

**CITY OF NORWAY**  
AUDITED FINANCIAL STATEMENTS  
NORWAY, MICHIGAN

Fiscal Year Ended June 30, 2015

## TABLE OF CONTENTS

	Page
Independent Auditor's Report . . . . .	5
Management Discussion and Analysis. . . . .	8
 <u>FINANCIAL STATEMENTS</u>	
Government Wide Statement of Financial Position. . . . .	15
Government Wide Statement of Activities . . . . .	16
Governmental Funds Balance Sheet . . . . .	17
Reconciliation of Governmental Funds Balance Sheet to the Statement of Financial Position	18
Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balance. . .	19
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities . . . . .	20
Business Type Funds Statement of Financial Position . . . . .	21
Business Type Funds Statement of Revenues, Expenses and Changes in Financial Position.	22
Business Type Funds Statement of Cash Flows . . . . .	23
Fiduciary Funds - Statement of Financial Position. . . . .	24
Fiduciary Funds - Statement of Changes in Financial Position . . . . .	25
Component Units - Statement of Financial Position. . . . .	26
Component Units - Statement of Activities . . . . .	27
Notes to Financial Statements . . . . .	28
 <u>REQUIRED SUPPLEMENTAL INFORMATION</u>	
Budgetary Comparison Schedules:	
General Fund . . . . .	59
Capital Projects Fund. . . . .	60

TABLE OF CONTENTS (CONTINUED)

	Page
<u>ADDITIONAL INFORMATION</u>	
Combining Financial Statements for Non-Major Governmental Funds:	
Balance Sheet. . . . .	62
Statement of Revenues, Expenditures and Changes in Fund Balance. . . . .	63
Budgetary Comparison Schedules:	
Major Street Fund. . . . .	64
Local Street Fund. . . . .	65
Downtown Development Authority. . . . .	66
Fire Protection Fund. . . . .	67
Museum Fund. . . . .	68
Debt Service Fund . . . . .	69
Bond Covenant Compliance Schedule. . . . .	70
Schedule of Expenditures of Federal Awards . . . . .	71
Notes to Schedule of Expenditures of Federal Awards. . . . .	72
<u>SEGMENT INFORMATION</u>	
Comparative Financial Statements:	
Televison/Internet/Telephone Utility Fund:	
Statement of Financial Position. . . . .	74
Statement of Revenues, Expenses and Changes in Financial Position . . . . .	75
Statement of Cash Flows. . . . .	76
Schedule of Operating Expenses. . . . .	77
Electric Utility Fund:	
Statement of Financial Position. . . . .	78
Statement of Revenues, Expenses and Changes in Financial Position . . . . .	79
Statement of Cash Flows. . . . .	80
Schedule of Operating Expenses. . . . .	81
Water Utility Fund:	
Statement of Financial Position. . . . .	82
Statement of Revenues, Expenses and Changes in Financial Position . . . . .	83
Statement of Cash Flows. . . . .	84
Schedule of Operating Expenses. . . . .	85
Sewer Utility Fund:	
Statement of Financial Position. . . . .	86
Statement of Revenues, Expenses and Changes in Financial Position . . . . .	87
Statement of Cash Flows. . . . .	88
Schedule of Operating Expenses. . . . .	89

TABLE OF CONTENTS (CONTINUED)

	Page
<u>SUPPLEMENTAL REPORTS</u>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> . . . . .	91
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133. . . . .	93
Schedule of Findings and Questioned Costs. . . . .	96
Summary Schedule of Prior Audit Findings. . . . .	98

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council  
City of Norway  
915 Main Street  
Norway, Michigan 49870

### **Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Norway, Michigan (City), as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the City'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 the maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from materials misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I did not audit the financial statements of Oak Crest Golf Club, Inc. (Golf Club), which represent 100 percent, 100 percent, and 80 percent, respectively, of the assets, net position, and revenues of the component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Golf Club, is based solely on the report of the other auditors. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Accounting Standards*, issued by the Comptroller General of the United States. Those standards require that I 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 risk 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

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### **Unmodified Opinions**

In my 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norway, Michigan, as of June 30, 2015, and the respective changes in financial position and , where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### Required Supplemental Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 8 through 13 and budgetary comparison information on pages 59 and 60 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

#### Additional Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Norway, Michigan's financial statements as a whole. The additional information section and segment information are presented for purposes of additional analysis and not a required part of the financial statements.

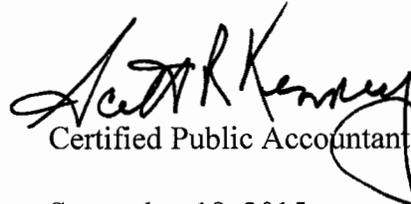
The additional information and segment information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report letter dated September 18, 2015, on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Accounting Standards* in considering the City of Norway's internal control over financial reporting and compliance.

  
Certified Public Accountant

September 18, 2015

CITY OF NORWAY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Financial Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City's combined net position decreased 55% from a year ago - decreasing from \$20.125 million to \$10.975 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced a decrease of approximately \$9.274 million during the year. This is primarily attributed to the inclusion of \$9.197 million in unfunded pension obligation to noncurrent liabilities. The City also received less grant money revenues than in years past. The business-type activities experienced a \$124 thousand increase in net position. The City experienced higher expenditures in the Water Fund and Wastewater Fund, however, the other business-type funds had positive returns to offset those losses. The expenditures in the Water Fund were caused by another severe winter, coupled with the loss of a major customer during the year. The Wastewater Fund continues to see higher than normal engineering fees in preparation for the upcoming Rural Development sewer project which has once again been delayed into the next fiscal year. The fund expected to be reimbursed for engineering costs when the Rural Development loan is closed. The loan closing is scheduled for the first half of 2016. The golf fund expenditures were normal, however, revenues were slightly higher than expected, causing a small surplus. On the direction of Treasury, the City was required to fund a \$150,000 deficit. The Electric Fund provided the transfer to make the Golf Fund positive.

CITY OF NORWAY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015

In a condensed format, the table below shows a comparison of the net position (in thousands of dollars) as of the current date to the prior year:

	Governmental Funds		Business-Type Funds		Total	
	2015	2014	2015	2014	2015	2014
Current Assets	\$ 1,212	\$ 1,266	\$ 3,127	\$ 2,522	\$ 4,339	\$ 3,788
Noncurrent Assets	12,262	12,121	19,555	20,157	31,817	32,278
Total Assets	\$ 13,474	\$ 13,387	\$ 22,682	\$ 22,679	\$ 36,156	\$ 36,066
Deferred Outflows	\$ 0	\$ 0	\$ 57	\$ 60	\$ 57	\$ 60
Long Term Debt Outstanding	\$ 12,598	\$ 2,987	\$ 10,318	\$ 10,740	\$ 22,916	\$ 13,727
Other Liabilities	519	769	1,803	1,505	2,322	2,274
Total Liabilities	\$ 13,117	\$ 3,756	\$ 12,121	\$ 12,245	\$ 25,238	\$ 16,001
<b>Net Position</b>						
Invested in Capital	\$ 9,373	\$ 8,833	\$ 7,936	\$ 7,939	\$ 17,309	\$ 16,772
Restricted	301	58	996	1,217	1,297	1,275
Unrestricted	(9,317)	740	1,686	1,338	(7,631)	2,078
Total Net Position	\$ 357	\$ 9,631	\$ 10,618	\$ 10,494	\$ 10,975	\$ 20,125

Unrestricted Net Position - the part of net position that can be used to finance day to day operations, decreased by \$9.709 million during the year. This is primarily attributed to the addition of the unfunded liability in the pension program for the 2014-2015 year. Governmental Funds unrestricted net position decreased by \$10.057 million. The current level of unrestricted net position for our governmental activities stands at a deficit of \$9.317 million. The Business Type Funds unrestricted net position increased by \$124 thousand.

CITY OF NORWAY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Funds		Business-Type Funds		Total	
	2015	2014	2015	2014	2015	2014
<b>Program Revenues</b>						
Charges for Services	\$ 317	\$ 306	\$ 7,541	\$ 7,303	\$ 7,858	\$ 7,609
Operating Grants/Contributions	440	424	0	76	440	500
Capital Grants/Contributions	841	8	0	0	841	8
<b>General Revenues</b>						
Property Taxes	\$ 1,187	\$ 1,199	\$ 0	\$ 0	\$ 1,187	\$ 1,199
State Shared Revenues	284	277	0	0	284	277
Unrestricted Investment Earnings	39	43	8	9	47	52
Fines and Forfeitures	11	10	0	0	11	10
Sale of Property	0	10	(19)	2	(19)	12
Transfers and Other Revenues	1,216	1,310	(201)	(342)	1,015	968
<b>Total Revenues</b>	<b>\$ 4,335</b>	<b>\$ 3,587</b>	<b>\$ 7,329</b>	<b>\$ 7,048</b>	<b>\$ 11,664</b>	<b>\$ 10,635</b>
<b>Program Expenses</b>						
General Government	\$ 10,921	\$ 956	\$ 0	\$ 0	\$ 10,921	\$ 956
Public Safety	804	812	0	0	804	812
Public Works	1,536	1,823	0	0	1,536	1,823
Recreation and Culture	212	168	0	0	212	168
Community Development	15	12	0	0	15	12
Interest on Long Term Debt	121	131	0	0	121	131
Oak Crest Golf Course	0	0	347	348	347	348
Public Utilities	0	0	6,857	7,005	6,857	7,005
<b>Total Expenses</b>	<b>\$ 13,609</b>	<b>\$ 3,902</b>	<b>\$ 7,204</b>	<b>\$ 7,353</b>	<b>\$ 20,813</b>	<b>\$ 11,255</b>
<b>Change in Net Position</b>	<b>\$ (9,274)</b>	<b>\$ (315)</b>	<b>\$ 125</b>	<b>\$ (305)</b>	<b>\$ (9,149)</b>	<b>\$ (620)</b>

The City's net position decreased during the year. This can be attributed to the increase in the unfunded liability for the City's pension. The Wastewater Fund also has increased engineering expenditures leading up to the wastewater treatment plant Rural Development project.

The City has continued to try and control its costs through limiting spending to necessary supplies and services while controlling capital outlays. Some new businesses have located in the City and construction continued at a steady pace this past year.

CITY OF NORWAY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015

Governmental Activities

The City's total governmental revenues increased by approximately \$748 thousand during the year. The increase is due primarily to increased grants and contributions. The remaining revenue categories remained relatively static with slight decreases in property tax receipts and increase in state shared revenue.

Cash expenditures increased approximately \$9,707,000 during the year. This was primarily due to the recognition of the unfunded pension obligation on the City's financial statements.

Business-Type Activities

The City's business-type activities consist of the Television, Electric, Golf, Water and Sewer Funds. The City provides cable television, internet and telephone services to residents through its cable television system. The City also provides electric service to residents by generating hydroelectric power at its own facilities and supplements its customer's needs with power purchased from WPPI Systems. The City owns and operates Oak Crest Golf Course in conjunction with Oak Crest Golf Club, Inc. The City provides water and sewer services to residents, which come from the City's own systems.

The Television fund which offers phone (VOIP), internet, and video services had a positive fiscal year mainly due to not having expenditures in upgrades to the system like the previous two years. The system will require some additional upgrades to equipment such as the CMTS and digital/HD video channels. Contracts will also need to be negotiated for some of our carriers and with Packerland Broadband.

The Electric fund continued with several upgrade projects during the past year. The Sturgeon Falls Hydroelectric Facility has a number of structural projects scheduled such as concrete restoration on the dam face and structural improvements to the gates. The city also has line extension projects scheduled for the next 5 to 10 years, planning one major project per year.

The Golf course has experienced small but steady decreases in both open play and memberships over the past two years. As revenues decreased slightly over the past two years, the city has maintained expenditures at budget levels. The Course Superintendent continues to work 50% of his time in the parks and recreation areas and fewer seasonal workers resulted in lower operating costs for the Golf Fund. The Fund saw a small gain for the year and did generate a small amount of positive cash flow.

The Water and Sewer Fund revenues both decreased slightly during the year, mainly due to the loss of a significant customer. Expenses increased in the water fund due to work to thaw and repair water lines during the extremely harsh winter. Expenses in the sewer fund increased due to an

CITY OF NORWAY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015

increase in engineering costs in preparation of a major project scheduled for 2016 and 2017. Both the Water Fund and Sewer Fund realized net losses during the year. Rates in both utility funds were increased for the next fiscal year and will again be examined during the forthcoming year and adjusted as necessary to generate both profits and positive cash flows and to account for costs in both upcoming projects.

The City's Funds

Analysis of the City's major funds begins on page 17, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a special property tax millage. The City's major funds for 2014-2015 include the General Fund, Capital Projects Fund and each of the business type funds.

The General Fund pays for most of the City's governmental services. The most significant are general maintenance of city property and buildings, maintaining the City's equipment, police and fire services and general administration. These services are primarily funded from property taxes assessed to the residents of the City and revenues shared with the State of Michigan.

General Fund Budgetary Highlights

Over the course of the year, the City Council amended the budget to take into account events during the year. Property tax rates were maintained at the same level as the prior year.

Capital Asset and Debt Administration

At the end of the 2014-2015 fiscal year, the City had more than \$44 million invested in a broad range of capital assets that are being systematically depreciated over the estimated useful lives of the various assets. These include snow removal equipment, police and fire equipment, land, buildings, community television/internet/telephone system, electric system, golf course, water and sewer systems. In addition, the City has invested significantly in roads and buildings within the City. The cost value of the roads at the end of the 2014-2015 fiscal year was nearly \$13 million. These roads are maintained by the City with the costs recorded in the major and local street funds.

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2015-2016 calls for a freeze on property tax rates. This can be accomplished because of the controls that are being placed on governmental fund expenditures and previously approved millage designated for roads and fire equipment. Because of the impact of Proposal A and a precarious cash position, however, the City needs to continue to watch its budget very closely.

CITY OF NORWAY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015

The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result of this is that the total taxable value for the City will grow at a rate less than inflation, before considering new property additions.

Contacting the City's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the manager's office.

FINANCIAL

STATEMENTS

**CITY OF NORWAY**  
**GOVERNMENT WIDE STATEMENT OF FINANCIAL POSITION**  
June 30, 2015

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and equivalents	\$ 702,565	\$ 1,017,849	\$ 1,720,414	\$ 47,382
Investments	337,525	0	337,525	0
Receivables - net	32,704	1,024,944	1,057,648	6,395
Due from component units	0	31,625	31,625	0
Due from other governmental units	115,078	0	115,078	0
Inventory	0	237,321	237,321	118,229
Prepaid expenses	24,034	13,320	37,354	4,896
Internal balances	0	802,000	802,000	0
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 1,211,906</b>	<b>\$ 3,127,059</b>	<b>\$ 4,338,965</b>	<b>\$ 176,902</b>
<b>RESTRICTED ASSETS - Cash and equivalents</b>	<b>\$ 0</b>	<b>\$ 1,124,718</b>	<b>\$ 1,124,718</b>	<b>\$ 0</b>
<b>NON-CURRENT ASSETS</b>				
Property and equipment, net of depreciation	\$ 12,226,317	\$ 18,430,137	\$ 30,656,454	\$ 0
Due from component units	35,795	0	35,795	0
Other	0	0	0	0
<b>TOTAL NON-CURRENT ASSETS</b>	<b>\$ 12,262,112</b>	<b>\$ 18,430,137</b>	<b>\$ 30,692,249</b>	<b>\$ 0</b>
<b>TOTAL ASSETS</b>	<b>\$ 13,474,018</b>	<b>\$ 22,681,914</b>	<b>\$ 36,155,932</b>	<b>\$ 176,902</b>
<b>DEFERRED OUTFLOW OF RESOURCES</b>				
Bond discount	\$ 0	\$ 57,041	\$ 57,041	\$ 0
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 51,930	\$ 279,676	\$ 331,606	\$ 87,751
Accrued and other liabilities	70,169	361,332	431,501	75,040
Due to fiduciary funds	19,039	10,673	29,712	0
Due to primary government	0	0	0	31,625
Interprogram payables	72,000	730,000	802,000	0
Current part of non-current liabilities	306,360	421,648	728,008	0
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 519,498</b>	<b>\$ 1,803,329</b>	<b>\$ 2,322,826</b>	<b>\$ 194,416</b>
<b>NON-CURRENT LIABILITIES</b>				
Compensated absences	\$ 133,992	\$ 0	\$ 133,992	\$ 0
Due to primary government	0	0	0	35,795
Notes payable	0	70,455	70,455	0
Land contracts payable	99,943	0	99,943	0
Bonds payable	2,447,000	0	2,447,000	0
Revenue bonds payable	0	10,247,509	10,247,509	0
Unfunded pension obligation	9,916,733	0	9,916,733	0
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>\$ 12,597,668</b>	<b>\$ 10,317,964</b>	<b>\$ 22,915,632</b>	<b>\$ 35,795</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 13,117,166</b>	<b>\$ 12,121,293</b>	<b>\$ 25,238,459</b>	<b>\$ 230,211</b>
<b>NET POSITION</b>				
Invested in capital	\$ 9,373,014	\$ 7,935,913	\$ 17,308,927	\$ 0
Restricted	300,724	995,725	1,296,449	0
Unrestricted	(9,316,886)	1,686,024	(7,630,862)	(53,309)
<b>TOTAL NET POSITION</b>	<b>\$ 356,852</b>	<b>\$ 10,617,662</b>	<b>\$ 10,974,514</b>	<b>\$ (53,309)</b>

Notes to Financial Statements are an integral part of this statement.



CITY OF NORWAY  
 GOVERNMENTAL FUNDS BALANCE SHEET  
 COMBINED BALANCE SHEET  
 June 30, 2015

	<u>GENERAL FUND</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>ASSETS</b>				
Cash and equivalents	\$ 311,999	\$ 47,863	\$ 342,703	\$ 702,565
Taxes and accounts receivable	32,704	0	0	32,704
Due from other funds	0	0	0	0
Due from fiduciary funds	0	0	0	0
Due from components units	0	0	0	0
Due from other governmental units	48,635	0	66,443	115,078
Prepaid expenses	13,534	0	10,500	24,034
Investments	<u>337,525</u>	<u>0</u>	<u>0</u>	<u>337,525</u>
TOTAL ASSETS	\$ <u>744,397</u>	\$ <u>47,863</u>	\$ <u>419,646</u>	\$ <u>1,211,906</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 35,856	\$ 7,840	\$ 8,234	\$ 51,930
Accrued payroll expense	39,559	0	12,039	51,598
Accrued taxes and withholdings	2,977	0	906	3,883
Due to other funds	48,000	0	24,000	72,000
Due to Retiree Insurance Trust Fund	19,039	0	0	19,039
Due to other governmental units	0	0	0	0
Other liabilities	<u>2,711</u>	<u>0</u>	<u>0</u>	<u>2,711</u>
TOTAL LIABILITIES	\$ 148,142	\$ 7,840	\$ 45,179	\$ 201,161
<b>FUND BALANCE</b>				
Nonspendable	\$ 13,534	\$ 0	\$ 10,500	\$ 24,034
Restricted	0	0	300,724	300,724
Committed	144,399	40,023	63,855	248,277
Unassigned	<u>438,322</u>	<u>0</u>	<u>(612)</u>	<u>437,710</u>
TOTAL FUND EQUITY	\$ <u>596,255</u>	\$ <u>40,023</u>	\$ <u>374,467</u>	\$ <u>1,010,745</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>744,397</u>	\$ <u>47,863</u>	\$ <u>419,646</u>	\$ <u>1,211,906</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
RECONCILIATION OF BALANCE SHEET OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF FINANCIAL POSITION  
June 30, 2015

Total fund balance - total governmental funds	\$	1,010,745
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds net of related depreciation		12,226,317
Notes receivable - Oak Crest Golf Club, Inc. is not due and payable within the current period and not reported in the governmental fund financial statements		35,795
Accrued interest payable not recorded on governmental financial statements		(11,977)
Other postretirement employee benefit obligation		0
Long term liabilities:		
Bonds/loans not due and payable with the current period and not reported in the funds		(2,743,000)
Land contracts payables		(110,303)
Accumulated employee benefit pay not used in current period		(133,992)
Unfunded pension accrued actuarial liability not reported in the funds		<u>(9,916,733)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES \$		<u><u>356,852</u></u>

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
 ALL GOVERNMENTAL FUND TYPES  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 Year ended June 30, 2015

	GENERAL	CAPITAL PROJECTS	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
General property taxes	\$ 834,260	\$ 0	\$ 352,643	\$ 1,186,903
Federal Grants	15,000	716,599	0	731,599
State shared revenues and grants	283,911	103,305	371,006	758,222
Contribution from other governmental units	0	0	29,269	29,269
Local grants/contributions	3,773	31,660	10,318	45,751
Charges for services	229,089	0	88,248	317,337
Fines and forfeitures	11,246	0	0	11,246
Interest and rentals	268,096	0	1,031	269,127
Sale of supplies/property	7,507	4,000	144	11,651
Administrative fees	950,045	0	0	950,045
Other	15,698	0	17,851	33,549
TOTAL REVENUES	\$ 2,618,625	\$ 855,564	\$ 870,510	\$ 4,344,699
EXPENDITURES				
General government	\$ 834,583	\$ 70,726	\$ 37,182	\$ 942,491
Public safety	631,939	0	105,334	737,273
Public works	462,036	0	502,993	965,029
Parks and recreation	162,912	11,738	17,908	192,558
Community development	0	0	15,315	15,315
Debt service	0	0	519,591	519,591
Capital outlay	200,097	883,289	7,486	1,090,872
TOTAL EXPENDITURES	\$ 2,291,567	\$ 965,753	\$ 1,205,809	\$ 4,463,129
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 327,058	\$ (110,189)	\$ (335,299)	\$ (118,430)
OTHER FINANCING SOURCES (USES)				
Transfer from other funds	\$ 0	\$ 154,442	\$ 519,609	\$ 674,051
Transfer from component unit	0	0	36,625	36,625
Transfer to other funds	(259,342)	(15,112)	(215,707)	(490,161)
EXCESS OF REVENUES AND OTHER FINANCING USES OVER EXPENDITURES	\$ 67,716	\$ 29,141	\$ 5,228	\$ 102,085
Fund balance - beginning	528,539	10,882	369,239	908,660
FUND BALANCE - ENDING	\$ 596,255	\$ 40,023	\$ 374,467	\$ 1,010,745

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
RECONCILIATION OF STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES  
Year ended June 30, 2015

Net change in fund balance - total governmental funds	\$	102,086
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation		144,301
Current year additions		
General government	59,631	
Recreation and culture	1,375	
Public works	984,485	
Public safety	45,381	
Current year disposals:		
Public works	0	
Depreciation		
General government	(66,264)	
Public safety	(63,792)	
Public works	(797,294)	
Recreation and culture	(19,221)	
Note receivable - Oak Crest Golf Club, Inc.		
Accrued interest paid to City recorded as revenue in the funds but as payment of a liability on the government wide statements		(2,931)
Repayments of long term debt principal		395,969
DDA bonds - 2012 issue	115,000	
City Hall bonds	55,000	
Fire Hall bonds	25,000	
Fire truck general obligation bond	15,000	
Street improvement general obligation bonds	70,000	
Golf clubhouse building bond	33,192	
Energy savings installment payment agreement	72,872	
Land contracts	9,905	
Decrease in accrued interest not recorded as expenditure in governmental funds		3,035
Increases in accumulated employee benefit pay are recorded when earned in the Statement of Activities.		13
General government	4,619	
Public safety	(3,103)	
Public works	(972)	
Recreation and culture	(531)	
Recognition of unfunded accrued actuarial pension liability		<u>(9,916,733)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$		<u><u>(9,274,260)</u></u>

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
PROPRIETARY FUNDS  
STATEMENT OF FINANCIAL POSITION  
June 30, 2015

	TELEVISION UTILITY	ELECTRIC UTILITY	GOLF FUND	WATER UTILITY	SEWER UTILITY	TOTAL
<b>ASSETS</b>						
<b>Current Assets:</b>						
Cash and equivalents	\$ 157,452	\$ 808,919	\$ 27,374	\$ 1,027	\$ 23,077	\$ 1,017,849
Accounts receivable	143,669	732,630	1,923	59,624	87,098	1,024,944
Due from other funds	0	802,000	0	0	0	802,000
Due from component units	0	0	31,625	0	0	31,625
Inventory	21,059	152,797	0	41,179	22,286	237,321
Prepaid expenses	2,160	4,341	1,496	3,412	1,911	13,320
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 324,340</b>	<b>\$ 2,500,687</b>	<b>\$ 62,418</b>	<b>\$ 105,242</b>	<b>\$ 134,372</b>	<b>\$ 3,127,059</b>
<b>Restricted Assets</b>	<b>\$ 143,484</b>	<b>\$ 714,097</b>	<b>\$ 0</b>	<b>\$ 267,137</b>	<b>\$ 0</b>	<b>\$ 1,124,718</b>
<b>Property, Plant and Equipment:</b>						
Utility system and equipment	\$ 1,593,431	\$ 20,809,902	\$ 2,260,293	\$ 6,471,033	\$ 2,798,258	\$ 33,932,917
Less accumulated depreciation	(713,819)	(8,906,413)	(1,684,026)	(2,728,297)	(1,470,225)	(15,502,780)
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>\$ 879,612</b>	<b>\$ 11,903,489</b>	<b>\$ 576,267</b>	<b>\$ 3,742,736</b>	<b>\$ 1,328,033</b>	<b>\$ 18,430,137</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,347,436</b>	<b>\$ 15,118,273</b>	<b>\$ 638,685</b>	<b>\$ 4,115,115</b>	<b>\$ 1,462,405</b>	<b>\$ 22,681,914</b>
<b>DEFERRED OUTFLOW OF RESOURCES</b>						
Bond discount	\$ 20,368	\$ 35,987	\$ 0	\$ 686	\$ 0	\$ 57,041
<b>LIABILITIES</b>						
<b>Current Liabilities:</b>						
Accounts payable	\$ 67,150	\$ 155,310	\$ 4,727	\$ 45,396	\$ 7,093	\$ 279,676
Salaries and wages payable	6,666	21,509	6,110	5,880	7,594	47,759
Accrued taxes and withholdings	493	2,603	463	425	564	4,548
Due to other funds	0	0	0	315,000	415,000	730,000
Due to Retiree Insurance Trust Fund	810	5,318	873	960	2,712	10,673
Accrued interest	10,148	27,162	0	17,444	0	54,754
Accrued benefits	8,213	50,173	3,552	33,305	20,565	115,808
Other accrued expenses	0	9,470	0	0	0	9,470
Security deposits	0	128,993	0	0	0	128,993
Current portion of long term liabilities	20,000	262,447	15,207	115,000	8,994	421,648
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 113,480</b>	<b>\$ 662,985</b>	<b>\$ 30,932</b>	<b>\$ 533,410</b>	<b>\$ 462,522</b>	<b>\$ 1,803,329</b>
<b>Long Term Liabilities</b>	<b>\$ 1,105,000</b>	<b>\$ 6,693,938</b>	<b>\$ 32,571</b>	<b>\$ 2,416,000</b>	<b>\$ 70,455</b>	<b>\$ 10,317,964</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 1,218,480</b>	<b>\$ 7,356,923</b>	<b>\$ 63,503</b>	<b>\$ 2,949,410</b>	<b>\$ 532,977</b>	<b>\$ 12,121,293</b>
<b>NET POSITION</b>						
Invested in capital	\$ 0	\$ 4,947,104	\$ 528,489	\$ 1,211,736	\$ 1,248,584	\$ 7,935,913
Restricted	143,484	585,104	0	267,137	0	995,725
Unrestricted	5,840	2,265,129	46,693	(312,482)	(319,156)	1,686,024
<b>TOTAL NET POSITION</b>	<b>\$ 149,324</b>	<b>\$ 7,797,337</b>	<b>\$ 575,182</b>	<b>\$ 1,166,391</b>	<b>\$ 929,428</b>	<b>\$ 10,617,662</b>

The Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FINANCIAL POSITION  
 Year ended June 30, 2015

	<u>TELEVISION UTILITY</u>	<u>ELECTRIC UTILITY</u>	<u>GOLF FUND</u>	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
<b>OPERATING REVENUES</b>						
User charges	\$ 1,447,279	\$ 4,089,219	\$ 391,290	\$ 653,516	\$ 819,306	\$ 7,400,610
User penalties	17,981	35,090	0	7,475	10,927	71,473
Other	<u>20,019</u>	<u>4,306</u>	<u>686</u>	<u>33,000</u>	<u>10,417</u>	<u>68,428</u>
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 1,485,279</b>	<b>\$ 4,128,615</b>	<b>\$ 391,976</b>	<b>\$ 693,991</b>	<b>\$ 840,650</b>	<b>\$ 7,540,511</b>
<b>OPERATING EXPENSES</b>						
Generation, transmission, distribution and maintenance	\$ 1,234,336	\$ 2,605,695	\$ 284,843	\$ 692,390	\$ 881,262	\$ 5,698,526
Depreciation	<u>75,369</u>	<u>633,141</u>	<u>31,804</u>	<u>135,852</u>	<u>53,495</u>	<u>929,661</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,309,705</b>	<b>\$ 3,238,836</b>	<b>\$ 316,647</b>	<b>\$ 828,242</b>	<b>\$ 934,757</b>	<b>\$ 6,628,187</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 175,574</b>	<b>\$ 889,779</b>	<b>\$ 75,329</b>	<b>\$ (134,251)</b>	<b>\$ (94,107)</b>	<b>\$ 912,324</b>
<b>NON-OPERATING GAINS (LOSSES)</b>						
Interest	\$ 862	\$ 5,952	\$ 0	\$ 1,156	\$ 117	\$ 8,087
Local grants/contributions	0	0	0	0	0	0
Contribution capital, net of amortization	0	0	(27,521)	0	0	(27,521)
Gain/(loss) on disposal of property and equipment	0	(19,393)	0	0	0	(19,393)
Bond interest and fee payments	(61,761)	(338,288)	(2,540)	(111,333)	0	(513,922)
Bond discount amortization	0	(1,735)	0	(342)	0	(2,077)
Grant amortization	0	0	0	(24,064)	(8,677)	(32,741)
<b>NON-OPERATING TRANSFERS</b>						
From other funds	\$ 0	\$ 5,780	\$ 150,000	\$ 0	\$ 19,053	\$ 174,833
To other funds	0	(286,846)	(9,255)	(35,328)	(8,242)	(339,671)
To component units	<u>0</u>	<u>0</u>	<u>(35,985)</u>	<u>0</u>	<u>0</u>	<u>(35,985)</u>
<b>NET INCOME (LOSS)</b>	<b>\$ 114,675</b>	<b>\$ 255,249</b>	<b>\$ 150,028</b>	<b>\$ (304,162)</b>	<b>\$ (91,856)</b>	<b>\$ 123,934</b>
Net position - beginning	<u>34,649</u>	<u>7,542,088</u>	<u>425,154</u>	<u>1,470,553</u>	<u>1,021,284</u>	<u>10,493,728</u>
<b>NET POSITION - ENDING</b>	<b>\$ 149,324</b>	<b>\$ 7,797,337</b>	<b>\$ 575,182</b>	<b>\$ 1,166,391</b>	<b>\$ 929,428</b>	<b>\$ 10,617,662</b>

Notes to Financial Statements are an integral part of this statement.

**CITY OF NORWAY**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
Year ended June 30, 2015

	TELEVISION UTILITY	ELECTRIC UTILITY	GOLF FUND	WATER UTILITY	SEWER UTILITY	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$ 1,482,401	\$ 3,738,891	\$ 390,832	\$ 701,012	\$ 824,718	\$ 7,137,854
Payments to suppliers	(1,047,107)	(1,660,250)	(142,774)	(395,070)	(598,491)	(3,843,692)
Payments to or on behalf of employees	(195,209)	(877,589)	(154,646)	(320,126)	(314,227)	(1,861,797)
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 240,085</b>	<b>\$ 1,201,052</b>	<b>\$ 93,412</b>	<b>\$ (14,184)</b>	<b>\$ (88,000)</b>	<b>\$ 1,432,365</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>						
Transfer from (to) other funds	0	(281,066)	140,745	(35,328)	(8,242)	(183,891)
Transfer from (to) component units	0	0	(35,985)	0	0	(35,985)
Other revenues	0	(263,000)	0	0	0	(263,000)
Repay (loan) to component unit	0	0	(31,625)	0	22,258	(9,367)
Loans from (repaid to) other funds	0	0	(118,000)	315,000	105,571	302,571
<b>TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	<b>\$ 0</b>	<b>\$ (544,066)</b>	<b>\$ (44,865)</b>	<b>\$ 279,672</b>	<b>\$ 119,587</b>	<b>\$ (189,672)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Principal and interest paid on capital debt	\$ (81,313)	\$ (580,573)	\$ (17,070)	\$ (220,166)	\$ (8,995)	\$ (908,117)
Purchases of capital assets	(82,780)	(392,908)	(4,558)	(150,062)	0	(630,308)
Proceeds from sale of equipment	0	0	0	0	0	0
Local grants/contributions	0	0	0	0	0	0
Funding of restricted accounts	142	116,163	0	104,611	0	220,916
<b>TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (163,951)</b>	<b>\$ (857,318)</b>	<b>\$ (21,628)</b>	<b>\$ (265,617)</b>	<b>\$ (8,995)</b>	<b>\$ (1,317,509)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest earned	\$ 862	\$ 5,952	\$ 0	\$ 1,156	\$ 117	\$ 8,087
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>\$ 76,996</b>	<b>\$ (194,380)</b>	<b>\$ 26,919</b>	<b>\$ 1,027</b>	<b>\$ 22,709</b>	<b>\$ (66,729)</b>
Cash and equivalents - beginning	80,456	1,003,299	455	0	368	1,084,578
<b>CASH AND EQUIVALENTS - ENDING</b>	<b>\$ 157,452</b>	<b>\$ 808,919</b>	<b>\$ 27,374</b>	<b>\$ 1,027</b>	<b>\$ 23,077</b>	<b>\$ 1,017,849</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>						
Operating income (loss)	\$ 175,574	\$ 889,779	\$ 75,329	\$ (134,251)	\$ (94,107)	\$ 912,324
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities						
Depreciation	75,369	633,141	31,804	135,852	53,495	929,661
Change in Assets and Liabilities						
Receivables - net	(2,878)	(389,724)	(1,144)	7,021	(15,932)	(402,657)
Inventory	(99)	7,936	0	(9,677)	1,440	(400)
Prepaid expenses	637	1,058	185	723	1,070	3,673
Bank overdraft	0	0	0	(37,590)	0	(37,590)
Accounts payable	(6,006)	61,937	(9,989)	26,645	(33,241)	39,346
Accrued payroll expense	1,061	353	(963)	(929)	528	50
Accrued taxes and withholdings	79	268	(73)	(77)	35	232
Sales tax payable	0	(52)	0	0	0	(52)
Accrued benefits	(1,321)	0	531	(734)	(1,288)	(2,812)
Due to fiduciary funds	(2,331)	(3,129)	(2,268)	(1,167)	0	(8,895)
Customer deposits	0	(515)	0	0	0	(515)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 240,085</b>	<b>\$ 1,201,052</b>	<b>\$ 93,412</b>	<b>\$ (14,184)</b>	<b>\$ (88,000)</b>	<b>\$ 1,432,365</b>

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
STATEMENT OF FINANCIAL POSITION  
FIDUCIARY FUNDS  
June 30, 2015

	AGENCY FUND TYPE	TRUST FUND TYPE
	Tax Collections	Retiree Insurance Trust Fund
<b>ASSETS</b>		
Cash and equivalents	\$ 0	\$ 0
Accounts receivable - net	0	0
Due from other funds	0	29,712
Interest and dividend receivable	0	0
Investments	0	230,362
Due from other governmental units	0	0
<b>TOTAL ASSETS</b>	<b>\$ 0</b>	<b>\$ 260,074</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 0	\$ 0
Due to other funds	0	0
Due to other governmental units	0	0
Deferred revenue	0	0
<b>TOTAL LIABILITIES</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>NET POSITION</b>		
Held in trust for retiree insurance benefits	\$	<b>260,074</b>

The Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
STATEMENT OF CHANGES IN PLAN FINANCIAL POSITION  
FIDUCIARY FUNDS  
Year ended June 30, 2015

	Tax Collection	Retiree Insurance Trust Fund
ADDITIONS		
Contributions		
Taxes and related interest and penalties collected \$	2,566,218	\$ 0
Tax overpayments	2,010	0
Employer contributions	0	131,789
Total Contributions \$	2,568,228	\$ 131,789
Investment Income		
Increase/(decrease)		
in fair value of investments \$	0	\$ 0
Interest, dividends and realized gains	0	4,214
Net Investment Income \$	0	\$ 4,214
TOTAL ADDITIONS \$	2,568,228	\$ 136,003
DEDUCTIONS		
Tax distributions \$	2,568,248	\$ 0
Benefits paid	0	102,077
Administrative costs	0	963
TOTAL DEDUCTIONS \$	2,568,248	\$ 103,040
NET INCREASE \$	(20)	\$ 32,963
NET POSITION HELD IN TRUST FOR PENSION OR RETIREE INSURANCE BENEFITS		
Beginning \$	20	\$ 227,111
ENDING \$	0	\$ 260,074

The Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
COMPONENT UNITS  
STATEMENT OF FINANCIAL POSITION  
June 30, 2015

	<u>OAK CREST GOLF CLUB, INC</u>	<u>NORWAY UTILITY AUTHORITY</u>		<u>TOTAL</u>
<b>ASSETS</b>				
Current Assets:				
Cash and equivalents	\$ 47,382	\$ 0	\$	47,382
Accounts receivable	6,395	0		6,395
Inventory	118,229	0		118,229
Prepaid expense	<u>4,896</u>	<u>0</u>		<u>4,896</u>
TOTAL CURRENT ASSETS	\$ 176,902	\$ 0	\$	176,902
Restricted cash and equivalents	\$ 0	\$ 0	\$	0
Capital assets being depreciated, net	<u>0</u>	<u>0</u>		<u>0</u>
TOTAL ASSETS	\$ 176,902	\$ 0	\$	176,902
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	\$ 87,751	\$ 0	\$	87,751
Line of credit	19,000			19,000
Gift certificates payable	19,839	0		19,839
Accrued payroll, taxes and withholdings	24,872	0		24,872
Due to City of Norway	31,625	0		31,625
Commissions payable	7,299	0		7,299
Accrued interest	0	0		0
Other accrued liabilities	4,030	0		4,030
Current part of long term debt	<u>0</u>	<u>0</u>		<u>0</u>
TOTAL CURRENT LIABILITIES	\$ 194,416	\$ 0	\$	194,416
Long Term Debt:				
Due to City of Norway	\$ 35,795	\$ 0	\$	35,795
Bonds payable	<u>0</u>	<u>0</u>		<u>0</u>
TOTAL LONG TERM DEBT	\$ 35,795	\$ 0	\$	35,795
TOTAL LIABILITIES	\$ 230,211	\$ 0	\$	230,211
<b>NET POSITION</b>				
Invested in capital	\$ 0	\$ 0	\$	0
Restricted	0	0		0
Unrestricted	<u>(53,309)</u>	<u>0</u>		<u>(53,309)</u>
TOTAL NET POSITION	\$ (53,309)	\$ 0	\$	(53,309)

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
COMPONENT UNITS  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2015

	<u>OAK CREST GOLF CLUB, INC</u>	<u>NORWAY UTILITY AUTHORITY</u>	<u>TOTAL</u>
<b>EXPENSES</b>			
Recreation	\$ 536,550	\$ 0	\$ 536,550
Interest and related fees	2,058	5,214	7,272
Other	<u>0</u>	<u>33</u>	<u>33</u>
TOTAL EXPENSES	\$ 538,608	\$ 5,247	\$ 543,855
<b>PROGRAM REVENUES</b>			
Charges for services	\$ <u>471,239</u>	\$ <u>0</u>	\$ <u>471,239</u>
NET PROGRAM REVENUES (EXPENSES)	\$ (67,369)	\$ (5,247)	\$ (72,616)
<b>GENERAL REVENUES</b>			
Memberships	\$ 770	\$ 0	\$ 770
Lease revenues	0	132,818	132,818
Interest earned	31	0	31
Other	<u>28,462</u>	<u>0</u>	<u>28,462</u>
TOTAL GENERAL REVENUES	\$ 29,263	\$ 132,818	\$ 162,081
<b>TRANSFERS</b>			
Transfer from City of Norway	\$ 35,985	\$ 0	\$ 35,985
Transfer to City of Norway	<u>(36,625)</u>	<u>(19,053)</u>	<u>(55,678)</u>
NET TRANSFERS	\$ (640)	\$ (19,053)	\$ (19,693)
CHANGE IN NET POSITION	\$ (38,746)	\$ 108,518	\$ 69,772
Net position (deficit) - beginning	<u>(14,563)</u>	<u>(108,518)</u>	<u>(123,081)</u>
NET POSITION (DEFICIT) - ENDING	\$ <u><u>(53,309)</u></u>	\$ <u><u>0</u></u>	\$ <u><u>(53,309)</u></u>

Notes to Financial Statements are an integral part of this statement.

NOTES  
TO  
FINANCIAL  
STATEMENTS

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Norway (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

**Reporting Entity**

The City is governed by an elected five member council (Council). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

**BLENDED COMPONENT UNITS**

The Norway Building Authority was established to finance the renovation, construction and equipping of the clubhouse at the Oak Crest Golf Course. All of the activity of the fund which consists solely of the debt service payments are transferred to the Debt Service Fund from the Oak Crest Golf Club, Inc. who is primarily responsible for the debt service payments. As such, the receipts and payments are recorded in the Debt Service Fund.

Downtown Development Authority - The Downtown Development Authority is governed by a board which has been appointed by the City Council. For financial reporting purposes, the Downtown Development Authority is reported in a separate Special Revenue Fund.

**DISCRETELY PRESENTED COMPONENT UNIT**

The following component units are reported within the "component unit" column in the government wide financial statements. The discretely presented component units are entities that are legally separate from the City of Norway, but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

The Oak Crest Golf Club, Inc. is governed by a separate commission that is elected by the membership. While the City Council sets membership fees and can limit membership totals, the Council does not approve budgets or expenses. Complete audited financial statements are available at the Oak Crest Golf Club in Norway, Michigan and the City Hall.

The Norway Utility Authority was established as a joint venture with the Township of Norway to provide financing for upgrades to the sewer system to the residents of the two jurisdictions. Complete audited financial statements are available at the City Hall. The payments received from the two participating entities are recorded as lease revenue in accordance with the contracts between the Authority and each entity.

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of presentation**

**Government-Wide Financial Statements**

The government-wide statements (i.e., Statement of Financial Position and the Statement of Activities) report information on all of the activities of the City except for the fiduciary activities. All of the City's activities are considered to be governmental activities or business type activities. For the most part, the effect of interfund activity has been eliminated from these statements.

**Fund Based Financial Statements**

Separate financial statements are provided for on the basis of funds, each of which is considered a separate physical and accounting entity. The operations of each fund are accounted for, with a separate set of self balancing accounts that are comprised of assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenue and expenditures/expenses. Resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. Governmental, business type activities, as well as fiduciary funds are provided. The various fund types are grouped in the financial statements as major or nonmajor funds. The City reports the following major government 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 Capital Projects Fund accounts for the revenues and expenditures associated with Capital improvements in the City.

The government reports the following major proprietary funds:

The Television/Internet/Telephone Fund accounts for the activities of the community television, internet and telephone systems.

The Electric Fund accounts for the activities of the power generation and distribution system.

The Golf Fund accounts for the activities of the Oak Crest Golf Course.

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewer collection system.

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Accounting**

Government-Wide Financial Statements

The government-wide financial statements report all financial and capital assets, short and long-term liabilities, revenue, expenses and gains and losses using an economic resources measurement focus and the accrual basis of accounting. All revenue is recorded when earned and expenses are recorded when a liability is incurred.

Fund Based Financial Statements

Government fund types in agency funds use the modified accrual basis of accounting and the flow of expendable financial resources as their measurement focus. Under the modified accrual basis of accounting, revenues are recorded when all applicable eligibility requirements are met and resources are available to finance expenditures of the fiscal period. Revenues are available when they are collectible during the period and actual collection will occur either during the current period or after the end of the period but in time to pay fund liabilities. The City considers revenues to be available if they are expected to be collected within 60 days of the end of the year. Property tax revenues are recognized as revenue when they are levied with a proper allowance made for estimated uncollectible and/or delinquent accounts. Other tax revenues, fees and nontax revenues are recognized when received. Grants, entitlements and shared revenues are recorded when they are susceptible to accrual. Expenditure-based grants are recorded as revenue when the conditions of the grants are satisfied. Expenditures, if measurable, are recorded when they have used or are expected to use current expendable resources except unmatured interest on general long term debt is recorded when due.

Proprietary Financial Statements

Proprietary fund types use the accrual basis of accounting and the flow of all economic resources as their measurement focus. The basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises. Revenues are recorded when earned and expenses are recorded when incurred. Under this basis of accounting and measurement focus, the City applies all GASB pronouncements and FASB statements and interpretations, APB opinions and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Granting of Credit

The City grants credit to the State of Michigan and various local units of government. The City also extends credit to its enterprise fund customers.

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial Statement Presentation**

Cash and Cash Equivalents - Cash applicable to a particular fund is readily identifiable. Cash in excess of current requirements is invested into various interest-bearing securities on a short-term basis.

Receivables - All receivables are reported at the gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due to and Due from Other Funds - Interfund receivables and payables arise from interfund transactions that are recorded by all funds affected in the period in which transactions are executed.

Inventory - Where each fund's inventory value is material to that fund, the value of the inventory is recorded in the financial records. Where the value is immaterial, the amount is not recorded as an asset on the financial statements.

Restricted Assets - Money that is restricted for a designated purpose (i.e. construction, capital improvements, debt service) are segregated from operational cash accounts due to their restriction. In addition, some bonds contain covenants that require the City to establish and maintain prescribed amounts of resources for making system improvements or future bond payments.

Capital Assets - Capital assets, which include property, plant and equipment are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 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.

The City has elected not to report its infrastructure assets which is in compliance with Governmental Accounting Standards Board Statement Number 34 as the City is a "tier three" entity. All future infrastructure asset additions will be recorded and reported in the government wide financial statements.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years	Building Improvements	15 to 30 years
Television and internet	5 to 25 years	Electric System	5 to 40 years
Golf Course	15 to 40 years	Water and Sewer Lines	40 to 60 years
Roads	10 to 30 years	Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years	Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years		

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial Statement Presentation (Continued)**

Compensated Absences (Vacation, Personal and Sick Leave)— It is the government’s policy to permit employees to accumulate earned but unused vacation, personal and sick pay benefits. There is a liability for unpaid accumulated sick leave since the government has a policy to pay a portion of the accumulated benefits to employees upon separation from service with the government in some circumstances. All vacation and personal leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Long-Term Debt - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. In the applicable governmental activities, proceeds from any noncurrent liabilities and payments on those liabilities are recorded as other financing sources and debt services expenditures, respectively.

Property Tax Revenues - Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available. Allowances are made for estimated uncollectible accounts and delinquent accounts. Property taxes attach as an enforceable lien on property in December of each year.

In addition to its own taxes, the City collects taxes for the State of Michigan, Dickinson County, the local school district and the intermediate school district.

The City is permitted to assess 20 mills for general governmental services according to its charter. The City actually assessed 16.3942 mills for operations, 1.5615 mills for road improvements and 0.3450 mills for debt service on the Fire Truck obligation. These assessments generated net tax collections of \$834,260 recorded in the General Fund for operations, \$20,291 recorded in the Fire Protection Fund for the Fire Truck debt, \$240,866 in the Downtown Development Authority and \$91,486 in the Local Street Fund.

Delinquent real property taxes of the City are purchased annually by Dickinson County.

Investment in Capital - The portion of net position of the City that consists of capital assets, net of accumulated depreciation and reduced by liabilities attributable to the acquisition, construction or improvement of those assets.

Restricted Net Position - Net position is restricted when there is constraints placed on their use by external parties or by statute.

Unrestricted Net Position - Net position not meeting either category above are considered unrestricted.

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial Statement Presentation (Continued)**

Fund Balance Policies - Fund balance measures the net financial resources available to finance expenditures of future periods. Fund balance is the difference between assets and the deferred outflows of resources and liabilities and deferred inflows of resources reported in a governmental fund. The City's unassigned general fund balance will be maintained to provide the City with sufficient working capital and a margin of safety to address local emergencies without unnecessary borrowing. The unassigned general fund balance may only be appropriated by resolution of the Council. It is recognized that it will not always be possible to avoid borrowing to provide cash flow.

Fund balances of the City may be committed for a specific source by formal action of the Council. Amendments or modifications to the Committed Fund Balance must also be approved by formal action of the Council. Committed Fund Balance does not lapse at year-end.

The Council can delegate authority to assign Fund Balance for a specific purpose to the City Manager. Assigned Fund Balance does not lapse at year-end.

Restricted Fund Balances are those that can be spent only for specific purposes stipulated by external resource providers or statute.

Nonspendable Fund Balances include amounts that are not in an expendable form. The City reports inventory and prepaid expenses as Nonspendable Fund Balance.

Unassigned Fund Balance is the residual fund balance not falling into one of the above listed categories.

For purposes of fund balance classification, expenditures are to be spent from Restricted Fund Balance first (when appropriate), followed in order by Committed Fund Balance, Assigned Fund Balance and lastly, Unassigned Fund Balance.

**Budget**

Formal budgetary accounting is employed as a management control for all funds of the City. The budgetary financial statements included in this report do not include the proprietary funds of the City. For the funds required to adopt a budget, the same basis of accounting is used to reflect actual revenues and expenditures recognized on the basis of generally accepted accounting principles.

The City follows these procedures in establishing data reflected in the financial statements:

1. The City Manager submits to the City Council, a recommended operating budget for the fiscal year commencing July 1. The proposed budget includes expenditures and the means of financing them.

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial Statement Presentation (Continued)**

Budget (continued)

2. Public hearing is held to obtain taxpayers comments.
3. The budget is legally enacted by City Council adoption authorizing a General Appropriation Act for the fiscal year.
4. Any revisions to budgeted amounts are approved by the City Council.
5. Budgeted amounts are as originally adopted, plus amendments made on or before June 30 by the City Council.
6. The budget expires on June 30 of the budget year.

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 the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from those estimates.

Subsequent Events - Subsequent events have been evaluated through the date of the audit report, the date the financial statements were available to be issued.

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted on a cash basis. All annual appropriations lapse at fiscal year end. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. (i.e., The level at which expenditures may not legally exceed appropriations.)

**Public Act 275 of 1980**

The City's Fire Protection, Water and Sewer Funds have unrestricted net position deficits at June 30, 2015. The component units of the City also have unrestricted net position deficits at June 30, 2015.

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

**Excess of Expenditures Over Appropriations In Budgetary Funds**

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures, budgeted expenditures and related variances for the budgetary funds have been shown on an activity basis. The approved budgets of the City for these budgetary funds were adopted on the activity level.

Material variances occurring in the budgetary funds are listed here:

Fund/Activity	Actual	Budget	Variance	%
General-Building and Grounds	\$ 58,453	\$ 56,942	\$ 1,511	3
General-Parks and Recreation	156,315	143,886	12,429	9
Capital Projects-Capital Outlay	883,289	697,651	185,638	27
Capital Projects-Transfers Out	15,112	0	15,112	~
Major Streets-Route Maintenance	208,465	187,280	21,185	11
Local Streets-Route Maintenance	129,735	95,273	34,462	36
Downtown Development-Contracted Services	9,338	7,700	1,638	18
Downtown Development-Admin Fees	28,958	0	28,958	~
Debt Service - Debt Service	365,067	349,949	15,118	4

**NOTE C – DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan; bond securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature 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 which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The City has designated two banks and one financial institution for the deposit of its funds along with an investment in the Upper Peninsula Power Producers Agency, LLC. The investments policy adopted by the board in accordance with Public Act 196 of 1997, as amended, had authorized investment in any of the securities allowed under the Act. The City's deposits and investment policy are in accordance with statutory authority.

CITY OF NORWAY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE C – DEPOSITS AND INVESTMENTS (CONTINUED)**

At year-end, the City’s deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash & Cash Equivalents	\$ 702,565	\$ 1,017,849	\$ 20	\$ 1,720,434	\$ 47,382
Restricted Assets	0	1,124,718	0	1,124,718	0
<b>Total</b>	<b>\$ 702,565</b>	<b>\$ 2,142,567</b>	<b>\$ 20</b>	<b>\$ 2,845,152</b>	<b>\$ 47,382</b>

All of the cash and equivalents have been placed in bank accounts at the various approved financial institutions. The primary government bank balance is \$2,892,534 of which \$250,000 is covered by federal depository insurance and the entire component unit cash balance is covered by federal depository insurance. The balance of the cash funds are uninsured and not collateralized.

**INVESTMENTS**

Investments, in general, are represented by specific identifiable investment securities are classified as to credit risk by the one of three categories.

The City’s investments held in its General Fund fall into Category 1 which are held in the City’s name. The investment was a membership in the Upper Peninsula Power Producers Agency, LLC (UPPPA). The City has invested \$337,525 as of June 30, 2015 and expects to receive an ongoing return of 12% per annum.

The City’s investments held in its Retiree Insurance Trust fall into Category 1 which are held in the City’s name. The investments were various securities held to be used to pay future retiree health insurance obligations. The City has invested \$230,362 as of June 30, 2015, and expects to receive an ongoing return of 7% per annum.

CITY OF NORWAY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE D - DUE TO/FROM OTHER FUNDS**

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources primarily to provide services. Such transactions are generally reflected as transfers in the various funds' financial statements. At the end of the fiscal year, the following balances were being carried and are reflected in the financial statements.

Due From	Due To	
General	Golf Club (component unit)	\$ 35,795
Golf	Golf Club (component unit)	31,625
Electric	General	48,000
Electric	Local Streets	24,000
Electric	Sewer	415,000
Electric	Water	315,000
Other Postemployment Benefits	General	19,039
Other Postemployment Benefits	Television	810
Other Postemployment Benefits	Electric	5,318
Other Postemployment Benefits	Golf	873
Other Postemployment Benefits	Water	960
Other Postemployment Benefits	Sewer	2,712

**NOTE E - NOTES RECEIVABLE**

During a prior fiscal year, the City entered into an agreement to loan money to the Oak Crest Golf Commission, Inc. for the repair of the clubhouse roof for \$35,795 including accrued interest through June 30, 2015. The repayment of the principal and interest on this loan have been deferred until the existing bonds are satisfied. Early payment of the principal and/or interest is allowed without penalty. Since repayment will not occur within the current fiscal year, the item is not reflected on the governmental fund type financial statements.

The accrued interest on this obligation was paid during the current fiscal year.

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE F - CHANGES IN CAPITAL ASSETS**

Capital asset activity for the City for the year ended June 30, 2015 was as follows:

	Beginning		Additions		Disposals		Ending
<b>Governmental Funds</b>							
Assets not depreciated							
Land	\$ 3,939,818	\$	0	\$	0	\$	3,939,818
Assets being depreciated							
Buildings	2,876,857		52,270		0		2,929,127
Infrastructure	12,922,886		883,289		0		13,806,175
Equipment	<u>2,577,759</u>		<u>174,706</u>		<u>0</u>		<u>2,752,465</u>
Total at Historic Cost	\$ 22,317,320	\$	1,110,265	\$	0	\$	23,427,585
Less accumulated depreciation for:							
Buildings	\$ 900,247	\$	84,643	\$	0	\$	984,890
Infrastructure	7,377,168		769,028		0		8,146,196
Equipment	<u>1,957,889</u>		<u>112,293</u>		<u>0</u>		<u>2,070,182</u>
Total accumulated depreciation	\$ <u>10,235,304</u>	\$	<u>965,964</u>	\$	<u>0</u>	\$	<u>11,201,268</u>
Governmental Funds-Capital Assets	\$ <u>12,082,016</u>	\$	<u>144,301</u>	\$	<u>0</u>	\$	<u>12,226,317</u>
	Beginning		Additions		Disposals		Ending
<b>Business Type Funds</b>							
Assets not depreciated							
Land	\$ 55,578	\$	0	\$	0	\$	55,578
Assets being depreciated							
Television/Internet/Telephone	\$ 1,563,727	\$	82,780	\$	53,076	\$	1,593,431
Electric Utility System	20,473,661		392,908		92,285		20,774,284
Golf Operations	2,255,734		4,559		0		2,260,293
Water Utility System	6,353,987		150,062		33,016		6,471,033
Sewer Utility System	<u>2,778,298</u>		<u>0</u>		<u>0</u>		<u>2,778,298</u>
Total at Historic Cost	\$ 33,480,985	\$	630,309	\$	178,377	\$	33,932,917
Less accumulated depreciation for:							
Television/Internet/Telephone	\$ 691,525	\$	75,369	\$	53,076	\$	713,818
Electric Utility System	8,338,664		633,141		65,393		8,906,412
Golf Operations	1,624,701		59,325		0		1,684,026
Water Utility System	2,601,397		159,916		33,016		2,728,297
Sewer Utility System	<u>1,408,055</u>		<u>62,172</u>		<u>0</u>		<u>1,470,227</u>
Total accumulated depreciation	\$ <u>14,664,342</u>	\$	<u>989,923</u>	\$	<u>151,485</u>	\$	<u>15,502,780</u>
Business Type Funds-Capital Assets	\$ <u>18,816,643</u>	\$	<u>(359,614)</u>	\$	<u>26,892</u>	\$	<u>18,430,137</u>

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE F - CHANGES IN CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	\$ 66,264
Public Safety	63,792
Public Works	816,687
Parks and Recreation	<u>19,221</u>
Total Governmental Activities	<u>\$ 965,964</u>
Business-Type Activities	
Television/Internet/Telephone	\$ 75,370
Electric Utility System	633,141
Golf Operations	59,325
Water Utility System	159,916
Sewer Utility System	<u>62,172</u>
Total Business-Type Activities	<u>\$ 989,924</u>

**NOTE G - OPERATING LEASE**

During the 2008-2009 year, the City elected to separately account for and report its lease arrangement with the Norway Utility Authority (a component unit of the City). The Authority is leasing various property to the City of Norway and Norway Township. The leased property is used in conjunction with assets owned by the City to provide sanitary and storm sewer services to the residents. The lease payments from the City to the Authority during the year were \$81,550.

This fully satisfies the obligation and the Norway Utility Authority was dissolved during the year.

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE H - GENERAL LONG TERM DEBT**

NORWAY BUILDING AUTHORITY BONDS

The Norway Building Authority originally issued \$850,000 of revenue bonds during 1993 for the construction of a new golf clubhouse. The bonds are a primary obligation of the Norway Building Authority with the City being secondarily liable. Payment of the bonds began on September 1, 1993 and runs to September 1, 2014, with an interest rate varying from 5.75% to 8%.

The bonds were refinanced in September, 2003 in the amount of \$615,000 plus a three percent premium of \$18,450. Semi-annual payments of \$36,625 are due September 1, 2014.

This obligation was satisfied by the City during the year with the amount (less \$5,000) due from the Oak Crest Golf Club, Inc (a component unit).

2012 DOWNTOWN DEVELOPMENT AUTHORITY BONDS

The Downtown Development Authority refunded its 2001 and 2005 Downtown Development Authority bond issues during the 2012-2013 fiscal year. Payment of the bonds begin in 2013-2014 year and run to 2024, with interest rates varying from 2.0% to 3.5%.

The cumulative debt service schedule is below:

Payable Fiscal Year	December 1		June 1		Total
	Interest	Principal	Interest		
2015-2016	\$ 19,073	\$ 125,000	\$ 17,760	\$	161,833
2016-2017	17,760	130,000	16,363		164,123
2017-2018	16,363	145,000	14,730		176,093
2018-2019	14,731	155,000	12,639		182,370
2019-2020	12,639	150,000	10,426		173,065
2020-2024	26,510	630,000	18,798		675,308
<b>TOTALS</b>	<b>\$ 107,076</b>	<b>\$ 1,335,000</b>	<b>\$ 90,716</b>	<b>\$</b>	<b>1,532,792</b>

CITY OF NORWAY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE H - GENERAL LONG TERM DEBT (CONTINUED)**

**FIRE HALL BONDS**

The Norway Building Authority issued \$680,000 of bonds which were sold entirely to the Rural Development on May 17, 2001. The proceeds were used to construct a replacement fire hall to service the City of Norway and carry an interest rate of 4.75%.

Bonds are subject to redemption prior to maturity, in inverse numerical order, at the option of the City on any interest payment date at par and accrued interest to the date fixed for redemption.

The cumulative debt service schedule is below:

Payable Fiscal Year	December 1		June 1		Total
	Interest	Principal	Interest		
2015-2016	\$ 10,284	\$ 26,000	\$ 9,666	\$	45,950
2016-2017	9,666	27,000	9,025		45,691
2017-2018	9,025	29,000	8,336		46,361
2018-2019	8,336	31,000	7,600		46,936
2019-2020	7,600	33,000	6,816		47,416
2020-2025	25,318	194,000	20,711		240,029
2025-2027	3,349	93,000	1,140		97,489
<b>TOTALS</b>	<b>\$ 73,578</b>	<b>\$ 433,000</b>	<b>\$ 63,294</b>	<b>\$</b>	<b>569,872</b>

**ENERGY SAVINGS INSTALLMENT SALE AGREEMENT**

The City entered into an agreement for various energy savings projects with the completion of the work occurring in the 2008-9 fiscal year. Originally, the City entered into an operating lease arrangement with the vendor and subsequently refinanced the obligation to an installment sale agreement. The agreement calls for an average interest rate of 5.5% and annual payments of \$86,952.

This obligation was paid in full during the audit period.

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE H - GENERAL LONG TERM DEBT (CONTINUED)**

CITY HALL BONDS

The City issued \$995,000 of general obligation limited tax bonds on June 1, 2001 for the demolition, equipping and replacement of the City Hall. Payment of the bonds begin in 2002 and run to 2021, with interest rates varying from 4.5% to 5.2%.

The cumulative debt service schedule is below:

Payable Fiscal Year	June 1		December 1		Total
	Interest	Principal	Interest		
2015-2016	\$ 11,310	\$ 60,000	\$ 11,310	\$	82,620
2016-2017	9,750	65,000	9,750		84,500
2017-2018	8,060	70,000	8,060		86,120
2018-2019	6,240	75,000	6,240		87,480
2019-2020	4,290	80,000	4,290		88,580
2020-2021	2,210	85,000	2,210		89,420
<b>TOTALS</b>	<b>\$ 41,860</b>	<b>\$ 435,000</b>	<b>\$ 41,860</b>	<b>\$</b>	<b>518,720</b>

2006 STREET IMPROVEMENT BONDS

The City issued \$995,000 of general obligation limited tax bonds on June 1, 2006 to construct, repair and improve its streets. Payment of the bonds begin in 2006 and run to 2021, with interest rates varying from 3.8% to 4.8%.

The cumulative debt service schedule is below:

Payable Fiscal Year	June 1		December 1		Total
	Interest	Principal	Interest		
2015-2016	\$ 9,590	\$ 70,000	\$ 9,590	\$	89,180
2016-2017	8,068	70,000	8,067		86,135
2017-2018	6,510	70,000	6,510		83,020
2018-2019	4,935	70,000	4,935		79,870
2019-2020	3,325	70,000	3,325		76,650
2020-2021	1,680	70,000	1,680		73,360
<b>TOTALS</b>	<b>\$ 34,108</b>	<b>\$ 420,000</b>	<b>\$ 34,107</b>	<b>\$</b>	<b>488,215</b>

CITY OF NORWAY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE H- GENERAL LONG TERM DEBT (CONTINUED)**

FIRE TRUCK BOND

The City borrowed a total \$215,000 using a draw schedule during the 2006-2007 year for the acquisition of and equipping a new fire truck. The loan calls for semi-annual payments of interest at the rate of 4.375% per annum and annual payments on the principal balance.

The cumulative debt service schedule is below:

Payable Fiscal Year	October 1		April 1		Total
	Interest	Principal	Interest		
2015-2016	\$ 2,625	\$ 15,000	\$ 2,297	\$	19,922
2016-2017	2,297	15,000	1,969		19,266
2017-2018	1,969	15,000	1,641		18,610
2018-2019	1,641	17,500	1,257		20,398
2019-2020	1,258	17,500	875		19,633
2020-2022	1,312	40,000	438		41,750
<b>TOTALS</b>	<b>\$ 11,102</b>	<b>\$ 120,000</b>	<b>\$ 8,477</b>	<b>\$</b>	<b>139,579</b>

LAND CONTRACT AGREEMENTS

During the 2012-2013 year, the City entered into an agreement to acquire land in Norway Township. This land acquisition was necessary for the ultimate annexation of the newly acquired land along with other land owned by the City. The annexation was completed during the prior fiscal year.

The land acquisition was financed with two separate land contracts. The first contract was for \$103,500 (\$115,000 purchase less \$11,500 down payment). It calls for monthly payments of \$700 beginning February 17, 2013 which includes interest at the rate of 4.5% for a period of five years. At the conclusion of the five years, a payment for the entire balance (expected to be \$82,948) will be due and payable. The second contract was for \$30,000. It calls for monthly payments of \$559.30 beginning on February 17, 2013 which includes interest at the rate of 4.5% for a period of five years.

The joint cumulative debt service schedule is below:

Payable Fiscal Year	Payments		Total
	Interest	Principal	
2015-2016	\$ 4,751	\$ 10,360	\$ 15,111
2016-2017	4,276	10,835	15,111
2017-2018	2,266	89,108	91,374
<b>TOTALS</b>	<b>\$ 11,293</b>	<b>\$ 110,303</b>	<b>\$ 121,596</b>

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE H- GENERAL LONG TERM DEBT (CONTINUED)**

**Summary of General Long Term Debt**

	<u>Beginning</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending</u>	<u>Current Part</u>
Building Authority	\$ 33,192	\$ 0	\$ 33,192	\$ 0	\$ 0
2012 DDA Bond	1,450,000	0	115,000	1,335,000	125,000
Fire Hall Bond	458,000	0	25,000	433,000	26,000
City Hall Bond	490,000	0	55,000	435,000	60,000
Street Improve Bond	490,000	0	70,000	420,000	70,000
Fire Truck Bond	135,000	0	15,000	120,000	15,000
Energy Saving Bond	72,872	0	72,872	0	0
Land Contracts	<u>120,208</u>	<u>0</u>	<u>9,905</u>	<u>110,303</u>	<u>10,360</u>
<b>TOTALS</b>	<b>\$ 3,249,272</b>	<b>\$ 0</b>	<b>\$ 395,969</b>	<b>\$ 2,853,303</b>	<b>\$ 306,360</b>

**NOTE I - PROPRIETARY FUND LONG TERM DEBT**

**2009 TELEVISION REVENUE BONDS**

The City issued \$1,200,000 of limited revenue bonds in March, 2009, for the updating of the television/internet system and addition of Voice Over Internet Protocol (VOIP) telephone service.

The bonds are not a general obligation of the City, but are payable solely from the net revenues of the Television/Internet Utility Fund. Payment of the bonds are due biennially on November 1 and May 1. The bonds carry interest at the varying rates from 5.2% to 5.65% and have a twenty year term.

The cumulative debt service schedule is below:

<u>Payable</u> <u>Fiscal Year</u>	<u>November 1</u>		<u>May 1</u>		<u>Total</u>
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
2015-2016	\$ 30,444	\$ 20,000	\$ 29,993	\$ 80,437	
2016-2017	29,994	20,000	29,531	79,525	
2017-2018	29,531	20,000	29,056	78,587	
2018-2019	29,056	75,000	27,181	131,237	
2019-2020	27,181	80,000	25,031	132,212	
2020-2025	102,313	450,000	90,220	642,533	
2025-2029	<u>33,328</u>	<u>460,000</u>	<u>20,391</u>	<u>513,719</u>	
<b>TOTALS</b>	<b>\$ 281,847</b>	<b>\$ 1,125,000</b>	<b>\$ 251,403</b>	<b>\$ 1,658,250</b>	

CITY OF NORWAY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE I - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)**

**2002 ELECTRIC UTILITY SYSTEM REVENUE BONDS**

The City issued \$995,000 of limited revenue bonds on June 3, 2002, for the updating of the power dam and automation of the plant. Payment of the bonds begin in 2002 and run to 2017, with interest rates varying from 4.3% to 5.15%.

The cumulative debt service schedule is below:

Payable Fiscal Year	June 1		December 1		Total
	Interest	Principal	Interest		
2015-2016	\$ 6,150	\$ 120,000	\$ 6,150	\$	132,300
2016-2017	3,090	120,000	3,090		126,180
<b>TOTALS</b>	<b>\$ 9,240</b>	<b>\$ 240,000</b>	<b>\$ 9,240</b>	<b>\$</b>	<b>258,480</b>

**2007 ELECTRIC UTILITY SYSTEM REVENUE BONDS**

The City issued \$6,315,000 of limited revenue bonds on August 3, 2007, for the updating of the power production and distribution capabilities of the Electric System. Payment of the bonds began on an interest only basis for three years. Principal payments begin in 2010 and run to 2034, with interest rates of 5.00%.

The cumulative debt service schedule is below:

Payable Fiscal Year	December 1		June 1		Total
	Interest	Principal	Interest		
2015-2016	\$ 154,394	\$ 70,000	\$ 152,644	\$	377,038
2016-2017	152,644	80,000	150,943		383,587
2017-2018	150,944	210,000	145,694		506,638
2018-2019	145,694	220,000	140,194		505,888
2019-2020	140,194	230,000	134,444		504,638
2020-2025	606,936	1,355,000	571,994		2,533,930
2025-2030	414,125	1,755,000	370,250		2,539,375
2030-2035	171,125	2,225,000	115,500		2,511,625
<b>TOTALS</b>	<b>\$ 1,936,056</b>	<b>\$ 6,145,000</b>	<b>\$ 1,781,663</b>	<b>\$</b>	<b>9,862,719</b>

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE I - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)**

2008 CLEAN RENEWABLE ENERGY BONDS (CREB)

The City issued \$1,000,000 of Clean Renewable Energy limited revenue bonds on August 14, 2008, for the updating of the power production at its hydroelectric facility. The bonds are not a general obligation of the City, but are payable solely from the net revenues of the Electric Utility Fund. Payment of the bonds are due biennially on December 15 and June 15. The bonds carry interest at the rate of 1.82% and have a fifteen year term.

The cumulative debt service schedule is below:

Payable Fiscal Year	November 1		May 1		Total
	Interest	Principal	Interest		
2015-2016	\$ 4,854	\$ 66,667	\$ 4,246	\$	75,767
2016-2017	4,246	66,667	3,640		74,553
2017-2018	3,640	66,667	3,033		73,340
2018-2019	3,033	66,666	2,427		72,126
2019-2020	2,427	66,666	1,820		70,913
2020-2023	3,640	200,000	1,820		205,460
<b>TOTALS</b>	<b>\$ 21,840</b>	<b>\$ 533,333</b>	<b>\$ 16,986</b>	<b>\$</b>	<b>572,159</b>

2011 STREET LIGHT UPGRADE LOAN

On February 6, 2012, the City borrowed \$ 57,801 for its wholesale power supplier for the purpose of upgrading the existing street lights from Sodium Vapor to LED for a period of 10 years. The savings in power consumption, which is received by the City's General Fund, is expected to substantially outpace the monthly payments of \$481.68. The loan bears an interest rate of zero. The loan is being serviced with transfers from the General Fund to the Electric Fund.

The cumulative debt service schedule is below:

Payable Fiscal Year	Principal
2015-2016	\$ 5,780
2016-2017	5,780
2017-2018	5,780
2018-2019	5,780
2019-2020	5,780
2020-2022	9,152
<b>TOTALS</b>	<b>\$ 38,052</b>

CITY OF NORWAY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE I - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)**

**GOLF EQUIPMENT INSTALLMENT PURCHASE AGREEMENT**

In July, 2013, the City entered into an agreement for purchase of equipment for \$46,278 to be used at the Oak Crest Golf Club. The City financed the equipment by entering into an installment purchase agreement which calls for monthly payments of \$859.54 beginning July 17, 2013 and carries an interest rate of 4.35%. The term of the note is 60 months.

The cumulative debt service schedule is below:

Payable Fiscal Year	Payments		Total
	Interest	Principal	
2015-2016	\$ 1,076	\$ 9,238	\$ 10,314
2016-2017	667	9,648	10,315
2017-2018	239	10,076	10,315
<b>TOTALS</b>	<b>\$ 1,982</b>	<b>\$ 28,962</b>	<b>\$ 30,944</b>

**GOLF EQUIPMENT INSTALLMENT PURCHASE AGREEMENT**

In July, 2013, the City entered into an agreement for purchase of equipment for \$30,035 to be used at the Oak Crest Golf Club. The City financed the equipment by entering into an installment purchase agreement which calls for monthly payments of \$563.00 beginning July 17, 2013 and carries an interest rate of 4.891%. The term of the note is 60 months.

The cumulative debt service schedule is below:

Payable Fiscal Year	Payments		Total
	Interest	Principal	
2015-2016	\$ 788	\$ 5,968	\$ 6,756
2016-2017	489	6,267	6,756
2017-2018	176	6,581	6,757
<b>TOTALS</b>	<b>\$ 1,453</b>	<b>\$ 18,816</b>	<b>\$ 20,269</b>

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE I - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)**

1997 WATER UTILITY SYSTEM REVENUE BONDS

In 1997, the City authorized issuance of revenue bonds in the amount of \$3,172,000 for the purpose of making improvements, repairs and replacement to the City's water supply system. The bonds are not a general obligation of the City, but are payable solely from the net revenues of the Water Utility Fund and the entire amount was purchased by Rural Development, an agency of the United States Government. A statutory first lien has been created on the revenues of the system for the payment of said bonds and the interest thereon.

The cumulative debt service schedule is below:

Payable Fiscal Year	November 1		May 1		Total
	Interest	Principal	Interest		
2015-2016	\$ 53,460	\$ 65,000	\$ 51,998	\$	170,458
2016-2017	51,997	69,000	50,445		171,442
2017-2018	50,445	71,000	48,847		170,292
2018-2019	48,848	75,000	47,160		171,008
2019-2020	47,160	78,000	45,405		170,565
2020-2025	207,810	446,000	197,775		851,585
2025-2030	152,910	556,000	140,400		849,310
2030-2035	84,488	693,000	68,895		846,383
2035-2037	10,980	323,000	3,713		337,693
<b>TOTALS</b>	<b>\$ 708,098</b>	<b>\$ 2,376,000</b>	<b>\$ 654,638</b>	<b>\$</b>	<b>3,738,736</b>

1999 WATER UTILITY SYSTEM REVENUE BONDS

In 1987, the City issued revenue bonds in the amount of \$750,000 for the construction of improvements, repairs and replacement to the City's water supply system. The bonds are not a general obligation of the City, but are payable solely from the net revenues of the Water Utility Fund. A statutory first lien has been created on the revenues of the system for the payment of said bonds and the interest thereon. During the 1998-1999 year, the bonds were refinanced through the Michigan Municipal Finance Authority. This refinancing reduced the interest to an effective interest rate of 5.012%.

CITY OF NORWAY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE I - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)**

1999 WATER UTILITY SYSTEM REVENUE BONDS (CONTINUED)

The cumulative debt service schedule is below:

Payable Fiscal Year	November 1		May 1		Total
	Interest	Principal	Interest		
2015-2016	\$ (1,126)	\$ 50,000	\$ 2,636	\$	51,510
2016-2017	(2,364)	50,000	1,388		49,024
2017-2018	(3,613)	55,000	0		51,387
<b>TOTALS</b>	<b>\$ (7,103)</b>	<b>\$ 155,000</b>	<b>\$ 4,024</b>	<b>\$</b>	<b>151,921</b>

2014 SEWER SYSTEM IMPROVEMENT LOAN

On April 1, 2014, the City borrowed \$ 89,942 from its wholesale power supplier for the purpose of upgrading the energy efficiency at the Sewer Treatment Plant for a period of 10 years. The savings in power consumption, which is received by the City's Sewer Fund, is expected to substantially outpace the monthly payments of \$749.52. The loan bears an interest rate of zero. The loan is being serviced by the Sewer fund.

The cumulative debt service schedule is below:

Payable Fiscal Year	Principal
2015-2016	\$ 8,994
2016-2017	8,994
2017-2018	8,994
2018-2019	8,994
2019-2020	8,994
2020-2024	34,479
<b>TOTALS</b>	<b>\$ 79,449</b>

CITY OF NORWAY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE I - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)**

**Summary of Proprietary Long Term Debt**

	<u>Beginning</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending</u>	<u>Current Part</u>
TV/Internet/Phone	\$ 1,145,000	\$ 0	\$ 20,000	\$ 1,125,000	\$ 20,000
2002 Electric Bond	360,000	0	120,000	240,000	120,000
2007 Electric Bond	6,205,000	0	60,000	6,145,000	70,000
2008 CREB Bond	600,000	0	66,667	533,333	66,667
Electric Loan-WPPI	43,832	0	5,780	38,052	5,780
Golf Equipment	37,808	0	8,846	28,962	9,239
Golf Equipment	24,500	0	5,684	18,816	5,968
1997 Water Bond	200,000	0	45,000	155,000	50,000
1999 Water Bond	2,439,000	0	63,000	2,376,000	65,000
2014 Sewer Loan	<u>88,443</u>	<u>0</u>	<u>8,994</u>	<u>79,449</u>	<u>8,994</u>
<b>TOTALS</b>	<b>\$ 11,143,583</b>	<b>\$ 0</b>	<b>\$ 403,971</b>	<b>\$ 10,739,612</b>	<b>\$ 421,648</b>

**NOTE J - COMPENSATED ABSENCES**

Pursuant to the requirements of the Governmental Accounting Standards Board Statement 16, the City accrues a liability for compensated absences which meet the following criteria:

1. The City's obligation related to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the City has calculated a liability for sick, personal and vacation leave which has been earned but not taken by City employees.

For governmental funds, a portion of the liability for the vacation, sick and personal leave absences are recorded in applicable funds as earned and that were subsequently liquidated with "expendable and available assets". The total accrued vacation, sick and personal leave earned but not taken as of June 30, 2015 is \$183,304, \$108,139 and \$18,599 respectively. The total accrued sick leave that will be paid upon termination of employment to employees in accordance with bargaining unit contracts and City policies is \$47,897 as of June 30, 2015. For proprietary funds, the liabilities are recorded in the applicable funds as accrued liabilities in accordance with FASB Statement 43.

CITY OF NORWAY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE J - COMPENSATED ABSENCES (CONTINUED)**

Specifically, the various contracts and agreements covering the City's personnel allow for vesting and/or accumulation of sick and vacation pay as follows:

Sick Leave - The IBEW Supervisor Unit does not allow for any accumulation of current sick time. Sick hours were frozen in the past and those frozen hours are added to the current year sick balance with that total payable at retirement up to 240 hours.

The AFSCME Unit does not allow for any accumulation of current sick time. Sick hours were frozen in the past and those frozen hours are added to the current year balance with 35% of that total payable at retirement up to 84 hours.

The IBEW Electric Unit does not allow for any accumulation of current sick time. Sick hours were frozen in the past and 35% of those frozen hours payable at retirement.

The WPPA Unit (Police Unit) - Accumulation of sick time is allowed up to 240 hours with 35% of the balance payable at retirement.

Vacation Leave - The Police unit presently have unlimited accumulation of unused days with 100% vesting and a minimum of 80 hours must be taken annually.

All other employees had their balances frozen at various dates with all vacation time earned after that frozen date must be taken in the year that it accrues.

Those amounts required to be accrued have been recorded in the various funds as follows:

	<u>Amount</u>
Oak Crest Golf Course	\$ 3,552
Electric Utility	50,173
Water Utility	33,305
Sewer Utility	20,565
Television Utility	8,213

**NOTE K - TRANSFER TO/FROM OTHER FUNDS**

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources primarily to provide services. Such transactions are generally reflected as transfers in the various funds' financial statements. A summary of balances of interfund transfers as of June 30, 2015 follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Major Streets	Electric	\$ 75,552
Local Streets	General	38,850
Museum	General	7,597

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE K - TRANSFER TO/FROM OTHER FUNDS (CONTINUED)**

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Fire Protection	General	\$ 69,168
Capital Projects	General	38,498
Capital Projects	Downtown Development	55,248
Capital Projects	Electric	60,696
Debt Service	General	99,449
Debt Service	Local Streets	92,940
Debt Service	Fire Protection	67,519
Debt Service	Golf Club (component unit)	36,625
Debt Service	Capital Projects	15,112
Debt Service	Electric	598
Debt Service	Golf	9,255
Debt Service	Water	35,328
Debt Service	Sewer	8,242
Electric	General	5,780
Golf	Electric	150,000
Golf Club (component unit)	Golf	35,985

**NOTE L - PENSION PLAN**

**Plan Description**

The City's defined-benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The Plan is affiliated with the Municipal Employees Retirement System of Michigan (MERS), and agent multiple-employer public employee pension plan. MERS acts as the administrator of the plan. Act No. 427 of the Public Acts of 1984, as amended, and the Constitution of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities. The December 31, 2013 actuarial valuation of the plan has been prepared by representatives of MERS. Normal retirement benefits are paid to employees retiring at age 60 with 10 or more years of service.

**Funding Policy**

The City is required to contribute at an actuarially determined rate. The rate for the year beginning July 1, 2015, is 55.08% of the valuation payroll. The rate for the year beginning July 1, 2016, is 53.92% of valuation payroll.

**Benefit Summary**

All full-time City employees and officers are eligible to participate in the MERS. Benefits vest after ten years of service. Normal retirement provisions of the MERS apply to participants who retire at or after age 60 with at least 10 years of credited service. The annual retirement benefits of covered employees vary

CITY OF NORWAY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE L - PENSION PLAN (CONTINUED)**

**Benefit Summary (Continued)**

depending on the valuation division. The annual retirement benefits are 2.50% of final average compensation for their last five years of employment multiplied by their years of credited service.

**Annual Pension Cost**

For the year ended June 30, 2015, the city's annual pension cost of \$743,662 exceeded the City's required annual contributions. The required contribution was determined as part of the December 31, 2014, actuarial valuation using the entry age normal funding method. Significant actuarial assumptions used were: (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 8.5% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.0% annually for beneficiaries. The actuarial value of Plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a ten-year period. The Plans underfunded actuarial accrued liability is being amortized by the level percent of payroll contributions using a 25 year amortization.

**GASB 68 Information**

Actuarial Valuation Date	December 31, 2014
Measurement date of Total Pension Liability	December 31, 2014
Inactive employees receiving benefits	44
Inactive employees entitled to but not receiving benefits	0
Active Employees	22
Covered employee payroll	\$ 1,383,928
Total Pension Liability as of December 31, 2013	17,895,382
Total Pension Liability as of December 31, 2014	18,330,722
Service cost for the year ended December 31, 2014	211,345

No changes occurred to the Total Pension Liability due to pension changes, differences between actual and expected experience or changes in assumptions, as this is the first year of implementation of GASB 68.

**Annual Required Contribution**

Fiscal year beginning	July 1, 2016
Annual required contributions (ARC)	\$746,208
Amortization factor used	0.085453

CITY OF NORWAY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE L - PENSION PLAN (CONTINUED)**

**Funding Progress**

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Valuation Year	Annual Required Contribution	Percentage of ARC Contributed
December 31, 2004	\$ 326,908	100%
December 31, 2005	322,977	100%
December 31, 2006	409,192	100%
December 31, 2007	400,539	100%
December 31, 2008	435,753	100%
December 31, 2009	478,375	100%
December 31, 2010	502,471	100%
December 31, 2011	513,063	100%
December 31, 2012	575,177	100%
December 31, 2013	607,522	100%
December 31, 2014	654,607	103%

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability(AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Dec 31, 2004	\$ 7,599,829	\$ 12,048,755	\$ 4,448,926	63.1%	\$ 1,486,599	299%
Dec 31, 2005	7,814,756	12,736,384	4,921,628	61.4%	1,407,404	350%
Dec 31, 2006	8,186,174	13,642,202	5,456,028	60.0%	1,506,267	362%
Dec 31, 2007	8,491,144	14,161,022	5,669,878	60.0%	1,491,252	380%
Dec 31, 2008	8,523,506	14,687,717	6,164,211	58.0%	1,557,600	396%
Dec 31, 2009	8,558,427	15,160,757	6,602,330	56.5%	1,618,826	408%
Dec 31, 2010	8,650,104	16,187,941	7,537,837	53.4%	1,599,698	471%
Dec 31, 2011	8,714,953	16,874,298	8,159,345	51.6%	1,629,871	501%
Dec 31, 2012	8,820,839	17,418,266	8,597,427	50.6%	1,585,392	542%
Dec 31, 2013	8,893,940	18,608,754	9,714,814	47.8%	1,337,583	726%
Dec 31, 2014	8,898,810	18,815,543	9,916,733	47.3%	1,383,928	717%

**NOTE M - RETIREE INSURANCE TRUST FUND**

Pursuant to Council action, the City has provided hospital and medical insurance coverage for qualifying retired employees and has accounted for the actuarial required contributions of such transactions within the Retirees Insurance Trust Fund.

CITY OF NORWAY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE M - RETIREE INSURANCE TRUST FUND (CONTINUED)**

During the 2014-2015 year, the City's contribution was \$121,654 as determined by the "alternate" method which is allowed for "Tier III" municipalities.

As required by Governmental Accounting Standards Board Statement Number 45, following the 2008 fiscal year, the City had an actuarial study completed to determine its annual required contribution to its retiree insurance fund. The City was required to have its study updated during the year (required triennially) and the contribution of \$131,789 was covered by actual expenditures of \$102,077 for retiree health insurance and accrued contributions of \$29,712 that were paid soon after year end. As required by GASB, the study was required to be updated during the 2014-2015 year.

The City has contributed slightly more than is required by the actuarial report. The excess has not been recognized in the financial statements given the immaterial amount of the excess. A ten year schedule is required under GASB standards, however, earlier information is not available.

**Funding Progress**

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability(AAL)	Unfunded AAL (UAAL)	Funded Ratio
June 30, 2012	\$ 2,022	\$ 1,526,336	\$ 1,524,314	0.1%
June 30, 2013	163,206	1,526,336	1,363,130	10.7%
June 30, 2014	227,111	1,526,336	1,299,225	14.9%
June 30, 2015	260,074	1,266,922	1,006,848	20.5%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Valuation Year	Annual Required Contribution	Percentage of ARC Contributed
June 30, 2012	\$ 121,418	51%
June 30, 2013	121,654	140%
June 30, 2014	121,654	108%
June 30, 2015	85,663	119%

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE N - NEW ACCOUNTING STANDARDS**

For the year ended June 30, 2015, the City implemented the following new pronouncements:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued by the GASB in June 2012, and will be effective for the City's 2014-2015 fiscal year. The Statement requires governments that participated in defined-benefit pension plans to report in their statement of net position, a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefits payable to employees based on their past service) and the assets (mostly investments reported fair value ) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 68 will improve the comparability inconsistency of how governments calculate the pension liabilities and expense.

The implementation of this standard now reflects the unfunded pension liability on the government-wide financial statements.

**NOTE O - UPCOMING ACCOUNTING PRONOUNCEMENT**

There are no standards that are required to be implemented within the next year by the City.

**NOTE P - SUBSEQUENT EVENT**

The City currently is completing planning for an anticipated sewer project. Revenue bonds will be issued as a part of the project and the existing bonds will be extinguished. In anticipation of this project, the City and the Township of Norway both satisfied their bond obligations in full, the assets of the Authority have been transferred to the City pursuant to an agreement and the Authority has been closed.

**NOTE Q - RECLASSIFICATION**

Certain reclassifications have been made in the 2014 comparative totals to conform to classifications used in 2015.

**NOTE R - RISK MANAGEMENT**

The City of Norway 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 City of Norway maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

REQUIRED  
SUPPLEMENTAL  
INFORMATION

CITY OF NORWAY  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 Year ended June 30, 2015

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>AMENDED</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 528,539	\$ 528,539	\$ 528,539	\$ 0
Resources (Inflows)				
Property taxes	828,662	829,150	834,260	5,110
Federal grants/loans	155,000	208,396	15,000	(193,396)
State shared revenues and grants	285,900	285,820	283,911	(1,909)
Fines and forfeitures	9,000	9,000	11,246	2,246
Charges for services	231,100	231,150	229,089	(2,061)
Interest and rentals	236,000	246,000	268,096	22,096
Sale of supplies/property	6,000	4,000	7,507	3,507
Administration fees	999,150	950,045	950,045	0
Contributions	0	2,200	3,773	1,573
Other	7,500	9,000	15,698	6,698
Transfer from other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ <u>3,286,851</u>	\$ <u>3,303,300</u>	\$ <u>3,147,164</u>	\$ <u>(156,136)</u>
Charges to Appropriations (Outflows)				
General Government				
Mayor/Council/Elections	\$ 57,710	\$ 87,920	\$ 83,933	\$ 3,987
Administration/Finance/Legal	753,543	704,893	692,197	12,696
Buildings and grounds	59,777	56,942	58,453	(1,511)
Public Safety				
Police	620,200	643,662	631,939	11,723
Public Works				
Maintenance	383,195	333,483	306,477	27,006
Refuse	160,852	162,187	155,559	6,628
Parks and Recreation	141,144	143,886	156,315	(12,429)
City band	9,250	9,250	6,597	2,653
Capital Outlay	241,300	278,390	200,097	78,293
Transfers to other funds	<u>325,881</u>	<u>289,963</u>	<u>259,342</u>	<u>30,621</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>2,752,852</u>	\$ <u>2,710,576</u>	\$ <u>2,550,909</u>	\$ <u>159,667</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>533,999</u>	\$ <u>592,724</u>	\$ <u>596,255</u>	\$ <u>3,531</u>

CITY OF NORWAY  
 BUDGETARY COMPARISON SCHEDULE  
 CAPITAL PROJECTS FUND  
 Year ended June 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 10,882	\$ 10,882	\$ 10,882	\$ 0
Resources (Inflows)				
Federal grants	460,856	461,356	716,599	255,243
State grants	0	0	103,305	103,305
Contributions	74,000	26,615	31,660	5,045
Sale of supplies/property	0	4,000	4,000	0
Transfers from other funds	<u>251,952</u>	<u>318,335</u>	<u>154,442</u>	<u>(163,893)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 797,690	\$ 821,188	\$ 1,020,888	\$ 199,700
Charges to Appropriations (Outflows)				
Capital projects	\$ 710,808	\$ 697,651	\$ 883,289	\$ (185,638)
Planning, administration and other	76,000	77,745	70,726	7,019
Recreation	0	11,727	11,738	(11)
Transfers to other funds	<u>0</u>	<u>0</u>	<u>15,112</u>	<u>(15,112)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>786,808</u>	\$ <u>787,123</u>	\$ <u>980,865</u>	\$ <u>(193,742)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>10,882</u></u>	\$ <u><u>34,065</u></u>	\$ <u><u>40,023</u></u>	\$ <u><u>5,958</u></u>

ADDITIONAL  
INFORMATION

CITY OF NORWAY  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
June 30, 2015

	SPECIAL REVENUE						
	MAJOR STREET FUND	LOCAL STREET FUND	DOWNTOWN DEVELOPMENT	FIRE PROTECTION	MUSEUM	DEBT SERVICE	TOTAL
<b>ASSETS</b>							
Cash and equivalents	\$ 19,362	\$ 5,112	\$ 251,305	\$ 12,415	\$ 54,359	\$ 150	\$ 342,703
Accounts receivable	0	0	0	0	0	0	0
Due from other funds	0	0	0	0	0	0	0
Due from component units	0	0	0	0	0	0	0
Due from other governmental units	37,580	28,863	0	0	0	0	66,443
Prepaid expenses	0	0	0	10,500	0	0	10,500
<b>TOTAL ASSETS</b>	<b>\$ 56,942</b>	<b>\$ 33,975</b>	<b>\$ 251,305</b>	<b>\$ 22,915</b>	<b>\$ 54,359</b>	<b>\$ 150</b>	<b>\$ 419,646</b>
<b>LIABILITIES AND FUND EQUITY</b>							
<b>LIABILITIES</b>							
Accounts payable	\$ 2,206	\$ 4,412	\$ 972	\$ 476	\$ 18	\$ 150	\$ 8,234
Salaries and wages payable	4,176	5,042	0	2,551	270	0	12,039
Payroll taxes payable	311	379	0	195	21	0	906
Due to other funds	0	24,000	0	0	0	0	24,000
Due to other governments units	0	0	0	0	0	0	0
<b>TOTAL LIABILITIES</b>	<b>\$ 6,693</b>	<b>\$ 33,833</b>	<b>\$ 972</b>	<b>\$ 3,222</b>	<b>\$ 309</b>	<b>\$ 150</b>	<b>\$ 45,179</b>
<b>FUND EQUITY</b>							
Fund balance:							
Nonspendable	\$ 0	\$ 0	\$ 0	\$ 10,500	\$ 0	\$ 0	\$ 10,500
Restricted	50,249	142	250,333	0	0	0	300,724
Committed	0	0	0	9,805	54,050	0	63,855
Unassigned	0	0	0	(612)	0	0	(612)
<b>TOTAL FUND BALANCE</b>	<b>\$ 50,249</b>	<b>\$ 142</b>	<b>\$ 250,333</b>	<b>\$ 19,693</b>	<b>\$ 54,050</b>	<b>\$ 0</b>	<b>\$ 374,467</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 56,942</b>	<b>\$ 33,975</b>	<b>\$ 251,305</b>	<b>\$ 22,915</b>	<b>\$ 54,359</b>	<b>\$ 150</b>	<b>\$ 419,646</b>

CITY OF NORWAY  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE  
Year ended June 30, 2015

	SPECIAL REVENUE							TOTAL
	MAJOR STREET FUND	LOCAL STREET FUND	DOWNTOWN DEVELOPMENT	FIRE PROTECTION	MUSEUM	DEBT SERVICE		
<b>REVENUES</b>								
Property taxes	\$ 0	\$ 91,486	\$ 240,866	\$ 20,291	\$ 0	\$ 0	\$ 0	\$ 352,643
State shared revenues	227,640	125,519	17,847	0	0	0	0	371,006
Charges for services	0	0	0	88,248	0	0	0	88,248
Interest	21	77	863	8	62	0	0	1,031
Local grants/contributions	0	0	0	4,116	6,202	0	0	10,318
Contribution from other governmental unit	9,638	19,631	0	0	0	0	0	29,269
Sale of supplies	0	0	0	0	144	0	0	144
Other	0	0	0	6,837	11,014	0	0	17,851
<b>TOTAL REVENUES</b>	<b>\$ 237,299</b>	<b>\$ 236,713</b>	<b>\$ 259,576</b>	<b>\$ 119,500</b>	<b>\$ 17,422</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 870,510</b>
<b>EXPENDITURES</b>								
General government	\$ 0	\$ 0	\$ 37,182	\$ 0	\$ 0	\$ 0	\$ 0	\$ 37,182
Public Safety	0	0	0	105,334	0	0	0	105,334
Public Works	307,500	195,493	0	0	0	0	0	502,993
Parks and recreation	0	0	0	0	17,908	0	0	17,908
Community development	0	0	5,000	10,315	0	0	0	15,315
Debt services	0	0	154,524	0	0	365,067	0	519,591
Capital outlay	0	0	0	6,111	1,375	0	0	7,486
<b>TOTAL EXPENDITURES</b>	<b>\$ 307,500</b>	<b>\$ 195,493</b>	<b>\$ 196,706</b>	<b>\$ 121,760</b>	<b>\$ 19,283</b>	<b>\$ 365,067</b>	<b>\$ 0</b>	<b>\$ 1,205,809</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>								
	\$ (70,201)	\$ 41,220	\$ 62,870	\$ (2,260)	\$ (1,861)	\$ (365,067)	\$ 0	\$ (335,299)
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfer from other funds	\$ 75,552	\$ 38,850	\$ 0	\$ 69,168	\$ 7,597	\$ 328,442	\$ 0	\$ 519,609
Transfer from component unit	0	0	0	0	0	36,625	0	36,625
Transfer to other funds	0	(92,940)	(55,248)	(67,519)	0	0	0	(215,707)
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER (UNDER) EXPENDITURES</b>								
	\$ 5,351	\$ (12,870)	\$ 7,622	\$ (611)	\$ 5,736	\$ 0	\$ 0	\$ 5,228
Fund balance - beginning	44,898	13,012	242,711	20,304	48,314	0	0	369,239
<b>FUND BALANCE - ENDING</b>	<b>\$ 50,249</b>	<b>\$ 142</b>	<b>\$ 250,333</b>	<b>\$ 19,693</b>	<b>\$ 54,050</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 374,467</b>

CITY OF NORWAY  
 BUDGETARY COMPARISON SCHEDULE  
 MAJOR STREET FUND  
 Year ended June 30, 2015

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>AMENDED</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 44,898	\$ 44,898	\$ 44,898	\$ 0
Resources (Inflows)				
State shared revenues and grants	210,850	221,671	227,640	5,969
Federal grant	0	0	0	0
Contribution from other governmental unit	9,650	9,650	9,638	(12)
Local contribution	0	0	0	0
Interest earned	0	15	21	6
Transfers from other funds	<u>134,902</u>	<u>75,552</u>	<u>75,552</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 400,300	\$ 351,786	\$ 357,749	\$ 5,963
Charges to Appropriations (Outflows)				
Construction	\$ 100,000	\$ 0	\$ 0	\$ 0
Route maintenance	136,945	187,280	208,465	(21,185)
Sidewalks	0	0	0	0
Trees and shrubs	0	0	0	0
Traffic services	12,325	11,787	10,144	1,643
Winter maintenance	99,782	87,446	87,390	56
Administration	0	0	0	0
Trunkline maintenance	6,350	1,825	1,501	324
Transfers to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>355,402</u>	\$ <u>288,338</u>	\$ <u>307,500</u>	\$ <u>(19,162)</u>
BUDGETARY FUND BALANCE--ENDING	<u>\$ 44,898</u>	<u>\$ 63,448</u>	<u>\$ 50,249</u>	<u>\$ (13,199)</u>

CITY OF NORWAY  
 BUDGETARY COMPARISON SCHEDULE  
 LOCAL STREET FUND  
 Year ended June 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 13,012	\$ 13,012	\$ 13,012	\$ 0
Resources (Inflows)				
Property taxes	92,940	92,940	91,486	(1,454)
Federal grants	0	0	0	0
State shared revenues and grants	93,500	125,733	125,519	(214)
Contribution from other governmental unit	19,301	19,301	19,631	330
Interest earned	0	100	77	(23)
Transfers from other funds	<u>24,362</u>	<u>16,357</u>	<u>38,850</u>	<u>22,493</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 243,115	\$ 267,443	\$ 288,575	\$ 21,132
Charges to Appropriations (Outflows)				
Construction	\$ 0	\$ 0	\$ 0	\$ 0
Route maintenance	80,171	95,273	129,735	(34,462)
Trees and shrubs	0	0	0	0
Traffic services	5,027	3,035	2,617	418
Winter maintenance	51,965	63,183	63,141	42
Administration	0	0	0	0
Transfers to other funds	<u>92,940</u>	<u>92,940</u>	<u>92,940</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>230,103</u>	\$ <u>254,431</u>	\$ <u>288,433</u>	\$ <u>(34,002)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>13,012</u></u>	\$ <u><u>13,012</u></u>	\$ <u><u>142</u></u>	\$ <u><u>(12,870)</u></u>

CITY OF NORWAY  
 BUDGETARY COMPARISON SCHEDULE  
 DOWNTOWN DEVELOPMENT AUTHORITY  
 Year ended June 30, 2015

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>AMENDED</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 242,711	\$ 242,711	\$ 242,711	\$ 0
Resources (Inflows)				
Property taxes	245,520	253,906	240,866	(13,040)
State shared revenues and grants	0	0	17,847	17,847
Interest earned	1,000	1,000	863	(137)
Facade contributions from businesses	0	0	0	0
Transfers from other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 489,231	\$ 497,617	\$ 502,287	\$ 4,670
Charges to Appropriations (Outflows)				
Contracted services	\$ 8,200	\$ 7,700	\$ 9,338	\$ (1,638)
Administrative fees	0	0	28,958	(28,958)
Supplies and other	6,600	5,770	3,886	1,884
Debt service	154,324	154,324	154,324	0
Bond issuance costs	1,650	200	200	0
Capital outlay	0	0	0	0
Transfers to other funds	<u>88,958</u>	<u>84,206</u>	<u>55,248</u>	<u>28,958</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>259,732</u>	\$ <u>252,200</u>	\$ <u>251,954</u>	\$ <u>246</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>229,499</u></u>	\$ <u><u>245,417</u></u>	\$ <u><u>250,333</u></u>	\$ <u><u>4,916</u></u>

CITY OF NORWAY  
 BUDGETARY COMPARISON SCHEDULE  
 FIRE PROTECTION FUND  
 Year ended June 30, 2015

	<u>ORIGINAL</u>	<u>AMENDED</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>BUDGET</u>	<u>BUDGET</u>		<u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 20,304	\$ 20,304	\$ 20,304	\$ 0
Resources (Inflows)				
Operations				
Property taxes	20,578	20,578	20,291	(287)
Federal grant	238,500	237,500	0	(237,500)
Charges for services-fire protection agreements	82,709	88,248	88,248	0
Contributions	6,550	7,150	4,116	(3,034)
Interest earned	165	0	8	8
Transfers from other funds	124,302	116,042	69,168	(46,874)
Volunteer Firemen				
Fund raising	<u>12,850</u>	<u>12,850</u>	<u>6,837</u>	<u>(6,013)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 505,958	\$ 502,672	\$ 208,972	\$ (293,700)
Charges to Appropriations (Outflows)				
Operations				
Public Safety - Fire	\$ 381,781	\$ 385,553	\$ 105,334	\$ 280,219
Capital outlay	25,000	17,500	6,111	11,389
Transfers to other funds	67,473	67,519	67,519	0
Volunteer Firemen				
Community development	<u>11,400</u>	<u>11,600</u>	<u>10,315</u>	<u>1,285</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>485,654</u>	\$ <u>482,172</u>	\$ <u>189,279</u>	\$ <u>292,893</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>20,304</u></u>	\$ <u><u>20,500</u></u>	\$ <u><u>19,693</u></u>	\$ <u><u>(807)</u></u>

CITY OF NORWAY  
 BUDGETARY COMPARISON SCHEDULE  
 MUSEUM FUND  
 Year ended June 30, 2015

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>AMENDED</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 48,314	\$ 48,314	\$ 48,314	\$ 0
Resources (Inflows)				
Memberships	2,000	1,500	1,860	360
Fund raising	500	7,786	9,154	1,368
Local grant	1,000	2,150	2,150	0
Contributions	10,000	4,000	4,052	52
Interest earned	25	50	62	12
Sale of property	100	100	144	44
Other	0	0	0	0
Transfers from other funds	<u>7,000</u>	<u>7,000</u>	<u>7,597</u>	<u>597</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 68,939	\$ 70,900	\$ 73,333	\$ 2,433
Charges to Appropriations (Outflows)				
Parks and recreation	\$ 17,695	\$ 17,716	\$ 17,908	\$ (192)
Capital projects	<u>0</u>	<u>1,326</u>	<u>1,375</u>	<u>(49)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>17,695</u>	\$ <u>19,042</u>	\$ <u>19,283</u>	\$ <u>(241)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>51,244</u>	\$ <u>51,858</u>	\$ <u>54,050</u>	\$ <u>2,192</u>

CITY OF NORWAY  
 BUDGETARY COMPARISON SCHEDULE  
 DEBT SERVICE FUND  
 Year ended June 30, 2015

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>AMENDED</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 0	\$ 0	\$ 0	\$ 0
Resources (Inflows)				
Contribution from component unit	31,625	31,625	36,625	5,000
Transfers from other funds	<u>318,324</u>	<u>318,324</u>	<u>328,442</u>	<u>10,118</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 349,949	\$ 349,949	\$ 365,067	\$ 15,118
Charges to Appropriations (Outflows)				
Debt service	\$ 349,949	\$ 349,949	\$ 365,067	\$ (15,118)
Lease payments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>349,949</u>	\$ <u>349,949</u>	\$ <u>365,067</u>	\$ <u>(15,118)</u>
BUDGETARY FUND BALANCE--ENDING	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>

CITY OF NORWAY  
BOND ORDINANCE COMPLIANCE  
30-Jun-15

TELEVISION/INTERNET/TELEPHONE FUND:  
THE BOND ORDINANCE REQUIRES FUNDING OF THE FOLLOWING ACCOUNTS:

	BEGINNING BALANCE	TRANSFERS IN	INTEREST EARNED	EXPENDITURES	ENDING BALANCE	REQUIRED ENDING BALANCE
BOND INTEREST AND REDEMPTION	23,625.79	81,133.10	27.73	81,302.50	23,484.12	18,407.29
BOND RESERVE	<u>120,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>120,000.00</u>	<u>120,000.00</u>
	<u>143,625.79</u>	<u>81,133.10</u>	<u>27.73</u>	<u>81,302.50</u>	<u>143,484.12</u>	<u>138,407.29</u>

BOND INTEREST AND REDEMPTION IS TO BE FUNDED MONTHLY AT 1/6 OF THE NEXT INTEREST PAYMENT DUE AND 1/12 OF THE NEXT PRINCIPAL PAYMENT DUE  
BOND RESERVE IS TO BE FUNDED AT \$120,000 AT THE SALE OF THE BOND

ELECTRIC UTILITY FUND:  
THE BOND ORDINANCES REQUIRE FUNDING OF THE FOLLOWING ACCOUNT:

	BEGINNING BALANCE	TRANSFERS IN	INTEREST EARNED	EXPENDITURES	ENDING BALANCE	REQUIRED ENDING BALANCE
BOND RESERVE	<u>701,266.50</u>	<u>0.00</u>	<u>0.00</u>	<u>116,162.33</u>	<u>585,104.17</u>	<u>585,104.17</u>

THREE BOND ORDINANCES REQUIRE THAT THE BOND RESERVE WILL BE FUNDED AT THE LESSOR OF:  
 125% OF AVERAGE ANNUAL DEBT SERVICE OF ALL OUTSTANDING ELECTRIC REVENUE BC 668,335  
 10% OF THE PRINCIPAL OF ALL OUTSTANDING ELECTRIC REVENUE BONDS 691,833  
 MAXIMUM ANNUAL DEBT SERVICE OF ALL OUTSTANDING ELECTRIC REVENUE BONDS 585,104  
 ONE BOND ORDINANCE REQUIRES THAT THE BOND RESERVE BE EQUAL TO THE MAXIMUM DEBT SERVICE ON ALL OUTSTANDING REVENUE BONDS

WATER FUND:  
THE BOND ORDINANCE REQUIRES FUNDING OF THE FOLLOWING ACCOUNTS:

	BEGINNING BALANCE	TRANSFERS IN	INTEREST EARNED	EXPENDITURES	ENDING BALANCE	REQUIRED ENDING BALANCE
BOND INTEREST AND REDEMPTION-SENIOR	53,501.10	51,800.82	0.00	48,827.50	56,474.42	32,957.91
BOND INTEREST AND REDEMPTION-JUNIOR	36,756.20	172,132.56	97.12	171,337.50	37,648.38	32,500.00
BOND RESERVE-JUNIOR	<u>173,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>173,000.00</u>	<u>173,000.00</u>
	<u>263,257.30</u>	<u>223,933.38</u>	<u>97.12</u>	<u>220,165.00</u>	<u>267,122.80</u>	<u>238,457.91</u>

SENIOR BOND INTEREST AND REDEMPTION IS TO BE FUNDED MONTHLY AT 1/6 OF THE NEXT INTEREST PAYMENT DUE AND 1/12 OF THE NEXT PRINCIPAL PAYMENT DUE  
 JUNIOR BOND INTEREST AND REDEMPTION IS TO BE FUNDED QUARTERLY AT 1/2 OF THE NEXT INTEREST PAYMENT DUE AND 1/4 OF THE NEXT PRINCIPAL PAYMENT DUE  
 JUNIOR BOND RESERVE IS FULLY FUNDED AT \$173,000

CITY OF NORWAY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year ended June 30, 2015

	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<b>PRIMARY GOVERNMENT</b>		
<u>US Department of Transportation</u>		
Office of Federal Highway Administration		
Passed through Michigan Department of Transportation		
Highway Research Planning & Construction		
Project STP 1322		
	20.205	345,847
 <u>US Department of Transportation</u>		
Office of Federal Highway Administration		
Passed through Michigan Department of Transportation		
Highway Research Planning & Construction		
Project SRS 1422		
	20.205	\$ <u>370,783</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<b>\$ <u><u>716,630</u></u></b>

See Notes to Schedule of Expenditures of Federal Awards

CITY OF NORWAY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2015

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards programs of the City of Norway, Michigan (City), and is presented on the modified accrual basis of accounting. Federal awards received directly for federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The City's reporting entity is defined in Note 1 of the City's basic financial statements.

**NOTE B - SUBRECIPIENTS**

Of the federal expenditures presented in the schedule, the City provided no federal awards to subrecipients.

**NOTE C - MAJOR PROGRAMS**

The US Department of Transportation, Federal CFDA program number 20.205 are considered Type A programs. The Federal CFDA program number was audited as a major program with no other programs audited as major programs using the risk based audit approach.

SEGMENT

INFORMATION

CITY OF NORWAY  
 TELEVISION/INTERNET/TELEPHONE UTILITY FUND  
 STATEMENT OF FINANCIAL POSITION  
 June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Current Assets:		
Cash and equivalents	\$ 157,452	\$ 80,456
Accounts receivable	143,669	140,791
Inventory	21,059	20,960
Prepaid expenses	<u>2,160</u>	<u>2,797</u>
TOTAL CURRENT ASSETS	\$ 324,340	\$ 245,004
Restricted Assets:		
Bond and interest redemption	\$ 23,484	\$ 23,626
Bond reserve	<u>120,000</u>	<u>120,000</u>
TOTAL RESTRICTED ASSETS	\$ 143,484	\$ 143,626
Property, Plant and Equipment:		
System and equipment	\$ 1,593,431	\$ 1,563,727
Less accumulated depreciation	<u>(713,819)</u>	<u>(691,525)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 879,612	\$ 872,202
TOTAL ASSETS	\$ 1,347,436	\$ 1,260,832
DEFERRED OUTFLOW OF RESOURCES		
Bond discount	\$ 20,368	\$ 20,958
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 67,150	\$ 73,156
Salaries and wages payable	6,666	5,605
Accrued taxes and withholdings	493	414
Due to fiduciary funds	810	3,141
Accrued benefits	8,213	9,534
Accrued interest	10,148	10,290
Current portion of long term debt	<u>20,000</u>	<u>20,000</u>
TOTAL CURRENT LIABILITIES	\$ 113,480	\$ 122,140
Long Term Debt - Revenue bonds payable	<u>1,105,000</u>	<u>1,125,000</u>
TOTAL LIABILITIES	\$ 1,218,480	\$ 1,247,140
<b>NET POSITION</b>		
Invested in capital	\$ 0	\$ 0
Restricted	143,484	143,626
Unrestricted	<u>5,840</u>	<u>(108,975)</u>
NET POSITION	\$ <u>149,324</u>	\$ <u>34,651</u>

CITY OF NORWAY  
 TELEVISION/INTERNET/TELEPHONE UTILITY FUND  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FINANCIAL POSITION  
 Year ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>OPERATING REVENUES</b>		
User charges		
Television	\$ 782,913	\$ 807,067
Internet	564,176	449,770
Telephone	166,405	159,875
User penalties	17,981	15,345
Other charges	20,019	19,116
Package discounts	<u>(66,215)</u>	<u>(65,157)</u>
TOTAL OPERATING REVENUES	\$ 1,485,279	\$ 1,386,016
<b>OPERATING EXPENSES</b>		
Transmission, distribution and maintenance	\$ 1,234,336	\$ 1,179,076
Depreciation	<u>75,369</u>	<u>70,952</u>
TOTAL OPERATING EXPENSES	\$ <u>1,309,705</u>	\$ <u>1,250,028</u>
OPERATING INCOME	\$ 175,574	\$ 135,988
<b>NON-OPERATING GAINS (LOSSES)</b>		
Interest	\$ 862	\$ 806
Bond interest payments	(61,761)	(62,461)
Bond issuance costs	0	(21,723)
Transfers to other funds	<u>0</u>	<u>0</u>
TOTAL NON-OPERATING GAINS (LOSSES)	\$ <u>(60,899)</u>	\$ <u>(83,378)</u>
NET INCOME	\$ 114,675	\$ 52,610
Net position - beginning	<u>34,649</u>	<u>(17,959)</u>
NET POSITION - ENDING	\$ <u><u>149,324</u></u>	\$ <u><u>34,651</u></u>

CITY OF NORWAY  
 TELEVISION/INTERNET/TELEPHONE UTILITY FUND  
 STATEMENT OF CASH FLOWS  
 Year ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 1,482,401	\$ 1,364,968
Payments to suppliers	(1,047,107)	(937,160)
Payments to or on behalf of employees	<u>(195,209)</u>	<u>(235,588)</u>
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 240,085</b>	<b>\$ 192,220</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Loans from other funds	\$ 0	\$ (31,300)
Transfers to other funds	<u>0</u>	<u>0</u>
<b>TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	<b>\$ 0</b>	<b>\$ (31,300)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal and interest paid on capital debt	\$ (81,313)	\$ (71,938)
Purchases of capital assets	(82,780)	(2,778)
Funding of restricted accounts	<u>142</u>	<u>(6,601)</u>
<b>TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (163,951)</b>	<b>\$ (81,317)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest earned	\$ <u>862</u>	\$ <u>806</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>\$ 76,996</b>	<b>\$ 80,409</b>
Cash and equivalents - beginning	<u>80,456</u>	<u>47</u>
<b>CASH AND EQUIVALENTS - ENDING</b>	<b>\$ <u>157,452</u></b>	<b>\$ <u>80,456</u></b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income	\$ 175,574	\$ 135,988
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	75,369	70,952
Change in Assets and Liabilities		
Receivables - net	(2,878)	(21,048)
Inventory	(99)	(3,725)
Prepaid expenses	637	166
Accounts payable	(6,006)	9,251
Accrued payroll expense	1,061	(78)
Accrued taxes and withholdings	79	(17)
Due to fiduciary funds	(2,331)	(631)
Accrued benefits	<u>(1,321)</u>	<u>1,362</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ <u>240,085</u></b>	<b>\$ <u>192,220</u></b>

CITY OF NORWAY  
 TELEVISION/INTERNET/TELEPHONE UTILITY FUND  
 SCHEDULE OF OPERATING EXPENSES  
 Year ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Transmission, Distribution & Maintenance:		
Salaries and wages	\$ 144,154	\$ 147,991
Employee benefits	48,543	88,233
Supplies	37,950	41,515
Utilities purchased for resale	816,396	720,880
Contract services	13,023	10,485
Administrative fees	134,673	131,019
Repairs and maintenance	881	2,592
Rent/lease	743	743
Insurance	3,039	2,902
Utilities	34,373	32,527
Other	<u>561</u>	<u>189</u>
TOTAL TRANSMISSION, DISTRIBUTION AND MAINTENANCE	\$ 1,234,336	\$ 1,179,076
Depreciation	<u>75,369</u>	<u>70,952</u>
TOTAL OPERATING EXPENSES	\$ <u><u>1,309,705</u></u>	\$ <u><u>1,250,028</u></u>

CITY OF NORWAY  
ELECTRIC UTILITY FUND  
STATEMENT OF FINANCIAL POSITION  
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Current Assets:		
Cash and equivalents	\$ 808,919	\$ 1,003,299
Accounts receivable	732,630	342,906
Due from other funds	802,000	539,000
Inventory	152,797	160,733
Prepaid expenses	<u>4,341</u>	<u>5,399</u>
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 2,500,687</b>	<b>\$ 2,051,337</b>
Restricted Assets:		
Bond reserve account	\$ 585,104	\$ 701,267
Security deposits	<u>128,993</u>	<u>138,915</u>
<b>TOTAL RESTRICTED ASSETS</b>	<b>\$ 714,097</b>	<b>\$ 840,182</b>
Property, Plant and Equipment:		
Electric system	\$ 20,809,902	\$ 20,509,279
Less accumulated depreciation	<u>(8,906,413)</u>	<u>(8,335,164)</u>
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>\$ 11,903,489</b>	<b>\$ 12,174,115</b>
<b>TOTAL ASSETS</b>	<b>\$ 15,118,273</b>	<b>\$ 15,065,634</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Bond discount	\$ 35,987	\$ 37,722
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 155,310	\$ 93,373
Salaries and wages payable	21,509	21,156
Accrued taxes and withholdings	2,603	2,335
Due to fiduciary funds	5,318	8,447
Accrued benefits	50,173	50,688
Sales tax payable	9,470	9,522
Customer deposits	128,993	138,915
Accrued interest	27,162	28,000
Current portion of long term debt	<u>262,447</u>	<u>252,447</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 662,985</b>	<b>\$ 604,883</b>
Long Term Debt - Revenue bonds payable	<u>6,693,938</u>	<u>6,956,385</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 7,356,923</b>	<b>\$ 7,561,268</b>
<b>NET POSITION</b>		
Invested in capital	\$ 4,947,104	\$ 4,965,283
Restricted	585,104	701,267
Unrestricted	<u>2,265,129</u>	<u>1,875,538</u>
<b>TOTAL NET POSITION</b>	<b>\$ <u>7,797,337</u></b>	<b>\$ <u>7,542,088</u></b>

CITY OF NORWAY  
ELECTRIC UTILITY FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FINANCIAL POSITION  
Year ended June 30, 2015 and 2014

	2015	2014
<b>OPERATING REVENUES</b>		
User charges	\$ 4,089,219	\$ 4,123,843
User penalties	35,090	31,892
Other	4,306	14,051
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 4,128,615</b>	<b>\$ 4,169,786</b>
<b>OPERATING EXPENSES</b>		
Generation, distribution and maintenance	\$ 2,605,695	\$ 2,891,802
Depreciation	633,141	587,853
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 3,238,836</b>	<b>\$ 3,479,655</b>
<b>OPERATING INCOME</b>	<b>\$ 889,779</b>	<b>\$ 690,131</b>
<b>NON-OPERATING GAINS (LOSSES)</b>		
Interest income	\$ 5,952	\$ 6,307
Bond interest payments	(338,288)	(348,445)
Bond discount amortization	(1,735)	(1,735)
Loss on disposal of property	(19,393)	0
Transfer from other funds	5,780	5,780
Transfer to other funds	(286,846)	(264,777)
<b>TOTAL NON-OPERATING GAINS (LOSSES)</b>	<b>\$ (634,530)</b>	<b>\$ (602,870)</b>
<b>NET INCOME</b>	<b>\$ 255,249</b>	<b>\$ 87,261</b>
Net position - beginning	7,542,088	7,454,827
<b>NET POSITION - ENDING</b>	<b>\$ 7,797,337</b>	<b>\$ 7,542,088</b>

CITY OF NORWAY  
STATEMENT OF CASH FLOWS  
ELECTRIC UTILITY FUND  
Year ended June 30, 2015 and 2014

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 3,738,891	\$ 4,147,179
Payments to suppliers	(1,660,250)	(2,149,616)
Payments to or on behalf of employees	(877,589)	(753,662)
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 1,201,052	\$ 1,243,901
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfer from (to) other funds	\$ (281,066)	\$ (258,997)
Loans repaid (to) from other funds	(263,000)	(55,700)
TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	\$ (544,066)	\$ (314,697)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal and interest paid on capital debt	\$ (580,573)	\$ (591,641)
Purchases of capital assets	(392,908)	(258,979)
Funding of restricted accounts	116,163	0
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (857,318)	\$ (850,620)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest earned	\$ 5,952	\$ 6,307
NET INCREASE (DECREASE) IN CASH	\$ (194,380)	\$ 84,891
Cash and equivalents - beginning	1,003,299	918,408
CASH AND EQUIVALENTS - ENDING	\$ 808,919	\$ 1,003,299
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income	\$ 889,779	\$ 690,131
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	633,141	587,853
Change in Assets and Liabilities		
Receivables - net	(389,724)	(22,607)
Inventory	7,936	35,990
Prepaid expenses	1,058	(771)
Accounts payable	61,937	(58,361)
Accrued payroll expense	353	7,130
Accrued taxes and withholdings	268	622
Accrued sales tax	(52)	1,271
Due to fiduciary funds	(3,129)	(1,697)
Accrued benefits	(515)	4,340
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,201,052	\$ 1,243,901

CITY OF NORWAY  
 ELECTRIC UTILITY FUND  
 SCHEDULE OF OPERATING EXPENSES  
 Year ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Generation, Distribution & Maintenance:		
Salaries and wages	\$ 488,901	\$ 459,918
Employee benefits	389,309	301,496
Supplies	86,350	191,694
Utilities purchased for reale	611,906	1,062,995
Contract services	173,653	231,692
Administrative fees	558,507	493,841
Repairs and maintenance	185,296	45,054
Rent/lease	25,771	6,100
Insurance	59,425	63,496
Utilities	10,325	26,305
Other	<u>16,252</u>	<u>9,211</u>
TOTAL GENERATION, DISTRIBUTION AND MAINTENANCE	\$ 2,605,695	\$ 2,891,802
Depreciation	<u>633,141</u>	<u>587,853</u>
TOTAL OPERATING EXPENSES	\$ <u><u>3,238,836</u></u>	\$ <u><u>3,479,655</u></u>

CITY OF NORWAY  
WATER UTILITY FUND  
STATEMENT OF FINANCIAL POSITION  
June 30, 2015 and 2014

	2015	2014
<b>ASSETS</b>		
Current Assets:		
Cash and equivalents	\$ 1,027	\$ 0
Accounts receivable	59,624	66,645
Inventory	41,179	31,502
Prepaid expenses	3,412	4,135
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 105,242</b>	<b>\$ 102,282</b>
Restricted Assets:		
Revenue bond and interest redemption	\$ 94,123	\$ 90,257
Water supply replacement fund	14	108,491
Bond reserve - junior indenture	173,000	173,000
<b>TOTAL RESTRICTED ASSETS</b>	<b>\$ 267,137</b>	<b>\$ 371,748</b>
Property, Plant and Equipment:		
Water system	\$ 6,471,033	\$ 6,353,987
Less accumulated depreciation	(2,728,297)	(2,601,397)
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>\$ 3,742,736</b>	<b>\$ 3,752,590</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,115,115</b>	<b>\$ 4,226,620</b>
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Bond discount, net of amortization	\$ 686	\$ 1,028
<b>LIABILITIES</b>		
Current Liabilities:		
Bank overdraft	\$ 0	\$ 37,590
Accounts payable	45,396	18,751
Salaries and wages payable	5,880	6,809
Accrued taxes and withholdings	425	502
Due to other funds	315,000	0
Due to fiduciary funds	960	2,127
Accrued benefits	33,305	34,039
Accrued interest	17,444	18,277
Current portion of long term debt	115,000	108,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 533,410</b>	<b>\$ 226,095</b>
Long Term Debt - Revenue bonds payable	2,416,000	2,531,000
<b>TOTAL LIABILITIES</b>	<b>\$ 2,949,410</b>	<b>\$ 2,757,095</b>
<b>NET POSITION</b>		
Invested in Capital	\$ 1,211,736	\$ 1,113,590
Restricted	267,137	371,748
Unrestricted	(312,482)	(14,785)
<b>NET POSITION</b>	<b>\$ 1,166,391</b>	<b>\$ 1,470,553</b>

CITY OF NORWAY  
WATER UTILITY FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
Year ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>OPERATING REVENUES</b>		
User charges	\$ 653,516	\$ 676,128
User penalties	7,475	6,787
Local grant	0	0
Hydrant rentals	<u>33,000</u>	<u>33,000</u>
TOTAL OPERATING REVENUES	\$ 693,991	\$ 715,915
<b>OPERATING EXPENSES</b>		
Transmission, distribution and maintenance	\$ 692,390	\$ 615,264
Depreciation	<u>135,852</u>	<u>137,529</u>
TOTAL OPERATING EXPENSES	\$ <u>828,242</u>	\$ <u>752,793</u>
OPERATING INCOME	\$ (134,251)	\$ (36,878)
<b>NON-OPERATING GAINS (LOSSES)</b>		
Interest	\$ 1,156	\$ 1,436
Bond interest payments	(111,333)	(119,706)
Bond discount amortization	(342)	(342)
Contributed capital amortization	(24,064)	(24,064)
Transfer from other funds	0	0
Transfer to other funds	<u>(35,328)</u>	<u>(42,154)</u>
TOTAL NON-OPERATING GAINS (LOSSES)	\$ <u>(169,911)</u>	\$ <u>(184,830)</u>
NET INCOME	\$ (304,162)	\$ (221,708)
Net position - beginning	<u>1,470,553</u>	<u>1,692,261</u>
NET POSITION - ENDING	\$ <u><u>1,166,391</u></u>	\$ <u><u>1,470,553</u></u>

CITY OF NORWAY  
STATEMENT OF CASH FLOWS  
WATER UTILITY FUND  
Year ended June 30, 2015 and 2014

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 701,012	\$ 717,381
Payments to suppliers	(395,070)	(279,804)
Payments to or on behalf of employees	(320,126)	(282,533)
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ (14,184)</b>	<b>\$ 155,044</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Loans from other funds	\$ 315,000	\$ 0
Transfer from (to) other funds	(35,328)	(42,154)
<b>TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	<b>\$ 279,672</b>	<b>\$ (42,154)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal and interest paid on capital debt	\$ (220,166)	\$ (227,228)
Purchases of capital assets	(150,062)	(79,910)
Funding of restricted accounts	104,611	389
<b>TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (265,617)</b>	<b>\$ (306,749)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest earned	\$ 1,156	\$ 1,436
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>\$ 1,027</b>	<b>\$ (192,423)</b>
Cash and equivalents - beginning	0	192,423
<b>CASH AND EQUIVALENTS - ENDING</b>	<b>\$ 1,027</b>	<b>\$ 0</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income	\$ (134,251)	\$ (36,878)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	135,852	137,529
Change in Assets and Liabilities		
Receivables - net	7,021	1,466
Inventory	(9,677)	2,289
Prepaid expenses	723	(1,076)
Bank overdraft	(37,590)	37,590
Accounts payable	26,645	14,227
Accrued payroll expense	(929)	1,678
Accrued taxes and withholdings	(77)	122
Due to fiduciary funds	(1,167)	(427)
Accrued benefits	(734)	(1,476)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ (14,184)</b>	<b>\$ 155,044</b>

CITY OF NORWAY  
WATER UTILITY FUND  
SCHEDULE OF OPERATING EXPENSES  
Year ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Transmission, Distribution & Maintenance:		
Salaries and wages	\$ 153,460	\$ 161,451
Employee benefits	164,926	121,406
Supplies	18,244	12,134
Contract services	149,866	107,591
Administrative fees	124,313	120,941
Repairs and maintenance	6,322	11,983
Rent/lease	592	3,673
Insurance	10,039	9,089
Utilities	62,986	65,734
Other	<u>1,642</u>	<u>1,262</u>
 TOTAL TRANSMISSION, DISTRIBUTION AND MAINTENANCE	 \$ 692,390	 \$ 615,264
Depreciation	<u>135,852</u>	<u>137,529</u>
 TOTAL OPERATING EXPENSES	 \$ <u><u>828,242</u></u>	 \$ <u><u>752,793</u></u>

CITY OF NORWAY  
SEWER UTILITY FUND  
STATEMENT OF FINANCIAL POSITION  
June 30, 2015 and 2014

	2015	2014
<b>ASSETS</b>		
Current Assets:		
Cash and equivalents	\$ 23,077	\$ 368
Accounts receivable	87,098	71,166
Due from Norway Utility Authority	0	22,258
Inventory	22,286	23,726
Prepaid expenses	1,911	2,981
TOTAL CURRENT ASSETS	\$ 134,372	\$ 120,499
Property, Plant and Equipment:		
Sewage plant, lines and vehicles	\$ 2,798,258	\$ 2,381,056
Less accumulated depreciation	(1,470,225)	(1,009,905)
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 1,328,033	\$ 1,371,151
TOTAL ASSETS	\$ 1,462,405	\$ 1,491,650
<b>LIABILITIES AND FUND EQUITY</b>		
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 7,093	\$ 40,334
Salaries and wages payable	7,594	7,066
Accrued taxes and withholdings	564	529
Due to other funds	415,000	309,000
Due to fiduciary funds	2,712	3,141
Accrued benefits	20,565	21,853
Current portion of long term debt	8,994	8,994
TOTAL CURRENT LIABILITIES	\$ 462,522	\$ 390,917
Long Term Debt - Loan payable	\$ 70,455	\$ 79,449
TOTAL LIABILITIES	\$ 532,977	\$ 470,366
<b>NET POSITION</b>		
Invested in Capital	\$ 1,248,584	\$ 1,291,702
Restricted	0	0
Unrestricted	(319,156)	(270,418)
NET POSITION	\$ 929,428	\$ 1,021,284

CITY OF NORWAY  
SEWER UTILITY FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
Year ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
User charges	\$ 819,306	\$ 679,809
User penalties	10,927	8,683
Other revenue	<u>10,417</u>	<u>7,800</u>
TOTAL OPERATING REVENUES	\$ 840,650	\$ 696,292
OPERATING EXPENSES		
Transmission, distribution and maintenance	\$ 881,262	\$ 885,226
Depreciation	<u>53,495</u>	<u>29,653</u>
TOTAL OPERATING EXPENSES	\$ <u>934,757</u>	\$ <u>914,879</u>
OPERATING INCOME	\$ (94,107)	\$ (218,587)
NON-OPERATING GAINS (LOSSES)		
Interest earned	\$ 117	\$ 134
Local grants/contributions	0	75,706
Contributed capital amortization	(8,677)	(28,724)
Transfers from other funds	19,053	0
Transfers (to) other funds	<u>(8,242)</u>	<u>(9,834)</u>
TOTAL NON-OPERATING GAINS (LOSSES)	\$ <u>2,251</u>	\$ <u>37,282</u>
NET INCOME	\$ (91,856)	\$ (181,305)
Net Position - beginning	<u>1,021,284</u>	<u>1,202,589</u>
NET POSITION - ENDING	\$ <u><u>929,428</u></u>	\$ <u><u>1,021,284</u></u>

CITY OF NORWAY  
STATEMENT OF CASH FLOWS  
SEWER UTILITY FUND  
Year ended June 30, 2015 and 2014

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 824,718	\$ 697,550
Payments to suppliers	(598,491)	(556,950)
Payments to or on behalf of employees	(314,227)	(362,873)
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ (88,000)	\$ (222,273)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfer from (to) other funds	\$ (8,242)	\$ (9,834)
Repayment of amount due from component unit/additional advance	22,258	(2,303)
Loans received from (repaid to) other funds	105,571	218,619
TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	\$ 119,587	\$ 206,482
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal, interest and fees paid on capital debt	\$ (8,995)	\$ (1,499)
Loan proceeds	0	89,942
Local grant/contributions	0	75,706
Purchases of capital assets	0	(150,471)
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (8,995)	\$ 13,678
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest earned	\$ 117	\$ 134
NET INCREASE (DECREASE) IN CASH	\$ 22,709	\$ (1,979)
Cash and equivalents - beginning	368	2,347
CASH AND EQUIVALENTS - ENDING	\$ 23,077	\$ 368
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (94,107)	\$ (218,587)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	53,495	29,653
Change in Assets and Liabilities		
Receivables - net	(15,932)	1,258
Inventory	1,440	1,282
Prepaid expenses	1,070	169
Accounts payable	(33,241)	7,048
Accrued payroll expense	528	(37,213)
Accrued taxes and withholdings	35	(2,852)
Accrued benefits	(1,288)	(3,031)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ (88,000)	\$ (222,273)

CITY OF NORWAY  
SEWER UTILITY FUND  
 SCHEDULE OF OPERATING EXPENSES  
 Year ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Transmission, Distribution & Maintenance:		
Salaries and wages	\$ 176,797	\$ 175,945
Employee benefits	136,705	143,832
Supplies	53,499	61,444
Contract services	202,314	272,153
Administrative fees	103,594	100,784
Repairs and maintenance	22,179	12,537
Rent/lease	81,815	19,980
Insurance	14,020	14,531
Utilities	86,119	80,872
Other	<u>4,220</u>	<u>3,148</u>
TOTAL TRANSMISSION, DISTRIBUTION AND MAINTENANCE	\$ 881,262	\$ 885,226
Depreciation	<u>53,495</u>	<u>29,653</u>
TOTALS	\$ <u><u>934,757</u></u>	\$ <u><u>914,879</u></u>

SUPPLEMENTAL

REPORTS

# SCOTT R. KENNEY

*Certified Public Accountant*

1374 Commercial Ave., Suite #1  
Crystal Falls, Michigan 49920  
(906) 875-4393 Fax: (906) 875-3879

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

The Honorable Mayor and City Council  
City of Norway  
915 Main Street  
Norway, MI 49870

I have audited 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norway, Michigan (City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated September 18, 2015.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing my audit of the financial statements, I considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of the City'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 City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness but important enough to merit attention by those charged with governance.

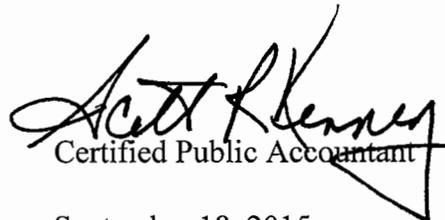
My consideration of internal control was for the limited purpose described in the first paragraph in this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify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

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

## **PURPOSE OF THE REPORT**

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

  
Certified Public Accountant

September 18, 2015

# SCOTT R. KENNEY

*Certified Public Accountant*

1374 Commercial Ave., Suite #1  
Crystal Falls, Michigan 49920  
(906) 875-4393 Fax: (906) 875-3879

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133

The Honorable Mayor and City Council  
City of Norway  
915 Main Street  
Norway, MI 49870

## **Report on Compliance for Each Major Federal Program**

I have audited the City of Norway, Michigan's (City), compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

## **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

## **Auditor's Responsibility**

My responsibility is to express an opinion on compliance for each of the City's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for the major federal programs. However, my audit does not provide a legal determination on the City's compliance.

### **Opinion on Each Major Federal Program**

In my opinion, the City of Norway, Michigan, complied, in all material respects with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

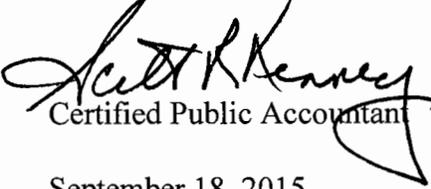
### **Internal Control Over Compliance**

Management of the City of Norway, Michigan, is responsible for establishing and maintaining effective internal control over compliance requirements referred to above. In planning and performing my audit of compliance, I considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on the internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over compliance.

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose

  
Certified Public Accountant

September 18, 2015

CITY OF NORWAY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2015

SECTION I - SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements.
2. There are no material weaknesses and no significant deficiencies disclosed during the audit of the financial statements as reported in the 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*.
3. There were no material noncompliances to the financial statements disclosed during the audit.
4. There were no material weaknesses or significant deficiencies in internal control over compliance disclosed during the audit of the major federal award programs to be reported in the Report on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program for the City of Norway, Michigan, expresses an unmodified opinion.
6. There were no findings relative to the Major Federal Award Programs for the City that are required to be reported in with Section 510(a) of Circular A-133.
7. The two programs tested as major programs are the US Department of Transportation under CFDA Number 20.205.
8. The threshold for distinguishing Type A and B programs was \$300,000. The US Department of Transportation Program CFDA Number 20.205 was the Type A program. All other programs were considered Type B.
9. The City of Norway, Michigan, was determined to not be a low-risk auditee.

SECTION II - FINANCIAL STATEMENT FINDINGS

There were no significant deficiencies or material weaknesses disclosed during the financial statement audit.

CITY OF NORWAY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2015

SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD  
PROGRAM AUDIT

There were no significant deficiencies or material weaknesses disclosed during the financial statement audit.

CITY OF NORWAY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
June 30, 2015

MATERIAL WEAKNESS/SIGNIFICANT DEFICIENCY

There were no material weaknesses or significant deficiencies disclosed during the prior year audit of the financial statements.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

There were no findings or questioned costs disclosed during the prior year audit of the major federal award programs.

# SCOTT R. KENNEY

*Certified Public Accountant*

1374 Commercial Ave., Suite #1  
Crystal Falls, Michigan 49920  
(906) 875-4393 Fax: (906) 875-3879

September 18, 2015

The Honorable Mayor and City Council  
City of Norway  
915 Main Street  
Norway, MI 49870

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norway, Michigan (City) for the year ended June 30, 2015. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated September 18, 2015. Professional standards also require that I communicate to you the following information related to my audit.

## SIGNIFICANT AUDIT FINDINGS

### Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note A to the financial statements. The City adopted and applied the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, during the year. No other new accounting policies were adopted and the application of existing policies was not changed during the 2014-2015 fiscal year. I noted no transactions entered into by the government unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the City's financial statements was:

Management's estimate of the OPEB benefit costs is based on an independently determined alternative calculation described in GASB 45. I evaluated the key factors and assumptions used to develop the OPEB benefit costs in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The recognition of the defined benefit pension plan expenses and obligations in the financial statements and the disclosure of the underfunded status in the footnotes to the financial statements.

#### Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing the audit.

#### Corrected and Uncorrected Misstatements

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

#### Management Representations

I have requested certain representations from management that are included in the management representation letter dated September 18, 2015.

#### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation

involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

#### Other Audit Findings or Issues

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditor. However, these discussions occurred in the normal course of our professional relationship and my responses were not a condition of my retention.

This information is intended solely for the use of the City Council and management of the City of Norway, Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountant

# SCOTT R. KENNEY

*Certified Public Accountant*

1374 Commercial Ave., Suite #1  
Crystal Falls, Michigan 49920  
(906) 875-4393 Fax: (906) 875-3879

Honorable Mayor and City Council  
City of Norway  
915 Main Street  
Norway, MI 49870

In conjunction with the audit of the general purpose financial statements of the City of Norway (City) as of and for the year ended June 30, 2015, I have reviewed the City's accounting policies and procedures and systems of internal control. My audit was conducted primarily to enable me to formulate an opinion on the City's financial statements and, accordingly, would not disclose all weaknesses in the system which may exist. My review disclosed certain areas in which I believe more effective internal control or increased efficiency may be achieved. This letter is intended to summarize my findings and present my overall conclusions and recommendations. It has been prepared solely for the information of the City Council and management and should not be presented or quoted to anyone outside of the City because of the possibility of misunderstanding by other persons who may not be aware of the objectives and limitations of internal controls and my study and evaluation thereof. Statement on Audit Standard Number 114 (SAS 114) requires that I inform the City of all "significant deficiencies" and "material weaknesses". A significant deficiency is defined as a control deficiency that has more than a remote likelihood that the entity's ability to initiate, authorize, record, process or report financial data in compliance with accounting principles generally accepted in the United States of America will be adversely affected and that such affect will be more than inconsequential. A material weakness is defined as a significant deficiency(ies) that could have a material affect on the financial statements. The three items listed in Other Matters for Consideration are repeated from the prior year's letter of comments and recommendations.

**MATERIAL WEAKNESSES** - None.

**SIGNIFICANT DEFICIENCIES** - None.

## **OTHER MATTERS FOR CONSIDERATION**

1. **CONDITION** - The City has several delinquent personal property tax bills which have not been collected. These amounts have had allowances established due to the doubt of the collectibility of the claims.

**CRITERIA** - Good accounting procedure calls for the removal of uncollectible receivable accounts from the accounting system.

**EFFECT** - The financial records continue to carry these balances with offsetting amounts being established to demonstrate that the balances are uncollectible.

**RECOMMENDATION** - I recommend that the treasurer work with legal counsel to present the tax bills to the court for authorization to remove the accounts from the applicable tax roll as uncollectible.

**RESPONSE** - Management has stated that they have begun the necessary actions to request the courts to authorize removal of the accounts from the tax roll with the assistance of the City's legal counsel. Most personal property taxes have been abolished for the 2014 year and beyond.

2. **OBSERVATION** - The collections of delinquent utility bills has regressed with the amount of delinquent accounts and the associated receivable increasing during the year. The City does have a policy and procedure in place for discontinuing utility services when accounts become delinquent.

**CRITERIA** - Utility receivables are to be stated in the financial statements at "net realizable value."

**EFFECT** - During the prior fiscal year, the lack of attention to collecting these receivables has forced the City to increase the uncollectible factor to 7.5%.

**RECOMMENDATION** - I recommend that the City review its policies for collecting delinquent utility accounts and make updates to that policy, if necessary. In addition, I recommend that the delinquent accounts be placed on the real property tax bills of the properties that are provided the services. Further, I recommend that staffing be reviewed to allow for adequate time to address the degradation in the collection of the utility receivables.

**RESPONSE** - Management has stated that they have begun this process and expect that they will move forward with implementation of this recommendation after informing the Council and public of the changes in collection practices.

3. **OBSERVATION** - The fire department has been conducting various fund raising activities using the City's identification number without accounting to the City Treasurer. In addition, the funds are being maintained in separate bank accounts and not reported to the City management or Council. It has been explained to me that the fire department is in the process of establishing a separate non-profit corporation for future fund raising activities.

**CRITERIA** - All financial activities of the City are required to be accounted for in the City's financial reporting system.

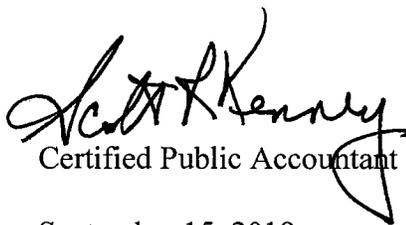
**EFFECT** - The lack of oversight on these fund raising activities has circumvented the internal control system that the City has in place.

**RECOMMENDATION** - I recommend that the fire department, like other departments of the City, report all of their activities to the City's management and Council. Once the set up of the new corporation is complete including an IRS determination of non-profit status, the new corporation should be used for those activities that are allowed within its organization documents, including some fund raising.

**RESPONSE** - Management concurs with my recommendation and has stated that they are willing to assist the fire department, in any way permissible, to complete the set up of the new corporation.

I would like to thank the City Council for allowing me to conduct the audit of the financial statements and I would especially like to thank the Manager, Treasurer, Clerk, the office staff and the department heads for their assistance during the audit.

If the City would like my assistance in implementing any of the above recommendations, I am willing to help in any way that I can.

  
Certified Public Accountant

September 15, 2018