length of service. Employees must use earned vacation time in the current year. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of one day per month of employment. Unused sick leave is accumulated up to 120 days for police and 90 days for all other Village employees. One-half of all unused accumulated sick leave is paid to employees who resign or retire. All vacation and sick pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are normally liquidated by the fund in which the individual employees are budgeted.

VILLAGE OF PENTWATER

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Pension Costs – The Village offers a defined benefit pension plan to its employees. The Village records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefit Costs (OPEB) – The Village offers qualified retirees postemployment healthcare benefits. In the governmental funds, OPEB costs are recognized as the stipend is paid. For the government-wide statements and proprietary funds, the Village reports the full accrual cost equal to the current year annual required contribution (ARC) less any current year paid benefits, adjusted for interest and “adjustment to the ARC” on the beginning of the year underpaid amount, if any.

Proprietary Funds Operating Classification – Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. The proprietary funds recognize as capital contributions the tap fees intended to recover the cost of connecting new customers to the system and as nonoperating revenues rental income and investment income. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All expenses not included in these classifications are reported as nonoperating expenses.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Interfund Activity:

During the course of operations, the Village has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

VILLAGE OF PENTWATER

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Adoption of New Accounting Standard:

During the current year, the Village adopted Government Accounting Standards Board Statement 68, *Accounting and Financial Reporting for Pensions* and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements require governments participating in public employee defined benefit pension plans to recognize, in the government-wide and proprietary statements, their long-term liability for the pension benefits and the annual costs of providing these benefits. See footnote 13 concerning the resulting changes in the beginning net position.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all special revenue funds. Before the beginning of the next fiscal year, a proposed operating budget is submitted to the Village Council by fund. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted to obtain taxpayer comments. Prior to April 1, the budget is legally enacted by adoption of the Village Council. Any revision that alters the total expenditures of any fund must be approved by the Village Council. Formal budgetary integration is employed as a management control device during the year for all funds. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the budgeted amounts for the General Fund as well as any other major funds is included in the required supplementary information. All annual appropriations lapse at fiscal year end.

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the Village did not incur expenditures that were in excess of the amounts budgeted.

NOTE 3: DEPOSITS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The investment policy adopted by the Village Council is in accordance with Public Act 196 of 1997. The Village's deposits and investments have been made in accordance with statutory authority.

VILLAGE OF PENTWATER

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

NOTE 3: DEPOSITS, CONTINUED

The Village's deposits are subject to custodial risk, which is presented in more detail as follows:

Custodial Credit Risk of Bank Deposits is the risk that in the event of a bank failure, the Village's deposits may not be returned to them. The Village does not have a deposit policy for custodial credit risk. At year end, the Village had \$4,289,254 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$1,500,000 was covered by federal depository insurance. The Village believes that due to the dollar amounts of cash deposits, and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or an agent in the Village's name and had the following credit risk:

<i>Investment</i>	<i>Carrying Value</i>	<i>How Held</i>	<i>Fair Value</i>	<i>Rating</i>	<i>Rating Organization</i>
Trust Fund for OPEB:					
Mututal fund - Equities and other	\$ 57,142	Counterparty	\$ 57,142	Not Rated	N/A

NOTE 4: BOND RESERVES

The Village's ordinance authorizing issuance of the \$3,000,000 Sewer Disposal System Revenue Refunding Bond, Series 2012A (Taxable) and the \$1,900,000 Sewer Disposal System Revenue Bond, Series 2012B (Taxable) requires that specific bond reserve and replacement reserve accounts be established and monies deposited.

Operation and Maintenance Account – Revenues of the system shall be available to pay the reasonable and necessary current expenses of administration and operating and maintaining the systems for the ensuing quarter.

Bond Reserve Account – Revenues of \$20,360 per year (\$12,460 related to the Series 2012A Revenue and Revenue Refunding Bond and \$7,900 related to the Series 2012B Revenue Bond) are to be transferred to this account until \$203,600 is accumulated. Accumulated at March 31, 2016 should be \$61,080.

Repair, Replacement, and Improvement Account – Revenues of \$29,860 per year are to be transferred to this account for the life of the bonds. Accumulated amount at March 31, 2016 should be \$89,580.

At March 31, 2016, the Village's Sewer Fund had restricted cash and cash equivalents (for debt service) of \$395,505.

VILLAGE OF PENTWATER

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2016 was as follows:

	<u>April 1, 2015</u>	<u>Additions</u>	<u>Retirements/ Disposals</u>	<u>March 31, 2016</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 74,306	\$ -	\$ -	\$ 74,306
Capital assets being depreciated:				
Buildings and improvements	677,424	-	(2,536)	674,888
Equipment	837,746	33,565	(108,022)	763,289
Infrastructure	84,016	63,695	-	147,711
Land improvements	210,581	-	-	210,581
Total capital assets being depreciated	<u>1,809,767</u>	<u>97,260</u>	<u>(110,558)</u>	<u>1,796,469</u>
Less accumulated depreciation for:				
Buildings and improvements	(337,593)	(18,155)	2,536	(353,212)
Equipment	(575,228)	(44,693)	108,022	(511,899)
Infrastructure	(7,293)	(4,425)	-	(11,718)
Land improvements	<u>(45,215)</u>	<u>(6,801)</u>	<u>-</u>	<u>(52,016)</u>
Total accumulated depreciation	<u>(965,329)</u>	<u>(74,074)</u>	<u>110,558</u>	<u>(928,845)</u>
Capital assets being depreciated, net	<u>844,438</u>	<u>23,186</u>	<u>-</u>	<u>867,624</u>
Governmental activities, capital assets, net	<u>\$ 918,744</u>	<u>\$ 23,186</u>	<u>\$ -</u>	<u>\$ 941,930</u>

VILLAGE OF PENTWATER

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

NOTE 5: CAPITAL ASSETS, CONTINUED

	<i>April 1, 2015</i>	<i>Additions</i>	<i>Retirements/ Disposals</i>	<i>March 31, 2016</i>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 214,583	\$ -	\$ -	\$ 214,583
Capital assets being depreciated:				
Buildings and improvements	573,011	-	(6,477)	566,534
Docks and land improvements	286,114	-	(13,103)	273,011
Equipment	328,363	-	(9,468)	318,895
Sewer system	8,321,892	-	-	8,321,892
Water system	2,180,078	-	-	2,180,078
Total capital assets being depreciated	<u>11,689,458</u>	<u>-</u>	<u>(29,048)</u>	<u>11,660,410</u>
Less accumulated depreciation for:				
Buildings and improvements	(448,787)	(10,774)	6,477	(453,084)
Docks and land improvements	(179,407)	(5,875)	13,103	(172,179)
Equipment	(262,417)	(7,048)	9,468	(259,997)
Sewer system	(1,864,837)	(200,246)	-	(2,065,083)
Water system	(883,871)	(37,088)	-	(920,959)
Total accumulated depreciation	<u>(3,639,319)</u>	<u>(261,031)</u>	<u>29,048</u>	<u>(3,871,302)</u>
Capital assets being depreciated, net	<u>8,050,139</u>	<u>(261,031)</u>	<u>-</u>	<u>7,789,108</u>
Business-type activities, capital assets, net	<u>\$ 8,264,722</u>	<u>\$ (261,031)</u>	<u>\$ -</u>	<u>\$ 8,003,691</u>

Depreciation expense was charged to various functions as follows:

	<i>Governmental Activities</i>	<i>Business-type Activities</i>
General government	\$ 16,070	\$ -
Public safety	13,487	-
Public works	31,228	-
Recreation and culture	13,289	-
Sewer	-	208,075
Water	-	44,137
Marina	-	8,819
	<u>\$ 74,074</u>	<u>\$ 261,031</u>

VILLAGE OF PENTWATER

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

NOTE 6: LONG-TERM DEBT

The Village may issue bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds and contract financing are direct obligations and pledge the full faith and credit of the Village. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Long-term liability activity for the year ended March 31, 2016 was as follows:

	<u>April 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>March 31, 2016</u>	<u>Due Within One Year</u>
Governmental activities:					
<i>General obligation bonds:</i>					
1996 Village Improvement Project					
Unlimited Tax Bonds in the amount of \$990,000, due in annual amounts of \$100,000, plus interest at 6.05% through April 1, 2017.	\$ 185,000	\$ -	\$ (85,000)	\$ 100,000	\$ -
<i>Other liabilities:</i>					
Compensated absences	23,911	-	(2,435)	21,476	-
Total governmental activities long-term liabilities	<u>\$ 208,911</u>	<u>\$ -</u>	<u>\$ (87,435)</u>	<u>\$ 121,476</u>	<u>\$ -</u>
Business-type activities:					
<i>Revenue Bonds:</i>					
2012A Sewer Disposal System Revenue Refunding Bond in the amount of \$3,000,000, due in annual amounts of \$47,000 to \$120,000, plus interest at 2.75% through April 1, 2052.					
	\$ 2,871,000	\$ -	\$ (46,000)	\$ 2,825,000	\$ -
2012B Sewer Disposal System Revenue Bond in the amount of \$1,900,000, due in annual amounts of \$30,000 to \$76,000, plus interest at 2.75% through April 1, 2052.					
	1,818,000	-	(29,000)	1,789,000	-
<i>General obligation bond:</i>					
2007 Water Project Limited Tax Bonds in the amount of \$1,177,353, due in annual amounts of \$55,000 to \$70,000, plus interest at 2.125% through October 1, 2027.					
	817,353	-	(55,000)	762,353	55,000
<i>Other liabilities:</i>					
Compensated absences	2,285	-	(259)	2,026	-
Total business-type activities long-term liabilities	<u>\$ 5,508,638</u>	<u>\$ -</u>	<u>\$ (130,259)</u>	<u>\$ 5,378,379</u>	<u>\$ 55,000</u>

VILLAGE OF PENTWATER

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

NOTE 6: LONG-TERM DEBT, CONTINUED

Annual debt service requirements to maturity for the above bonds and contracts payable (excluding compensated absences) are as follows:

<i>Year Ended</i> <i>March 31,</i>	<i>Governmental Activities</i>			<i>Business-type Activities</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2017	\$ -	\$ 3,025	\$ 3,025	\$ 55,000	\$ 79,643	\$ 134,643
2018	100,000	3,025	103,025	137,000	140,858	277,858
2019	-	-	-	139,000	137,438	276,438
2020	-	-	-	141,000	133,963	274,963
2021	-	-	-	143,000	130,433	273,433
2022-2026	-	-	-	781,000	595,951	1,376,951
2027-2031	-	-	-	654,353	497,963	1,152,316
2032-2036	-	-	-	591,000	417,494	1,008,494
2037-2041	-	-	-	679,000	330,346	1,009,346
2042-2046	-	-	-	777,000	230,467	1,007,467
2047-2051	-	-	-	890,000	116,051	1,006,051
2052-2053	-	-	-	389,000	10,739	399,739
	<u>\$ 100,000</u>	<u>\$ 6,050</u>	<u>\$ 106,050</u>	<u>\$ 5,376,353</u>	<u>\$ 2,821,346</u>	<u>\$ 8,197,699</u>

NOTE 7: INTERFUND TRANSFERS AND ADVANCES

Interfund transfers reported in the fund statements were as follows:

<i>Transfer From</i>	<i>Transfer To</i>	
General Fund	Local Street Fund	\$ 40,000
Downtown Development Authority	Internal Service Fund	5,400
		<u>\$ 45,400</u>

Transfers were used to move unrestricted revenues collected in various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

VILLAGE OF PENTWATER

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

NOTE 8: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end are as follows:

	<i>Governmental Activities</i>	<i>Business-type Activities</i>
Receivables:		
Property taxes	\$ 25,249	\$ -
Accounts	34,474	221,053
Intergovernmental	<u>37,255</u>	<u>-</u>
Total receivables	<u>\$ 96,978</u>	<u>\$ 221,053</u>
Accounts payable and accrued expenses:		
Accounts	\$ 27,917	\$ 2,346
Payroll and related liabilities	19,397	1,496
Deposits payable	<u>600</u>	<u>-</u>
Total accounts payable and accrued expenses	<u>\$ 47,914</u>	<u>\$ 3,842</u>

NOTE 9: RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation) and certain medical benefits provided to employees.

The Village has purchased insurance through Priority Health for medical benefits, manages its workers compensation risk, by participating in Michigan Municipal Workers Compensation Fund, and its liability and property risk by participating in the Michigan Municipal League's Liability and Property Pool. The Village pays an annual premium for its workers compensation, property and liability insurance coverage. Both the Michigan Municipal Workers Compensation Fund and the Michigan Municipal Liability and Property Pool are self-sustaining through member premiums. The Michigan Municipal Liability and Property Pool provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 10: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS

Defined Benefit Pension Plan (Municipal Employees' Retirement System of Michigan):

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, if any, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

VILLAGE OF PENTWATER

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

NOTE 10: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS, CONTINUED

Plan Description – The employer’s defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided – The following are the benefits provided from the December 31, 2014 valuation. The division is open.

	<u>General</u>
Benefit Multiplier:	2.00% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	8 years
Early Retirement (Unreduced):	50/25
Early Retirement (Reduced):	55/15
Final Average Compensation:	5 years
COLA for Future Retirees:	2.50% (Non-Compound)
Employee Contributions:	6.59%
Act 88:	Yes (Adopted 12/14/1970)

Employees covered by benefit terms – At the December 31, 2014 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits:	12
Inactive employees entitled to but not yet receiving benefits:	3
Active employees:	<u>9</u>
Total	<u><u>24</u></u>

Contributions – The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees. The employers’ annual required contributions (ARC), for the current year, were 10.69% as a percentage of payroll. This amount is based on the valuation payroll from the December 31, 2013 actuarial valuation.

Net Pension Liability – The employer’s net pension liability was measured as of December 31, 2015. The total pension liability as of December 31, 2015 was calculated by the roll-forward method based on the December 31, 2014 actuarial valuation.

Actuarial assumptions – The total pension liability in the December 31, 2014 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement: Inflation: 3%-4%; Salary Increases: 4.5% in the long-term (1%, 2% and 3% for calendar years 2014, 2015 and 2016, respectively); Investment rate of return: 8.25%, net of investment expense, including inflation.

VILLAGE OF PENTWATER

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

NOTE 10: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS, CONTINUED

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%. Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2008. (MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009, through December 31, 2013.)

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount rate – The discount rate used to measure the total pension liability is 8.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

VILLAGE OF PENTWATER

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

NOTE 10: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS, CONTINUED

Changes in net pension liability during the measurement year were as follows:

	<i>Increase (Decrease)</i>		
	<i>Total Pension Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net Pension Liability</i>
Balances at 12/31/14	\$ 1,755,933	\$ 1,425,198	\$ 330,735
Service cost	58,298	-	58,298
Interest on total pension liability	142,500	-	142,500
Employer contributions	-	45,613	(45,613)
Employee contributions	-	26,870	(26,870)
Net investment income	-	(21,230)	21,230
Benefit payments, including employee refunds	(115,630)	(115,630)	-
Administrative expenses	-	(3,102)	3,102
Other changes	(7,363)	-	(7,363)
Net changes	77,805	(67,479)	145,284
Balances at 12/31/15	<u>\$ 1,833,738</u>	<u>\$ 1,357,719</u>	<u>\$ 476,019</u>

The net pension liability is recorded as follows:

Governmental activities	\$ 385,574
Business-type activities	<u>90,445</u>
	<u>\$ 476,019</u>

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the employer, calculated using the discount rate of 8.25%, as well as what the employer's net pension liability would be using a discount rate that is 1 percentage point lower (7.25%) or 1% higher (9.25%) than the current rate.

	<i>1% Decrease Rate 7.25%</i>	<i>Current Rate 8.25%</i>	<i>1% Increase Rate 9.25%</i>
Net pension liability	\$ 660,575	\$ 476,019	\$ 318,123

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended March 31, 2016; the employer recognized pension expense, on the defined benefit plan, of \$81,376. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Net difference between projected and actual earnings on pension plan investments	\$ 109,521	\$ -
Contributions subsequent to the measurement date	<u>11,563</u>	<u>-</u>
	<u>\$ 121,084</u>	<u>\$ -</u>

VILLAGE OF PENTWATER

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

NOTE 10: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS, CONTINUED

The deferred outflows of resources are recorded as follows:

Governmental activities	\$	98,078
Business-type activities		<u>23,006</u>
	\$	<u>121,084</u>

The above amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending March 31, 2017.

The above amount reported as deferred outflows of resources related to pensions, and attributable to the difference between projected and actual plan earnings, will be recognized in pension expense as follows:

<i>Year</i>		<i>Amount</i>
<i>Ended</i>		
2017	\$	27,380
2018		27,380
2019		27,380
2020		27,381

Pension Plan Fiduciary Net Position – Detailed information about the plan’s fiduciary net position is available in the separately issued financial report found at www.mersofmichigan.com. The plan’s fiduciary net position has been determined on the same basis used by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS

Plan Description – For employees hired before April 1, 2015 that are vested in the Village's pension plan and had not opted out of health insurance for the in lieu payments five (5) years prior to retirement, the Village will pay a percentage of the pre-Medicare health insurance premiums based upon years of service as of the date of retirement beginning at age 55. The amount is payable to the eligible retiree and spouse to age Medicare eligibility. The spouse is the person to whom the retiree is married at the time of retirement. If the eligible retiree dies before age Medicare eligibility, the percentage payable to the eligible spouse continues to Medicare eligibility.

Retirees age 55 with ten (10) to fifteen (15) years of service will receive 25% of the healthcare premium and retirees age 55 with sixteen (16) or more years of service will receive 50% of the healthcare premium. The health care plan for pre-Medicare retirees will be the same as provided to active employees.

Employees hired after April 1, 2015 are not eligible to receive a Village healthcare retirement benefit.

VILLAGE OF PENTWATER

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

Funding Policy – The Village has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a pay-as-you-go basis). For the year ended March 31, 2016, the Village contributed \$15,804 for the medical insurance premiums for retirees and \$10,000 to the OPEB Trust Fund.

Annual Required Contribution Funding – The Village’s annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC) of the employer. The Village has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 plan members. ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize the actuarial liabilities (or funding excess) over a period not to exceed 30 years. The Village’s annual OPEB cost for the year was \$29,094. There was a \$10,000 advance funding contribution made to the plan during the year ended March 31, 2016. As part of the valuation, there were four active employees and two retired employees.

The computed contribution and actual funding for the current year are summarized as follows:

Year Ended March 31, 2016

Annual required contribution (recommended)	\$ 32,751
Interest on the prior year's net OPEB obligation	32,445
Less adjustment to the annual required contribution	<u>(36,102)</u>
Annual OPEB cost	29,094
Amounts contributed:	
Payments of current premiums	(15,804)
Advance funding	<u>(10,000)</u>
Increase in net OPEB obligation	3,290
OPEB obligation - Beginning of year	<u>463,507</u>
OPEB obligation - End of year	<u>\$ 466,797</u>

The OPEB obligation is record as follows:

Governmental activities	\$ 414,409
Business-type activities	<u>52,388</u>
	<u>\$ 466,797</u>

VILLAGE OF PENTWATER

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the current and two preceding years were as follows:

<i>Fiscal Year End</i>	<i>Actuarial Valuation Date</i>	<i>Annual Required Contribution</i>	<i>Annual OPEB Costs</i>	<i>Employer Contributions</i>	<i>Employer Percentage Contributed of OPEB Costs</i>	<i>Net OPEB Obligation</i>
3/31/14	4/1/12	\$ 103,445	\$ 95,669	\$ 19,337	20.2%	\$ 400,111
3/31/15	4/1/12	108,799	98,566	35,170	35.7%	463,507
3/31/16	12/31/15	32,751	29,094	25,804	88.7%	466,797

Funding Progress – As of December 31, 2015, the most recent valuation date, the actuarial accrued liability for benefits was \$429,366, which was approximately 13% funded. The schedule of funding progress, presented as supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. During the 2015-2016 year, the Village contributed \$10,000 to the OPEB Trust Fund, which was established in a previous year. The actuarial value of the Trust Fund assets has not been determined. The market value of the Trust Fund assets at March 31, 2016 was \$57,142.

Actuarial Methods and Assumptions – The liabilities and pre-funding contribution rate are very sensitive to the long-term assumptions used in making the valuation. The assumptions used in making this valuation, are only one reasonable set out of a large number of possibilities. To the extent that actual experience differs from the long-term assumptions, the liabilities and contribution rates will be greater or less than those indicated in the valuation. The assumptions having the greatest impact are the rate of medical care inflation and the discount rate. The valuation assumed an 8% annual rate for medical care inflation in the first year, decreasing in increments of 0.5% over the next 8 years to the ultimate 4% assumption. The assumed discount rate for liabilities was 7%.

NOTE 12: RESTRICTED NET POSITION

The governmental activities statement of net position reports \$426,473 of restricted net position, of which \$297,213 is restricted by Act 51 enabling legislation.

NOTE 13: RESTATEMENT OF BEGINNING NET POSITION

Change in Accounting Principle – As a result of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* in the current year, the Village has restated the beginning net position in the government-wide and proprietary fund Statement of Net Position, effectively decreasing net position on April 1, 2015. The decrease results from recognition of a net pension liability and deferred outflow of resources. The effect of the above changes on beginning net position is as follows:

VILLAGE OF PENTWATER

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

NOTE 13: RESTATEMENT OF BEGINNING NET POSITION, CONTINUED

	<i>Fund Statements</i>	
	<i>Sewer Fund</i>	<i>Water Fund</i>
Net position, restated April 1, 2015	\$ 3,730,562	\$ 1,214,974
Recognize net pension liability of \$62,840 and deferred outflow of \$1,789 on April 1, 2015	<u>(28,919)</u>	<u>(32,132)</u>
Net position, restated April 1, 2015	<u>\$ 3,701,643</u>	<u>\$ 1,182,842</u>

	<i>Government-wide Statements</i>	
	<i>Governmental Activities</i>	<i>Business-type Activities</i>
Net position, restated April 1, 2015	\$ 1,756,387	\$ 5,274,385
Recognize net pension liability of \$330,735 and deferred outflow of \$9,417 on April 1, 2015	<u>(260,267)</u>	<u>(61,051)</u>
Net position, restated April 1, 2015	<u>\$ 1,496,120</u>	<u>\$ 5,213,334</u>

NOTE 14: UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans, whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statements more extensive footnote disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the Village will, after adoption of GASB Statement No. 75, recognize on the face of the financial statements its net OPEB liability. The Village is currently evaluating the impact these standards will have on the financial statements when adopted. GASB Statement No. 74 is effective for fiscal years beginning after June 15, 2016, whereas GASB Statement No. 75 is effective one year later.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement will require governments to disclose in their financial statements information related to tax abatement agreements. The Village is currently evaluating the impact this standard will have on the financial statements when adopted.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF PENTWATER

SCHEDULE OF CHANGES IN VILLAGE'S NET PENSION LIABILITY AND RELATED RATIOS

	<u>2015</u>
Service cost	\$ 58,298
Interest on total pension liability	142,500
Benefit payments, including employee refunds	(115,630)
Other changes	<u>(7,363)</u>
Net change in total pension liability	77,805
Total pension liability - beginning	<u>1,755,933</u>
Total pension liability - ending	<u><u>\$ 1,833,738</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 45,613
Contributions - employee	26,870
Net investment income	(21,230)
Benefit payments, including employee refunds	(115,630)
Administrative expenses	<u>(3,102)</u>
Net change in plan fiduciary net position	(67,479)
Total plan fiduciary net position - beginning	<u>1,425,198</u>
Total plan fiduciary net position - ending	<u><u>\$ 1,357,719</u></u>
Village's net pension liability	\$ 476,019
Plan fiduciary net position as a percentage of the total pension liability	74.04%
Covered employee payroll	\$ 416,584
Village's net pension liability as a percentage of covered payroll	114.27%

VILLAGE OF PENTWATER

SCHEDULE OF VILLAGE DEFINED BENEFIT PLAN PENSION CONTRIBUTIONS Last Ten Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Actuarially determined contribution	\$ 47,758	\$ 57,582	\$ 41,979	\$ 36,254	\$ 26,944
Contributions in relation to the actuarially determined contribution	<u>47,758</u>	<u>57,582</u>	<u>41,979</u>	<u>36,254</u>	<u>26,944</u>
Contribution (excess) deficiency	<u>\$ -</u>				
Covered-employee payroll	\$ 447,631	\$ 296,569	\$ 305,683	\$ 265,713	\$ 307,521
Actuarially determined contribution as a percentage of covered-employee payroll	11%	19%	14%	14%	9%
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Actuarially determined contribution	\$ 25,800	\$ 26,485	\$ 29,300	\$ 21,400	\$ 28,300
Contributions in relation to the actuarially determined contribution	<u>25,800</u>	<u>26,485</u>	<u>29,300</u>	<u>21,400</u>	<u>28,300</u>
Contribution (excess) deficiency	<u>\$ -</u>				
Covered-employee payroll	\$ 318,694	\$ 365,631	\$ 240,306	\$ 216,456	\$ 231,654
Actuarially determined contribution as a percentage of covered-employee payroll	8%	7%	12%	10%	12%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of December 31 each year, 15 months prior to the beginning of the fiscal year in which contributions are required.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	23 years
Asset valuation method	10-year smoothed market
Inflation	3-4%
Salary increases	4.5%
Investment rate of return	8.25%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	50% Male - 50% Female blend of the 1994 Group Annual Mortality Table
Other information	None

VILLAGE OF PENTWATER

OTHER POSTEMPLOYMENT BENEFITS

Schedule of Funding Progress

<i>Actuarial Valuation Date</i>	<i>Actuarial Accrued Liability</i>	<i>Market Value of Assets</i>	<i>Unfunded AAL (UAAL)</i>	<i>Funded Ratio</i>	<i>Covered Payroll</i>	<i>UAAL as a Percentage of Covered Payroll</i>
4/1/09	\$ 841,975	\$ -	\$ 841,975	0%	Not available	Not available
4/1/12	959,889	10,652	949,237	1%	Not available	Not available
12/31/15	429,366	54,637	374,729	13%	Not available	Not available

Changes from the last actuarial valuation:

Discount rate from 4% to 7%

Return on plan assets from 4% to 7%

Medical inflation rate from 9.5% graded down to 4.5% in .5% increments over 10 years to 8% graded down to 4% in .5% increments over 8 years

Mortality updated to RP 2000 Combined Healthy Mortality Table Projected to 2014

Coverage: Changed from 16 years of service 10%, 17 years of service 20%, 18 years of service 30%, 19 years of service 50%; to 10-15 years of service 25%; 16 years of service 50%. Employees hired after April 1, 2015 are not eligible to receive a healthcare retirement benefit.

Schedule of Employer Contributions

<i>Fiscal Year End</i>	<i>Annual Required Contribution</i>	<i>Contribution from Employees</i>	<i>Contribution from Employers</i>	<i>Total Amount Contributed</i>	<i>Employer Percentage Contributed</i>
3/31/14	\$ 103,445	\$ -	\$ 19,337	\$ 19,337	18.7%
3/31/15	108,799	-	35,170	35,170	32.3%
3/31/16	32,751	-	25,804	25,804	78.8%

VILLAGE OF PENTWATER

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2016

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
				<i>Final Budget</i>
Revenues:				
Property taxes	\$ 729,000	\$ 729,000	\$ 746,388	\$ 17,388
Licenses and permits	27,000	27,000	32,097	5,097
State grants	65,000	65,000	67,727	2,727
Contributions from other units	3,000	3,000	3,500	500
Charges for services	295,000	295,000	308,151	13,151
Fines and forfeits	2,000	2,000	910	(1,090)
Interest and rents	22,000	22,000	24,969	2,969
Other revenue	3,500	3,500	16,604	13,104
Total revenues	1,146,500	1,146,500	1,200,346	53,846
Expenditures:				
Current				
General government				
Council	12,900	18,100	9,616	(8,484)
President	5,500	5,500	4,018	(1,482)
Manager	120,500	120,500	117,846	(2,654)
Clerk	94,500	94,500	80,875	(13,625)
Audit	4,900	4,900	4,900	-
Treasurer	70,500	70,500	65,368	(5,132)
Hall and grounds	15,500	15,500	14,304	(1,196)
Attorney	32,700	47,500	47,232	(268)
Total general government	357,000	377,000	344,159	(32,841)
Public safety				
Police	296,500	296,500	269,647	(26,853)
Public works				
Department of public works	84,500	89,500	88,308	(1,192)
Street lighting	40,000	40,000	33,170	(6,830)
Refuse	107,000	107,000	105,246	(1,754)
Total public works	231,500	236,500	226,724	(9,776)
Community and economic development				
Planning and zoning	25,500	55,500	50,527	(4,973)
Recreation and culture				
Recreation program	12,500	12,500	11,159	(1,341)
Community promotion	6,500	6,500	6,064	(436)
Parks	102,000	97,000	84,064	(12,936)
Launch ramp	10,000	10,000	6,747	(3,253)
Fishing/Dinghy Dock	8,000	8,000	5,617	(2,383)
Fish cleaning station	11,000	11,000	7,813	(3,187)
Total recreation and culture	150,000	145,000	121,464	(23,536)

continued

VILLAGE OF PENTWATER

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE, CONTINUED

Year Ended March 31, 2016

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
	<u></u>	<u></u>	<u></u>	<u>Final Budget</u>
Other				
Insurance and bonds	<u>6,000</u>	<u>6,000</u>	<u>5,708</u>	<u>(292)</u>
Total expenditures	<u>1,066,500</u>	<u>1,116,500</u>	<u>1,018,229</u>	<u>(98,271)</u>
Excess (deficiency) of revenues over expenditures	<u>80,000</u>	<u>30,000</u>	<u>182,117</u>	<u>152,117</u>
Other financing sources (uses):				
Transfers to other funds	<u>(80,000)</u>	<u>(80,000)</u>	<u>(40,000)</u>	<u>40,000</u>
Change in fund balance	<u>-</u>	<u>(50,000)</u>	<u>142,117</u>	<u>192,117</u>
Fund balance, beginning of year	<u>850,955</u>	<u>850,955</u>	<u>850,955</u>	<u>-</u>
Fund balance, end of year	<u>\$ 850,955</u>	<u>\$ 800,955</u>	<u>\$ 993,072</u>	<u>\$ 192,117</u>

VILLAGE OF PENTWATER

SPECIAL REVENUE FUND – LOCAL STREET FUND BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2016

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under) Final Budget</i>
Revenues:				
Property taxes	\$ 48,000	\$ 48,000	\$ 48,783	\$ 783
State grants	35,000	35,000	49,661	14,661
Interest and rents	-	-	143	143
Other revenue	-	-	1,165	-
	83,000	83,000	99,752	15,587
Total revenues				
 Expenditures:				
Current				
Public works	102,500	102,500	95,788	(6,712)
Capital outlay	65,000	65,000	60,295	(4,705)
	167,500	167,500	156,083	(11,417)
Total expenditures				
Excess (deficiency) of revenues over expenditures	(84,500)	(84,500)	(56,331)	27,004
 Other financing sources:				
Transfers from other funds	62,000	62,000	40,000	(22,000)
Net change in fund balance	(22,500)	(22,500)	(16,331)	5,004
Fund balance, beginning of year	144,044	144,044	144,044	-
Fund balance, end of year	\$ 121,544	\$ 121,544	\$ 127,713	\$ 5,004

OTHER SUPPLEMENTARY INFORMATION

VILLAGE OF PENTWATER

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
 March 31, 2016

	<i>Special Revenue Funds</i>			<i>Debt Service Fund</i>	
	<i>Major Street Fund</i>	<i>Downtown Development Authority Fund</i>	<i>Friendship Center Fund</i>	<i>1996 Debt Fund</i>	<i>Total</i>
Assets:					
Cash and cash equivalents	\$ 158,544	\$ 34,851	\$ 50,852	\$ 39,833	\$ 284,080
Taxes receivable	-	636	846	2,948	4,430
Prepaid expenditures	729	-	47	-	776
Due from other governments	11,223	-	-	-	11,223
Total assets	\$ 170,496	\$ 35,487	\$ 51,745	\$ 42,781	\$ 300,509
Liabilities and Fund Balances:					
<i>Liabilities:</i>					
Accounts payable	\$ 703	\$ 146	\$ -	\$ -	\$ 849
Accrued expenses	293	-	7	-	300
Deposits payable	-	-	600	-	600
Total liabilities	996	146	607	-	1,749
<i>Fund balances:</i>					
Nonspendable:					
Prepaid expenditures	729	-	47	-	776
Restricted for:					
Debt service	-	-	-	42,781	42,781
Downtown development	-	35,341	-	-	35,341
Friendship Center	-	-	51,091	-	51,091
Streets	168,771	-	-	-	168,771
Total fund balances	169,500	35,341	51,138	42,781	298,760
Total liabilities and fund balances	\$ 170,496	\$ 35,487	\$ 51,745	\$ 42,781	\$ 300,509

VILLAGE OF PENTWATER

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended March 31, 2016

	<u>Special Revenue Funds</u>			<u>Debt Service Fund</u>	<u>Total</u>
	<u>Major Street Fund</u>	<u>Downtown Development Authority Fund</u>	<u>Friendship Center Fund</u>	<u>1996 Debt Fund</u>	
Revenues:					
Property taxes	\$ -	\$ 22,318	\$ 31,868	\$ 111,046	\$ 165,232
State grants	66,337	-	-	-	66,337
Interest and rents	165	33	3,819	84	4,101
Total revenues	<u>66,535</u>	<u>23,251</u>	<u>35,812</u>	<u>111,130</u>	<u>236,728</u>
Expenditures:					
Current					
Public works	37,205	-	-	-	37,205
Community and economic development	-	8,751	-	-	8,751
Recreation and culture	-	-	29,379	-	29,379
Debt service					
Principal	-	-	-	85,000	85,000
Interest and fees	-	-	-	12,693	12,693
Total expenditures	<u>37,205</u>	<u>8,751</u>	<u>29,379</u>	<u>97,693</u>	<u>173,028</u>
Excess (deficiency) of revenues over expenditures	29,330	14,500	6,433	13,437	63,700
Other financing sources (uses):					
Transfers from (to) other funds	-	(5,400)	-	-	(5,400)
Changes in fund balances	29,330	9,100	6,433	13,437	58,300
Fund balances, beginning of year	<u>140,170</u>	<u>26,241</u>	<u>44,705</u>	<u>29,344</u>	<u>240,460</u>
Fund balances, end of year	<u>\$ 169,500</u>	<u>\$ 35,341</u>	<u>\$ 51,138</u>	<u>\$ 42,781</u>	<u>\$ 298,760</u>

VILLAGE OF PENTWATER

COMBINING SEWER FUND

COMBINING STATEMENT OF NET POSITION

March 31, 2016

	<u>Village Sewer</u>	<u>Township Sewer</u>	<u>Total Sewer</u>
Assets:			
Current assets:			
Cash and cash equivalents	\$ 1,245,489	\$ 211,056	\$ 1,456,545
Accounts receivable	120,384	34,471	154,855
Due from other funds	82,134	(82,134)	-
Prepaid expenses	503	387	890
Total current assets	<u>1,448,510</u>	<u>163,780</u>	<u>1,612,290</u>
Noncurrent assets:			
Restricted cash and cash equivalents	395,505	-	395,505
Capital assets not being depreciated	2,196	-	2,196
Capital assets being depreciated, net	6,226,206	91,795	6,318,001
Total noncurrent assets	<u>6,623,907</u>	<u>91,795</u>	<u>6,715,702</u>
Total assets	<u>8,072,417</u>	<u>255,575</u>	<u>8,327,992</u>
Deferred outflows of resources:			
Pension	<u>7,265</u>	<u>3,633</u>	<u>10,898</u>
Liabilities:			
Current liabilities:			
Accounts payable	1,870	186	2,056
Accrued expenses	407	130	537
Total current liabilities	<u>2,277</u>	<u>316</u>	<u>2,593</u>
Noncurrent liabilities:			
Compensated absences payable	941	-	941
Bonds payable	4,614,000	-	4,614,000
Net OPEB obligation	23,769	-	23,769
Net pension liability	28,561	14,281	42,842
Total noncurrent liabilities	<u>4,667,271</u>	<u>14,281</u>	<u>4,681,552</u>
Total liabilities	<u>4,669,548</u>	<u>14,597</u>	<u>4,684,145</u>
Net position:			
Net investment in capital assets	1,614,402	91,795	1,706,197
Restricted for:			
Debt service	395,505	-	395,505
Unrestricted	1,400,227	152,816	1,553,043
Total net position	<u>\$ 3,410,134</u>	<u>\$ 244,611</u>	<u>\$ 3,654,745</u>

VILLAGE OF PENTWATER

COMBINING SEWER FUND

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Year Ended March 31, 2016

	<u>Village Sewer</u>	<u>Township Sewer</u>	<u>Total Sewer</u>
Operating revenues:			
Charges for services	\$ 453,248	\$ 115,507	\$ 568,755
Penalties	5,147	1,716	6,863
Connection fees	8,000	8,000	16,000
Total operating revenues	<u>466,395</u>	<u>125,223</u>	<u>591,618</u>
Operating expenses:			
Personal services	24,543	10,189	34,732
Supplies	18,958	2,125	21,083
Contracted services	46,030	16,156	62,186
Administrative expense	72,000	21,000	93,000
Other services and charges	79,334	15,538	94,872
Depreciation	199,985	8,090	208,075
Total operating expenses	<u>440,850</u>	<u>73,098</u>	<u>513,948</u>
Operating income (loss)	<u>25,545</u>	<u>52,125</u>	<u>77,670</u>
Non-operating revenues (expenses):			
Interest income	10,001	218	10,219
Interest expense	(128,948)	(5,839)	(134,787)
Net non-operating revenues (expenses)	<u>(118,947)</u>	<u>(5,621)</u>	<u>(124,568)</u>
Changes in net position	(93,402)	46,504	(46,898)
Net position, beginning of year, restated	<u>3,503,536</u>	<u>198,107</u>	<u>3,701,643</u>
Net position, end of year	<u>\$ 3,410,134</u>	<u>\$ 244,611</u>	<u>\$ 3,654,745</u>

VILLAGE OF PENTWATER

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

March 31, 2016

1996 VILLAGE IMPROVEMENT PROJECT UNLIMITED TAX GENERAL OBLIGATION BONDS

Issue dated April 1, 1996 in the amount of	\$ 990,000
Less: Principal paid in prior years	(805,000)
Principal paid in current year	<u>(85,000)</u>
Balance payable at March 31, 2016	<u>\$ 100,000</u>

Balance payable as follows:

<u>Year Ended</u>	<u>Rate</u>	<u>Principal Due</u>		<u>Interest Due</u>		<u>Total Annual Requirement</u>
		<u>4/1</u>	<u>4/1</u>	<u>10/1</u>	<u>10/1</u>	
2017	6.05%	\$ -	\$ -	\$ 3,025	\$ 3,025	\$ 3,025
2018	6.05%	<u>100,000</u>	<u>3,025</u>	<u>-</u>	<u>103,025</u>	<u>103,025</u>
		<u>\$ 100,000</u>	<u>\$ 3,025</u>	<u>\$ 3,025</u>	<u>\$ 106,050</u>	<u>\$ 106,050</u>

VILLAGE OF PENTWATER

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

March 31, 2016

2007 WATER PROJECT LIMITED TAX GENERAL OBLIGATION BONDS

Issue dated March 29, 2007 in the amount of	\$ 1,177,353
Less: Principal paid in prior years	(360,000)
Principal paid in current year	<u>(55,000)</u>
Balance payable at March 31, 2016	<u>\$ 762,353</u>

Balance payable as follows:

<u>Year Ended</u>	<u>Rate</u>	<u>Interest Due</u>		<u>Principal Due</u>	<u>Total</u>
		<u>4/1</u>	<u>10/1</u>	<u>10/1</u>	<u>Annual Requirement</u>
2017	2.125%	\$ 8,100	\$ 8,100	\$ 55,000	\$ 71,200
2018	2.125%	7,516	7,515	60,000	75,031
2019	2.125%	6,878	6,878	60,000	73,756
2020	2.125%	6,241	6,240	60,000	72,481
2021	2.125%	5,603	5,603	60,000	71,206
2022	2.125%	4,966	4,965	65,000	74,931
2023	2.125%	4,275	4,275	65,000	73,550
2024	2.125%	3,584	3,585	65,000	72,169
2025	2.125%	2,894	2,894	65,000	70,788
2026	2.125%	2,203	2,203	70,000	74,406
2027	2.125%	1,459	1,460	70,000	72,919
2028	2.125%	716	715	67,353	68,784
		<u>\$ 54,435</u>	<u>\$ 54,433</u>	<u>\$ 762,353</u>	<u>\$ 871,221</u>

VILLAGE OF PENTWATER

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

March 31, 2016

2012A SEWER DISPOSAL SYSTEM REVENUE REFUNDING BOND

Issue dated June 25, 2012 in the amount of	\$ 3,000,000
Less: Principal paid in prior years	(129,000)
Principal paid in current year	<u>(46,000)</u>
Balance payable at March 31, 2016	<u>\$ 2,825,000</u>

Balance payable as follows:

<u>Year Ended</u>	<u>Rate</u>	<u>Principal Due</u>		<u>Interest Due</u>		<u>Total Annual Requirement</u>
		<u>4/1</u>	<u>10/1</u>	<u>4/1</u>	<u>10/1</u>	
2017	2.75%	\$ -	\$ -	\$ 38,844	\$ 38,844	\$ 38,844
2018	2.75%	47,000	38,844	38,198	124,042	124,042
2019	2.75%	48,000	38,198	37,538	123,736	123,736
2020	2.75%	50,000	37,538	36,850	124,388	124,388
2021	2.75%	51,000	36,850	36,149	123,999	123,999
2022	2.75%	52,000	36,149	35,434	123,583	123,583
2023	2.75%	54,000	35,434	34,691	124,125	124,125
2024	2.75%	55,000	34,691	33,935	123,626	123,626
2025	2.75%	57,000	33,935	33,151	124,086	124,086
2026	2.75%	58,000	33,151	32,354	123,505	123,505
2027	2.75%	60,000	32,354	31,529	123,883	123,883
2028	2.75%	62,000	31,529	30,676	124,205	124,205
2029	2.75%	63,000	30,676	29,810	123,486	123,486
2030	2.75%	65,000	29,810	28,916	123,726	123,726
2031	2.75%	67,000	28,916	27,995	123,911	123,911
2032	2.75%	69,000	27,995	27,046	124,041	124,041
2033	2.75%	71,000	27,046	26,070	124,116	124,116
2034	2.75%	72,000	26,070	25,080	123,150	123,150
2035	2.75%	74,000	25,080	24,063	123,143	123,143
2036	2.75%	76,000	24,063	23,018	123,081	123,081
2037	2.75%	79,000	23,018	21,931	123,949	123,949
2038	2.75%	81,000	21,931	20,818	123,749	123,749
2039	2.75%	83,000	20,818	19,676	123,494	123,494
2040	2.75%	85,000	19,676	18,508	123,184	123,184
2041	2.75%	88,000	18,508	17,298	123,806	123,806
2042	2.75%	90,000	17,298	16,060	123,358	123,358
2043	2.75%	92,000	16,060	14,795	122,855	122,855
2044	2.75%	95,000	14,795	13,489	123,284	123,284
2045	2.75%	98,000	13,489	12,141	123,630	123,630
2046	2.75%	100,000	12,141	10,766	122,907	122,907
2047	2.75%	103,000	10,766	9,350	123,116	123,116
2048	2.75%	106,000	9,350	7,893	123,243	123,243

continued

VILLAGE OF PENTWATER

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS, CONTINUED

March 31, 2016

2012A SEWER DISPOSAL SYSTEM REVENUE REFUNDING BOND, CONTINUED

<u>Year Ended</u>	<u>Rate</u>	<u>Principal Due</u>	<u>Interest Due</u>		<u>Total</u>
		<u>4/1</u>	<u>4/1</u>	<u>10/1</u>	<u>Annual Requirement</u>
2049	2.75%	109,000	7,893	6,394	123,287
2050	2.75%	112,000	6,394	4,854	123,248
2051	2.75%	115,000	4,854	3,273	123,127
2052	2.75%	118,000	3,273	1,650	122,923
2053	2.75%	120,000	1,650	-	121,650
		<u>\$ 2,825,000</u>	<u>\$ 830,243</u>	<u>\$ 830,243</u>	<u>\$ 4,485,486</u>

VILLAGE OF PENTWATER

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

March 31, 2016

2012B SEWER DISPOSAL SYSTEM REVENUE BOND

Issue dated June 25, 2012 in the amount of	\$ 1,900,000
Less: Principal paid in prior years	(82,000)
Principal paid in current year	<u>(29,000)</u>
Balance payable at March 31, 2016	<u>\$ 1,789,000</u>

Balance payable as follows:

<u>Year Ended</u>	<u>Rate</u>	<u>Principal Due</u>		<u>Interest Due</u>		<u>Total Annual Requirement</u>
		<u>4/1</u>	<u>4/1</u>	<u>10/1</u>	<u>10/1</u>	
2017	2.75%	\$ -	\$ -	\$ 24,599	\$ -	\$ 24,599
2018	2.75%	30,000	24,599	24,186	-	78,785
2019	2.75%	31,000	24,186	23,760	-	78,946
2020	2.75%	31,000	23,760	23,334	-	78,094
2021	2.75%	32,000	23,334	22,894	-	78,228
2022	2.75%	33,000	22,894	22,440	-	78,334
2023	2.75%	34,000	22,440	21,973	-	78,413
2024	2.75%	35,000	21,973	21,491	-	78,464
2025	2.75%	36,000	21,491	20,996	-	78,487
2026	2.75%	37,000	20,996	20,488	-	78,484
2027	2.75%	38,000	20,488	19,965	-	78,453
2028	2.75%	39,000	19,965	19,429	-	78,394
2029	2.75%	40,000	19,429	18,879	-	78,308
2030	2.75%	41,000	18,879	18,315	-	78,194
2031	2.75%	42,000	18,315	17,738	-	78,053
2032	2.75%	43,000	17,738	17,146	-	77,884
2033	2.75%	45,000	17,146	16,528	-	78,674
2034	2.75%	46,000	16,528	15,895	-	78,423
2035	2.75%	47,000	15,895	15,249	-	78,144
2036	2.75%	48,000	15,249	14,589	-	77,838
2037	2.75%	50,000	14,589	13,901	-	78,490
2038	2.75%	51,000	13,901	13,200	-	78,101
2039	2.75%	53,000	13,200	12,471	-	78,671
2040	2.75%	54,000	12,471	11,729	-	78,200
2041	2.75%	55,000	11,729	10,973	-	77,702
2042	2.75%	57,000	10,973	10,189	-	78,162
2043	2.75%	59,000	10,189	9,378	-	78,567
2044	2.75%	60,000	9,378	8,553	-	77,931
2045	2.75%	62,000	8,553	7,700	-	78,253
2046	2.75%	64,000	7,700	6,820	-	78,520
2047	2.75%	65,000	6,820	5,926	-	77,746
2048	2.75%	67,000	5,926	5,005	-	77,931

continued

VILLAGE OF PENTWATER

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS, CONTINUED

March 31, 2016

2012B SEWER DISPOSAL SYSTEM REVENUE BOND, CONTINUED

<u>Year Ended</u>	<u>Rate</u>	<u>Principal Due</u>	<u>Interest Due</u>		<u>Total</u>
		<u>4/1</u>	<u>4/1</u>	<u>10/1</u>	<u>Annual Requirement</u>
2049	2.75%	69,000	5,005	4,056	78,061
2050	2.75%	71,000	4,056	3,080	78,136
2051	2.75%	73,000	3,080	2,076	78,156
2052	2.75%	75,000	2,076	1,045	78,121
2053	2.75%	76,000	1,045	-	77,045
		<u>\$ 1,789,000</u>	<u>\$ 525,996</u>	<u>\$ 525,996</u>	<u>\$ 2,840,992</u>



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Village Council
Village of Pentwater
Oceana County, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Pentwater, as of and for the year ended March 31, 2016, and the related notes to the financial statements, which collectively comprise the Village of Pentwater's basic financial statements, and have issued our report thereon dated August 11, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Village of Pentwater's internal control over financial reporting (internal controls) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Pentwater's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Pentwater's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Pentwater's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Village Council
Village of Pentwater
Oceana County, Michigan

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Berthiaume & Co.

Saginaw, Michigan
August 11, 2016