

**CITY OF EATON RAPIDS
EATON COUNTY, MICHIGAN**

**REPORT ON FINANCIAL STATEMENTS
(with required and other supplementary information)**

YEAR ENDED JUNE 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Eaton Rapids

Report on the Financial Statements

We 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 Eaton Rapids (the City), as of and for the year ended June 30, 2021, 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 maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Eaton Rapids, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Account Principle

As discussed in Note 14 to the financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, during the year. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedules of net pension liability and contributions, and schedules of net OPEB liability, contributions, and investment returns, as identified in the table of contents, 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 an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maney Costerian PC

April 22, 2022

CITY OF EATON RAPIDS MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Eaton Rapids annual report presents our discussion and analysis of the City of Eaton Rapids financial performance during the year ended June 30, 2021. Please read it in conjunction with the City's financial statements, which immediately follow this section.

The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the City's management's discussion and analysis of the financial results for the fiscal year ended June 30, 2021.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Eaton Rapids financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole, presenting both an aggregate view of the City's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds - the General Fund and the Utility Fund, and other smaller funds collectively as non-major governmental funds.

Government-Wide Financial Statements

One of the most important questions asked about the City of Eaton Rapids is, "As a whole, what is the City's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the basic financial statements, report information on the as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position (page 12) presents all of the City of Eaton Rapids' assets and liabilities, recording the difference between the two as "net position". Over time, increases or decreases in net position measure whether the City of Eaton Rapids financial position is improving or deteriorating.

The Statement of Activities (page 13) presents information showing how the City of Eaton Rapids' net position changed during fiscal year 2021. All changes in net position are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods.

Both statements report the following activities:

- **Governmental Activities** - Most of the City of Eaton Rapids basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. This also includes the activities such as the major and local street maintenance, and debt service.
- **Business-type Activities** - These activities operate like private businesses. The City of Eaton Rapids charges fees to recover the cost of the services provided.
- **Discretely Presented Component Units** - Discretely presented component units are legally separate organizations for which the City of Eaton Rapids Council appoints a majority of the organization's policy board and there is a degree of financial accountability to the City of Eaton Rapids.

CITY OF EATON RAPIDS MANAGEMENT'S DISCUSSION AND ANALYSIS

As stated previously, the government-wide financial statements are full accrual basis statements. However, the governmental funds report on a modified accrual basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources. Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 15 and 17 present reconciliations between the two statement types.

Fund Financial Statements

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the City of Eaton Rapids uses to keep track of specific sources of funding and spending for a particular purpose. State law or policy requires some separate funds, such as funds required by bond or grant agreements. Funds are also utilized to track specific operations; these include the internal services fund (e.g. Motor pool) as well as enterprise funds such as the Utility Fund.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The City of Eaton Rapids funds are divided into two categories - governmental and proprietary - and use different accounting approaches:

- **Governmental Funds** - Most of the City of Eaton Rapids basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the City of Eaton Rapids programs. Governmental funds include the General Fund, as well as special revenue, debt service, capital projects, and permanent funds.
- **Proprietary Funds** - Services for which the City of Eaton Rapids charges customers a fee are generally reported in proprietary funds. Proprietary funds use the same accrual basis of accounting used in the government-wide statements and by private business. There are two types of proprietary funds. Enterprise funds report activities that provide supplies and/or services to the general public. Internal Service funds report activities that provide supplies or service to the City of Eaton Rapids other operations, such as the Motor Pool Fund. Internal Service funds are reported as governmental activities on the government-wide statements.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 26 of this report.

**CITY OF EATON RAPIDS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedule for the General Fund and historical pension and OPEB information.

Other Supplementary Information

Other Supplementary Information includes combining financial statements for non-major governmental funds. These funds are added together, by fund type, and are presented in a single aggregate column in the basic financial statements.

Summary of Net Position

The following summarizes the net position as of June 30, 2021 and 2020.

| | Governmental Activities | | Business-type Activities | | Total | |
|---|----------------------------|---------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| ASSETS | | | | | | |
| Current and other assets | \$ 3,901,255 | \$ 3,712,691 | \$ 12,129,047 | \$ 11,819,104 | \$ 16,030,302 | \$ 15,531,795 |
| Capital assets, net | 6,366,648 | 6,825,145 | 7,503,221 | 8,264,486 | 13,869,869 | 15,089,631 |
| TOTAL ASSETS | 10,267,903 | 10,537,836 | 19,632,268 | 20,083,590 | 29,900,171 | 30,621,426 |
| DEFERRED OUTFLOWS OF RESOURCES | 1,375,246 | 1,245,773 | 1,153,422 | 922,802 | 2,528,668 | 2,168,575 |
| LIABILITIES | | | | | | |
| Current | 1,123,092 | 802,380 | 1,097,128 | 793,901 | 2,220,220 | 1,596,281 |
| Noncurrent | 6,409,243 | 7,043,732 | 7,179,870 | 7,661,696 | 13,589,113 | 14,705,428 |
| TOTAL LIABILITIES | 7,532,335 | 7,846,112 | 8,276,998 | 8,455,597 | 15,809,333 | 16,301,709 |
| DEFERRED INFLOWS OF RESOURCES | 583,114 | 201,379 | 499,572 | 142,358 | 1,082,686 | 343,737 |
| NET POSITION | | | | | | |
| Invested in capital assets - net of related debt | 5,120,953 | 5,087,789 | 4,675,921 | 4,872,186 | 9,796,874 | 9,959,975 |
| Restricted | 1,736,895 | 1,755,415 | 1,104,035 | 1,041,420 | 2,840,930 | 2,796,835 |
| Unrestricted | (3,330,148) | (3,107,086) | 6,229,164 | 6,494,831 | 2,899,016 | 3,387,745 |
| TOTAL NET POSITION | \$ 3,527,700 | \$ 3,736,118 | \$ 12,009,120 | \$ 12,408,437 | \$ 15,536,820 | \$ 16,144,555 |

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**CITY OF EATON RAPIDS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Results of Operations

For the fiscal year ended June 30, 2021 and 2020, the government-wide results of operations were:

| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------------|----------------------------|------------------|-----------------------------|-------------------|-------------------|-------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| REVENUES | | | | | | |
| Program revenue | | | | | | |
| Charges for services | \$ 1,072,001 | \$ 1,098,578 | \$ 11,929,984 | \$ 10,555,644 | \$ 13,001,985 | \$ 11,654,222 |
| Operating grants and contributions | 941,029 | 895,583 | - | 227,261 | 941,029 | 1,122,844 |
| Capital grants and contributions | 8,172 | 56,897 | - | - | 8,172 | 56,897 |
| General revenues | | | | | | |
| Property taxes | 987,592 | 1,076,058 | 582,677 | 587,450 | 1,570,269 | 1,663,508 |
| Local community stabilization | 149,333 | 206,933 | 230,097 | 153,117 | 379,430 | 360,050 |
| State Revenue Sharing | 558,358 | 490,031 | - | - | 558,358 | 490,031 |
| Investment earnings | 18,346 | 23,919 | 13,280 | 43,678 | 31,626 | 67,597 |
| Other | 461,904 | 251,057 | 233,420 | 87,729 | 695,324 | 338,786 |
| Transfers | 280,870 | 265,976 | (280,870) | (265,976) | - | - |
| TOTAL REVENUES | 4,477,605 | 4,365,032 | 12,708,588 | 11,388,903 | 17,186,193 | 15,753,935 |
| EXPENSES | | | | | | |
| General government | 1,691,362 | 88,018 | - | - | 1,691,362 | 88,018 |
| Public safety | 1,382,070 | 192,202 | - | - | 1,382,070 | 192,202 |
| Public works | 1,170,050 | 114,264 | 13,107,905 | 7,121,288 | 14,277,955 | 7,235,552 |
| Community and economic development | 38,835 | 183,362 | - | - | 38,835 | 183,362 |
| Health and welfare | - | 12,671 | - | - | - | 12,671 |
| Recreation and culture | 313,456 | 210,390 | - | - | 313,456 | 210,390 |
| Interest on long-term debt | 90,250 | 59,883 | - | - | 90,250 | 59,883 |
| TOTAL EXPENSES | 4,686,023 | 860,790 | 13,107,905 | 7,121,288 | 17,793,928 | 7,982,078 |
| Change in net position | (208,418) | 3,504,242 | (399,317) | 4,267,615 | (607,735) | 7,771,857 |
| Net position, beginning of year | 3,736,118 | 231,876 | 12,408,437 | 8,140,822 | 16,144,555 | 8,372,698 |
| Net position, end of year | \$ 3,527,700 | \$ 3,736,118 | \$ 12,009,120 | \$ 12,408,437 | \$ 15,536,820 | \$ 16,144,555 |

Analysis of Results of Operations

During fiscal year ended June 30, 2021, the City's net position decreased by \$485,730. Several factors which contributed to this increase are discussed in the following sections.

Governmental Activities Operating Results

The City's governmental activities expenses exceeded revenues by \$208,418 for the fiscal year ended June 30, 2021. Total revenues increased \$112,573, or approximately 2.6%. Total expenses increased by \$3,825,233, or approximately 444.4%. This was the result of COVID-19 and a significant reduction in activities during fiscal year 2020 that was offset by additional expenses during fiscal year 2021.

Business-type Activities Operating Results

The City's business-type activities expenses exceeded revenues by \$399,317 for the fiscal year ended June 30, 2021. Total revenues increased \$1,319,685, or approximately 11.6%. Total expenses increased by \$5,986,617, or approximately 84.1%.

**CITY OF EATON RAPIDS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,906,854, a decrease of \$277,524 from the prior year. Approximately 39.9% of this, or \$1,160,178, constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *nonspendable, restricted, or committed* to indicate that it is not available for new spending because it has already been restricted or obligated to pay for specific debt services or for a variety of other purposes.

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the unassigned fund balance of the General Fund was \$1,173,971. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to the total fund expenditures. Unassigned fund balance at June 30, 2021, represents 35.2% of the total General Fund expenditures and other financing uses.

During the fiscal year ended June 30, 2021, the fund balance in the City's General Fund decreased by \$244,892.

Budgetary-basis revenues and other financing sources for the General Fund were not amended throughout the year with the final amended budget agreeing with the originally adopted budget. Actual revenues and other financing sources ended the year \$298,691 more than budgeted. Budgetary-basis expenditures and other financing uses for the General Fund were amended throughout the year with the final amended budget exceeding the originally adopted budget by \$397,432. Actual expenditures and other financing uses ended the year \$40,219 under the amended budget.

Proprietary Funds. The City of Eaton Rapids' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Utility Fund at the end of the year amounted to \$6,229,164. The most recent fiscal year's activities decreased the net position of the Utility Fund by \$399,317.

Long-Term Debt Activities

As of June 30, 2021, the City had total outstanding debt for governmental activities (including compensated absences) of \$1,410,749. For business-type activities, the outstanding debt (including compensated absences) was \$2,885,055 as of June 30, 2021. For component units, the outstanding debt was \$1,865,000 as of June 30, 2021.

The City has accumulated a long-term liability for absences that have been earned by employees but not yet redeemed. The balance of compensated absences as of June 30, 2021 is \$222,809.

**CITY OF EATON RAPIDS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City made principal payments on long-term debt obligations that reduced the amount of the City's long-term liabilities as follows:

| | Balance June 30, 2020 | Change | Balance June 30, 2021 |
|---------------------------------|--------------------------|-----------------------|--------------------------|
| PRIMARY GOVERNMENT | | | |
| Governmental Activities | | | |
| Bonds, leases, and contracts | \$ 1,737,356 | \$ (491,661) | \$ 1,245,695 |
| Severance payable | 15,000 | (15,000) | - |
| Compensated absences | 158,656 | 6,398 | 165,054 |
| | <u>1,911,012</u> | <u>(500,263)</u> | <u>1,410,749</u> |
| Business-type Activities | | | |
| Bonds and leases | 3,392,300 | (565,000) | 2,827,300 |
| Compensated absences | 55,975 | 1,780 | 57,755 |
| | <u>3,448,275</u> | <u>(563,220)</u> | <u>2,885,055</u> |
| TOTAL PRIMARY GOVERNMENT | 5,359,287 | (1,063,483) | 4,295,804 |
| COMPONENT UNITS | | | |
| Bonds | <u>2,110,000</u> | <u>(245,000)</u> | <u>1,865,000</u> |
| TOTAL REPORTING ENTITY | <u>\$ 7,469,287</u> | <u>\$ (1,308,483)</u> | <u>\$ 6,160,804</u> |

Additional information about the City's long-term debt can be found in Note 8 to the financial statements.

Net Investment in Capital Assets

At the end of the year, the City had invested \$6,366,648 and \$7,503,221 (net of accumulated depreciation) for governmental and business-type capital assets, respectively. Depreciation charges for the fiscal year totaled \$544,754 for the governmental activities and \$982,582 for the business-type activities.

The following chart provides more detail on these capital assets.

| | Governmental Activities | Business-type Activities | Component Units | Total |
|---|----------------------------|-----------------------------|---------------------|----------------------|
| Land and construction in progress | \$ 747,077 | \$ - | \$ 1,147,954 | \$ 1,895,031 |
| Buildings and improvements, net | 2,009,302 | - | - | 2,009,302 |
| Land improvements, net | 589,419 | - | 918,027 | 1,507,446 |
| Vehicles, net | 635,672 | - | - | 635,672 |
| Machinery, equipment and furniture, net | 239,860 | - | - | 239,860 |
| Infrastructure, net | <u>2,145,318</u> | <u>7,503,221</u> | <u>368,667</u> | <u>10,017,206</u> |
| Capital assets, net | <u>\$ 6,366,648</u> | <u>\$ 7,503,221</u> | <u>\$ 2,434,648</u> | <u>\$ 16,304,517</u> |

Additional information about the City's capital assets can be found in Note 7 to the financial statements.

CITY OF EATON RAPIDS MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budgets and Rates

The City of Eaton Rapids has been successful raising the General Fund unassigned fund balance over the last two years; an increase from just over \$500,000 at the end of fiscal year 2017-2018 which represents 17% of annual expenses, to now over \$1.3 million representing 47% of annual expenses. This amount far exceeds best practices across local government units. The City plans to spend these funds down in fiscal year 2019-2020, 2020-2021 and 2021-2022 by investing in local infrastructure and parks and recreation amenities.

The City of Eaton Rapids was awarded a Community Development Block Grant (CDBG) in September 2020 by the Michigan Economic Development Corporation and Michigan Strategic Fund. Roughly \$2.9 million of grant funds will be matched with local dollars for the construction of a \$3.5 million Riverwalk connecting Hamlin Square to Mill Pointe Park. The project has also rebuild the GAR Island Park sea walls and east side pedestrian bridge. That project is expected to wrap up just after fiscal year 2021-2022.

The COVID-19 pandemic has created a number of economic setbacks likely to negatively impact the City of Eaton Rapids. Closures and lockdowns have resulted in less tax revenue which will impact future General Fund income as well as street funding. The proliferation of work from home accommodations across a gambit of businesses has not resulted in immediate impact on the City's budget and the future impact to our budget is unknown at this time.

The City is experiencing a growing expense in information technology needs. The COVID-19 pandemic has put in place a number of restrictions related to office work. The City's leveraging of existing and newly purchased technology and support has allowed for minimal service disruption. The City will continue to invest in technology as a means of improving service delivery and project/program tracking.

The City of Eaton Rapids has a bond deal in order to address a number of high-cost and greatly needed infrastructure improvements. The City will take advantage of a low interest rate market to pay for an estimate \$8 million of water and sewer improvements through the State's many programs. This will be coupled with grant programs to realize the greatest impact to the community. When the City moves forward, construction would begin in 2023 and likely cross multiple fiscal years.

Unfunded liabilities continue to grow with the increasing cost of health care. The City has decreased unfunded liabilities by \$6.5 million by restructuring plans with both our current and former employees. This restructuring has been mutually beneficial as it provides equal benefit for a lower cost. The net result has lessened the City's PA 202 obligations by nearly \$90,000 per year. The City will continue to work on its pension obligation while maintaining attractive benefits for employee recruitment.

Contacting the City's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the City's finances. If you have questions about this report or need additional information, contact Marrie Jo Carr, Treasurer, City of Eaton Rapids, 200 South Main Street, Eaton Rapids, Michigan 48827.

BASIC FINANCIAL STATEMENTS

CITY OF EATON RAPIDS
STATEMENT OF NET POSITION
JUNE 30, 2021

| | Primary Government | | | Component Units |
|--|----------------------------|-----------------------------|----------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total | |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and investments | \$ 3,414,819 | \$ 9,015,033 | \$ 12,429,852 | \$ 1,676,383 |
| Receivables | | | | |
| Accounts | 9,061 | 975,262 | 984,323 | 60 |
| Note | - | 5,109 | 5,109 | - |
| Due from other governmental units | 282,471 | - | 282,471 | 13,574 |
| Internal balances | 334,257 | (334,257) | - | - |
| Prepays and deposits | - | 526,279 | 526,279 | - |
| Inventories | 647 | 456,653 | 457,300 | - |
| Total current assets | 4,041,255 | 10,644,079 | 14,685,334 | 1,690,017 |
| Noncurrent assets | | | | |
| Cash and investments - restricted | - | 1,344,968 | 1,344,968 | - |
| Internal balances | (140,000) | 140,000 | - | - |
| Capital assets not being depreciated | 747,077 | - | 747,077 | 1,147,954 |
| Capital assets, net of accumulated depreciation | 5,619,571 | 7,503,221 | 13,122,792 | 1,286,694 |
| Total noncurrent assets | 6,226,648 | 8,988,189 | 15,214,837 | 2,434,648 |
| TOTAL ASSETS | 10,267,903 | 19,632,268 | 29,900,171 | 4,124,665 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred charges on refunding | - | - | - | 95,464 |
| Deferred outflows of resources related to pensions | 462,410 | 401,724 | 864,134 | 33,574 |
| Deferred outflows of resources related to OPEB | 912,836 | 751,698 | 1,664,534 | 28,098 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 1,375,246 | 1,153,422 | 2,528,668 | 157,136 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable | 468,627 | 417,112 | 885,739 | 5,760 |
| Accrued liabilities | 38,834 | 34,361 | 73,195 | 1,991 |
| Accrued interest payable | 8,553 | 14,912 | 23,465 | 4,194 |
| Due to other governmental units | 38,880 | - | 38,880 | 601 |
| Current portion of compensated absences | 90,797 | 55,743 | 146,540 | - |
| Current portion of long-term debt | 477,401 | 575,000 | 1,052,401 | 245,000 |
| Total current liabilities | 1,123,092 | 1,097,128 | 2,220,220 | 257,546 |
| Noncurrent liabilities | | | | |
| Customer deposits | - | 187,103 | 187,103 | - |
| Noncurrent portion of compensated absences | 74,257 | 2,012 | 76,269 | - |
| Noncurrent portion of long-term debt | 768,294 | 2,252,300 | 3,020,594 | 1,620,000 |
| Net pension liability | 3,409,813 | 2,962,319 | 6,372,132 | 247,577 |
| Net other post-employment benefit liability | 2,156,879 | 1,776,136 | 3,933,015 | 66,390 |
| Total noncurrent liabilities | 6,409,243 | 7,179,870 | 13,589,113 | 1,933,967 |
| TOTAL LIABILITIES | 7,532,335 | 8,276,998 | 15,809,333 | 2,191,513 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred inflows of resources related to pensions | 428,184 | 371,991 | 800,175 | 31,089 |
| Deferred inflows of resources related to OPEB | 154,930 | 127,581 | 282,511 | 4,769 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 583,114 | 499,572 | 1,082,686 | 35,858 |
| NET POSITION | | | | |
| Net investment in capital assets | 5,120,953 | 4,675,921 | 9,796,874 | 569,648 |
| Restricted | | | | |
| Bond retirement | - | 577,756 | 577,756 | - |
| Electric utility | - | 526,279 | 526,279 | - |
| Highways and streets | 1,538,691 | - | 1,538,691 | - |
| Act 302 training | 23,612 | - | 23,612 | - |
| Building department | 40,258 | - | 40,258 | - |
| Drug law enforcement | 77 | - | 77 | - |
| Cemetery perpetual care | 77,574 | - | 77,574 | - |
| Friends of the island | 31,555 | - | 31,555 | - |
| Dog park | 55 | - | 55 | - |
| Debt service | 8,403 | - | 8,403 | - |
| Housing services | 16,670 | - | 16,670 | - |
| Unrestricted | (3,330,148) | 6,229,164 | 2,899,016 | 1,484,782 |
| TOTAL NET POSITION | \$ 3,527,700 | \$ 12,009,120 | \$ 15,536,820 | \$ 2,054,430 |

See accompanying notes to financial statements.

**CITY OF EATON RAPIDS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021**

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|--------------------------------------|---------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|-----------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | |
| | | | | | Governmental Activities | Business-type Activities | Component Units |
| Primary government | | | | | | | |
| Governmental activities | | | | | | | |
| General government | \$ 1,691,362 | \$ 124,746 | \$ 12,444 | \$ - | \$ (1,554,172) | \$ - | \$ (1,554,172) |
| Public safety | 1,382,070 | 100,224 | - | - | (1,281,846) | - | (1,281,846) |
| Public works | 1,170,050 | 833,749 | 913,435 | - | 577,134 | - | 577,134 |
| Community and economic development | 38,835 | - | 8,000 | 4,548 | (26,287) | - | (26,287) |
| Recreation and culture | 313,456 | 13,282 | 7,150 | 3,624 | (289,400) | - | (289,400) |
| Interest on long-term debt | 90,250 | - | - | - | (90,250) | - | (90,250) |
| Total governmental activities | 4,686,023 | 1,072,001 | 941,029 | 8,172 | (2,664,821) | - | (2,664,821) |
| Business-type activities | | | | | | | |
| Electric | 9,798,834 | 9,846,983 | - | - | - | 48,149 | 48,149 |
| Water | 1,531,768 | 1,072,384 | - | - | - | (459,384) | (459,384) |
| Sewage | 1,777,303 | 1,010,617 | - | - | - | (766,686) | (766,686) |
| Total business-type activities | 13,107,905 | 11,929,984 | - | - | - | (1,177,921) | (1,177,921) |
| Total primary government | \$ 17,793,928 | \$ 13,001,985 | \$ 941,029 | \$ 8,172 | (2,664,821) | (1,177,921) | (3,842,742) |
| Component units | | | | | | | |
| LDFA Island Industrial Park | \$ 228,999 | \$ - | \$ - | \$ - | - | - | (228,999) |
| TIFA IDDA | 302,885 | - | - | 26,971 | - | - | (275,914) |
| Total component units | \$ 531,884 | \$ - | \$ - | \$ 26,971 | - | - | (504,913) |
| General revenues | | | | | | | |
| Property taxes | | | | | 987,592 | 582,677 | 1,570,269 |
| Local community stabilization | | | | | 149,333 | 230,097 | 379,430 |
| State shared revenue | | | | | 558,358 | - | 558,358 |
| Investment earnings | | | | | 18,346 | 13,280 | 3,495 |
| Other | | | | | 461,904 | 233,420 | 695,324 |
| Transfers | | | | | 280,870 | (280,870) | - |
| Total general revenues and transfers | | | | | 2,456,403 | 778,604 | 3,235,007 |
| Change in net position | | | | | (208,418) | (399,317) | (607,735) |
| Net position, beginning of the year | | | | | 3,736,118 | 12,408,437 | 16,144,555 |
| Net position, end of the year | | | | | \$ 3,527,700 | \$ 12,009,120 | \$ 15,536,820 |
| | | | | | | | \$ 2,054,430 |

See accompanying notes to financial statements.

**CITY OF EATON RAPIDS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2021**

| | General Fund | Nonmajor Governmental Funds | Total |
|--|----------------------------|-----------------------------------|----------------------------|
| ASSETS | | | |
| Cash and investments | \$ 1,167,132 | \$ 1,797,227 | \$ 2,964,359 |
| Accounts receivables | 5,053 | 4,008 | 9,061 |
| Due from other governmental units | 173,631 | 108,840 | 282,471 |
| Due from other funds | 608,870 | - | 608,870 |
| Inventory | 647 | - | 647 |
| TOTAL ASSETS | <u><u>\$ 1,955,333</u></u> | <u><u>\$ 1,910,075</u></u> | <u><u>\$ 3,865,408</u></u> |
| LIABILITIES | | | |
| Accounts payable | \$ 462,458 | \$ 6,169 | \$ 468,627 |
| Accrued wages payable | 18,026 | 6,736 | 24,762 |
| Accrued liabilities | 11,049 | 3,023 | 14,072 |
| Due to other governmental units | 38,880 | - | 38,880 |
| Due to other funds | 250,949 | 21,264 | 272,213 |
| Advance from other funds | - | 140,000 | 140,000 |
| TOTAL LIABILITIES | <u><u>781,362</u></u> | <u><u>177,192</u></u> | <u><u>958,554</u></u> |
| FUND BALANCES | | | |
| Restricted | - | 1,745,448 | 1,745,448 |
| Committed | - | 1,228 | 1,228 |
| Unassigned | 1,173,971 | (13,793) | 1,160,178 |
| TOTAL FUND BALANCES | <u><u>1,173,971</u></u> | <u><u>1,732,883</u></u> | <u><u>2,906,854</u></u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u><u>\$ 1,955,333</u></u> | <u><u>\$ 1,910,075</u></u> | <u><u>\$ 3,865,408</u></u> |

See accompanying notes to financial statements.

**CITY OF EATON RAPIDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2021**

Total fund balances - governmental funds \$ 2,906,854

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 therefore are not reported as assets in the governmental funds.

| | | |
|-------------------------------|---------------|--|
| The cost of capital assets is | \$ 12,282,696 | |
| Accumulated depreciation is | (6,551,559) | |

| | | |
|--|--|-----------|
| | | 5,731,137 |
|--|--|-----------|

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the government-wide statement of net position.

| | | |
|--|--|-----------|
| Net position of governmental activities accounted for in the Internal Service Funds | | 1,016,293 |
|--|--|-----------|

Governmental funds report actual pension/OPEB expenditures for the fiscal year, whereas the governmental activities will recognize the net pension/OPEB liability as of the measurement date. Pension contributions subsequent to the measurement date will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, and differences between projected and actual pension/OPEB plan investment earnings will be deferred over time in the government-wide financial statements. These amounts consist of:

| | | |
|--|-----------|--|
| Deferred outflows of resources related to pensions | 462,410 | |
| Deferred inflows of resources related to pensions | (428,184) | |
| Deferred outflows of resources related to OPEB | 912,836 | |
| Deferred inflows of resources related to OPEB | (154,930) | |

792,132

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

| | | |
|--|-------------|--|
| Long-term debt | (1,180,000) | |
| Compensated absences | (165,054) | |
| Accrued interest payable | (6,970) | |
| Net pension liability | (3,409,813) | |
| Net other post-employment benefits liability | (2,156,879) | |

(6,918,716)

| | | |
|--|--|----------------------------|
| Net position of governmental activities | | \$ <u>3,527,700</u> |
|--|--|----------------------------|

**CITY OF EATON RAPIDS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2021**

| | General Fund | Nonmajor Governmental Funds | Total |
|---|---------------------|-----------------------------------|---------------------|
| REVENUES | | | |
| Property taxes | \$ 954,831 | \$ 253,442 | \$ 1,208,273 |
| Licenses and permits | 826,571 | 58,919 | 885,490 |
| Intergovernmental | | | |
| Federal | 12,444 | - | 12,444 |
| State | 694,235 | 773,579 | 1,467,814 |
| Local | - | 8,000 | 8,000 |
| Charges for services | 28,583 | 21,887 | 50,470 |
| Fines and forfeits | 8,490 | - | 8,490 |
| Interest and rentals | 83,728 | 2,972 | 86,700 |
| Donations | 7,150 | - | 7,150 |
| Reimbursements | 398,997 | - | 398,997 |
| Other | 62,235 | 22,057 | 84,292 |
| TOTAL REVENUES | 3,077,264 | 1,140,856 | 4,218,120 |
| EXPENDITURES | | | |
| Current | | | |
| General government | 1,098,183 | - | 1,098,183 |
| Public safety | 1,246,878 | 130,141 | 1,377,019 |
| Public works | 608,807 | 775,314 | 1,384,121 |
| Community and economic development | 47,623 | - | 47,623 |
| Recreation and culture | 25,003 | 256,440 | 281,443 |
| Debt service | - | 494,463 | 494,463 |
| Capital outlay | 93,662 | - | 93,662 |
| TOTAL EXPENDITURES | 3,120,156 | 1,656,358 | 4,776,514 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (42,892) | (515,502) | (558,394) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | 10,000 | 492,870 | 502,870 |
| Transfers out | (212,000) | (10,000) | (222,000) |
| TOTAL OTHER FINANCING SOURCES (USES) | (202,000) | 482,870 | 280,870 |
| NET CHANGE IN FUND BALANCES | (244,892) | (32,632) | (277,524) |
| Fund balances, beginning of year | 1,418,863 | 1,765,515 | 3,184,378 |
| Fund balances, end of year | <u>\$ 1,173,971</u> | <u>\$ 1,732,883</u> | <u>\$ 2,906,854</u> |

See accompanying notes to financial statements.

CITY OF EATON RAPIDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

Net change in fund balances - total governmental funds \$ (277,524)

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

| | | | |
|--|----|------------------|-----------|
| Capital outlay | \$ | 86,257 | |
| Depreciation expense | | <u>(409,403)</u> | |
| Excess of depreciation expense over capital outlay | | | (323,146) |

Internal service funds are used by management to charge the costs of certain activities to individual funds.

| | |
|--|----------|
| (Decrease) in net position of Internal Service Funds | (60,022) |
|--|----------|

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current year, these amount consist of:

| | | | |
|----------------------------------|---------|-----------------|---------|
| Debt principal retirement | 460,128 | | |
| Amortization of deferred charges | | <u>(21,385)</u> | |
| | | | 438,743 |

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

| | | | |
|--|----------|------------------|---------------|
| (Decrease) in deferred outflows of resources related to pensions | (18,826) | | |
| (Increase) in deferred inflows of resources related to pensions | | (398,706) | |
| Increase in deferred outflows of resources related to OPEB | | 169,684 | |
| Decrease in deferred inflows of resources related to OPEB | | 16,971 | |
| Decrease in accrued interest payable | | 4,461 | |
| Decrease in severance payable | | 15,000 | |
| (Increase) in compensated absences | | (6,398) | |
| Decrease in net pension liability | | 373,079 | |
| (Increase) in net other post-employment benefits liability | | <u>(141,734)</u> | |
| | | | <u>13,531</u> |

| | |
|--|----------------------------|
| Change in net position of governmental activities | <u>\$ (208,418)</u> |
|--|----------------------------|

**CITY OF EATON RAPIDS
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2021**

| | Business-type Activities <u>Utility Fund</u> | Governmental Activities <u>Internal Service Funds</u> |
|--|--|---|
| ASSETS | | |
| Current assets | | |
| Cash and investments | \$ 9,015,033 | \$ 450,460 |
| Accounts receivable | 975,262 | - |
| Due from other funds | 260,750 | - |
| Note receivable | 5,109 | - |
| Prepays and deposits | 526,279 | - |
| Inventories | 456,653 | - |
| Total current assets | <u>11,239,086</u> | <u>450,460</u> |
| Noncurrent assets | | |
| Cash and investments - restricted | 1,344,968 | - |
| Advance to other funds | 140,000 | - |
| Capital assets, net of accumulated depreciation | 7,503,221 | 635,511 |
| Total noncurrent assets | <u>8,988,189</u> | <u>635,511</u> |
| TOTAL ASSETS | <u>20,227,275</u> | <u>1,085,971</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows of resources related to pensions | 401,724 | - |
| Deferred outflows of resources related to OPEB | 751,698 | - |
| Total deferred outflows of resources | <u>1,153,422</u> | <u>-</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | 417,112 | - |
| Accrued payroll | 23,190 | - |
| Accrued liabilities | 11,171 | - |
| Due to other funds | 595,007 | 2,400 |
| Accrued interest payable | 14,912 | 1,583 |
| Current portion of compensated absences | 55,743 | - |
| Current portion of long-term debt | 575,000 | 32,401 |
| Total current liabilities | <u>1,692,135</u> | <u>36,384</u> |
| Noncurrent liabilities | | |
| Customer deposits | 187,103 | - |
| Noncurrent portion of compensated absences | 2,012 | - |
| Noncurrent portion of long-term debt | 2,252,300 | 33,294 |
| Net pension liability | 2,962,319 | - |
| Net other post-employment benefits liability | 1,776,136 | - |
| Total noncurrent liabilities | <u>7,179,870</u> | <u>33,294</u> |
| TOTAL LIABILITIES | <u>8,872,005</u> | <u>69,678</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows of resources related to pensions | 371,991 | - |
| Deferred inflows of resources related to OPEB | 127,581 | - |
| Total deferred inflows of resources | <u>499,572</u> | <u>-</u> |
| NET POSITION | | |
| Net investment in capital assets | 4,675,921 | 569,816 |
| Restricted | | |
| Bond retirement | 577,756 | - |
| Electric utility | 526,279 | - |
| Unrestricted | 6,229,164 | 446,477 |
| TOTAL NET POSITION | <u>\$ 12,009,120</u> | <u>\$ 1,016,293</u> |

See accompanying notes to financial statements.

**CITY OF EATON RAPIDS
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2021**

| | Business-type Activities <u>Utility Fund</u> | Governmental Activities <u>Internal Service Funds</u> |
|---|--|---|
| OPERATING REVENUES | | |
| Charges for services | \$ 11,914,743 | \$ - |
| Fines and forfeitures | 15,241 | - |
| Other revenue | <u>233,420</u> | <u>104,203</u> |
| TOTAL OPERATING REVENUES | <u>12,163,404</u> | <u>104,203</u> |
| OPERATING EXPENSES | | |
| Personal services | 1,344,484 | - |
| Contractual services | 1,151,198 | - |
| Supplies | 56,178 | - |
| Materials | 237,518 | - |
| Utilities | 230,788 | - |
| Telephone | 13,561 | - |
| Insurance | 51,439 | - |
| Maintenance | 7,367,374 | - |
| Franchise fees | 791,165 | - |
| Benefit payments | 661,812 | - |
| Other expense | 146,144 | 27,072 |
| Depreciation | <u>982,582</u> | <u>135,351</u> |
| TOTAL OPERATING EXPENSES | <u>13,034,243</u> | <u>162,423</u> |
| OPERATING (LOSS) | <u>(870,839)</u> | <u>(58,220)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Property taxes | 582,677 | - |
| Local community stabilization | 230,097 | - |
| Interest income | 13,280 | 571 |
| Interest expense | <u>(73,662)</u> | <u>(2,373)</u> |
| TOTAL NONOPERATING REVENUES (EXPENSES) | <u>752,392</u> | <u>(1,802)</u> |
| (LOSS) BEFORE TRANSFERS | <u>(118,447)</u> | <u>(60,022)</u> |
| TRANSFERS | | |
| Transfers in | 12,000 | - |
| Transfers out | <u>(292,870)</u> | <u>-</u> |
| TOTAL TRANSFERS | <u>(280,870)</u> | <u>-</u> |
| CHANGE IN NET POSITION | <u>(399,317)</u> | <u>(60,022)</u> |
| Net position, beginning of year | <u>12,408,437</u> | <u>1,076,315</u> |
| Net position, end of year | <u><u>\$ 12,009,120</u></u> | <u><u>\$ 1,016,293</u></u> |

See accompanying notes to financial statements.

**CITY OF EATON RAPIDS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2021**

| | Business-type Activities | Governmental Activities |
|--|-----------------------------|----------------------------|
| | Utility Fund | Internal Service Funds |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash receipts from customers | \$ 12,062,777 | \$ - |
| Cash receipts from interfunds | 52,209 | - |
| Cash received from contributions | - | 104,203 |
| Cash paid to employees | (1,344,183) | - |
| Cash paid for employee benefits | (236,144) | (27,072) |
| Cash paid to suppliers | (9,906,650) | - |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 628,009 | 77,131 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Transfers in | 12,000 | - |
| Transfers out | (292,870) | - |
| NET CASH (USED) BY FINANCING ACTIVITIES | (280,870) | - |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Property taxes | 582,677 | - |
| Local community stabilization | 230,097 | - |
| Purchases of capital asset | (221,317) | - |
| Principal payments on long-term debt | (565,000) | (31,533) |
| Interest and fiscal charges | (76,611) | (3,132) |
| NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | (50,154) | (34,665) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received | 13,280 | 571 |
| NET INCREASE IN CASH AND INVESTMENTS | 310,265 | 43,037 |
| Cash and investments, beginning of year | 10,049,736 | 407,423 |
| Cash and investments, end of year | <u><u>\$ 10,360,001</u></u> | <u><u>\$ 450,460</u></u> |

See accompanying notes to financial statements.

**CITY OF EATON RAPIDS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (continued)
YEAR ENDED JUNE 30, 2021**

| | <u>Business-type Activities</u> | <u>Governmental Activities</u> |
|--|-------------------------------------|------------------------------------|
| | <u>Utility Fund</u> | <u>Internal Service Funds</u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities | | |
| Operating income (loss) | \$ (870,839) | \$ (58,220) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities | | |
| Depreciation | 982,582 | 135,351 |
| Changes in assets and liabilities | | |
| Accounts receivable | (109,888) | - |
| Due from other funds | (252,987) | - |
| Notes receivable | 1,501 | - |
| Prepays and deposits | 31,883 | - |
| Inventories | 24,617 | - |
| Deferred outflows of resources related to pensions | 16,356 | - |
| Deferred outflows of resources related to OPEB | (246,976) | - |
| Accounts payable | 291,142 | - |
| Accrued payroll | (1,479) | - |
| Accrued liabilities | 6,745 | - |
| Due to other funds | 305,196 | - |
| Compensated absences | 1,780 | - |
| Customer deposits | 7,760 | - |
| Net pension liability | (324,118) | - |
| Net other post-employment benefits liability | 407,520 | - |
| Deferred inflows of resources related to pensions | 346,382 | - |
| Deferred inflows of resources related to OPEB | 10,832 | - |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 628,009</u> | <u>\$ 77,131</u> |

See accompanying notes to financial statements.

**CITY OF EATON RAPIDS
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2021**

| | Other Post- Employment Benefits | Custodial Fund Tax Fund |
|-----------------------------------|---------------------------------------|--------------------------------------|
| ASSETS | | |
| Cash and investments | \$ 348,558 | \$ 8,084 |
| LIABILITIES | | |
| Undistributed collections payable | - | 8,084 |
| NET POSITION | | |
| Restricted | | |
| Other post-employment benefits | \$ 348,558 | \$ - |

See accompanying notes to financial statements.

**CITY OF EATON RAPIDS
FIDUCIARY FUND
STATEMENT OF CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2021**

| | Other Post- Employment Benefits Plan | Custodial Fund Tax Fund |
|--|--|--------------------------------------|
| ADDITIONS | | |
| Contributions - employer | \$ 310,380 | \$ - |
| Property tax collections for other governmental units | - | 3,730,303 |
| Investment earnings | 66,350 | - |
| TOTAL ADDITIONS | <u>376,730</u> | <u>3,730,303</u> |
| DEDUCTIONS | | |
| Administrative expenses | 578 | - |
| Benefit payments | 310,380 | - |
| Property tax distributions to other governmental units | - | 3,730,303 |
| TOTAL DEDUCTIONS | <u>310,958</u> | <u>3,730,303</u> |
| NET CHANGE IN FIDUCIARY NET POSITION | 65,772 | - |
| Net position, beginning of year | <u>282,786</u> | - |
| Net position, end of year | <u><u>\$ 348,558</u></u> | <u><u>\$ -</u></u> |

See accompanying notes to financial statements.

**CITY OF EATON RAPIDS
COMPONENT UNITS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2021**

| | LDFA Island Industrial Park | TIFA I Downtown Development Authority | Total |
|--|--------------------------------|--|----------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and investments | \$ 1,444,644 | \$ 231,739 | \$ 1,676,383 |
| Accounts receivable | - | 60 | 60 |
| Due from other governmental units | - | 13,574 | 13,574 |
| Total current assets | <u>1,444,644</u> | <u>245,373</u> | <u>1,690,017</u> |
| Noncurrent assets | | | |
| Capital assets not being depreciated | 777,493 | 370,461 | 1,147,954 |
| Capital assets, net of accumulated depreciation | <u>918,027</u> | <u>368,667</u> | <u>1,286,694</u> |
| Total noncurrent assets | <u>1,695,520</u> | <u>739,128</u> | <u>2,434,648</u> |
| TOTAL ASSETS | <u>3,140,164</u> | <u>984,501</u> | <u>4,124,665</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred charges on refunding | 95,464 | - | 95,464 |
| Deferred outflows of resources related to pensions | 33,574 | - | 33,574 |
| Deferred outflows of resources related to OPEB | <u>28,098</u> | <u>-</u> | <u>28,098</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>157,136</u> | <u>-</u> | <u>157,136</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | 710 | 5,050 | 5,760 |
| Accrued liabilities | 915 | 1,076 | 1,991 |
| Due to other governmental units | 110 | 491 | 601 |
| Accrued interest payable | 2,719 | 1,475 | 4,194 |
| Current portion of long-term debt | <u>210,000</u> | <u>35,000</u> | <u>245,000</u> |
| Total current liabilities | <u>214,454</u> | <u>43,092</u> | <u>257,546</u> |
| Noncurrent liabilities | | | |
| Noncurrent portion of long-term debt | 1,295,000 | 325,000 | 1,620,000 |
| Net pension liability | 247,577 | - | 247,577 |
| Net other post-employment benefit liability | <u>66,390</u> | <u>-</u> | <u>66,390</u> |
| Total noncurrent liabilities | <u>1,608,967</u> | <u>325,000</u> | <u>1,933,967</u> |
| TOTAL LIABILITIES | <u>1,823,421</u> | <u>368,092</u> | <u>2,191,513</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows of resources related to pensions | 31,089 | - | 31,089 |
| Deferred inflows of resources related to OPEB | <u>4,769</u> | <u>-</u> | <u>4,769</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>35,858</u> | <u>-</u> | <u>35,858</u> |
| NET POSITION | | | |
| Net investment in capital assets | 190,520 | 379,128 | 569,648 |
| Unrestricted | <u>1,247,501</u> | <u>237,281</u> | <u>1,484,782</u> |
| TOTAL NET POSITION | <u>\$ 1,438,021</u> | <u>\$ 616,409</u> | <u>\$ 2,054,430</u> |

See accompanying notes to financial statements.

**CITY OF EATON RAPIDS
COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021**

| Functions/Programs | Expenses | Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position | | |
|---------------------------------------|-------------------|--|--|--|---------------------|
| | | | LDFA Island Industrial Park | TIFA I Downtown Development Authority | Total |
| Governmental activities | | | | | |
| LDFA Island Industrial Park | \$ 228,999 | \$ - | \$ (228,999) | \$ - | \$ (228,999) |
| TIFA I Downtown Development Authority | 302,885 | 26,971 | - | (275,914) | (275,914) |
| TOTALS | \$ 531,884 | \$ 26,971 | (228,999) | (275,914) | (504,913) |
| General revenues | | | | | |
| Property taxes | | | 106,800 | 79,612 | 186,412 |
| Local community stabilization | | | 159,790 | - | 159,790 |
| Investment earnings | | | 2,330 | 1,165 | 3,495 |
| Other | | | - | 29,962 | 29,962 |
| Total general revenues | | | 268,920 | 110,739 | 379,659 |
| Change in net position | | | 39,921 | (165,175) | (125,254) |
| Net position, beginning of the year | | | 1,398,100 | 781,584 | 2,179,684 |
| Net position, end of the year | | | \$ 1,438,021 | \$ 616,409 | \$ 2,054,430 |

See accompanying notes to financial statements.

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Eaton Rapids was incorporated under the laws of the State of Michigan in 1837. The City operates under an elected Mayor - Council (five members) form of government and provides the following services: public safety, highways and streets, water, electricity, sanitation, recreation, public improvements, planning, zoning, and general administrative services.

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

Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial activities of the City (primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. 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.

Discretely Presented Component Units

The TIFA I Downtown Development Authority and the LDFA Island Industrial Park (component units) are reported in a separate column to emphasize that, while legally separate, the City remains financially accountable for these entities or the nature and significance of the relationship between these entities and the City is such that exclusion of these entities would render the financial statements misleading or incomplete.

The governing bodies of the TIFA I Downtown Development Authority and the LDFA Island Industrial Park are appointed by the City Council, the budgets are subject to the approval of the City Council, the City temporarily relinquishes part of its tax base to the entities (tax increment revenues), and the City has pledged its full faith and credit toward payment of the entities' debt.

Fiduciary Component Unit

The Other Post-Employment Benefits (OPEB) Fund was established to account for the assets set aside to fund the City of Eaton Rapids Other Post-Employment Benefits Plan. The primary purpose of the Trust is to provide the necessary funding for the retiree health benefits provided to eligible City employees during retirement. The Trust was established through MERS in a Retiree Health Funding Vehicle, with the City Council serving as the trustees. The assets of the Trust are for the exclusive benefit of the participants and their beneficiaries, and the assets shall not be diverted to any other purpose prior to the satisfaction of all liabilities. The assets are protected from any of the City's creditors. Members of the Board of Directors of the Trust are the same as the City Council. The City Council has the ability to exercise oversight responsibility, specifically in the area of designation of management.

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Blended Component Unit

The City council established the City of Eaton Rapids Building Authority under State law. The three-member Authority Board's purpose will be to acquire, improve, and maintain buildings other than infrastructure for purposes of the City.

Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the government-wide financial statements) present information for the primary government and its component units as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide financial statements). For the most part, interfund activity has been eliminated in the preparation of these statements, but interfund services provided and used are not eliminated in the process of consolidation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

The City reports the following *major governmental fund*:

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

The City reports the following *major enterprise fund*:

- The Utility Fund is used to account for activities and operations of the electric plant, water, and sewage treatment plant. These activities are financed primarily through property taxes and user charges.

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FUND FINANCIAL STATEMENTS (continued)

Additionally, the City reports the following *fund types*:

- a. Internal service funds account for the management of the motor pool and public employee benefits provided to various departments of the City on cost reimbursement basis.
- b. Component units fiduciary funds are used to account for the assets held in a trustee capacity. The Other Post-Employment Benefits Fund accounts for the assets held by the Municipal Employees' Retirement System (MERS) to fund future medical insurance for eligible retirees and their beneficiaries.
- b. Custodial funds account for assets held by the City as a custodian for other governments, private organizations, or individuals. The City's custodial fund is the Tax Fund.

Measurement Focus

The government-wide, proprietary, and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide financial statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet, when applicable. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is sixty (60) days. Revenues that are considered measurable but not available are recorded as a receivable and unavailable revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The fiduciary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities to the beneficiaries of a fiduciary activity. Liabilities to beneficiaries are recognized when an event has occurred that compels the City to disburse fiduciary resources.

If/when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

The General and any major special revenue funds' budgets shown as required supplementary information was prepared on the same modified accrual basis used to reflect actual results. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The City employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to the first regular Council meeting in May, the Budget Committee submits to the City Council a proposed operating budget for the fiscal year beginning the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A Public Hearing is conducted to obtain taxpayers' comments by the end of May.
- c. No later than the third Monday in June, the budget is legally enacted through passage of a resolution.
- d. The City Manager is authorized to make budgetary transfers between the line items of departments established through these budgets, except salaries/wages and capital outlay items, with all transfers reported to the City Council at its next regular meeting. All transfers between departments and all transfers of salaries/wages and capital outlay items within departments may be made only by City Council action.
- e. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
- f. All annual appropriations lapse at year end.

The General Fund budget is adopted on an activity level basis and the Special Revenue Funds' budgets are adopted on a total fund level.

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Investments

The City maintains an investment pool for all City funds. Each fund's portion of the investment pool is displayed on the statement of net position/balance sheet as "cash and investments".

The City's cash and investments consist of checking and savings accounts, cash on hand and certificates of deposit.

Investments consist of certificates of deposit with original maturities of greater than 90 days. Investments are stated at cost, which approximates market value.

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.
- c. Commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Restricted Cash and Investments

Certain revenues and resources in the proprietary fund types are classified as restricted on the balance sheet because their use is limited. The restricted cash and investments of the City reported in the Utility Fund represent customer deposits and accumulated funds required for the applicable bond covenants are held in a separate account.

Receivables and Due from other Governments

Receivables consist of amounts due from the State and Federal Government for various payments and grants and receivables for charges for services provided to local governmental units, accounts receivable related to charges for services, interest receivable, and other amounts owed to the City at year-end.

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Tax

Property taxes are levied by the City on July 1 and are payable without penalty through August 31. The City bills and collects its own property taxes and also taxes for the county, intermediate school district, and other school districts. All tax collections are accounted for in a trust and agency fund.

The City is permitted by state statute and City Charter to levy taxes up to 8.5538 mills (\$8.55 per \$1,000 of taxable valuation) for general governmental services. For the year ended June 30, 2021, the City levied 8.5538 mills per \$1,000 of taxable valuation for general governmental services and 0.8551 mills for parks and recreation, and 4.9969 mills for wastewater improvements. The total taxable value for the 2020 levy for the property within the City was \$115,690,247.

Capital Assets

PRIMARY GOVERNMENT AND COMPONENT UNITS

Capital assets are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are those with an initial cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated acquisition value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

| | |
|-------------------------------------|---------------|
| Land improvements | 10 - 20 years |
| Buildings and improvements | 10 - 40 years |
| Machinery, equipment, and furniture | 5 - 20 years |
| Books | 5 years |
| Vehicles | 3 - 10 years |
| Utility Systems | 10 - 40 years |
| Infrastructure | 20 - 25 years |

Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year are reported as current liabilities with the remaining amounts shown as noncurrent.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

The cost of the compensated absences, including related payroll taxes, is recorded in the government-wide financial statements for governmental activities. For proprietary funds, it is recorded as a liability and expensed as incurred.

Vacation days are earned by employees at a rate of 10 to 25 days per year.

Sick days are earned by employees at a rate of three days per year. Sick days may be banked with a cap of 240 hours. At the time an employee leaves the City, the banked time would be paid out at 50% of what was in the bank at the rate the time was earned.

Personal leave days are earned by employees at a rate of 5 to 12 days per year.

Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of financial position or balance sheet will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. *Deferred outflows of resources*, a separate financial statement element, represents a consumption of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. *Deferred inflows of resources*, a separate financial statement element, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The City also reports deferred outflows of resources and deferred inflows of resources which correspond to the City's net pension liability and net OPEB liability and are related to differences between expected and actual experience, changes in assumptions, differences between projected and actual pension plan investment earnings, and contributions made subsequent to the measurement date. These amounts are deferred and recognized as an outflow or inflow of resources in the period to which they apply.

Inventories

Inventories in the enterprise fund consists of water, sewer, and electric system supplies which are stated at the lower of cost or market on a first-in/first-out basis.

Net Pension Liability and Net Other Post-Employment Benefits Liability

The net pension liability and net other post-employment liability are deemed to be noncurrent liabilities and are recognized on the statement of net position.

Accrued Interest Payable

Accrued interest is presented for long-term obligations in the government-wide financial statements.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers.

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restrictions of net position

Restrictions of net position shown in the government-wide financial statements indicate that restrictions imposed by an outside source which precludes their use for unrestricted purposes.

Details of Fund Balance Classifications

Fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five classifications of fund balance under this standard:

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision-making authority.

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, the City's highest level of decision-making authority is the City Council. Formal action that is required to be taken to establish a fund balance commitment has not been determined by the City Council.

For assigned fund balance, the City Council has not approved a policy indicating anyone is authorized to assign amounts to a specific purpose. As a result, this authority is retained by the City Council.

The City has not adopted a policy that defines the order of usage for fund balance amounts classified as restricted, committed, assigned, or unassigned. In the absence of such a policy the City considers restricted amount to have been spent first when expenditure is incurred for which both restricted and unrestricted fund balance is available.

Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2021, the City had deposits and investments subject to the following risk.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2021, \$2,531,111 of the City's bank balance of \$14,888,536 was exposed to custodial credit risk because it was uninsured and uncollateralized. The City's deposits had a carrying amount of \$14,510,739 as of June 30, 2021. The cash caption on the primary government's financial statements includes \$650 of petty cash.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business. As of June 30, 2021, the City did not hold any investments that were subject to custodial credit risk.

Interest Rate Risk

In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements. The average maturities of investments are noted below.

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Weighted Average Maturity (in years)</u> |
|------------------------|-------------------|---|
| U.S. Government Bonds | <u>\$ 947,898</u> | <u>2.49</u> |

One day maturity equals 0.0027, on year equals 1.00.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. As of June 30, 2021, the City did not hold any investments that were subject to ratings

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Fair Value Measurements

The City is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Price determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Investments that are measured at fair value using net asset per value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. The City had the following fair value measurements as of June 30, 2021:

| | Fair Value Measurements | | | Total |
|--------------------------------------|---|---|--|--------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Investments by fair value level | | | | |
| U.S. Government Bonds | \$ 947,898 | \$ - | \$ - | \$ 947,898 |
| Investments at net asset value (NAV) | | | | |
| MERS Total Market Portfolio | | | | 348,558 |
| Total investments | | | | \$ 1,296,456 |

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Concentration of Credit Risk

The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign Currency Risk

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

Investments in Entities that Calculate Net Asset Value Per Share

The City holds shares or interests in the MERS total market portfolio where the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient. MERS invests assets in a manner which will seek the highest investment return consistent with the preservation of principal and meet the daily liquidity needs of participants.

At the year ended June 30, 2021, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency, if Eligible</u> | <u>Redemption Notice Period</u> |
|-----------------------------|-------------------|---------------------------------|--|-------------------------------------|
| MERS Total Market Portfolio | \$ 348,558 | \$ - | No restrictions | None |

The following summarizes the categorization of these amounts as of June 30, 2021:

| | <u>Primary Government</u> | <u>Component Units</u> | <u>Fiduciary Funds</u> | <u>Reporting Entity</u> |
|-----------------------------------|-------------------------------|----------------------------|----------------------------|-----------------------------|
| Cash and investments | \$ 12,429,852 | \$ 1,676,383 | \$ 356,642 | \$ 14,462,877 |
| Cash and investments - restricted | 1,344,968 | - | - | 1,344,968 |
| | <u>\$ 13,774,820</u> | <u>\$ 1,676,383</u> | <u>\$ 356,642</u> | <u>\$ 15,807,845</u> |

Due to significantly higher cash flow at certain periods during the year, the amount the City held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - CASH AND INVESTMENTS - RESTRICTED

The following summarizes the restricted cash and investments as of June 30, 2021:

| | <u>Utility Fund</u> |
|-------------------|----------------------------|
| Customer deposits | \$ 187,103 |
| Bond reserve | <u>1,157,865</u> |
| | <u><u>\$ 1,344,968</u></u> |

NOTE 4 - INTERNAL BALANCES

The following schedule details advances receivable and payable between funds as of June 30, 2021:

| | |
|--|--------------------------|
| Advance to nonmajor governmental fund from Utility Fund | <u><u>\$ 140,000</u></u> |
|--|--------------------------|

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2021, are as follows:

| | |
|--|--------------------------|
| Due to General Fund from Utility fund | \$ 595,007 |
| Nonmajor governmental funds | 11,463 |
| Internal service funds | <u>2,400</u> |
| | <u><u>\$ 608,870</u></u> |
| Due to Utility fund from General Fund | \$ 250,949 |
| Nonmajor governmental funds | <u>9,801</u> |
| | <u><u>\$ 260,750</u></u> |

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021, was as follows:

Primary Government

| | Balance July 1, 2020 | Additions | Deletions | Balance June 30, 2021 |
|--------------------------------------|-------------------------|--------------|-----------|--------------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 747,077 | \$ - | \$ - | \$ 747,077 |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 4,956,039 | - | - | 4,956,039 |
| Land improvements | 1,349,236 | - | - | 1,349,236 |
| Vehicles | 2,013,187 | - | - | 2,013,187 |
| Machinery, equipment, and furniture | 785,386 | 86,257 | - | 871,643 |
| Infrastructure | 4,233,296 | - | - | 4,233,296 |
| Subtotal | 13,337,144 | 86,257 | - | 13,423,401 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (2,854,435) | (92,302) | - | (2,946,737) |
| Land improvements | (703,378) | (56,439) | - | (759,817) |
| Vehicles | (1,241,245) | (136,270) | - | (1,377,515) |
| Machinery, equipment, and furniture | (612,837) | (18,946) | - | (631,783) |
| Infrastructure | (1,847,181) | (240,797) | - | (2,087,978) |
| Subtotal | (7,259,076) | (544,754) | - | (7,803,830) |
| Net capital assets being depreciated | 6,078,068 | (458,497) | - | 5,619,571 |
| Capital assets, net | \$ 6,825,145 | \$ (458,497) | \$ - | \$ 6,366,648 |

Depreciation expense was charged to the following governmental activities:

| | |
|----------------------------|------------|
| General government | \$ 313,500 |
| Public safety | 138,052 |
| Public works | 82,943 |
| Recreation and culture | 10,259 |
| Total depreciation expense | \$ 544,754 |

CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - CAPITAL ASSETS (continued)

Primary Government (continued)

| | Balance July 1, 2020 | Additions | Deletions | Balance June 30, 2021 |
|------------------------------------|-------------------------|---------------------|-------------|--------------------------|
| Business-type activities | | | | |
| Capital assets being depreciated | | | | |
| Water | \$ 8,979,192 | \$ 89,626 | \$ - | \$ 9,068,818 |
| Electric | 8,696,380 | - | - | 8,696,380 |
| Sewage | 14,709,308 | 131,691 | - | 14,840,999 |
| Subtotal | 32,384,880 | 221,317 | - | 32,606,197 |
| Less accumulated depreciation for: | | | | |
| Water | (5,634,292) | (252,131) | - | (5,886,423) |
| Electric | (7,465,236) | (214,184) | - | (7,679,420) |
| Sewage | (11,020,866) | (516,267) | - | (11,537,133) |
| Subtotal | (24,120,394) | (982,582) | - | (25,102,976) |
| Capital assets, net | <u>\$ 8,264,486</u> | <u>\$ (761,265)</u> | <u>\$ -</u> | <u>\$ 7,503,221</u> |

Component Units

| | Balance July 1, 2020 | Additions | Deletions | Balance June 30, 2021 |
|--------------------------------------|-------------------------|--------------------|---------------------|--------------------------|
| Component Units | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 1,291,623 | \$ - | \$ (143,669) | \$ 1,147,954 |
| Capital assets being depreciated | | | | |
| Land improvements | 1,530,045 | - | - | 1,530,045 |
| Infrastructure | 417,359 | - | - | 417,359 |
| Subtotal | 1,947,404 | - | - | 1,947,404 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (535,515) | (76,503) | - | (612,018) |
| Infrastructure | (40,344) | (8,348) | - | (48,692) |
| Subtotal | (575,859) | (84,851) | - | (660,710) |
| Net capital assets being depreciated | 1,371,545 | (84,851) | - | 1,286,694 |
| Capital assets, net | <u>\$ 2,663,168</u> | <u>\$ (84,851)</u> | <u>\$ (143,669)</u> | <u>\$ 2,434,648</u> |

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations (including current portion) of the City for the year ended June 30, 2021:

| | Balance July 1, 2020 | Additions | Deletions | Balance June 30, 2021 | Amounts Due Within One Year |
|---|-------------------------|-------------------|-----------------------|--------------------------|-----------------------------------|
| PRIMARY GOVERNMENT | | | | | |
| Governmental Activities | | | | | |
| General obligation bonds | | | | | |
| 2009 Capital improvement bonds | \$ 85,000 | \$ - | \$ (20,000) | \$ 65,000 | \$ 20,000 |
| 2009 Building authority refunding bonds | 535,000 | - | (270,000) | 265,000 | 265,000 |
| 2016 General obligation bonds | 1,005,000 | - | (155,000) | 850,000 | 160,000 |
| Notes from direct borrowing and direct placements | | | | | |
| Capital lease - Fire Truck | 97,228 | - | (31,533) | 65,695 | 32,401 |
| Land contract - 114 Mill Street | 15,128 | - | (15,128) | - | - |
| Other long-term obligations | | | | | |
| Severance payable | 15,000 | - | (15,000) | - | - |
| Compensated absences | 158,656 | 93,675 | (87,277) | 165,054 | 90,797 |
| | <u>1,911,012</u> | <u>93,675</u> | <u>(593,938)</u> | <u>1,410,749</u> | <u>568,198</u> |
| Business-type Activities | | | | | |
| General obligation bonds | | | | | |
| 2009 Capital improvement bonds | 140,000 | - | (45,000) | 95,000 | 45,000 |
| Other long-term obligations | | | | | |
| 2004 WWTP improvement bonds | 3,252,300 | - | (520,000) | 2,732,300 | 530,000 |
| Compensated absences | 55,975 | 55,805 | (54,025) | 57,755 | 55,743 |
| | <u>3,448,275</u> | <u>55,805</u> | <u>(619,025)</u> | <u>2,885,055</u> | <u>630,743</u> |
| TOTAL PRIMARY GOVERNMENT | <u>5,359,287</u> | <u>149,480</u> | <u>(1,212,963)</u> | <u>4,295,804</u> | <u>1,198,941</u> |
| COMPONENT UNITS | | | | | |
| General obligation bonds | | | | | |
| 2009 Capital improvement bonds - DDA | 395,000 | - | (35,000) | 360,000 | 35,000 |
| 2016 Tax increment refunding bonds - LDFA | 1,715,000 | - | (210,000) | 1,505,000 | 210,000 |
| TOTAL COMPONENT UNIT | <u>2,110,000</u> | <u>-</u> | <u>(245,000)</u> | <u>1,865,000</u> | <u>245,000</u> |
| TOTAL REPORTING ENTITY | <u>\$ 7,469,287</u> | <u>\$ 149,480</u> | <u>\$ (1,457,963)</u> | <u>\$ 6,160,804</u> | <u>\$ 1,443,941</u> |

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM OBLIGATIONS (continued)

Significant details regarding outstanding long-term obligations are presented below:

PRIMARY GOVERNMENT

General Obligation Bonds

| | |
|--|---------------------|
| \$265,000 Capital Improvement Bonds dated September 15, 2009, due in annual installments of \$20,000 to \$25,000 through June 2024 with interest ranging from 4.60% to 5.00%, payable semi-annually. | \$ 65,000 |
| \$2,645,000 Building Authority Refunding Bonds dated December 23, 2009, due in an annual installment of \$270,000 through March 2022, with interest of 4.30%, payable semi-annually. | 265,000 |
| \$555,000 Capital Improvement Bonds dated November 20, 2008, due in annual installments of \$45,000 to \$50,000 through June 2022, with interest of 5.00%, payable semi-annually. | 95,000 |
| \$1,600,000 General Obligation Bonds dated June 30, 2016, due in annual installments of \$160,000 to \$180,000 through June 2026, with interest ranging from 1.85% to 2.25%, payable annually. | <u>850,000</u> |
| | <u>\$ 1,275,000</u> |

Notes from Direct Borrowings and Direct Placements

Capital Lease

| | |
|---|------------------|
| \$298,101 Capital lease entered into December 14, 2012, due in annual installments of \$34,210 through August 2022, including interest at 2.75%. The capital lease is secured by the leased fire truck. | <u>\$ 65,695</u> |
|---|------------------|

Other Debt

Revenue Bonds

| | |
|---|---------------------|
| \$9,545,000 WWTP Improvement Bonds dated September 23, 2004, due in annual installments of \$530,000 to \$560,000 through April 2026, with interest of 2.125%, payable semi-annually. | <u>\$ 2,732,300</u> |
|---|---------------------|

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM OBLIGATIONS (continued)

Compensated Absences

In accordance with the City's personnel policies, individual employees have vested rights upon termination of employment to receive payment for unused sick pay under formulas and conditions specified in their respective personnel policies and/or contracts. The dollar amount of these vested rights, including related payroll taxes, amount to \$165,054 for governmental activities and \$57,755 for business-type activities. The current and noncurrent portions of the liability have been recorded as in both the governmental activities and the business-type activities financial statements.

COMPONENT UNITS

General Obligation Bonds

\$710,000 Capital Improvement Bonds dated September 15, 2009, due in annual installments of \$35,000 to \$55,000 through June 2029, with interest ranging from 4.60% to 5.00%, payable semi-annually. \$ 360,000

\$2,155,000 Local Development Finance Authority Bond dated October 24, 2016, due in annual installments of \$210,000 to \$220,000 through June 2028, with interest ranging from 1.90% to 2.45%, payable semi-annually. 1,505,000

\$ 1,865,000

Advance Refunding - Prior

On December 23, 2009, the City defeased a portion of the 2002 Building Authority Bonds which were due and payable March 1, 2011 through March 1, 2022. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The City issued Building Authority 2009 Refunding Bonds in the amount of \$2,645,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. At June 30, 2021, bonds due and payable on March 1, 2022 for the 2002 Building Authority Bonds in the amount of \$275,000 are considered defeased.

On October 24, 2016, the City defeased the portion of the 2008 Tax Increment Bonds which were due and payable June 1, 2019 through June 1, 2028. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government Securities sufficient to meet the applicable principal and interest payments. The City issued 2016 Tax Increment Refunding Bonds in the amount of \$2,155,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. At June 30, 2020, bonds due and payable June 1, 2022 through June 1, 2028, for the 2008 Tax Increment Bonds in the amount of \$1,475,000 are considered defeased.

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM OBLIGATIONS (continued)

The annual requirements to pay the debt principal and interest outstanding for the Bonds and other obligations are as follows:

| Year Ending June 30, | General Obligation Bonds | | | | | |
|-------------------------|---|------------------|-----------------------------|-------------------|---------------------|-------------------|
| | Governmental Activities | | Business-type Activities | | Component Units | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2022 | \$ 445,000 | \$ 31,962 | \$ 45,000 | \$ 4,750 | \$ 245,000 | \$ 50,332 |
| 2023 | 185,000 | 16,686 | 50,000 | 2,500 | 250,000 | 44,732 |
| 2024 | 195,000 | 12,548 | - | - | 250,000 | 38,798 |
| 2025 | 175,000 | 7,812 | - | - | 260,000 | 32,492 |
| 2026 | 180,000 | 4,050 | - | - | 265,000 | 30,242 |
| 2027-2030 | - | - | - | - | 595,000 | 31,813 |
| | <u>\$ 1,180,000</u> | <u>\$ 73,058</u> | <u>\$ 95,000</u> | <u>\$ 7,250</u> | <u>\$ 1,865,000</u> | <u>\$ 228,409</u> |
| | | | | | | |
| Year Ended June 30, | Notes from Direct Borrowings and Direct Placements | | Other Long-term Obligations | | | |
| | Capital Lease | | Revenue Bonds | | | |
| | Governmental Activities | | Business-type Activities | | | |
| | Principal | Interest | Principal | Interest | | |
| 2022 | \$ 32,401 | \$ 1,809 | \$ 530,000 | \$ 58,062 | | |
| 2023 | 33,294 | 917 | 540,000 | 46,798 | | |
| 2024 | - | - | 550,000 | 35,324 | | |
| 2025 | - | - | 560,000 | 23,636 | | |
| 2026 | - | - | 552,300 | 11,736 | | |
| | <u>\$ 65,695</u> | <u>\$ 2,726</u> | <u>\$ 2,732,300</u> | <u>\$ 175,556</u> | | |

NOTE 8 - PENSION PLANS

Plan Description

The City participates in the Municipal Employees' Retirement System (MERS) of Michigan retirement plan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan's Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing MERS website at www.mersofmich.com.

Summary of Significant Accounting Policies

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

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION PLANS (continued)

Benefits Provided

Benefits provided include plans with multipliers ranging from 1.50% to 2.50% with an 80% or no max, depending on division.

Vesting periods range from 6 to 10 years.

Normal retirement age is 60 with unreduced early retirement at 50 to 55, with 25 years of service, depending on division. Reduced early retirement age is 50 with 25 years of service or 55 with 15 years of service, depending on division.

Final average compensation is calculated based on 3 to 5 years, depending on division. Member contributions are 0.00% to 6.25%, depending on division.

At the December 31, 2020, valuation date, the following employees were covered by the benefit terms:

| | |
|---|-----------|
| Inactive employees or beneficiaries receiving benefits | 38 |
| Inactive employees entitled to but not yet receiving benefits | 24 |
| Active employees | <u>30</u> |
| | <u>92</u> |

Contributions

The City is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

Employer contributions range from 1.38% to 18.80% based on annual payroll for open divisions. Three divisions that are closed to new employees had a total annual employer contribution of \$341,280.

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2020, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - PENSION PLANS (continued)

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

| Changes in Net Pension Liability | Increase (Decrease) | | |
|---|--------------------------------|------------------------------------|----------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a)-(b) |
| Balances as of December 31, 2019 | \$ 16,401,608 | \$ 9,057,614 | \$ 7,343,994 |
| Changes for the year | | | |
| Service cost | 177,390 | - | 177,390 |
| Interest on total pension liability | 1,212,063 | - | 1,212,063 |
| Difference between expected and actual experience | (668,869) | - | (668,869) |
| Changes in assumptions | 394,458 | - | 394,458 |
| Employer contributions | - | 552,579 | (552,579) |
| Employee contributions | - | 80,438 | (80,438) |
| Net investment income | - | 1,224,192 | (1,224,192) |
| Benefit payments, including employee refunds | (1,084,204) | (1,084,204) | - |
| Administrative expense | - | (17,881) | 17,881 |
| Other changes | 1 | - | 1 |
| Net changes | 30,839 | 755,124 | (724,285) |
| Balances as of December 31, 2020 | \$ 16,432,447 | \$ 9,812,738 | \$ 6,619,709 |

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pension

For the year ended June 30, 2021, the employer recognized pension expense of \$726,137. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------|-------------------------------|
| Differences in experience | \$ 172,105 | \$ 445,913 |
| Differences in assumptions | 444,096 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 385,351 |
| Contributions subsequent to the measurement date* | 281,507 | - |
| Total | \$ 897,708 | \$ 831,264 |

* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending June 30, 2022.

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION PLANS (continued)

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending June 30, | Pension Expense |
|-------------------------|--------------------|
| 2022 | \$ 181,953 |
| 2023 | (82,177) |
| 2024 | (204,110) |
| 2025 | (110,729) |

Actuarial Assumptions

The total pension liability in the December 31, 2020 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.50%

Salary increases: 3.00% in the long-term plus a percentage based on age related scale to reflect merit, longevity, and promotional pay increases.

Investment rate of return: 7.35%, net of investment expenses, including inflation.

The mortality table used to project the mortality experience of non-disabled plan members is a 50% Male - 50% Female blend of the following tables: 1. the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 1050%, 2. the RP-2014 Employee Mortality Tables, and 3. the RP-2014 Juvenile Mortality Tables. The mortality table used to project the mortality experience of disabled plan members is a 50% Male - 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables.

The actuarial assumptions used in the valuation were based on the results of the 2014-2018 Five-Year Experience Study.

Discount Rate

The discount rate used to measure the total pension liability is 7.60%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION PLANS (continued)

Projected Cash Flows

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return</u> | <u>Expected Money-weighted Rate of Return</u> |
|--------------------------------------|------------------------------|---|---|
| Global equity | 60.0% | 5.25% | 3.15% |
| Global fixed income | 20.0% | 1.25% | 0.25% |
| Private investments | <u>20.0%</u> | 7.25% | 1.45% |
| | <u>100.0%</u> | | |
| Inflation | | | 2.50% |
| Administrative expenses netted above | | | <u>0.25%</u> |
| Investment rate of return | | | <u>7.60%</u> |

Sensitivity of the Net Position Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.60%, as well as what the employer's net position liability would be using a discount rate that is 1% lower or 1% higher than the current rate.

| | <u>1% Decrease</u> | <u>Current Discount Rate</u> | <u>1% Increase</u> |
|-----------------------|--------------------|----------------------------------|--------------------|
| Net pension liability | \$ 8,433,976 | \$ 6,619,709 | \$ 5,092,863 |

Deferred Compensation Plan

Effective November 2011, as amended June 2019, the City Council established and adopted the Municipal Employees' Retirement System (MERS) 457 Supplemental Retirement Program Plan and Trust (the Plan) which is administered by MERS. The City Council can amend the Plan, as well as establish and amend the contribution requirements. The Plan is intended to qualify under Code Section 457(b) and the Plan is intended to be tax-exempt under Code Section 501(a). All full-time employees are eligible to participate in the defined contribution plan. The City is required to contribute a percentage of earnings for all eligible employees.

The City's contributions to the Plan for the year ended June 30, 2021, totaled \$23,313.

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The City of Eaton Rapids Other Post-Employment Benefits Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the City of Eaton Rapids. The Plan was established and is being funded under the authority of the City and under agreements with the unions representing various classes of employees. The Plan can be amended at the discretion of the City. The Plan does not issue separate stand-alone financial statements.

Benefits Provided

Benefits Eligibility

Administration - Age 55 with 20 years of service.

Police - Age 50 with 25 years of service.

Union - Age 50 with 25 years of service.

Benefits - Medical, Dental and Vision

Administration

Normal Retirement - Retiree must pay 2.5 % of the premium with the employer paying 97.5% of the full premium for an employee and spouse.

Early Retirement

If employee has not reached the age of 55 but has 20 years of service at retirement, the percent of premium paid by the employer will be the employee's age at retirement divided by 55.

If employee is age 55 but has less than 20 years of service at retirement, the percent of premium paid by the employer will be the employee's years of service divided by 20.

Police

Hired before 7/1/2013 - Retiree must pay 20% of the premium with the employer paying 80%.

Hired on or after 7/1/2013 - Retiree must pay 50% of the premium with the employer paying 50%.

Union

Hired before 1/1/2014 - Retiree must pay 20% of the premium with the employer paying 80%.

Hired on or after 1/1/2014 - Retiree must pay 50% of the premium with the employer paying 50%.

Medicare - coverage secondary to Medicare is available to the retiree and spouse provided that retiree and spouse are enrolled in Medicare at retiree's expense and continue to pay the percent of premium as summarized above.

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS (continued)

Summary of Plan Participants

At the June 30, 2021, valuation date, the following employees were covered by the benefit terms:

| | |
|--|----|
| Inactive employees or beneficiaries receiving benefits | 25 |
| Active employees | 29 |
| | 54 |
| | 54 |

Contributions

For the year ended June 30, 2021, the City's only contributions were its portion of premium payments.

Net OPEB Liability

The net OPEB liability of the City was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined through an actuarial valuation as of June 30, 2020, and rolled forward to June 30, 2021.

Actuarial Assumption

The total OPEB liability was determined by an actuarial valuation as of June 30, 2020, and rolled forward to June 30, 2021, using the following assumptions:

| | |
|--------------------------------|--|
| Inflation | 2.50% |
| Salary increase | 3.75% |
| Investment rate of return | 7.35% (including inflation) |
| 20-year Aa municipal bond rate | 2.18% |
| Mortality | Public General and Public Safety Employee and Health Retiree, headcount weighted with MP-2021 improvement scale |

The assumptions used in the June 30, 2021 valuation was determined by the City's management as of June 30, 2021.

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|---------------------|------------------------------|---|
| Global equity | 60.00% | 4.95% |
| Global fixed income | 20.00% | 2.40% |
| Private assets | 20.00% | 7.00% |

The long-term expected rate of return on retirement plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return (expected returns, net of retirement plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation.

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS (continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 2.19%. The projection of cash flows used to determine the discount rate assumed that the City will first use assets to pay benefits and then pay benefits on a pay-as-you-go basis. Based on this assumption, the retirement plan's fiduciary net position was projected to be sufficient to make projected future benefit payments of current plan members through 2023 – the cross-over point. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the "depletion date"), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the Total OPEB Liability.

Change in Net OPEB Liability

The change in the net OPEB liability for the year ended June 30, 2021, is as follows:

| Change in Net OPEB liability | Increase (Decrease) | | |
|---|--------------------------------|---------------------------------------|----------------------------------|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (a)-(b) |
| Balances at July 1, 2020 | \$ 3,701,762 | \$ 282,786 | \$ 3,418,976 |
| Changes for the year | | | |
| Service cost | 127,993 | - | 127,993 |
| Interest on total OPEB liability | 152,862 | - | 152,862 |
| Difference between expected and actual experience | 27,243 | - | 27,243 |
| Changes in assumptions | 648,483 | - | 648,483 |
| Employer contributions | - | 310,380 | (310,380) |
| Net investment income | - | 66,350 | (66,350) |
| Benefit payments | (310,380) | (310,380) | - |
| Administrative expense | - | (578) | 578 |
| Net changes | 646,201 | 65,772 | 580,429 |
| Balances as of June 30, 2021 | \$ 4,347,963 | \$ 348,558 | \$ 3,999,405 |

CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS (continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the City, calculated using the discount rate of 2.19%, as well as what the employer's net OPEB liability would be using a discount rate that is 1% lower or 1% higher than the current rate:

| | <u>1% Decrease</u> | <u>Current Rate</u> | <u>1% Increase</u> |
|--------------------|---------------------|---------------------|---------------------|
| Net OPEB liability | <u>\$ 4,450,892</u> | <u>\$ 3,999,405</u> | <u>\$ 3,614,037</u> |

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trends rates that are 1% lower or 1% higher than the current healthcare cost trend rates:

| | <u>1% Decrease</u> | <u>Current Rate</u> | <u>1% Increase</u> |
|--------------------|---------------------|---------------------|---------------------|
| Net OPEB liability | <u>\$ 3,474,081</u> | <u>\$ 3,999,405</u> | <u>\$ 4,645,893</u> |

OPEB Expense

For the year ended June 30, 2021, the City recognized OPEB expense of \$454,664.

OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference between expected and actual experience | \$ 1,127,075 | \$ - |
| Changes in assumptions | 565,557 | 257,098 |
| Net difference between projected and actual earnings on OPEB plan investments | <u>-</u> | <u>30,182</u> |
| Total | <u>\$ 1,692,632</u> | <u>\$ 287,280</u> |

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS (continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| <u>Year Ending June 30,</u> | <u>OPEB Expense</u> |
|---------------------------------|-------------------------|
| 2022 | \$ 193,995 |
| 2023 | 193,995 |
| 2024 | 194,288 |
| 2025 | 191,996 |
| 2026 | 201,114 |
| Thereafter | 429,964 |

NOTE 10 - INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, interfund transfers have been eliminated.

| | |
|---|-------------------|
| Transfer to General Fund from Nonmajor governmental funds | <u>\$ 10,000</u> |
| Transfer to Utility Fund from General Fund | <u>\$ 12,000</u> |
| Transfers to nonmajor governmental funds from General Fund | \$ 200,000 |
| Utility Fund | <u>292,870</u> |
| | <u>\$ 492,870</u> |

The transfers to the nonmajor governmental funds (Building Authority) were for debt payments. The other transfers made during the year to various funds were for the purposes of funding specific projects within certain funds or to cover operational costs reflected in a particular fund.

NOTE 11 - CONTINGENT LIABILITIES

The City continues to monitor and perform annual testing of the City's landfill that has been closed for several years. Michigan Department of Environmental Quality (MDEQ) requires that this maintenance be performed. At this time, it is impossible to predict with any accuracy what, if any, additional remedial work may be required by MDEQ prior to approval for final closure of the landfill.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 12 - RISK MANAGEMENT

The City participates in a State pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

The City also participates in a State pool, the Michigan Municipal League Liability and Property Pool, with other municipalities for general liability, public officials, law enforcement, employee benefit, automobile, comprehensive and collision. Cyber liability, and data breach liability coverage. The pool is organized under Public Act 138 of 1982, as amended. Pool members' limits of coverage are detailed in their policy agreements with the authority. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

NOTE 13 - DETAILS OF FUND BALANCE CLASSIFICATIONS

The following details fund balance classifications as of June 30, 2021:

| | General Fund | Nonmajor Governmental Funds | Total |
|-------------------------|------------------|-----------------------------------|------------------|
| Fund Balances | | | |
| Restricted | | | |
| Highways and streets | \$ - | \$ 1,538,691 | \$ 1,538,691 |
| Act 302 training | - | 23,612 | 23,612 |
| Building department | - | 40,258 | 40,258 |
| Drug law enforcement | - | 77 | 77 |
| Housing services | - | 16,670 | 16,670 |
| Dog park | - | 55 | 55 |
| Debt service | - | 16,956 | 16,956 |
| Cemetery perpetual care | - | 77,574 | 77,574 |
| Friends of the island | - | 31,555 | 31,555 |
| Committed | | | |
| Capital projects | - | 1,228 | 1,228 |
| Unassigned | 1,173,971 | (13,793) | 1,160,178 |
| TOTAL FUND BALANCES | \$ 1,173,971 | \$ 1,732,883 | \$ 2,906,854 |

**CITY OF EATON RAPIDS
NOTES TO FINANCIAL STATEMENTS**

NOTE 14 - CHANGE IN ACCOUNTING PRINCIPLE

GASB Statement No. 84, *Fiduciary Activities*, establishes specific criteria for identifying activities that should be reported as fiduciary activities. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. The City has two funds that meet the criteria, tax fund and other post-employment benefits (OPEB) fund.

NOTE 15 - UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The City is current evaluating the impact this standard will have on the financial statements when adopted during the 2021-2022 fiscal year.

In May 2020, GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The City is current evaluating the impact this standard will have on the financial statements when adopted during the 2022-2023 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF EATON RAPIDS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2021**

| | Budgeted Amounts | | Actual | Variances with Final Budget Positive (Negative) |
|----------------------------|------------------|------------------|------------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | | | | |
| Property taxes | \$ 998,308 | \$ 998,308 | \$ 895,634 | \$ (102,674) |
| Penalties and interest | 4,000 | 4,000 | 2,744 | (1,256) |
| Administration fees | 55,000 | 55,000 | 55,685 | 685 |
| Trailer fee | 800 | 800 | 768 | (32) |
| Total taxes | 1,058,108 | 1,058,108 | 954,831 | (103,277) |
| Licenses and permits | | | | |
| Licenses | 1,500 | 1,500 | 150 | (1,350) |
| Franchise fees | 821,165 | 821,165 | 826,421 | 5,256 |
| Zoning board of appeals | 300 | 300 | - | (300) |
| Total licenses and permits | 822,965 | 822,965 | 826,571 | 3,606 |
| Intergovernmental | | | | |
| Federal | - | - | 12,444 | 12,444 |
| State aid and sales tax | 755,000 | 755,000 | 694,235 | (60,765) |
| Total intergovernmental | 755,000 | 755,000 | 706,679 | (48,321) |
| Charges for services | | | | |
| Grave openings | 20,000 | 20,000 | 28,583 | 8,583 |
| Fines and forfeits | 22,300 | 22,300 | 8,490 | (13,810) |
| Interest and rents | | | | |
| Interest | 10,000 | 10,000 | 15,374 | 5,374 |
| Rentals | 40,500 | 40,500 | 68,354 | 27,854 |
| Total interest and rents | 50,500 | 50,500 | 83,728 | 33,228 |
| Other | | | | |
| Donations | 2,500 | 2,500 | 7,150 | 4,650 |
| Reimbursements | 5,000 | 5,000 | 398,997 | 393,997 |
| Miscellaneous | 42,200 | 42,200 | 62,235 | 20,035 |
| Total other | 49,700 | 49,700 | 468,382 | 418,682 |
| TOTAL REVENUES | 2,778,573 | 2,778,573 | 3,077,264 | 298,691 |

**CITY OF EATON RAPIDS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE (continued)
YEAR ENDED JUNE 30, 2021**

| | Budgeted Amounts | | Actual | Variances with Final Budget Positive (Negative) |
|---|------------------|-----------|-----------|--|
| | Original | Final | | |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | | | | |
| City council | \$ 33,175 | \$ 33,175 | \$ 31,557 | \$ 1,618 |
| City manager | 23,700 | 23,700 | 18,578 | 5,122 |
| General election | 13,000 | 17,580 | 15,494 | 2,086 |
| Assessor | 64,900 | 64,900 | 45,524 | 19,376 |
| Treasurer | 36,808 | 36,808 | 36,323 | 485 |
| City clerk | 44,450 | 44,450 | 36,145 | 8,305 |
| Board of Review | 500 | 500 | 610 | (110) |
| Building and grounds | 25,000 | 25,000 | 13,943 | 11,057 |
| Other | 120,300 | 418,802 | 900,009 | (481,207) |
| Total general government | 361,833 | 664,915 | 1,098,183 | (433,268) |
| Public safety | | | | |
| Police | 1,051,414 | 1,136,153 | 1,057,714 | 78,439 |
| Fire | 203,150 | 207,585 | 173,175 | 34,410 |
| Building department | 21,500 | 21,500 | 15,989 | 5,511 |
| Total public safety | 1,276,064 | 1,365,238 | 1,246,878 | 118,360 |
| Public works | | | | |
| Public works | 695,950 | 697,403 | 472,358 | 225,045 |
| Cemetery | 147,950 | 151,673 | 136,449 | 15,224 |
| Total public works | 843,900 | 849,076 | 608,807 | 240,269 |
| Community and economic development | | | | |
| Planning and zoning | 7,600 | 7,600 | 27,623 | (20,023) |
| Community development | - | - | 20,000 | (20,000) |
| Total community and economic development | 7,600 | 7,600 | 47,623 | (40,023) |
| Health and welfare | | | | |
| Ambulance | 12,750 | 12,750 | - | 12,750 |
| Recreation and culture | | | | |
| Library | 12,000 | 12,000 | 13,853 | (1,853) |
| Other | 5,500 | 5,500 | 11,150 | (5,650) |
| Total recreation and culture | 17,500 | 17,500 | 25,003 | (7,503) |
| Capital outlay | 100,000 | 100,000 | 93,662 | 6,338 |
| TOTAL EXPENDITURES | 2,619,647 | 3,017,079 | 3,120,156 | (103,077) |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 158,926 | (238,506) | (42,892) | 195,614 |

**CITY OF EATON RAPIDS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE (continued)
YEAR ENDED JUNE 30, 2021**

| | Budgeted Amounts | | Actual | Variances with Final Budget Positive (Negative) |
|---|---------------------|-------------------|---------------------|--|
| | Original | Final | | |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | \$ 10,000 | \$ 10,000 | \$ 10,000 | \$ - |
| Transfers out | (355,296) | (355,296) | (212,000) | 143,296 |
| TOTAL OTHER FINANCING SOURCES (USES) | (345,296) | (345,296) | (202,000) | 143,296 |
| NET CHANGE IN FUND BALANCE | (186,370) | (583,802) | (244,892) | 338,910 |
| Fund balance, beginning of year | 1,418,863 | 1,418,863 | 1,418,863 | - |
| Fund balance, end of year | <u>\$ 1,232,493</u> | <u>\$ 835,061</u> | <u>\$ 1,173,971</u> | <u>\$ 338,910</u> |

CITY OF EATON RAPIDS
DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
LAST SEVEN MEASUREMENT DATES (ULTIMATELY TEN YEARS WILL BE DISPLAYED)
(AMOUNTS WERE DETERMINED AS OF DECEMBER 31 OF EACH YEAR)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Total pension liability | | | | | | | |
| Service cost | \$ 183,651 | \$ 204,313 | \$ 204,593 | \$ 195,392 | \$ 189,258 | \$ 184,609 | \$ 177,390 |
| Interest | 996,054 | 996,015 | 1,113,118 | 1,133,114 | 1,148,388 | 1,169,163 | 1,212,063 |
| Difference between expected and actual experience | - | 456,514 | (120,921) | (163,693) | (48,907) | 516,313 | (668,869) |
| Changes of assumptions | - | 672,241 | - | - | - | 543,372 | 394,458 |
| Benefit payments including employee refunds | (761,548) | (864,911) | (928,190) | (956,317) | (985,309) | (1,068,156) | (1,084,204) |
| Other | (1) | 31,125 | 4 | - | - | - | 1 |
| Net change in total pension liability | 418,156 | 1,495,297 | 268,604 | 208,496 | 303,430 | 1,345,301 | 30,839 |
| Total pension liability, beginning | 12,362,324 | 12,780,480 | 14,275,777 | 14,544,381 | 14,752,877 | 15,056,307 | 16,401,608 |
| Total pension liability, ending | \$ 12,780,480 | \$ 14,275,777 | \$ 14,544,381 | \$ 14,752,877 | \$ 15,056,307 | \$ 16,401,608 | \$ 16,432,447 |
| Plan fiduciary net position | | | | | | | |
| Contributions - employer | \$ 386,982 | \$ 400,477 | \$ 380,873 | \$ 460,910 | \$ 482,265 | \$ 529,993 | \$ 552,579 |
| Contributions - employee | 79,309 | 78,082 | 74,369 | 76,225 | 75,471 | 74,525 | 80,438 |
| Net investment income | 529,900 | (127,375) | 904,943 | 1,111,084 | (347,836) | 1,121,146 | 1,224,192 |
| Benefit payments including employee refunds | (761,548) | (864,911) | (928,190) | (956,317) | (985,309) | (1,068,156) | (1,084,204) |
| Administrative expense | (19,419) | (18,667) | (17,889) | (17,622) | (17,600) | (19,292) | (17,881) |
| Net change in plan fiduciary net position | 215,224 | (532,394) | 414,106 | 674,280 | (793,009) | 638,216 | 755,124 |
| Plan fiduciary net position, beginning | 8,441,191 | 8,656,415 | 8,124,021 | 8,538,127 | 9,212,407 | 8,419,398 | 9,057,614 |
| Plan fiduciary net position, ending | \$ 8,656,415 | \$ 8,124,021 | \$ 8,538,127 | \$ 9,212,407 | \$ 8,419,398 | \$ 9,057,614 | \$ 9,812,738 |
| City's net pension liability | \$ 4,124,065 | \$ 6,151,756 | \$ 6,006,254 | \$ 5,540,470 | \$ 6,636,909 | \$ 7,343,994 | \$ 6,619,709 |
| Plan fiduciary net position as a percentage of the total pension liability | 68% | 57% | 59% | 62% | 56% | 55% | 60% |
| Covered payroll | \$ 1,750,141 | \$ 2,030,058 | \$ 1,970,006 | \$ 1,860,156 | \$ 1,919,070 | \$ 1,904,311 | \$ 1,864,854 |
| City's net pension liability as a percentage of covered payroll | 236% | 303% | 305% | 298% | 346% | 386% | 355% |

CITY OF EATON RAPIDS
DEFINED BENEFIT PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST SEVEN FISCAL YEARS (ULTIMATELY TEN YEARS WILL BE DISPLAYED)
(AMOUNTS WERE DETERMINED AS OF JUNE 30 OF EACH FISCAL YEAR)

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Actuarially determined contributions | \$ 393,271 | \$ 390,978 | \$ 424,370 | \$ 392,798 | \$ 481,741 | \$ 451,558 | \$ 527,923 |
| Contributions in relation to the actuarially determined contribution | 393,271 | 390,978 | 424,370 | 392,798 | 481,741 | 451,558 | 527,923 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered payroll | \$ 1,961,806 | \$ 1,999,071 | \$ 2,059,368 | \$ 1,572,338 | \$ 1,880,053 | \$ 1,870,190 | \$ 1,919,054 |
| Contributions as a percentage of covered payroll | 20% | 20% | 21% | 25% | 26% | 24% | 28% |

CITY OF EATON RAPIDS
POST-EMPLOYMENT HEALTH CARE BENEFITS
SCHEDULE OF CHANGES IN EMPLOYER'S NET OPEB LIABILITY AND RELATED RATIOS
LAST FOUR FISCAL YEARS (ULTIMATELY TEN YEARS WILL BE DISPLAYED)
(AMOUNTS WERE DETERMINED AS OF JUNE 30 OF EACH FISCAL YEAR)

| | 2018 | 2019 | 2020 | 2021 |
|---|---------------------|----------------------|---------------------|---------------------|
| Total OPEB liability | | | | |
| Service cost | \$ 342,989 | \$ 353,279 | \$ 364,251 | \$ 127,993 |
| Interest on total OPEB liability | 288,279 | 302,250 | 312,942 | 152,862 |
| Difference between expected and actual experience | - | 28,012 | 1,377,195 | 27,243 |
| Change in plan terms | - | - | (7,931,229) | - |
| Changes of assumptions | - | - | (326,210) | 648,483 |
| Benefit payments | (310,031) | (351,649) | (324,644) | (310,380) |
| Net change in total OPEB liability | 321,237 | 331,892 | (6,527,695) | 646,201 |
| Total OPEB liability, beginning | 9,576,328 | 9,897,565 | 10,229,457 | 3,701,762 |
| Total OPEB liability, ending | <u>\$ 9,897,565</u> | <u>\$ 10,229,457</u> | <u>\$ 3,701,762</u> | <u>\$ 4,347,963</u> |
| Plan fiduciary net position | | | | |
| Contributions to OPEB trust | \$ - | \$ 140,000 | \$ 140,000 | \$ - |
| Contributions - employer | 310,031 | 351,649 | 324,644 | 310,380 |
| Net investment income | - | 2,328 | 470 | 66,350 |
| Benefit payments | (310,031) | (351,649) | (324,644) | (310,380) |
| Administrative expense | - | (12) | - | (578) |
| Net change in plan fiduciary net position | - | 142,316 | 140,470 | 65,772 |
| Plan fiduciary net position, beginning | - | - | 142,316 | 282,786 |
| Plan fiduciary net position, ending | <u>\$ -</u> | <u>\$ 142,316</u> | <u>\$ 282,786</u> | <u>\$ 348,558</u> |
| City's net OPEB liability | <u>\$ 9,897,565</u> | <u>\$ 10,087,141</u> | <u>\$ 3,418,976</u> | <u>\$ 3,999,405</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 0% | 1% | 8% | 8% |
| Covered payroll | <u>\$ 2,171,316</u> | <u>\$ 2,826,837</u> | <u>\$ 1,475,429</u> | <u>\$ 1,639,787</u> |
| City's net OPEB liability as a percentage of covered payroll | 456% | 357% | 232% | 244% |

CITY OF EATON RAPIDS
 POST-EMPLOYMENT HEALTH CARE BENEFITS
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 LAST FOUR FISCAL YEARS (ULTIMATELY TEN YEARS WILL BE DISPLAYED)
 (AMOUNTS WERE DETERMINED AS OF JUNE 30 OF EACH FISCAL YEAR)

| | 2018 | 2019 | 2020 | 2021 |
|---|--------------|--------------|--------------|--------------|
| Annually determined contributions | \$ 996,959 | \$ 1,115,623 | \$ 1,178,224 | \$ 377,342 |
| Contributions in relation to the annually determined contribution | 310,031 | 491,649 | 464,644 | 310,380 |
| Contribution deficiency (excess) | \$ 686,928 | \$ 623,974 | \$ 713,580 | \$ 66,962 |
| Covered payroll | \$ 2,171,316 | \$ 2,826,837 | \$ 1,475,429 | \$ 1,639,787 |
| Contributions as a percentage of covered payroll | 14% | 17% | 31% | 19% |

CITY OF EATON RAPIDS
 POST-EMPLOYMENT HEALTH CARE BENEFITS
 SCHEDULE OF INVESTMENT RETURNS
 LAST FOUR FISCAL YEARS (ULTIMATELY TEN YEARS WILL BE DISPLAYED)
 (AMOUNTS WERE DETERMINED AS OF JUNE 30 OF EACH FISCAL YEAR)

| | 2018 | 2019 | 2020 | 2021 |
|---|------|------|------|-------|
| Annual money-weighted rate of return, net of investment expenses | - | 3.3% | 0.2% | 20.8% |

CITY OF EATON RAPIDS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2021

NOTE 1 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local government unit not incur expenditures in excess of amounts appropriated.

During the year ended June 30, 2021, the City incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

| | <u>Amounts Appropriated</u> | <u>Expended</u> | <u>Variance</u> |
|------------------------------------|---------------------------------|-----------------|-----------------|
| General Fund | | | |
| Current | | | |
| General government | | | |
| Board of Review | \$ 500 | \$ 610 | \$ 110 |
| Other | 418,802 | 900,009 | 481,207 |
| Community and economic development | | | |
| Planning and zoning | 7,600 | 27,623 | 20,023 |
| Community development | - | 20,000 | 20,000 |
| Recreation and culture | | | |
| Other | 5,500 | 11,150 | 5,650 |

NOTE 2 - PENSION PLAN

Actuarial valuation information relative to the determination of contributions:

| | |
|------------------|-------------------|
| Valuation date | December 31, 2020 |
| Measurement date | December 31, 2020 |

Methods and assumptions used to determine contributions rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level percentage of pay |
| Asset valuation method | 5 year smoothing |
| Remaining amortization period | 18 years |
| Inflation | 2.50% |
| Salary increases | 3.00% |
| Investment rate of return | 7.35% (including inflation) |
| Mortality | Non-disabled plan members is 50% Male - 50% Female blend of the following tables: |
| | 1. The RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105% |
| | 2. The RP-2014 Employee Mortality Tables |
| | 3. The RP-2014 Juvenile Mortality Tables. |
| | Disabled plan members is a 50% Male - 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables. |

**CITY OF EATON RAPIDS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2021**

NOTE 2 - PENSION PLAN (continued)

Changes of benefits terms: There were no changes of benefit terms for the plan year 2020.

Changes of assumptions: A five-year experience study analyzing historical experience from 2013 through 2018 was completed in February 2020. In addition to changes to the economic assumptions which took effect with the fiscal year 2021 contribution rates, the experience study recommended updated demographic assumptions, including adjustments to the following actuarial assumptions: mortality, retirement, disability, and termination rates. Changes to the demographic assumptions resulting from the experience study have been approved by the MERS Retirement Board and are effective beginning with the December 31, 2020 actuarial valuation, first impacting 2022 contributions. A complete description of the assumptions may be found in the Appendix to the valuation.

Reduction in discount rate from 8.00% to 7.60%.

Reduction in the investment rate of return assumption from 7.75% to 7.60%.

Reduction in the rate of wage inflation from 3.75% to 3.00%.

NOTE 3 - OTHER POST-EMPLOYMENT BENEFITS PLAN

Actuarial valuation information relative to the determination of contributions:

| | |
|------------------|---------------|
| Valuation date | June 30, 2020 |
| Measurement date | June 30, 2021 |

Methods and assumptions used to determine contributions rates:

| | |
|--------------------------------|---|
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level percentage of pay |
| Asset valuation method | Market value |
| Remaining amortization period | 15 years |
| Inflation | 2.50% |
| Salary increases | 3.75% |
| Investment rate of return | 7.35% (including inflation) |
| Utilization | 100% of future retirees will elect coverage at retirement; actual coverage used for non-active |
| 20-year Aa Municipal bond rate | 2.18% (S&P Municipal Bond 20-Year High Grade Rate Index) |
| Health care trend rate(s) | Pre-Medicare: 8.25% graded down to 7.50% after one year and then by 0.25% per year to 4.50% |
| | Post-Medicare: None |
| Mortality | Public General and Public Safety 2010 Employee and Healthy Retiree, Headcount weighted with MP-2021 improvement scale |

Changes of benefits terms: There were no changes of benefit terms for the plan year 2021.

Changes of assumptions: Discount rate changed from 4.16% to 2.19%.
Medical trend updated.
Mortality updated.

OTHER SUPPLEMENTARY INFORMATION

**CITY OF EATON RAPIDS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2021**

| | Special | | | |
|--|-------------------|-------------------|---------------------------|---------------------|
| | Major Streets | Local Streets | Eaton County Road Fund | Act 302 Training |
| ASSETS | | | | |
| Cash and investments | \$ 627,465 | \$ 570,421 | \$ 235,380 | \$ 22,586 |
| Accounts receivable | - | 2,982 | - | 1,026 |
| Due from other governmental units | 80,808 | 28,032 | - | - |
| TOTAL ASSETS | \$ 708,273 | \$ 601,435 | \$ 235,380 | \$ 23,612 |
| LIABILITIES | | | | |
| Accounts payable | \$ 1,701 | \$ - | \$ - | \$ - |
| Accrued wages payable | 331 | 236 | - | - |
| Accrued liabilities | 85 | 82 | - | - |
| Due to other funds | 2,499 | 1,463 | - | - |
| Advance from other funds | - | - | - | - |
| TOTAL LIABILITIES | 4,616 | 1,781 | - | - |
| FUND BALANCES | | | | |
| Restricted | 703,657 | 599,654 | 235,380 | 23,612 |
| Committed | - | - | - | - |
| Unassigned | - | - | - | - |
| TOTAL FUND BALANCES | 703,657 | 599,654 | 235,380 | 23,612 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 708,273 | \$ 601,435 | \$ 235,380 | \$ 23,612 |

| Revenue Funds | | | | | Debt Service |
|----------------------|---------------------|----------------------|------------------|--------------|-------------------------|
| Parks and Recreation | Building Department | Drug Law Enforcement | MSHDA CDBG | Dog Park | Building Authority Debt |
| \$ 153,196 | \$ 44,064 | \$ 77 | \$ 16,670 | \$ 55 | \$ 16,956 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| <u>\$ 153,196</u> | <u>\$ 44,064</u> | <u>\$ 77</u> | <u>\$ 16,670</u> | <u>\$ 55</u> | <u>\$ 16,956</u> |
| \$ 3,597 | \$ 871 | \$ - | \$ - | \$ - | \$ - |
| 4,606 | 1,563 | - | - | - | - |
| 1,484 | 1,372 | - | - | - | - |
| 17,302 | - | - | - | - | - |
| 140,000 | - | - | - | - | - |
| <u>166,989</u> | <u>3,806</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| - | 40,258 | 77 | 16,670 | 55 | 16,956 |
| - | - | - | - | - | - |
| <u>(13,793)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>(13,793)</u> | <u>40,258</u> | <u>77</u> | <u>16,670</u> | <u>55</u> | <u>16,956</u> |
| <u>\$ 153,196</u> | <u>\$ 44,064</u> | <u>\$ 77</u> | <u>\$ 16,670</u> | <u>\$ 55</u> | <u>\$ 16,956</u> |

CITY OF EATON RAPIDS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET (continued)
JUNE 30, 2021

| | <u>Capital Project</u> | <u>Permanent Funds</u> | | |
|--|------------------------|--|----------------------------------|---------------------|
| | <u>Capital Project</u> | <u>Cemetery Perpetual Care</u> | <u>Friends of the Island</u> | <u>Total</u> |
| ASSETS | | | | |
| Cash and investments | \$ 1,228 | \$ 77,574 | \$ 31,555 | \$ 1,797,227 |
| Accounts receivable | - | - | - | 4,008 |
| Due from other governmental units | - | - | - | 108,840 |
| TOTAL ASSETS | <u>\$ 1,228</u> | <u>\$ 77,574</u> | <u>\$ 31,555</u> | <u>\$ 1,910,075</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ 6,169 |
| Accrued wages payable | - | - | - | 6,736 |
| Accrued liabilities | - | - | - | 3,023 |
| Due to other funds | - | - | - | 21,264 |
| Advance from other funds | - | - | - | 140,000 |
| TOTAL LIABILITIES | <u>-</u> | <u>-</u> | <u>-</u> | <u>177,192</u> |
| FUND BALANCES | | | | |
| Restricted | - | 77,574 | 31,555 | 1,745,448 |
| Committed | 1,228 | - | - | 1,228 |
| Unassigned | - | - | - | (13,793) |
| TOTAL FUND BALANCES | <u>1,228</u> | <u>77,574</u> | <u>31,555</u> | <u>1,732,883</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 1,228</u> | <u>\$ 77,574</u> | <u>\$ 31,555</u> | <u>\$ 1,910,075</u> |

**CITY OF EATON RAPIDS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2021**

| | Special | | | |
|---|------------------|------------------|---------------------------|---------------------|
| | Major Streets | Local Streets | Eaton County Road Fund | Act 302 Training |
| REVENUES | | | | |
| Property taxes | \$ - | \$ - | \$ 161,484 | \$ - |
| Licenses and permits | - | - | - | - |
| Intergovernmental | | | | |
| State | 515,751 | 236,200 | - | - |
| Local | - | - | - | - |
| Charges for services | - | - | - | - |
| Interest | 781 | 878 | 331 | 30 |
| Other | - | - | - | 1,060 |
| TOTAL REVENUES | 516,532 | 237,078 | 161,815 | 1,090 |
| EXPENDITURES | | | | |
| Current | | | | |
| Public safety | - | - | - | 973 |
| Public works | 443,367 | 331,900 | - | - |
| Recreation and culture | - | - | - | - |
| Debt service | | | | |
| Principal retirement | 20,000 | - | 155,000 | - |
| Interest and other charges | 4,664 | - | 20,188 | - |
| TOTAL EXPENDITURES | 468,031 | 331,900 | 175,188 | 973 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 48,501 | (94,822) | (13,373) | 117 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | - | - | - | - |
| NET CHANGE IN FUND BALANCES | 48,501 | (94,822) | (13,373) | 117 |
| Fund balances, beginning of year | 655,156 | 694,476 | 248,753 | 23,495 |
| Fund balances, end of year | \$ 703,657 | \$ 599,654 | \$ 235,380 | \$ 23,612 |

| Revenue Funds | | | | | Debt Service |
|----------------------|---------------------|----------------------|------------|----------|-------------------------|
| Parks and Recreation | Building Department | Drug Law Enforcement | MSHDA CDBG | Dog Park | Building Authority Debt |
| \$ 91,958 | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | 58,919 | - | - | - | - |
| 21,628 | - | - | - | - | - |
| 8,000 | - | - | - | - | - |
| 13,687 | - | - | - | - | - |
| 273 | 37 | - | - | - | 538 |
| 19,486 | 1,511 | - | - | - | - |
| 155,032 | 60,467 | - | - | - | 538 |
| - | 129,168 | - | - | - | - |
| - | - | - | - | - | - |
| 256,440 | - | - | - | - | - |
| 12,676 | - | - | - | - | 270,000 |
| - | - | - | - | - | 11,935 |
| 269,116 | 129,168 | - | - | - | 281,935 |
| (114,084) | (68,701) | - | - | - | (281,397) |
| 100,000 | 100,000 | - | - | - | 292,870 |
| - | - | - | - | - | - |
| 100,000 | 100,000 | - | - | - | 292,870 |
| (14,084) | 31,299 | - | - | - | 11,473 |
| 291 | 8,959 | 77 | 16,670 | 55 | 5,483 |
| \$ (13,793) | \$ 40,258 | \$ 77 | \$ 16,670 | \$ 55 | \$ 16,956 |

**CITY OF EATON RAPIDS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES (continued)
YEAR ENDED JUNE 30, 2021**

| | <u>Capital Project</u> | <u>Permanent Funds</u> | | |
|---|------------------------|--------------------------------|------------------------------|---------------------|
| | <u>Capital Project</u> | <u>Cemetery Perpetual Care</u> | <u>Friends of the Island</u> | <u>Total</u> |
| REVENUES | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ 253,442 |
| Licenses and permits | - | - | - | 58,919 |
| Intergovernmental | | | | |
| State | - | - | - | 773,579 |
| Local | - | - | - | 8,000 |
| Charges for services | - | 8,200 | - | 21,887 |
| Interest | - | 104 | - | 2,972 |
| Other | - | - | - | 22,057 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>22,057</u> |
| TOTAL REVENUES | <u>-</u> | <u>8,304</u> | <u>-</u> | <u>1,140,856</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| Public safety | - | - | - | 130,141 |
| Public works | - | - | 47 | 775,314 |
| Recreation and culture | - | - | - | 256,440 |
| Debt service | | | | |
| Principal retirement | - | - | - | 457,676 |
| Interest and other charges | - | - | - | 36,787 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>36,787</u> |
| TOTAL EXPENDITURES | <u>-</u> | <u>-</u> | <u>47</u> | <u>1,656,358</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>-</u> | <u>8,304</u> | <u>(47)</u> | <u>(515,502)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | - | - | 492,870 |
| Transfers out | - | (10,000) | - | (10,000) |
| | <u>-</u> | <u>(10,000)</u> | <u>-</u> | <u>(10,000)</u> |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>-</u> | <u>(10,000)</u> | <u>-</u> | <u>482,870</u> |
| NET CHANGE IN FUND BALANCES | <u>-</u> | <u>(1,696)</u> | <u>(47)</u> | <u>(32,632)</u> |
| Fund balances, beginning of year | <u>1,228</u> | <u>79,270</u> | <u>31,602</u> | <u>1,765,515</u> |
| Fund balances, end of year | <u>\$ 1,228</u> | <u>\$ 77,574</u> | <u>\$ 31,555</u> | <u>\$ 1,732,883</u> |

**CITY OF EATON RAPIDS
UTILITY FUND
REVENUES AND EXPENSES
YEAR ENDED JUNE 30, 2021**

| | Electric Department | - Water Department | Sewage Department | Total |
|---|------------------------|-----------------------|----------------------|---------------|
| OPERATING REVENUES | | | | |
| Charges for services | \$ 9,831,742 | \$ 1,072,384 | \$ 1,010,617 | \$ 11,914,743 |
| Fines and forfeitures | 15,241 | - | - | 15,241 |
| Other revenue | 204,618 | 6,685 | 22,117 | 233,420 |
| TOTAL OPERATING REVENUES | 10,051,601 | 1,079,069 | 1,032,734 | 12,163,404 |
| OPERATING EXPENSES | 9,282,567 | 1,282,086 | 1,487,008 | 12,051,661 |
| DEPRECIATION | 516,267 | 252,131 | 214,184 | 982,582 |
| TOTAL OPERATING EXPENSES | 9,798,834 | 1,534,217 | 1,701,192 | 13,034,243 |
| OPERATING INCOME (LOSS) | 252,767 | (455,148) | (668,458) | (870,839) |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Property taxes | - | - | 582,677 | 582,677 |
| Local community stabilization | - | - | 230,097 | 230,097 |
| Interest income | 13,280 | - | - | 13,280 |
| Interest expense | - | 2,449 | (76,111) | (73,662) |
| TOTAL NONOPERATING REVENUES (EXPENSES) | 13,280 | 2,449 | 736,663 | 752,392 |
| NET INCOME (LOSS) BEFORE OPERATING TRANSFERS | 266,047 | (452,699) | 68,205 | (118,447) |
| OPERATING TRANSFERS | | | | |
| Transfers in | - | 12,000 | - | 12,000 |
| Transfers out | (292,870) | - | - | (292,870) |
| TOTAL TRANSFERS | (292,870) | 12,000 | - | (280,870) |
| CHANGE IN NET POSITION | \$ (26,823) | \$ (440,699) | \$ 68,205 | \$ (399,317) |

**CITY OF EATON RAPIDS
UTILITY FUND
EXPENSE BREAKDOWN
YEAR ENDED JUNE 30, 2021**

| | <u>Electric Department</u> | <u>Water Department</u> | <u>Sewage Department</u> | <u>Total</u> |
|---------------------------------|--------------------------------|-----------------------------|------------------------------|-----------------------------|
| OPERATING EXPENSES | | | | |
| Personal services | \$ 725,398 | \$ 240,663 | \$ 378,423 | \$ 1,344,484 |
| Contractual services | 859,484 | 140,768 | 150,946 | 1,151,198 |
| Supplies | 21,660 | 17,539 | 16,979 | 56,178 |
| Materials | 134,901 | 68,076 | 34,541 | 237,518 |
| Utilities | 796 | 66,682 | 163,310 | 230,788 |
| Telephone | 5,110 | 4,752 | 3,699 | 13,561 |
| Insurance | 13,566 | 15,904 | 21,969 | 51,439 |
| Maintenance | 6,454,548 | 526,374 | 386,452 | 7,367,374 |
| Franchise fees | 654,456 | 62,580 | 74,129 | 791,165 |
| Benefit payments | 385,661 | 118,525 | 157,626 | 661,812 |
| Other expense | 26,987 | 20,223 | 98,934 | 146,144 |
| TOTAL OPERATING EXPENSES | <u><u>\$ 9,282,567</u></u> | <u><u>\$ 1,282,086</u></u> | <u><u>\$ 1,487,008</u></u> | <u><u>\$ 12,051,661</u></u> |

**CITY OF EATON RAPIDS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2021**

| | Public Employee Benefit | Motor Pool Fund | Total |
|---|-------------------------------|--------------------|---------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and investments | \$ 409,310 | \$ 41,150 | \$ 450,460 |
| Noncurrent assets | | | |
| Capital assets, net of accumulated depreciation | - | 635,511 | 635,511 |
| TOTAL ASSETS | <u>409,310</u> | <u>676,661</u> | <u>1,085,971</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Due to other funds | 2,400 | - | 2,400 |
| Accrued interest payable | - | 1,583 | 1,583 |
| Current portion of long-term debt | - | 32,401 | 32,401 |
| Total current liabilities | 2,400 | 33,984 | 36,384 |
| Noncurrent liabilities | | | |
| Noncurrent portion of long-term debt | - | 33,294 | 33,294 |
| TOTAL LIABILITIES | <u>2,400</u> | <u>67,278</u> | <u>69,678</u> |
| NET POSITION | | | |
| Net investment in capital assets | - | 569,816 | 569,816 |
| Unrestricted | 406,910 | 39,567 | 446,477 |
| TOTAL NET POSITION | <u>\$ 406,910</u> | <u>\$ 609,383</u> | <u>\$ 1,016,293</u> |

**CITY OF EATON RAPIDS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2021**

| | Public Employee Benefit | Motor Pool Fund | Total |
|--|-------------------------------|--------------------|--------------|
| OPERATING REVENUES | | | |
| Contributions | \$ 104,203 | \$ - | \$ 104,203 |
| OPERATING EXPENSES | | | |
| Other expense | 27,072 | - | 27,072 |
| Depreciation | - | 135,351 | 135,351 |
| TOTAL OPERATING EXPENSES | 27,072 | 135,351 | 162,423 |
| OPERATING INCOME (LOSS) | 77,131 | (135,351) | (58,220) |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Interest revenue | - | 571 | 571 |
| Interest expense | - | (2,373) | (2,373) |
| TOTAL NONOPERATING REVENUE (EXPENSES) | - | (1,802) | (1,802) |
| CHANGE IN NET POSITION | 77,131 | (137,153) | (60,022) |
| Net position, beginning of year | 329,779 | 746,536 | 1,076,315 |
| Net position, end of year | \$ 406,910 | \$ 609,383 | \$ 1,016,293 |

**CITY OF EATON RAPIDS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2021**

| | Public Employee Benefit | Motor Pool Fund | Total |
|--|-------------------------------|-------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash received from contributions | \$ 104,203 | \$ - | \$ 104,203 |
| Cash paid for employee benefits | (27,072) | - | (27,072) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>77,131</u> | <u>-</u> | <u>77,131</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Payment on capital lease | - | (31,533) | (31,533) |
| Interest paid | - | (3,132) | (3,132) |
| NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>-</u> | <u>(34,665)</u> | <u>(34,665)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | - | 571 | 571 |
| NET INCREASE (DECREASE) IN CASH AND INVESTMENTS | <u>77,131</u> | <u>(34,094)</u> | <u>43,037</u> |
| Cash and investments, beginning of year | <u>332,179</u> | <u>75,244</u> | <u>407,423</u> |
| Cash and investments, end of year | <u><u>\$ 409,310</u></u> | <u><u>\$ 41,150</u></u> | <u><u>\$ 450,460</u></u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities | | | |
| Operating income (loss) | \$ 77,131 | \$ (135,351) | \$ (58,220) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities | | | |
| Depreciation | - | 135,351 | 135,351 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u><u>\$ 77,131</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 77,131</u></u> |

**CITY OF EATON RAPIDS
 COMPONENT UNIT FUND
 BALANCE SHEET - LDFA ISLAND INDUSTRIAL PARK
 JUNE 30, 2021**

| | |
|------------------------------------|----------------------------|
| ASSETS | |
| Cash and investments | <u><u>\$ 1,444,644</u></u> |
| LIABILITIES | |
| Accounts payable | \$ 710 |
| Accrued payroll | 882 |
| Accrued liabilities | 33 |
| Due to other governmental units | <u>110</u> |
| TOTAL LIABILITIES | 1,735 |
| FUND BALANCE | |
| Unassigned | <u>1,442,909</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u><u>\$ 1,444,644</u></u> |

**CITY OF EATON RAPIDS
COMPONENT UNIT FUND
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION - LDFA ISLAND INDUSTRIAL PARK
JUNE 30, 2021**

Fund balance - governmental fund \$ 1,442,909

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 therefore are not reported as assets in the governmental funds.

| | | |
|-------------------------------|------------------|-----------|
| The cost of capital assets is | \$ 2,307,538 | |
| Accumulated depreciation is | <u>(612,018)</u> | |
| Capital assets, net | | 1,695,520 |

Governmental funds report the difference between the carrying amount of the defeased debt and its reacquisition price when debt is first issued, whereas these amounts are deferred and amortized in the government-wide statement of net position. These amounts consist of:

| | |
|-------------------------------|--------|
| Deferred charges on refunding | 95,464 |
|-------------------------------|--------|

Governmental funds report actual pension expenditures for the fiscal year, whereas the governmental activities will recognize the net pension liability as of the measurement date. Pension contributions subsequent to the measurement date will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, and differences between projected and actual pension plan investment earnings will be deferred over time in the government-wide financial statements. These amounts consist of:

| | | |
|--|----------------|--------|
| Deferred outflows of resources related to pensions | 33,574 | |
| Deferred inflows of resources related to pensions | (31,089) | |
| Deferred outflows of resources related to OPEB | 28,098 | |
| Deferred inflows of resources related to OPEB | <u>(4,769)</u> | |
| | | 25,814 |

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:

| | | |
|--|-----------------|--------------------|
| Accrued interest payable | (2,719) | |
| Long-term debt | (1,505,000) | |
| Net pension liability | (247,577) | |
| Net other post-employment benefits liability | <u>(66,390)</u> | |
| | | <u>(1,821,686)</u> |

Net position of governmental activities \$ 1,438,021

**CITY OF EATON RAPIDS
COMPONENT UNIT FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - LDFA ISLAND INDUSTRIAL PARK
YEAR ENDED JUNE 30, 2021**

| | |
|------------------------------------|----------------------------|
| REVENUES | |
| Property taxes | \$ 106,800 |
| Intergovernmental | 159,790 |
| Interest | <u>2,330</u> |
| TOTAL REVENUES | <u>268,920</u> |
| EXPENDITURES | |
| Current | |
| Community and economic development | 81,704 |
| Debt service | |
| Principal | 210,000 |
| Interest | <u>36,413</u> |
| TOTAL EXPENDITURES | <u>328,117</u> |
| NET CHANGE IN FUND BALANCE | (59,197) |
| Fund balance, beginning of year | <u>1,502,106</u> |
| Fund balance, end of year | <u><u>\$ 1,442,909</u></u> |

**CITY OF EATON RAPIDS
COMPONENT UNIT FUND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES -
LDFA ISLAND INDUSTRIAL PARK
YEAR ENDED JUNE 30, 2021**

Net change in fund balance - governmental fund \$ (59,197)

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense (76,503)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current year, these amounts consist of:

| | | | |
|---|----|----------------|---------|
| Amortization of deferred charges on refunding | \$ | (13,637) | |
| Debt principal retirement | | <u>210,000</u> | |
| | | | 196,363 |

Some items reported in the statement of activities do not result in the use of current financial resources and therefore are reported differently than in the governmental funds. These activities consist of:

| | | | |
|--|----------------|--|-----------------|
| Decrease in accrued interest payable | 315 | | |
| Decrease in net pension liability | 27,088 | | |
| (Decrease) in deferred outflows of resources related to pensions | (1,367) | | |
| (Increase) in deferred inflows of resources related to pensions | (28,949) | | |
| (Increase) in total other post-employment benefits liability | (31,175) | | |
| Increase in deferred outflows of resources related to OPEB | 15,111 | | |
| (Increase) in deferred inflows of resources related to OPEB | <u>(1,765)</u> | | |
| | | | <u>(20,742)</u> |

Change in net position of governmental activities \$ 39,921

**CITY OF EATON RAPIDS
COMPONENT UNIT FUND
BALANCE SHEET - TIFA I DOWNTOWN DEVELOPMENT AUTHORITY
JUNE 30, 2021**

| | |
|---|--------------------------|
| ASSETS | |
| Cash and investments | \$ 231,739 |
| Accounts receivable | 60 |
| Due from other governmental units | <u>13,574</u> |
| TOTAL ASSETS | <u>\$ 245,373</u> |
| LIABILITIES | |
| Accounts payable | \$ 5,050 |
| Accrued wages | 1,076 |
| Accrued liabilities | <u>491</u> |
| TOTAL LIABILITIES | 6,617 |
| FUND BALANCE | |
| Unassigned | <u>238,756</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 245,373</u> |

**CITY OF EATON RAPIDS
COMPONENT UNIT FUND
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION - TIFA I DOWNTOWN DEVELOPMENT AUTHORITY
JUNE 30, 2021**

| | |
|---|-------------------|
| Fund balance - governmental fund | \$ 238,756 |
|---|-------------------|

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 therefore are not reported as assets in the governmental funds.

| | | |
|-------------------------------|-----------------|---------|
| The cost of capital assets is | \$ 787,820 | |
| Accumulated depreciation is | <u>(48,692)</u> | |
| Capital assets, net | | 739,128 |

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:

| | | |
|--------------------------|------------------|------------------|
| Accrued interest payable | (1,475) | |
| Long-term debt | <u>(360,000)</u> | |
| | | <u>(361,475)</u> |

| | |
|--|--------------------------|
| Net position of governmental activities | <u>\$ 616,409</u> |
|--|--------------------------|

**CITY OF EATON RAPIDS
 COMPONENT UNIT FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCE - TIFA I DOWNTOWN DEVELOPMENT AUTHORITY
 YEAR ENDED JUNE 30, 2021**

| | |
|------------------------------------|---------------------------------|
| REVENUES | |
| Property taxes | \$ 79,612 |
| Intergovernmental - State | 26,971 |
| Interest | 1,165 |
| Other | <u>29,962</u> |
| TOTAL REVENUES | <u>137,710</u> |
| EXPENDITURES | |
| Current | |
| Community and economic development | 131,692 |
| Debt service | |
| Principal | 35,000 |
| Interest | <u>19,310</u> |
| TOTAL EXPENDITURES | <u>186,002</u> |
| NET CHANGE IN FUND BALANCE | (48,292) |
| Fund balance, beginning of year | <u>287,048</u> |
| Fund balance, end of year | <u><u>\$ 238,756</u></u> |

**CITY OF EATON RAPIDS
COMPONENT UNIT FUND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES -
TIFA I DOWNTOWN DEVELOPMENT AUTHORITY
JUNE 30, 2021**

Net change in fund balance - governmental fund \$ (48,292)

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

| | | |
|----------------------------|----|------------------|
| Depreciation expense | \$ | (8,348) |
| Disposal of capital assets | | <u>(143,669)</u> |

| | | |
|---|--|-----------|
| Depreciation expense and disposal of capital assets | | (152,017) |
|---|--|-----------|

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current year, these amounts consist of:

| | | |
|---------------------------|--|--------|
| Debt principal retirement | | 35,000 |
|---------------------------|--|--------|

Some items reported in the statement of activities do not result in the use of current financial resources and therefore are reported differently than in the governmental funds. These activities consist of:

| | | |
|--------------------------------------|--|------------|
| Decrease in accrued interest payable | | <u>134</u> |
|--------------------------------------|--|------------|

| | | |
|--|--|----------------------------|
| Change in net position of governmental activities | | <u><u>\$ (165,175)</u></u> |
|--|--|----------------------------|



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**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 *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and
Members of the City Council
City of Eaton Rapids

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Eaton Rapids (the City) as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise City's basic financial statements and have issued our report thereon dated April 22, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we did identify a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described below to be a material weakness.

2021-001 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries for the proper recognition of cash, investments, accounts receivable, due from other governmental units, prepaids, capital assets, deferred outflows of resources related to pensions, deferred outflows of resources related to OPEB, accounts payable, accrued liabilities, long-term debt payable, compensated absences liability, net pension liability, net other post-employment benefits liability, deferred inflows of resources related to pensions, deferred inflows of resources related to OPEB, interfunds receivable and payable, and net position were proposed by the auditors. These misstatements were not detected by the City's internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the City's general ledger. A similar issue was noted and reported in the previous audit as 2020-001.

Criteria: Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, including the proper recording of journal entries to assure the trial balances from which the financial statements are prepared are in conformity with U.S. generally accepted accounting principles.

Cause: The City's internal controls over financial reporting failed to identify these misstatements.

Effect: The City's accounting records were initially misstated by amounts material to the financial statements. Necessary adjustments were brought to the attention of management and were subsequently recorded in the City's general ledger.

Recommendation: We recommend that the City should take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: The City understands the issues with having material entries. The City is looking into all potential areas to resolve this issue, including further professional development and employee training and potential outsourcing. The City has already hired 2 people to help with the work load. We will be monitoring these improvements in the future to ensure success of the City's internal capabilities.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below to be a significant deficiency.

2021-002 BANK RECONCILIATIONS

Condition: During our analysis of cash, we noted multiple bank reconciliations were not completed in a timely manner. There were bank reconciliations not completed more than 4 months after the fiscal year end. We also noted documented review and approval missing from completed bank reconciliations.

Criteria: The reconciliation process is an important part of the City's internal control and accounting procedures. The purpose of reconciliations is to ensure that general ledger account balances are supported by underlying transaction detail or third-party information. They also provide an important internal control, in that any differences identified between the underlying detail and an account balance through the reconciliation process may be indicative of an erroneous entry having been posted or inappropriate or missing activity within the account.

Cause: The City was unable to complete a reconciliation of various bank statements throughout the fiscal year and the required documented review and approval for completed bank reconciliations was not completed.

Effect: Without timely reconciliations and written evidence of review procedures being complete, there is an increased risk of a misstatement of assets due to error or fraud which could go undetected.

Recommendation: We recommend that the City implement a process in which the bank reconciliations are reviewed by at least one individual other than the preparer to ensure that the proper reconciliation between the bank statements and the general ledger and that this review be completed in a timely manner, which is typically considered to be within 30 days of month end.

Corrective Action Response: The City understands the issues with having unreconciled bank accounts. The City is looking into all potential areas to resolve this issue, including further professional development and employee training and potential outsourcing. . The City has already hired 2 people to help with the work load. We will be monitoring these improvements in the future to ensure success of the City's internal capabilities.

2021-003 RECORDING OF STATE SHARED REVENUES

Condition: During our review of State Shared revenues, it was noted that one month's revenue (October 2020) was received but was not recorded in the general ledger as of the fiscal year end.

Criteria: All receipts and payments should be recorded in the general ledger in the period in which the activity/event occurred in accordance with GAAP.

Cause: The State Shared revenue payment was received by the City and reported on the bank statement but the deposits were never recorded in the general ledger as having been deposited.

Effect: There is an increased risk of misstatements of financial reporting.

Recommendation: We recommend that the corresponding revenues and cash be properly recorded in the general ledger when funds are received.

Corrective Action Response: The City will go onto the State's website and know when to expect a payment and the amount so there are no issues with missing a deposit.

2021-004 RECORDING OF DISBURSEMENTS TO MERS

Condition: During our review of pension disbursements to MERS, it was noted that the City did not record the payments to MERS in the general ledger as of the fiscal year end.

Criteria: All receipts and payments should be recorded in the general ledger in the period in which the activity/event occurred in accordance with GAAP.

Cause: The payments were made by the City and reported on the bank statement but the disbursements were never recorded in the general ledger as having been made.

Effect: There is an increased risk of misstatements of financial reporting.

Recommendation: We recommend that the corresponding disbursements and cash be properly recorded in the general ledger when the payments are made.

Corrective Action Response: The City will go onto the State's website and know when to expect a payment and the amount so there are no issues with missing a deposit. Also, the City has added additional help to enter this information as part of their work load.

2021-005 APPROVAL OF PAYROLL DISBURSEMENTS

Condition: During our analysis of payroll, we noted that there is no indication of payroll disbursements being approved by the City Council.

Criteria: The Accounting Procedures Manual for Local Units of Government in Michigan states that all disbursements, including payroll, must be presented to the governing body for approval.

Cause: The City does not provide a listing of payroll disbursements to the City Council for approval.

Effect: The City is not in compliance with the Accounting Procedures Manual for Local Units of Government in Michigan.

Recommendation: We recommend the City implement a process to provide a listing of all disbursements, including payroll, to the City Council for approval.

Corrective Action Response: The City is looking into ways to ensure this and other information is appropriately provided to the City Council for approval.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grand agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance on noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described below:

2021-006 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the City's compliance with the budgeting act, we noted that expenditures in various functions of the General Fund had exceeded the amounts appropriated. A similar issue was noted and reported in the previous audit as 2020-002.

Criteria: The Uniform Budgeting and Accounting Act requires the City to amend the original adopted budget "as soon as it comes apparent that a deviation from the original general appropriations act is necessary and the amount of deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Cause: The City's budget was not amended accordingly to incorporate all year end expenditures.

Effect: Having unfavorable budget variances as described above, the City is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the City Council monitor budgeted expenditures against actual expenditures and amend the adopted budget to alleviate future unfavorable budget variances in a timely manner.

Corrective Action Response: Purchases are watched more closely now that our purchasing policy is in place. The City will continue to work on educating the staff so they understand the budgeting process, especially at fiscal year-end. The City has also implemented a BS&A purchase order modular to track expenditures and closely watch the spending.

2021-007 REVISED MUNICIPAL FINANCE ACT

Condition: During our review of the City's compliance with the Revised Municipal Finance Act, we noted that the City did not file a Qualifying Statement (Form 5047) for the year ended June 30, 2020.

Criteria: Public Act 34 of 2001 requires the City's Chief Administrative Officer (CAO), or a different designated individual, to annually file the Qualifying Statement.

Cause: Although the City has filed the Qualifying Statement for years in the past, personnel were not aware of the annual requirement.

Effect: Having not filed a Qualifying Statement as described above, the City is not in compliance with Public Act 34 of 2001.

Recommendation: We recommend the City annually file a Qualifying Statement with the Michigan Department of Treasury in accordance with the Revised Municipal Finance Act.

Corrective Action Response: The City was unaware of the annual requirement but will start filing the statement each year.

2021-008 DELINQUENT ANNUAL FINANCIAL REPORT

Condition: Annual audited financial statements are due to the State of Michigan 6 months subsequent to the fiscal year end. For the year ended June 30, 2021, the audited financial statements are approximately four months delinquent to the State of Michigan.

Criteria: Michigan Public Act 2 of 1968 requires that the annual financial report shall be filed within 6 months after the end of the fiscal year of the local unit.

Cause: The City was unable to reconcile some of its accounts prior to the 6-month deadline for submission of the annual financial report.

Effect: For financial information to be beneficial to the users of the financial statements it needs to be timely and accurate. When the audit is submitted late it becomes less relevant.

Recommendation: We recommend the City assure that the audit is completed 6 months subsequent to the fiscal year end.

Corrective Action Response: The City will attempt to have year-end financial information available for audit in a timely manner so the City's audited financial statements may be released prior to the State's deadline. In combination with coordinating times with the auditor and change of staff, some information was more difficult to accumulate.

2021-009 FUND BALANCE DEFICIT

Condition: At the end of the fiscal year, the Parks and Recreation Fund reported a fund balance deficit.

Criteria: Michigan Public Act 275 of 1980 provides that the City shall not have deficits in one or more of the City's unrestricted fund balances/unrestricted net position. Michigan Public Act 140 of 1971 provides that a City ending its fiscal year with funds in a deficit condition shall formulate a deficit elimination plan.

Cause: The expenditures for the year ended June 30, 2021, exceeded the total of revenue, other financing sources, and fund balance.

Effect: The City is not in compliance with Public Act 275 of 1980. As a result, the City will be required to continue to prepare and submit a Deficit Elimination Plan to the State of Michigan.

Recommendation: We recommend that the City utilize budgetary controls to limit expenditures and/or transfer funds as needed to alleviate deficits.

Corrective Action Response: The City will attempt to watch and eliminate any deficits with a transfer from the General Fund so a fund balance deficit is not an issue in the future.

City's Responses to Findings

The City's responses to the findings identified in our audit are described above as corrective action response. The City's responses were not subjected to the auditing procedure applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of Report

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

Manes Costerian PC

April 22, 2022

