

Village of Rothbury
Oceana County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended March 31, 2018



Village of Rothbury

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INDEPENDENT AUDITOR'S REPORT

August 31, 2018

To the Village Council
Village of Rothbury
Rothbury, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village of Rothbury, Michigan, as of and for the year ended March 31, 2018, 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.

Auditor's Responsibility

Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 purpose 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 of the financial statements.

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

To the Village Council
Village of Rothbury
August 31, 2018
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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Village of Rothbury, Michigan, as of March 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 3 through 9 and 26 through 28 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.



Hart, Michigan

As management of the Village of Rothbury, we present to the readers of the Village's financial statements this overview and analysis of the financial activities of the Village for the fiscal year ended March 31, 2018. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the Village had total assets of \$1,943,076 and total liabilities of \$14,916 leaving net position of \$1,928,160, an increase of 10.9 percent in the Village's overall net position from the prior year.
- The General Fund fund balance increased \$188,321.

OVERVIEW OF THE FINANCIAL STATEMENTS

The 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 other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Village's finances. These statements are similar to those of a private sector business.

The Statement of Net Position presents information on all of the Village's assets/deferred outflows of resources and liabilities/deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The Statement of Activities presents information showing how the Village's net position changed during the fiscal year. All changes in net position are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The governmental activities of the Village include general government, public safety, public works, community and economic development, and culture and recreation activities. The Village does not currently have any business-type activities.

Fund Financial Statements

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. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village are governmental funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between the two.

The Village maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Streets Fund, and Local Streets Fund, which are considered to be major funds.

Notes to 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. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Village's budgetary information as it relates to the actual expenditures for the General Fund, Major Streets Fund, and Local Streets Fund.

Government-wide Financial Analysis

The first table presented below is a summary of the government-wide Statement of Net Position for the Village. As stated earlier, the net position may be used as an indicator of a government's financial health. As of March 31, 2018, the Village's net position from governmental activities totaled \$1,928,160.

Current assets increased due to revenues generated from a significant new mass gathering fee. Capital assets decreased due to normal depreciation exceeding current capital asset additions.

In examining the composition of net position, the reader should note that governmental activities include net position that is invested in capital assets (i.e., infrastructure, buildings, land, vehicles, equipment, etc.). These assets are used to provide services to the Village's residents, and they are not available to pay salaries, operational expenses or fund capital projects. Certain other governmental net position is shown as restricted, meaning that it is subject to external restrictions on how it may be used. The unrestricted net position for governmental activities actually depicts a balance of \$290,529. This represents the amount of discretionary resources that can be used for general governmental operations.

Net Position

	Governmental Activities	
	2018	2017
Current assets	\$ 436,738	\$ 193,156
Capital assets	1,506,338	1,553,236
Total assets	1,943,076	1,746,392
Current liabilities	14,916	8,111
Net position		
Net investment in capital assets	1,506,338	1,553,236
Restricted	131,293	82,837
Unrestricted	290,529	102,208
Total net position	\$ 1,928,160	\$ 1,738,281

Governmental Activities

Governmental activities net position increased by \$189,879 (10.9%) during the 2018 fiscal year. Operating grants increased due to additional funding for roads from the State of Michigan. Capital grants decreased due to a grant for park improvements in the prior year. Mass gathering fees are a new revenue source from a local festival. General government expenditures increased due to additional legal fees and a contribution to another local unit to assist in repairs on a border road. Other expenses were relatively comparable to the prior year as there were no significant changes to operations. The following table depicts these occurrences.

Change in Net Position

	Governmental Activities	
	2018	2017
Revenues:		
Program revenues		
Charges for services	\$ 28,371	\$ 34,019
Operating grants	75,310	56,920
Capital grants	-	42,473
General revenues		
Property taxes	94,534	80,324
Franchise fees	2,408	3,216
Grants and contributions not restricted	35,311	34,304
Unrestricted investment earning	252	92
Mass gathering fees	386,813	41,190
Miscellaneous	1,906	17,133
Total revenues	<u>624,905</u>	<u>309,671</u>
Expenses:		
General government	198,701	79,133
Public safety	80,478	67,394
Public works	116,193	120,746
Community and economic development	5,475	3,795
Culture and recreation	34,179	27,954
Total expenses	<u>435,026</u>	<u>299,022</u>
Change in net position	189,879	10,649
Net position - Beginning	<u>1,738,281</u>	<u>1,727,632</u>
Net position - Ending	<u>\$ 1,928,160</u>	<u>\$ 1,738,281</u>

Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unassigned fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2018 fiscal year, the Village's governmental funds reported a combined unassigned fund balance of \$290,529.

The fund balance in the General Fund increased by \$188,321 due to revenues from a new mass gathering fee. The fund balance in the Major Streets and Local Streets funds increased by \$8,086 and \$40,370, respectively, because there were no significant road projects during the year.

General Fund Budget

During the current fiscal year, the Village made amendments to its original General Fund budget. The most significant of those is listed below:

- Licenses and permit revenues were originally budgeted for \$47,700 and were amended up to \$392,700 to reflect a new mass gathering fee.
- Village Council expenditures were originally budgeted for \$48,400 and were amended up to \$123,400 to reflect a contribution to another local unit to assist in repairs on a border road.
- Capital outlay expenditures were originally budgeted for \$9,100 and were amended up to \$64,100 for the purchase of new accounting software and lighting at Czarny Field.

The following comments summarize the major variations from the final budget to actual revenues and expenditures.

- Other revenues were under budget by \$48,094 as the Village budgeted for a reimbursement from a State grant that was earned and recognized in the prior year.
- The unallocated expenditures budget is unspent contingency.

Capital Assets

The Village investment in capital assets for its governmental activities as March 31, 2018 totaled \$1,506,338 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, vehicles and infrastructure.

The significant capital asset additions during the current year were the purchase of new accounting software, lighting at Czarny Park, and some computers.

**Capital Assets
(Net of Accumulated Depreciation)**

	Governmental Activities	
	2018	2017
Land	\$ 39,701	\$ 39,701
Land improvements	113,426	98,177
Buildings and improvements	120,711	128,073
Furniture and equipment	73,213	41,420
Vehicles	35,953	43,943
Infrastructure	1,123,334	1,201,922
Total	\$ 1,506,338	\$ 1,553,236

Additional information on the Village's capital assets can be found in Note D of the "Notes to Financial Statements" of this report.

General Economic Overview

The Village's General Fund is comprised of three major revenue sources, state revenue sharing, property taxes, and a Mass Gathering ordinance. Those three sources comprise approximately 93 percent of the General Fund's revenue sources. In fiscal 2019, the Village has conservatively budgeted all three revenue sources to be approximately the same. The Village has not budgeted any other significant changes to revenues.

The Village expects General Fund operating expenditures in fiscal 2019 to be approximately the same as fiscal 2018 with a few exceptions. For instance, the Village is anticipating an increase in professional services due to enforcement of the Mass Gathering ordinance.

The Village has budgeted the replacement of siding on the Rothbury Community Center, a DPW pickup truck, and a new microphone system for the Council chambers.

In the Local Streets Fund, the Village has budgeted approximately \$57,000 for an overlay of Kurdziel subdivision and Wood Street. No significant projects are expected in the Major Streets Fund.

Requests for Information

This financial report is designed to provide a general overview of the Village of Rothbury's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Village of Rothbury, 7804 S. Michigan Avenue, Rothbury, Michigan 49452 (231) 894-2385.

Village of Rothbury
STATEMENT OF NET POSITION
 March 31, 2018

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and investments	\$ 403,859
Receivables	10,201
Due from other governmental units	<u>22,678</u>
Total current assets	436,738
Noncurrent assets	
Capital assets, net	
Nondepreciable	39,701
Depreciable	<u>1,466,637</u>
Total noncurrent assets	<u>1,506,338</u>
Total assets	1,943,076
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	13,316
Unearned revenues - facility deposits	<u>1,600</u>
Total liabilities	<u>14,916</u>
NET POSITION	
Net investment in capital assets	1,506,338
Restricted for streets	131,293
Unrestricted	<u>290,529</u>
Total net position	<u>\$ 1,928,160</u>

The accompanying notes are an integral part of this statement.

Village of Rothbury
STATEMENT OF ACTIVITIES
For the year ended March 31, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities				
General government	\$ 198,701	\$ 7,857	\$ -	\$ (190,844)
Public safety	80,478	7,929	-	(72,549)
Public works	116,193	-	75,310	(40,883)
Community and economic development	5,475	-	-	(5,475)
Culture and recreation	34,179	12,585	-	(21,594)
Total governmental activities	<u>\$ 435,026</u>	<u>\$ 28,371</u>	<u>\$ 75,310</u>	(331,345)
General revenues				
Property taxes				94,534
Franchise fees				2,408
State shared revenues				35,311
Unrestricted investment earnings				252
Mass gathering fees				386,813
Miscellaneous				1,906
Total general revenues				<u>521,224</u>
Change in net position				189,879
Net position at April 1, 2017				<u>1,738,281</u>
Net position at March 31, 2018				<u><u>\$ 1,928,160</u></u>

The accompanying notes are an integral part of this statement.

Village of Rothbury
BALANCE SHEET
 Governmental Funds
 March 31, 2018

	<u>General Fund</u>	<u>Major Streets Fund</u>	<u>Local Streets Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and investments	\$ 283,120	\$ 55,085	\$ 65,654	\$ 403,859
Receivables				
Accounts	1,493	-	-	1,493
Property taxes	8,708	-	-	8,708
Due from other governmental units	5,581	8,393	8,704	22,678
Total assets	<u>\$ 298,902</u>	<u>\$ 63,478</u>	<u>\$ 74,358</u>	<u>\$ 436,738</u>
LIABILITIES				
Accounts payable	\$ 6,773	\$ 3,577	\$ 2,966	\$ 13,316
Unearned revenues - facility deposits	1,600	-	-	1,600
Total liabilities	8,373	3,577	2,966	14,916
FUND BALANCES				
Restricted for streets	-	59,901	71,392	131,293
Unassigned	290,529	-	-	290,529
Total fund balances	290,529	59,901	71,392	421,822
Total liabilities and fund balances	<u>\$ 298,902</u>	<u>\$ 63,478</u>	<u>\$ 74,358</u>	<u>\$ 436,738</u>

The accompanying notes are an integral part of this statement.

Village of Rothbury
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION**
 March 31, 2018

Total fund balances—governmental funds	\$ 421,822
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.

Cost of capital assets	\$ 2,578,067	
Accumulated depreciation	<u>(1,071,729)</u>	<u>1,506,338</u>

Net position of governmental activities		<u>\$ 1,928,160</u>
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The accompanying notes are an integral part of this statement.

Village of Rothbury
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Governmental Funds
 For the year ended March 31, 2018

	General Fund	Major Streets Fund	Local Streets Fund	Total Governmental Funds
REVENUES				
Property taxes	\$ 94,534	\$ -	\$ -	\$ 94,534
Licenses and permits	393,331	-	-	393,331
Intergovernmental revenues - State	37,980	45,859	26,684	110,523
Charges for services	23,258	-	-	23,258
Fines and forfeitures	1,003	-	-	1,003
Investment earnings	252	51	48	351
Other	1,906	-	-	1,906
Total revenues	552,264	45,910	26,732	624,906
EXPENDITURES				
Current				
General government	189,967	-	-	189,967
Public safety	69,391	-	-	69,391
Public works	8,923	15,939	8,247	33,109
Community and economic development	5,475	-	-	5,475
Culture and recreation	25,372	-	-	25,372
Capital outlay	64,815	-	-	64,815
Total expenditures	363,943	15,939	8,247	388,129
Excess of revenues over (under) expenditures	188,321	29,971	18,485	236,777
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	21,885	21,885
Transfers out	-	(21,885)	-	(21,885)
Total other financing sources (uses)	-	(21,885)	21,885	-
Net change in fund balances	188,321	8,086	40,370	236,777
Fund balances at April 1, 2017	102,208	51,815	31,022	185,045
Fund balances at March 31, 2018	\$ 290,529	\$ 59,901	\$ 71,392	\$ 421,822

The accompanying notes are an integral part of this statement.

Village of Rothbury
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended March 31, 2018

Net change in fund balances—total governmental funds \$ 236,777

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	\$ (111,713)	
Capital outlay	64,815	(46,898)

Change in net position of governmental activities		\$ 189,879
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The accompanying notes are an integral part of this statement.

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS
March 31, 2018

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Rothbury (Village) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's accounting policies are described below.

Reporting Entity

The Village is a general law village governed by an elected seven-member Village Council. Generally accepted accounting principles require that if the Village is considered to be financially accountable for other organizations, those organizations should be included as component units in the Village's financial statements. Since no organizations met this criterion, none are included in the financial statements.

Basis of Presentation—Government-wide and Fund Financial Statements

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 Village. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. The Village has no business-type activities.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds columns.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The fund financial statements provide information about the Village's governmental funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All of the Village's funds are reported as major funds.

The Village reports the following major governmental funds:

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

The Major Streets Fund and Local Streets Fund account for money distributed by the State of Michigan for construction and maintenance of major and local streets within the Village.

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS
March 31, 2018

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Basis of Presentation—Government-wide and Fund Financial Statements—Continued

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 funds included in governmental activities (i.e., the governmental funds) 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. 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.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS
March 31, 2018

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Village are reported at fair value (generally based on quoted market prices).

The Village has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Village to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

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. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years.

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS
March 31, 2018

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Capital Assets—Continued

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the Village chose to include all such items regardless of their acquisition date or amount. The Village was able to estimate the historical cost of the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year).

As the Village constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and construction in progress are not depreciated. The other property, equipment, and infrastructure of the Village are depreciated using the straight-line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	20-50
Furniture and equipment	5-20
Vehicles	8
Infrastructure	10-20

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net 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(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the Statement of Net 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(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position Flow Assumption

Sometimes the government 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 of net position to report as restricted and unrestricted in the government-wide 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.

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS
March 31, 2018

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Fund Balance Flow Assumptions

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. 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

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Village itself can establish limitation on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Village's highest level of decision-making authority. The Village Council is the highest level of decision-making authority for the Village that can, by formal action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by formal action remains in place until a similar action is taken (another formal action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Village for specific purposes but do not meet the criteria to be classified as committed. The Village Council has by resolution authorized the budget committee or its designee to assign fund balance. The Village Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS
March 31, 2018

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Revenues and Expenditures/Expenses—Continued

Property Taxes

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Village bills and collects its own property taxes. Taxes are levied and liened on July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollected real property taxes as of the following September 14 are turned over by the Village to the County for collection. The County advances the Village all of these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Village. The Village recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2017 state taxable value for real/personal property of the Village totaled approximately \$18,585,000. The ad valorem taxes levied consisted of 5 mills for operation. These amounts are recognized in the General Fund.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds.

The appropriated budget is prepared by fund, function and department. The Village's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Village Council. The legal level of budgetary control is the department level.

Appropriations in all budgeted funds lapse at the end of the fiscal year.

Excess of Expenditures over Appropriations

During the year ended March 31, 2018, actual expenditures exceeded appropriations for transfers out by \$6,885 in the Major Streets Fund. These overexpenditures were funded with available fund balance.

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS
March 31, 2018

NOTE C—DEPOSITS AND INVESTMENTS

Deposit and Investment Risks

Interest Rate Risk

The Village does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The Village's investment policy does not authorize it to invest in commercial paper or corporate bonds.

Concentration of Credit Risk

The Village does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Village investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The Village does not have any investments exposed to concentration of credit risk.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of March 31, 2018, the Village's entire bank balance of \$405,047 was insured.

Custodial Credit Risk – Investments

The Village does not have a custodial credit risk policy for investments. This 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 any investments exposed to custodial credit risk.

Foreign Currency Risk

The Village is not authorized to invest in investments which have this type of risk.

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS
 March 31, 2018

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2018 was as follows:

	<u>Balance April 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance March 31, 2018</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 39,701	\$ -	\$ -	\$ 39,701
Capital assets, being depreciated:				
Land improvements	172,169	21,216	-	193,385
Buildings and improvements	366,563	-	-	366,563
Furniture and equipment	112,548	43,599	1,030	155,117
Vehicles	92,468	-	-	92,468
Infrastructure	1,730,833	-	-	1,730,833
Total capital assets, being depreciated	2,474,581	64,815	1,030	2,538,366
Less accumulated depreciation:				
Land improvements	73,992	5,967	-	79,959
Buildings and improvements	238,490	7,362	-	245,852
Furniture and equipment	71,128	11,806	1,030	81,904
Vehicles	48,525	7,990	-	56,515
Infrastructure	528,911	78,588	-	607,499
Total accumulated depreciation	961,046	111,713	1,030	1,071,729
Total capital assets, being depreciated, net	1,513,535	(46,898)	-	1,466,637
Capital assets, net	<u>\$ 1,553,236</u>	<u>\$ (46,898)</u>	<u>\$ -</u>	<u>\$ 1,506,338</u>

Depreciation expense has been charged to functions as follows:

Government activities:	
General government	\$ 8,735
Public safety	11,087
Public works	83,084
Culture and recreation	8,807
	<u>\$ 111,713</u>

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS
March 31, 2018

NOTE E—OTHER INFORMATION

Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Village manages its liability and property risk by participating in the Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The Village pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and 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.

The Village manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The Village pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Commitment

The Village Council voted to award a contract to overlay the pavement in the Kurdziel Subdivision and Wood Street in the amount of approximately \$57,000 with the project being paid by the Local Streets Fund using a transfer from the General Fund.

NOTE F—PENSION PLANS

Defined Contribution Plan

The Village contributes to the Village of Rothbury Defined Contribution Plan for all of its employees and elected officials. The Plan is administered by the Village.

Benefit terms, including contribution requirements, for the Plan are established and may be amended by the Village Council. For each employee in the Plan, the Village is required to contribute 7.5 percent of gross earnings. Employees are not required to contribute to the Plan. For the year ended March 31, 2018, the Village recognized pension expense of \$8,308.

Employees are immediately vested for all contributions and earnings on those contributions.

NOTE G—ECONOMIC DEPENDENCY

The Village's General Fund has a significant economic dependence on a local festival that generates approximately 70 percent of the General Fund's revenue as a result of the mass gathering fee ordinance.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Rothbury
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended March 31, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
REVENUES				
Property taxes	\$ 91,300	\$ 91,300	\$ 94,534	\$ 3,234
Licenses and permits	47,700	392,700	393,331	631
Intergovernmental revenues - State	35,500	35,500	37,980	2,480
Charges for services	26,100	26,100	23,258	(2,842)
Fines and forfeitures	500	500	1,003	503
Investment earnings	100	100	252	152
Other	50,000	50,000	1,906	(48,094)
Total revenues	251,200	596,200	552,264	(43,936)
EXPENDITURES				
Current				
General government				
Village Council	48,400	123,400	121,146	2,254
Clerk	15,000	15,000	14,211	789
Treasurer	16,700	26,700	19,314	7,386
Village hall	41,700	41,700	35,296	6,404
Unallocated	21,200	226,200	-	226,200
Public safety				
Police	80,000	80,000	69,391	10,609
Public works				
Highways, streets, and bridges	12,000	12,000	8,923	3,077
Community and economic development				
Planning	10,500	10,500	5,475	5,025
Culture and recreation				
Rothbury Community Center	25,200	25,200	17,964	7,236
Recreation	10,500	10,500	7,408	3,092
Capital outlay	9,100	64,100	64,815	(715)
Total expenditures	290,300	635,300	363,943	271,357
Net change in fund balance	<u>\$ (39,100)</u>	<u>\$ (39,100)</u>	188,321	<u>\$ 227,421</u>
Fund balance at April 1, 2017			102,208	
Fund balance at March 31, 2018			<u>\$ 290,529</u>	

Village of Rothbury
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Major Streets Fund
For the year ended March 31, 2018

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues - State	\$ 31,000	\$ 31,000	\$ 45,859	\$ 14,859
Investment earnings	50	50	51	1
Total revenues	31,050	31,050	45,910	14,860
EXPENDITURES				
Current				
Public works				
Construction	100	100	-	100
Routine maintenance	21,600	21,600	9,494	12,106
Winter maintenance	15,000	15,000	3,577	11,423
Administration	2,900	2,900	2,868	32
Total expenditures	39,600	39,600	15,939	23,661
Excess of revenues over (under) expenditures	(8,550)	(8,550)	29,971	38,521
OTHER FINANCING USES				
Transfers out	(15,000)	(15,000)	(21,885)	(6,885)
Net change in fund balance	\$ (23,550)	\$ (23,550)	8,086	\$ 31,636
Fund balance at April 1, 2017			51,815	
Fund balance at March 31, 2018			\$ 59,901	

Village of Rothbury
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Local Streets Fund
For the year ended March 31, 2018

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues - State	\$ 18,500	\$ 18,500	\$ 26,684	\$ 8,184
Investment earnings	50	50	48	(2)
Total revenues	18,550	18,550	26,732	8,182
EXPENDITURES				
Current				
Public works				
Construction	100	100	-	100
Routine maintenance	23,900	23,900	4,781	19,119
Winter maintenance	15,000	15,000	2,966	12,034
Administration	500	500	500	-
Total expenditures	39,500	39,500	8,247	31,253
Excess of revenues over (under) expenditures	(20,950)	(20,950)	18,485	39,435
OTHER FINANCING SOURCES				
Transfers in	15,050	15,050	21,885	6,835
Net change in fund balance	\$ (5,900)	\$ (5,900)	40,370	\$ 46,270
Fund balance at April 1, 2017			31,022	
Fund balance at March 31, 2018			\$ 71,392	