



CITY OF POTTERVILLE, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020



Vredeveld Haefner LLC
CPAs and Consultants

CITY OF POTTERVILLE

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INDEPENDENT AUDITORS' REPORT

November 4, 2020

City Council
City of Potterville, Michigan

Report on 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 Potterville, Michigan (the "City"), as of and for the year ended June 30, 2020, 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 Potterville, Michigan, as of June 30, 2020, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the required supplementary information on pages 39 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Potterville, Michigan's basic financial statements. The combining and individual fund financial statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules, are the responsibility of management and were derived from and relate 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 combining and individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2020, on our consideration of the City of Potterville'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 the effectiveness of 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 of Potterville's internal control over financial reporting and compliance.

Oredexold Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Potterville, Michigan

Management's Discussion and Analysis

As management of the City of Potterville (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2020.

Financial Highlights

The financial statements, which follow this Management's Discussion and Analysis, provide these significant key financial highlights for the 2020 fiscal year as follows:

- Governmental activities ended the year with positive net position of \$5,882,788.
- Business-type activities ended the year with positive net position of \$5,664,534.
- General fund ended the year with unassigned fund balance of \$645,568.

Overview of the Financial Statements

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

Government-wide financial statements The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and culture and recreation. The business-type activities of the City include wastewater and water operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Downtown Development Authority (DDA) and a Tax Increment Financing Authority (TIFA) for which the City is financially accountable. Information for these component units is reported separately from the financial information presented for the primary government itself.

Fund financial statements A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and major streets funds which are considered major funds. Data is combined into a single aggregated presentation for the other governmental funds (non-major governmental funds). Individual fund data for each of the non-major governmental funds is provided in the form of combining statements and schedules.

The City adopts an annual appropriated budget for its general fund and special revenue funds. Budgetary comparison schedules have been provided for the general and major special revenue funds to demonstrate legal compliance.

Proprietary funds The City maintains three separate proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer and water activity. Internal service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions. The City utilizes an internal service fund to account for its motor pool and shared labor. Because these services primarily benefit the City's governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer and water operations, which are considered to be major funds of the City. Conversely, internal service funds are combined into single, aggregate presentations in the proprietary fund financial statements.

Fiduciary funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Component Units. The City's financial statements include reporting on separate legal entities for which the City has some level of financial responsibility. These entities are shown in separate columns in the accompanying financial statements. The City's component units include the Downtown Development Authority and the Tax Increment Finance Authority.

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

Other information In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this discussion and analysis, required pension information and the major fund budget and actual presentation. Additional supplemental information follows the required supplementary information and includes combining and individual fund statements and schedules.

Government-wide Financial Analysis

Statement of Net Position As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$11,547,322 at the close of the most recent fiscal year. The following chart illustrates the composition of net position.

Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2020	2019	2020	2019	2020	2019
Assets						
Current and other assets	\$ 1,817,134	\$ 1,574,234	\$ 1,353,878	\$ 2,060,892	\$ 3,171,012	\$ 3,635,126
Capital assets	10,427,279	10,581,894	15,810,343	16,198,095	26,237,622	26,779,989
Total assets	12,244,413	12,156,128	17,164,221	18,258,987	29,408,634	30,415,115
Deferred outflows	101,250	107,602	-	22,039	101,250	129,641
Liabilities						
Current liabilities	288,331	294,885	349,687	566,626	638,018	861,511
Long-term liabilities	6,143,851	6,272,453	11,150,000	11,682,194	17,293,851	17,954,647
Total liabilities	6,432,182	6,567,338	11,499,687	12,248,820	17,931,869	18,816,158
Deferred inflows	30,693	-	-	-	30,693	-
Net position						
Net investment in capital						
Assets	4,443,243	4,426,894	4,414,343	4,335,095	8,857,586	8,761,989
Restricted	395,249	301,879	287,880	-	683,129	301,879
Unrestricted	1,044,296	967,619	962,311	1,697,111	2,006,607	2,664,730
Total net position	\$ 5,882,788	\$ 5,696,392	\$5,664,534	\$6,032,206	\$11,547,322	\$11,728,598

The largest portion of the City's net position in the amount of 77% reflects its investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position in the amount of 6% represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position in the amount of 17%, may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, for the government as a whole, governmental and business-type activities.

Statement of Activities The City's total revenue for the fiscal year ended June 30, 2020, was \$3,042,880 while total cost of all programs and services was \$3,224,156. This results in a decrease in net position of \$181,276. The following table presents a summary of the changes in net position for the years ended June 30.

Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2020	2019	2020	2019	2020	2019
Revenues						
Program revenues						
Charges for services	\$117,686	\$129,721	\$1,101,764	\$1,094,026	\$1,219,450	\$1,223,747
Operating grants and contributions	681,763	375,094	-	-	681,763	375,094
Capital grants and contributions	45,491	-	-	-	45,491	-
General revenues						
Property taxes	777,381	574,686	-	-	777,381	574,686
State shared revenues	231,550	257,716	-	-	231,550	257,716
Investment earnings	31,667	10,573	-	-	31,667	10,573
Other	55,578	30,514	-	-	55,578	30,514
Total revenues	1,941,116	1,378,304	1,101,764	1,094,026	3,042,880	2,472,330
Expenses						
General government	514,644	272,391	-	-	514,644	272,391
Public safety	356,409	348,046	-	-	356,409	348,046
Public works	560,528	460,565	-	-	560,528	460,565
Community and economic development	133,978	189,584	-	-	133,978	189,584
Interest on long-term debt	189,161	163,452	-	-	189,161	163,452
Wastewater	-	-	737,509	559,932	737,509	559,932
Water	-	-	731,927	383,675	731,927	383,675
Total expenses	1,754,720	1,434,038	1,469,436	943,607	3,224,156	2,377,645
Increase (decrease) before transfers	186,396	(55,734)	(367,672)	150,419	(181,276)	94,685
Transfers in (out)	-	115,306	-	(115,306)	-	-
Increase (decrease) in net position	186,396	59,572	(367,672)	35,113	(181,276)	94,685
Net position – beginning	5,696,392	5,636,820	6,032,206	5,997,093	11,728,598	11,633,913
Net position – ending	\$5,882,788	\$5,696,392	\$5,664,534	\$6,032,206	\$11,547,322	\$11,728,598

Governmental Activities During the year the City invested \$560,528 or 32% in public works, \$514,644 or 29% in general government and \$356,409 in public safety or 20%. Culture and recreation and interest on debt made up the remaining 19% of governmental activities. The preceding table shows that the governmental activities increased the City's net position by \$186,396 during this fiscal year primarily as a result of receipt of the closed DDA assets.

Business-type Activities Business-type activities decreased the City's net position by \$367,672 during the year primarily as a result of depreciation on the substantial infrastructure improvements in prior years.

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-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a City'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 \$1,097,873 an increase of \$276,733 from the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance was \$642,149. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 51% of total general fund expenditures and transfers out.

The major streets fund is used to account for the receipt and expenditures of state shared gas and weight taxes under Act 51, P.A. 1951 as amended. The fund balance at the end of the year amounted to \$164,000, an increase of \$10,189 from the previous year.

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

The City's enterprise operations consist of two separate and distinct activities. The wastewater and water funds provide service to most residents and businesses of the City. The wastewater fund has a decrease in net position of \$176,967 and the water fund decreased net position by \$190,705. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Budgetary Highlights

- General fund
 - The expenditure budget for debt service was reduced during the year to reflect expected debt service costs.
 - Transfers out were increased to provide additional subsidies to the local streets fund.
- Major streets fund
 - Actual transfers out to the local streets fund were \$74,068.

Capital Asset and Debt Administration

Capital assets The City's investment in capital assets for its governmental and business-type activities as of June 30, 2020, amounted to \$26,237,622 (net of accumulated depreciation). Of this amount, \$10,427,279 was for its governmental activities and \$15,810,343 was for its business-type activities. This investment in capital assets includes land, buildings, equipment and vehicles, and infrastructure.

Significant current year additions to capital assets included motor pool equipment replacement purchases.

Additional information on the City's capital assets can be found in Note 5 to these financial statements.

Long-term debt At the end of the current fiscal year, the City had total long-term debt outstanding of \$17,380,036. Of this amount, \$5,984,036 was for governmental activities while \$11,396,000 was for business-type activities. Principal payments during the year were \$185,000 and \$467,000 for governmental and business-type activities, respectively. Additions to long-term debt were \$14,036 for governmental activities.

Additional information on the City's long-term debt can be found in Note 7 to these financial statements.

Economic Factors and Next Year's Budgets and Rates

The following economic factors were considered in preparing the City's budget for the 2020-2021 fiscal year:

- Scheduled debt service payments
- Inflationary increase to taxes, state shared revenue, wages and benefits
- Following utility rate schedules

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk, City of Potterville, 319 Nelson Street, Potterville, MI 48876.

BASIC FINANCIAL STATEMENTS

CITY OF POTTERVILLE
STATEMENT OF NET POSITION
JUNE 30, 2020

	Primary Government			Component Units	
	Governmental	Business-Type	Total	Downtown	Tax Increment
	Activities	Activities		Development	Finance
				Authority	Authority
Assets					
Cash and pooled investments	\$ 1,099,387	\$ 918,309	\$ 2,017,696	\$ -	\$ 325,166
Accounts receivable	24,967	147,689	172,656	-	-
Special assessments receivable	619,840	-	619,840	-	-
Due from other governments	64,043	-	64,043	-	-
Prepays	8,897	-	8,897	-	-
Restricted cash and pooled investment	-	287,880	287,880	-	-
Capital assets					
Land	317,766	260,076	577,842	-	-
Construction in progress	7,760	-	7,760	-	-
Depreciable capital assets, net	10,101,753	15,550,267	25,652,020	-	628,481
Total assets	12,244,413	17,164,221	29,408,634	-	953,647
Deferred outflows of resources					
Pension related	101,250	-	101,250	-	-
Liabilities					
Accounts payable	34,328	7,039	41,367	-	124,657
Accrued liabilities	66,494	96,648	163,142	-	-
Debt due within one year	187,509	246,000	433,509	-	45,000
Noncurrent liabilities					
Compensated absences	27,093	-	27,093	-	-
Net pension liability	320,231	-	320,231	-	-
Debt due in more than one year	5,796,527	11,150,000	16,946,527	-	445,000
Total liabilities	6,432,182	11,499,687	17,931,869	-	614,657
Deferred inflows of resources					
Pension related	30,693	-	30,693	-	-
Net position					
Net investment in capital assets	4,443,243	4,414,343	8,857,586	-	138,481
Restricted for					
Streets	395,249	-	395,249	-	-
Debt service	-	287,880	287,880	-	-
Unrestricted	1,044,296	962,311	2,006,607	-	200,509
Total net position	\$ 5,882,788	\$ 5,664,534	\$ 11,547,322	\$ -	\$ 338,990

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

CITY OF POTTERVILLE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2020

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Primary government					
Governmental activities					
General government	\$ 514,644	\$ 81,123	\$ 297,659	\$ -	\$ (135,862)
Public safety	356,409	179	1,294	-	(354,936)
Public works	560,528	-	369,095	45,491	(145,942)
Culture and recreation	133,978	36,384	13,715	-	(83,879)
Interest on long-term debt	189,161	-	-	-	(189,161)
Total governmental activities	1,754,720	117,686	681,763	45,491	(909,780)
Business-type activities					
Wastewater	737,509	560,542	-	-	(176,967)
Water	731,927	541,222	-	-	(190,705)
Total business-type activities	1,469,436	1,101,764	-	-	(367,672)
Total primary government	\$ 3,224,156	\$ 1,219,450	\$ 681,763	\$ 45,491	\$ (1,277,452)
Component units					
Downtown Development Authority	\$ 385,227	\$ -	\$ -	\$ -	\$ (385,227)
Tax Increment Finance Authority	224,065	-	-	-	(224,065)
Total component unit	\$ 224,065	\$ -	\$ -	\$ -	\$ (224,065)

(Continued)

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

CITY OF POTTERVILLE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2020

	<u>Primary Government</u>			<u>Component Units</u>	
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>	<u>Downtown</u>	<u>Tax Increment</u>
	<u>Activities</u>	<u>Activities</u>		<u>Development</u>	<u>Finance</u>
				<u>Authority</u>	<u>Authority</u>
Changes in net assets					
Net (expense) revenue	\$ (909,780)	\$ (367,672)	\$ (1,277,452)	\$ (385,227)	\$ (224,065)
General revenues					
Property taxes	777,381	-	777,381	50,796	160,233
State shared revenues - unrestricted	231,550	-	231,550	-	-
Unrestricted investment earnings	31,667	-	31,667	1,416	3,643
Other general revenues	30,693	-	30,693	-	-
Sales of fixed assets	24,885	-	24,885	-	-
Total general revenues and transfers	<u>1,096,176</u>	<u>-</u>	<u>1,096,176</u>	<u>52,212</u>	<u>163,876</u>
Change in net position	186,396	(367,672)	(181,276)	(333,015)	(60,189)
Net position, beginning of year	<u>5,696,392</u>	<u>6,032,206</u>	<u>11,728,598</u>	<u>333,015</u>	<u>399,179</u>
Net position, end of year	<u>\$ 5,882,788</u>	<u>\$ 5,664,534</u>	<u>\$ 11,547,322</u>	<u>\$ -</u>	<u>\$ 338,990</u>

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

CITY OF POTTERVILLE

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2020

	<u>General</u>	<u>Major Street</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$ 581,181	\$ 141,102	\$ 284,103	\$ 1,006,386
Accounts receivable	16,391	-	8,576	24,967
Special assessment receivable	-	619,840	-	619,840
Due from other funds	35,808	-	-	35,808
Due from other governments	28,292	25,438	10,313	64,043
Prepays	3,419	-	2,739	6,158
Total assets	<u>\$ 665,091</u>	<u>\$ 786,380</u>	<u>\$ 305,731</u>	<u>\$ 1,757,202</u>
Liabilities, deferred inflows and fund balances				
Liabilities				
Accounts payable	\$ 11,118	\$ 2,540	\$ 16,361	\$ 30,019
Accrued liabilities	8,405	-	1,065	9,470
Total liabilities	<u>19,523</u>	<u>2,540</u>	<u>17,426</u>	<u>39,489</u>
Deferred inflows of resources				
Unavailable receivables	-	619,840	-	619,840
Fund balances				
Nonspendable				
Prepaid items	3,419	-	2,739	6,158
Restricted				
Streets	-	164,000	231,249	395,249
Assigned				
City enhancement	-	-	20,911	20,911
Capital projects	-	-	33,406	33,406
Unassigned	642,149	-	-	642,149
Total fund balances	<u>645,568</u>	<u>164,000</u>	<u>288,305</u>	<u>1,097,873</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 665,091</u>	<u>\$ 786,380</u>	<u>\$ 305,731</u>	<u>\$ 1,757,202</u>

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

CITY OF POTTERVILLE

RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION

JUNE 30, 2020

Fund balances - total governmental funds	\$ 1,097,873
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	
Add - land	317,766
Add - construction in progress	7,760
Add - capital assets (net of accumulated depreciation)	9,987,493
Pension contributions, deferred outflows and deferred charges not reported in the funds.	
Add - pension deferred outflows	101,250
Certain assets are not due and receivable in the current period and therefore are offset with deferred inflows in the funds.	
Add - long-term receivables	619,840
An internal service fund is used by management to charge the costs of centralized costs, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities.	
Add - net position of governmental activities accounted for in the internal service funds	149,122
Certain deferred items do not impact current financial resources and are not reported in The governmental funds	
Deferred inflows - pension related	(30,693)
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - compensated absences payable	(27,093)
Deduct - long-term debt payable	(5,970,000)
Deduct - net pension liability	(320,231)
Deduct - accrued interest on bonds payable	(50,299)
Net position of governmental activities	<u>\$ 5,882,788</u>

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

CITY OF POTTERVILLE
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2020

	<u>General</u>	<u>Major Street</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues				
Taxes	\$ 777,381	\$ -	\$ -	\$ 777,381
Intergovernmental revenues				
State	232,068	222,271	105,647	559,986
Licenses and permits	4,130	-	-	4,130
Charges for services	179	-	36,384	36,563
Fines & forfeitures	3,956	-	-	3,956
Special assessments	-	6,703	41,177	47,880
Investment earnings	31,667	-	-	31,667
Contributions and donations	298,435	-	-	298,435
Miscellaneous	103,730	-	13,715	117,445
Total revenues	<u>1,451,546</u>	<u>228,974</u>	<u>196,923</u>	<u>1,877,443</u>
Expenditures				
Current				
General government	390,104	-	-	390,104
Public safety	306,796	-	-	306,796
Public works	56,291	128,714	186,915	371,920
Culture and recreation	-	-	114,824	114,824
Other functions	41,927	-	-	41,927
Debt service				
Principal	30,323	9,856	144,821	185,000
Interest	30,498	6,147	153,843	190,488
Total expenditures	<u>855,939</u>	<u>144,717</u>	<u>600,403</u>	<u>1,601,059</u>
Revenues over (under) expenditures	<u>595,607</u>	<u>84,257</u>	<u>(403,480)</u>	<u>276,384</u>
Other financing sources (uses)				
Sale of capital assets	24,885	-	-	24,885
Transfers in	-	-	452,298	452,298
Transfers out	(402,766)	(74,068)	-	(476,834)
Total other financing sources (uses)	<u>(377,881)</u>	<u>(74,068)</u>	<u>452,298</u>	<u>349</u>
Net changes in fund balances	217,726	10,189	48,818	276,733
Fund balances, beginning of year	<u>427,842</u>	<u>153,811</u>	<u>239,487</u>	<u>821,140</u>
Fund balances, end of year	<u>\$ 645,568</u>	<u>\$ 164,000</u>	<u>\$ 288,305</u>	<u>\$ 1,097,873</u>

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

CITY OF POTTERVILLE

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

FOR THE YEAR ENDED JUNE 30, 2020

Net changes in fund balances - total governmental funds	\$ 276,733
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Add - capital outlay	82,620
Add - contributed capital assets	86,668
Deduct - depreciation expense	(386,471)
Some receivables are long-term in nature and are collectable over several years. However the current receipts are reflected as revenues on the fund statements.	
Deduct - change in special assessments receivable	(47,880)
Repayment of bond or note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Add - principal payments on debt	185,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct - increase in compensated absences	(13,762)
Deduct - increase in net pension liability	(70,341)
Add - increase in deferred outflows - pension related	6,613
Deduct - increase in deferred inflows - pension related	(30,693)
Add - decrease in accrued interest	1,327
Internal service funds are used by management to charge the costs of certain services to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	
Add - increase in net position from the internal service funds	<u>96,582</u>
Change in net position of governmental activities	<u>\$ 186,396</u>

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

CITY OF POTTERVILLE
PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2020

	<u>Enterprise Funds</u>		<u>Enterprise Fund</u>	<u>Governmental Activities</u>
	<u>Wastewater</u>	<u>Water</u>	<u>Total</u>	<u>Internal Service Fund</u>
Assets				
Current assets				
Cash and pooled investments	\$ 219,899	\$ 698,410	\$ 918,309	\$ 93,001
Accounts receivable	<u>75,737</u>	<u>71,952</u>	<u>147,689</u>	<u>-</u>
Total current assets	<u>295,636</u>	<u>770,362</u>	<u>1,065,998</u>	<u>95,740</u>
Noncurrent assets				
Restricted cash and pooled investment	177,550	110,330	287,880	-
Capital assets				
Land	236,363	23,713	260,076	-
Capital assets, net	<u>9,492,755</u>	<u>6,057,512</u>	<u>15,550,267</u>	<u>114,260</u>
Total noncurrent assets	<u>9,906,668</u>	<u>6,191,555</u>	<u>16,098,223</u>	<u>114,260</u>
Total assets	<u>10,202,304</u>	<u>6,961,917</u>	<u>17,164,221</u>	<u>210,000</u>
Liabilities				
Current liabilities				
Accounts payable	4,747	2,292	7,039	4,309
Accrued liabilities	61,085	35,563	96,648	6,725
Due to other funds	-	-	-	35,808
Current portion of long-term debt	<u>156,000</u>	<u>90,000</u>	<u>246,000</u>	<u>3,509</u>
Total current liabilities	<u>221,832</u>	<u>127,855</u>	<u>349,687</u>	<u>50,351</u>
Long-term liabilities				
Bonds payable, net of current portion	<u>7,057,000</u>	<u>4,093,000</u>	<u>11,150,000</u>	<u>10,527</u>
Total liabilities	<u>7,278,832</u>	<u>4,220,855</u>	<u>11,499,687</u>	<u>60,878</u>
Net position				
Net investment in capital assets	2,516,118	1,898,225	4,414,343	100,224
Restricted for revenue bond retirement	177,550	110,330	287,880	-
Unrestricted	<u>229,804</u>	<u>732,507</u>	<u>962,311</u>	<u>48,898</u>
Total net position	<u>\$ 2,923,472</u>	<u>\$ 2,741,062</u>	<u>\$ 5,664,534</u>	<u>\$ 149,122</u>

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

CITY OF POTTERVILLE
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Enterprise Funds</u>		<u>Enterprise Fund Total</u>	<u>Governmental Activities</u>
	<u>Wastewater</u>	<u>Water</u>		<u>Internal Service Funds</u>
Operating revenue				
Charges for services	\$ 560,542	\$ 541,222	\$ 1,101,764	\$ 453,768
Operating expense				
Shared labor and equipment	139,648	164,790	304,438	294,376
Supplies	17,191	9,449	26,640	3,057
Contractual services	18,827	7,157	25,984	-
Utilities	22,969	7,422	30,391	50,882
Repairs and maintenance	5,913	193,119	199,032	17,843
Professional fees	22,138	74,212	96,350	-
Depreciation	294,816	153,990	448,806	15,564
Total operating expense	<u>521,502</u>	<u>610,139</u>	<u>1,131,641</u>	<u>381,722</u>
Operating income (loss)	39,040	(68,917)	(29,877)	72,046
Non-operating revenue (expense)				
Interest expense	(216,007)	(121,788)	(337,795)	-
Total non-operating revenue (expense)	(216,007)	(121,788)	(337,795)	-
Income (loss) before transfers	(176,967)	(190,705)	(367,672)	72,046
Transfers				
Transfers in	-	-	-	24,536
Changes in net assets	(176,967)	(190,705)	(367,672)	96,582
Net assets, beginning of year	<u>3,100,439</u>	<u>2,931,767</u>	<u>6,032,206</u>	<u>52,540</u>
Net assets, end of year	<u>\$ 2,923,472</u>	<u>\$ 2,741,062</u>	<u>\$ 5,664,534</u>	<u>\$ 149,122</u>

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

CITY OF POTTERVILLE

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED JUNE 30, 2020

	<u>Enterprise Funds</u>		<u>Enterprise Fund Total</u>	<u>Governmental Activities</u>
	<u>Wastewater</u>	<u>Water</u>		<u>Internal Service Funds</u>
Cash flows from operating activities				
Receipts from customers and users	\$ 546,584	\$ 527,946	\$ 1,074,530	\$ -
Receipts from internal services provided	-	-	-	453,768
Payments to employees	(164,022)	(180,086)	(344,108)	(309,817)
Payments to suppliers	(254,760)	(335,202)	(589,962)	(70,737)
Net cash provided by (used in) operating activities	<u>127,802</u>	<u>12,658</u>	<u>140,460</u>	<u>73,214</u>
Cash flows from non-capital financing activities				
Transfers in	-	-	-	24,536
Cash flows from capital and related financing activities				
Issuance of long-term debt	-	-	-	14,036
Principal paid on long-term debt	(375,000)	(92,000)	(467,000)	-
Interest paid	(215,827)	(121,003)	(336,830)	-
Acquisitions of capital assets	(17,018)	(44,038)	(61,056)	(78,132)
Net cash provided by (used in) capital and related financing activities	<u>(607,845)</u>	<u>(257,041)</u>	<u>(864,886)</u>	<u>(64,096)</u>
Net increase (decrease) in cash and pooled investments	(480,043)	(244,383)	(724,426)	33,654
Cash and pooled investments, beginning of year	<u>877,492</u>	<u>1,053,123</u>	<u>1,930,615</u>	<u>59,347</u>
Cash and pooled investments, end of year	<u>\$ 397,449</u>	<u>\$ 808,740</u>	<u>\$ 1,206,189</u>	<u>\$ 93,001</u>
Cash flows from operating activities				
Operating income (loss)	\$ 39,040	\$ (68,917)	\$ (29,877)	\$ 72,046
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	294,816	153,990	448,806	15,564
Deferred outflows of resources	14,261	7,778	22,039	12,965
Change in net pension liability	(37,655)	(20,539)	(58,194)	(34,232)
Change in operating assets and liabilities which provided (used) cash				
Accounts receivable	(9,047)	(8,365)	(17,412)	-
Prepaid assets and other items	-	-	-	(2,739)
Customer deposits	(4,911)	(4,911)	(9,822)	-
Accounts payable	(167,722)	(43,843)	(211,565)	3,784
Accrued liabilities	(980)	(2,535)	(3,515)	5,826
Net cash provided by (used in) operating activities	<u>\$ 127,802</u>	<u>\$ 12,658</u>	<u>\$ 140,460</u>	<u>\$ 73,214</u>

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

CITY OF POTTERVILLE
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2020

	Agency Fund
Assets	
Cash and pooled investments	\$ <u>1,269</u>
Total assets	\$ <u>1,269</u>
Liabilities	
Accounts payable	\$ 845
Due to other governmental units	<u>424</u>
Total liabilities	\$ <u>1,269</u>

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

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CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Potterville, Michigan (the "City") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. The discretely presented component units are reported in a separate column in the financial statements to emphasize it is legally separate from the City.

Discretely Presented Component Units

The Downtown Development Authority (DDA) is presented as a component unit as it is fiscally dependent on the City. The Authority is unable to adopt its budget, levy taxes, or issue debt without approval from the City Council. In addition, the Authority's governing body is appointed by the City Council. Separate financial statements of the component unit have not been issued as management believes these financial statements, including disclosures, contain complete information so as to constitute a fair presentation of the component unit.

The Tax Increment Finance Authority (TIFA) is presented as a component unit as it is fiscally dependent on the City. The City of Potterville established a Tax Increment Finance Authority for the purpose of promoting growth and development. The TIFA is legally separate from the primary government. The City Council appoints the seven-member TIFA board and approves their budget. Complete financial statements of the TIFA can be obtained from their administrative offices or from the City Clerk's Office at City Hall.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between enterprise functions and other various functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. *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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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 major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for reimbursement-based grants, state shared revenue and interest which use a one year collection period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Taxes, state revenue, licenses, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

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 for services. The principal operating revenues of the City's internal service funds are charges to City departments for equipment. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. Operating expenses for the internal funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

The *Major Streets Fund* is used to account for the construction and maintenance of streets. Financing is provided by the City's share of the State's fuel and weight taxes.

The City reports the following major proprietary funds:

The *Sewer Enterprise Fund* is used to account for the operations of the City's sewer department that provides sewer services on a user charge basis.

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

The *Water Enterprise Fund* is used to account for the operations of the City's water department that provides water services on a user charge basis.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources (other than permanent trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

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

The *Capital projects funds* account for the accumulation and disbursement of resources for the construction of governmental fund capital projects.

The *Internal Service Funds* are used to account for equipment and labor usage provided to the City departments and funds on a cost reimbursement basis.

The *Agency Funds* are used to account for the collection and disbursement of property taxes that are collected on behalf of outside governments or other parties and payroll benefit clearing activities.

Budgets and Budgetary Accounting

Comparisons to budget are presented for the general and select special revenue funds. General and select special revenue funds adopt a legal budget with remaining funds maintaining budgets as a management control device. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. The legal level of budgetary control is the activity level.
5. Formal budgetary integration is employed for the governmental fund types as a management control device. Budgets for the general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual budgets lapse at fiscal year-end.
6. Adoption and amendments of all budgets used by the City are governed by Michigan state law. The appropriations resolution is based on the projected expenditures budgets of the department heads of the City. Any amendment to the original budget must meet the requirements of Michigan law. Any revisions that alter the total expenditures of any activity must be approved by the City Council. Supplemental appropriations were necessary during the year.

Cash and Pooled Investments

For the purpose of the statement of cash flows, the City considers cash and pooled investments to be cash and cash equivalents because the pooling of these balances allows for withdrawal at any time similar to a demand deposit account.

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

Investments

Investments are stated at fair value at the balance sheet date.

City investment policy allows for all investment authorized by State statutes. State statutes authorize the City to invest in:

- a. Bond, securities, other obligations and repurchase agreements 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 qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended.

Receivables/Due From Other Governments

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The allowance for uncollectible was immaterial as of year-end.

Capital Assets

Capital assets, which include land, construction in progress, buildings, vehicles and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial as well as in the proprietary fund statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at acquisition value (the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction) on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

Depreciation on capital assets (including infrastructure) is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	20-50
Mains and Connections	20-100
Equipment	10-20
Public domain and system infrastructure	20-30

Compensated Absences

Under contracts negotiated with employee groups and personnel policy, individual employees have a vested right to receive payments for unused vacation and other compensation depending on employment agreements. Accumulated compensated absences of governmental funds are recorded on the statement of net position and not on the governmental fund balance sheets because the balance is not expected to be liquidated with expendable available financial resources. Amounts accumulated for proprietary funds are reported on the statements of net position of the individual enterprise funds. Compensated absences reported for governmental activities are primarily liquidated from general fund resources.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures/expense regardless of fund or activity.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The government has only one item that qualifies for reporting in this category which is related to the net pension liability which is discussed in Note 6.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the governmental funds report unavailable revenues from special assessments. In the fund financial statements, these amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The government one item that qualifies for reporting in this category which is related to the net pension liability which is discussed in Note 6.

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

Pensions

For 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.

Net Position and Fund Balance Reporting

Governmental funds report fund balance in the following five categories:

1. Non-spendable - the related asset's form does not allow expenditure of the balance. The assets are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. Nonspendable fund balance would be equal to inventory, prepaid items, non-current financial assets, and the nonspendable portion of endowments.
2. Restricted - the related assets can only be spent for the specific purposes stipulated by constitution, external resource providers, or as identified in enabling legislation.
3. Committed - the related assets can only be spent for a specific purpose identified by formal resolution of the governing board.
4. Assigned - the related assets can only be spent for a specific purpose but do not meet the criteria to be classified as committed.
5. Unassigned - is the residual classification and includes all spendable amounts not contained in the other classifications.

Fund Balance can only be committed by resolution of the City Council.

Net Position and Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position/fund balance and unrestricted – net position/fund balance, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to use restricted resources first, then unrestricted resource as they are needed. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. The City bills and collects its own property taxes and also taxes for the county and school districts. Collections of the county and school taxes and remittance of them to the taxing units are accounted for in the tax agency fund. County and school taxes are billed and due December 1, and become delinquent after February 14. City property tax revenues are recognized when levied thus none of the 2019 summer roll has been recognized in these statements. City taxes are billed and due July 1, and become delinquent after September 14.

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

Intergovernmental Revenues

Grants and assistance awards made on the basis of entitlement periods are recorded as due from other governments and revenue when entitlement occurs. Reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditure/expenses are incurred.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds. Transactions that constitute reimbursement to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the fund that is reimbursed.

Charges between enterprise funds and other functions of the City are not reimbursements because elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Remaining transactions are generally reflected as transfers.

2. STATUTORY COMPLIANCE

Excess of expenditures over appropriations in budgetary funds

Michigan law provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgeted funds have been shown on a functional basis. The approved budgets of the City for these budgeted funds were adopted at the activity level.

During the year ended June 30, 2020, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance (Unfavorable)</u>
General Fund			
Debt service	\$55,705	\$60,821	\$(5,116)
Major Streets			
Public works	83,731	144,717	(60,986)

3. CASH AND INVESTMENTS

The captions on the financial statements relating to cash and cash equivalents investments and investments are as follows:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and pooled investment	\$2,017,696	\$325,166	\$1,269	\$2,344,131
Restricted cash and pooled investment	287,880	-	-	287,880
Total	\$2,305,576	\$325,166	\$1,269	\$2,632,011

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

The cash and investments making up the above balances are as follows:

Deposits	\$2,631,346
Cash on hand	665

Total	\$2,632,011

The deposits are in financial institutions in varying amounts. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at fair value. Interest is recorded when earned.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, none of the City's bank balance of \$2,625,921 was exposed to custodial credit risk because the balance was either insured or collateralized.

4. INTERFUND TRANSACTIONS AND BALANCES

Transfers in and out for the year ended June 30, 2020 are as follows:

	Transfers in		
Transfers out	Nonmajor governmental	Internal service funds	Total
General fund	\$378,230	\$24,536	\$402,766
Major Streets	74,068	-	74,068

Total	\$452,298	\$24,536	\$476,834

Transfers are used to (1) move unrestricted revenues collected in the general fund to finance capital and other various programs accounted for in other funds in accordance with budgetary authorizations and (2) move allocated cost of general operations to applicable funds.

At year end a short-term receivable/payable balance of \$35,808 was reflected as due from other funds in the general fund and as due to other funds in the internal service fund.

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

5. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 294,763	\$ 23,003	\$ -	\$ 317,766
Construction in progress	4,738,913	7,760	4,738,913	7,760
Total capital assets, not being depreciated	5,033,676	30,763	4,738,913	325,526
Capital assets, being depreciated				
Buildings	936,687	-	-	936,687
Land improvements	1,962,709	4,802,577	-	6,765,286
Paved roads	7,053,348	74,861	40,614	7,087,595
Unpaved roads	67,770	-	-	67,770
Bike path	273,493	-	-	273,493
Equipment	506,129	78,132	49,209	535,052
Total capital assets, being depreciated	10,800,136	4,955,570	89,823	15,665,883
Less accumulated depreciation for				
Buildings	299,608	29,892	-	329,500
Land improvements	1,399,732	139,637	-	1,539,369
Paved roads	2,989,863	174,236	40,614	3,123,485
Unpaved roads	58,734	2,259	-	60,993
Bike path	174,388	8,156	-	182,544
Equipment	329,593	47,855	49,209	328,239
Total accumulated depreciation	5,251,918	402,035	89,823	5,564,130
Net capital assets, being depreciated	5,548,218	4,553,535	-	10,101,753
Governmental Activities capital assets, net	\$10,581,894	\$4,584,298	\$4,738,913	\$10,427,279
Business-type Activities				
Capital assets, not being depreciated				
Land	\$ 260,076	\$ -	\$ -	\$ 260,076
Construction in progress	12,029,630	-	12,029,630	-
Total capital assets, not being depreciated	12,289,706	-	12,029,630	260,076
Capital assets being depreciated				
Treatment system	1,521,107	7,768,690	-	9,289,797
Collection/distributions system	5,017,902	4,294,660	-	9,312,562
Machinery and equipment	1,620,582	27,336	11,408	1,636,510
Total capital assets, being depreciated	8,159,591	12,090,686	11,408	20,238,869
Less accumulated depreciation for				
Treatment system	1,070,582	185,954	-	1,256,536
Collection/distributions system	2,790,711	190,766	-	2,981,477
Machinery and equipment	389,911	72,086	11,408	450,589
Total accumulated depreciation	4,251,204	448,806	11,408	4,688,602
Net capital assets, being depreciated	3,908,387	11,641,880	-	15,550,267
Business-type Activities capital assets, net	\$16,198,093	\$11,641,880	\$12,029,630	\$15,810,343

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
Component Units				
Capital assets, not being depreciated				
Land	\$ 13,003	\$ -	\$13,003	\$ -
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	13,003	-	13,003	-
Capital assets being depreciated				
Buildings and improvements	939,762	-	97,105	842,657
Equipment	30,148	-	-	30,148
Total capital assets, being depreciated	969,910	-	97,105	872,805
Less accumulated depreciation for				
Buildings and improvements	205,482	42,133	33,439	214,176
Equipment	25,600	4,548	-	30,148
Total accumulated depreciation	231,082	46,681	33,439	244,324
Net capital assets, being depreciated	738,828	(46,681)	63,666	628,481
Component Unit capital assets, net	\$751,831	\$(46,681)	\$76,669	\$628,481

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

Governmental Activities	
General government	\$ 17,000
Public safety	32,500
Public works	325,371
Recreation and culture	11,600
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	15,564
Total depreciation expense - governmental activities	\$402,035
 Business-type Activities	
Sewer	\$294,816
Water	153,990
Total depreciation expense - business- type activities	\$448,806

6. PENSION PLANS

MERS Defined Benefit Plan

Plan Description

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

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

Benefits Provided

Pension benefits approved by the City Council are provided to all full-time employees based on division/bargaining unit and hire date. Eligible employees participate in a defined benefit plan which includes a multiplier of 1.7 times final average compensation, vesting period 10 years, normal retirement age is 60, early retirement at 55 with 20 or 25 years of service, benefits are calculated using final 5 years of average compensation. The defined benefit plan is closed to new employees.

Membership of the defined benefit plans consisted of the following at the date of the latest actuarial valuation (December 31, 2019):

Active plan members	10
Inactive employees entitled but not yet receiving benefits	5
Inactive employees or beneficiaries currently receiving benefits	<u>3</u>
Total	<u><u>18</u></u>

Contributions

The City is required to contribute at an actuarially determined rate, which for the current year was from 10% of annual covered payroll depending on position and classification. Participating employees are required to contribute at a rate of 2.97% of covered payroll. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of employees are established and may be amended by labor agreements.

Net Pension Liability

The employer's net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

The total pension liability in the December 31, 2019 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5% (3-4% for 2014)

Salary Increases: base wage inflation of 3.00% in the long-term (plus merit and longevity from 0 to 11% based on age) (4.5 for 2014)

Investment rate of return: 7.35%, net of investment expense, including inflation (7.75% for 2018)

Mortality rates used for non-disabled plan member were based on a weighted blend of RP-2014 mortality tables of a 50% Male and 50% Female blend. Mortality rates used for disabled plan member were based on a blend of RP-2014 disabled retire mortality tables of a 50% Male and 50% Female blend of disabled retirees. (1994 group annuity tables is 2014)

The actuarial assumptions used in the valuation were based on the results of the most recent (2020) actuarial experience study.

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.

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

The target allocation and 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%	7.75%	3.15%
Global Fixed Income	20.0%	3.75%	0.25%
Private Investments	20.0%	9.75%	1.45%
Inflation			2.50%
Administrative fee			0.25%
Investment rate of return			<u>7.60%</u>

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.

Changes in the Net Pension Liability

	<u>Increase (decrease)</u>		
	<u>Total pension liability</u>	<u>Plan fiduciary net position</u>	<u>Net pension liability</u>
	<u>(a)</u>	<u>(b)</u>	<u>(a)-(b)</u>
Balance at December 31, 2018	\$1,034,140	\$691,824	\$342,316
Changes for the Year:			
Service cost	35,870	-	35,870
Interest	81,467	-	81,467
Change in benefits	5,371	-	5,371
Differences between expected and actual experience	(31,905)	-	(31,905)
Change in assumptions	35,789	-	35,789
Contributions: employer	-	43,485	(43,485)
Contributions: employee	-	13,139	(13,139)
Net investment income	-	93,668	(93,668)
Benefit payments, including refunds	(67,478)	(67,478)	-
Administrative expense	-	(1,615)	1,615
Other changes	-	-	-
Net changes	59,114	81,199	(22,085)
Balance at December 31, 2019	\$1,093,254	\$773,023	\$320,231

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the employer, calculated using the discount rate of 7.6%, as well as what the employer's net pension liability would be using a discount rate that is 1 percentage point lower (6.6%) or higher (8.6%) than the current rate.

	1% Decrease	Current discount rate	1 % Increase
Total pension liability	\$1,218,831	\$1,093,254	\$988,063
Fiduciary net position	773,023	773,023	773,023
Net pension liability	<u>\$ 445,808</u>	<u>\$ 320,231</u>	<u>\$215,040</u>

Pension expense and deferred outflows of resources related to pensions

For the year ended June 30, 2020 the employer recognized pension expense of \$84,255. 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	\$ 33,872	\$(30,693)
Differences in assumptions	38,351	-
(Excess) deficit investment returns	5,399	-
Contributions subsequent to the measurement date*	23,628	-
Total	<u>\$101,250</u>	<u>\$(30,693)</u>

* The amount reported as deferred outflows of resources resulting from the contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending 2020.

Amounts reported as deferred outflows and inflows of resources related to pensions (excluding contributions subsequent to the measurement date) will be recognized in pension expense as follows:

2020	\$18,273
2021	22,453
2022	12,846
2023	(6,646)
Total	<u>\$46,929</u>

Defined Contribution Plan

The City provides a defined contribution pension plan (the Plan) that provides pension benefits to all participating full-time employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are required to contribute 1.5% and the City contributes 1.5% of each participant's compensation to the Plan. The City's contributions are fully vested after five years of service. During the year employees contributed \$317 and the Board contributed \$317 to the plan.

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

7. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended June 30, 2020:

	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2020</u>	<u>Due Within One Year</u>
Governmental Activities					
\$1,434,000 2014 General Obligation bonds; due in annual installments of \$28,000 to \$77,000 through April 2044; plus interest at 3.375%	\$1,284,000	\$ -	\$ 33,000	\$1,251,000	\$ 35,000
\$2,251,000 2016 General Obligation bonds; due in annual installments of \$49,000 to \$111,000,000 through July 2046; plus interest at 2.75%	2,151,000	-	52,000	2,099,000	53,000
\$1,199,000 2017 General Obligation Bonds; due in annual installments of \$24,000 to \$62,000 through June 2047; plus interest at 3.375%	1,150,000	-	30,000	1,120,000	26,000
\$ 14,036 2020 Act 99 installment purchase; due in annual payment of \$3,509 through 2024	-	14,036	-	14,036	3,509
\$1,700,000 2017A General Obligation Bonds; due in annual installments of \$65,000 to \$105,000 through May 2037; plus interest at 1.45% to 3.80%	1,570,000	-	70,000	1,500,000	70,000
Total long-term debt	6,155,000	14,036	185,000	5,984,036	187,509
Accrued employee benefits	13,331	13,762	-	27,093	-
Total Governmental Activities	\$6,168,331	\$27,798	\$185,000	\$6,011,129	\$187,509

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2020</u>	<u>Due Within One Year</u>
Business-type Activities					
\$2,515,000 2014A Wastewater Revenue Bonds, due in annual installments of \$55,000 to \$122,000 through April 2044; plus interest at 2.75%	\$ 2,224,000	\$ -	\$ 63,000	\$ 2,161,000	\$ 65,000
\$1,000,000 2014B Wastewater Revenue Bonds, due in annual installments of \$19,000 to \$57,000 through April 2044; plus interest at 3.25%	897,000	-	23,000	874,000	24,000
\$2,621,000 2016A Wastewater Revenue Bonds, due in annual installments of \$37,000 to \$104,000 through July 2056; plus interest at 2.75%	2,546,000	-	39,000	2,507,000	40,000
\$1,970,000 2017 Wastewater Revenue Bonds, due in annual installments of \$24,000 to \$87,000 through June 2057; plus interest at 3.375%	1,921,000	-	250,000	1,671,000	27,000
\$2,067,000 2014 Water System Revenue Refunding Bonds, due in annual installments of \$45,000 to \$99,000 through June 2044; plus interest at 2.75%	1,829,000	-	52,000	1,777,000	53,000
\$1,619,000 2016A Water System Revenue Refunding Bonds, due in annual installments of \$23,000 to \$66,000 through July 2056; plus interest at 2.75%	1,573,000	-	24,000	1,549,000	25,000
\$895,000 2017 Water System Revenue Refunding Bonds, due in annual installments of \$11,000 to \$36,000 through June 2057; plus interest at 3.375%	873,000	-	16,000	857,000	12,000
Total Business-type Activities	\$11,863,000	\$ -	\$467,000	\$11,396,000	\$246,000
Component Units					
Tax Increment Bond	\$530,000	\$ -	\$40,000	\$490,000	\$40,000

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2020 are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities		Component unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 187,509	\$ 188,098	\$ 246,000	\$ 341,255	\$ 40,000	\$ 21,042
2022	196,509	183,174	252,000	334,126	45,000	19,383
2023	199,509	176,920	258,000	326,828	50,000	17,432
2024	208,509	169,802	266,000	319,351	50,000	15,282
2025	209,000	163,794	273,000	311,643	55,000	12,945
2026-2030	1,137,000	718,377	1,497,000	1,434,342	250,000	24,836
2031-2035	1,302,000	523,776	1,731,000	1,203,823	-	-
2036-2040	1,169,000	306,073	2,002,000	936,904	-	-
2041-2045	1,042,000	134,554	2,038,000	627,876	-	-
2046-2050	333,000	11,084	1,148,000	393,818	-	-
2051-2055	-	-	1,277,000	210,425	-	-
2056-2057	-	-	408,000	17,688	-	-
Total	\$5,984,036	\$2,575,652	\$11,396,000	\$6,458,079	\$490,000	\$110,920

At year end all of the outstanding debt consists of direct borrowings which contain a provision that in the event of default:

General obligation bonds: the entity shall be required to use money from its general fund or levy an ad valorem tax sufficient to pay the obligation, subject to applicable constitutional, statutory, and charter limitations.

Revenue Bonds: Bond covenants require rates sufficient to cover debt service subject to constitutional and statutory requirements.

8. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the government carries commercial insurance. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. There were no changes in insurance coverage from the prior year.

9. LITIGATION

In the normal course of its operations, the City has become a party in various legal actions, including property tax appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City. No reserves for losses related to legal actions have been included as a liability in the City's financial statements.

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

10. TAX ABATEMENTS

The City entered into property tax abatements agreements with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Tax Abatement) PA 198 of 1974, as amended, provides a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high tech facilities. An Industrial Facilities Tax Abatement (IFT) certificate entitles the facility to a partial exemption from ad valorem real and/or personal property taxes for a term of 12 years as determined by the local unit of government. The agreements entered into by the City include claw back provisions should the recipient of the tax abatement fail to fully meet its commitments, such as employment levels and timelines for relocation. The IFT is computed at half the local property tax millage rate. This amounts to a reduction in property taxes of approximately 50%.

For the year ended June 30, 2020 the City abated property tax revenues of approximately \$12,000.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF POTTERVILLE
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 635,093	\$ 777,343	\$ 777,381	\$ 38
Intergovernmental revenues				
State	228,815	233,722	232,068	(1,654)
Licenses and permits	5,500	3,900	4,130	230
Charges for services	221	179	179	-
Fines & forfeitures	5,000	4,328	3,956	(372)
Investment earnings	25,000	31,400	31,667	267
Contributions and donations	5,000	298,435	298,435	-
Miscellaneous	225,205	109,281	103,730	(5,551)
Total revenues	<u>1,129,834</u>	<u>1,458,588</u>	<u>1,451,546</u>	<u>(7,042)</u>
Expenditures				
Current				
General government				
Mayor	1,291	1,291	1,195	96
Council/City Manager	121,129	124,448	119,706	4,742
Assessor	24,444	24,654	24,221	433
City attorney	40,000	23,500	21,771	1,729
Clerk	75,569	80,740	72,063	8,677
Treasurer	98,842	87,625	81,589	6,036
City hall	39,566	36,561	32,682	3,879
Other	5,700	28,984	28,202	782
Planning	16,461	8,700	8,675	25
	<u>423,002</u>	<u>416,503</u>	<u>390,104</u>	<u>26,399</u>
Public safety				
Police department	183,573	201,615	167,713	33,902
Fire department	85,789	139,386	139,083	303
	<u>269,362</u>	<u>341,001</u>	<u>306,796</u>	<u>34,205</u>
Public works				
Department of public works	27,296	23,789	22,981	808
Street Lights	41,200	36,000	33,310	2,690
	<u>68,496</u>	<u>59,789</u>	<u>56,291</u>	<u>3,498</u>
Other functions				
Community and economic development	40,927	43,345	41,927	1,418
Debt service				
Principal	180,000	25,913	30,323	(4,410)
Interest	189,931	29,792	30,498	(706)
	<u>369,931</u>	<u>55,705</u>	<u>60,821</u>	<u>(5,116)</u>
Total expenditures	<u>1,171,718</u>	<u>916,343</u>	<u>855,939</u>	<u>60,404</u>
Revenues over (under) expenditures	<u>(41,884)</u>	<u>542,245</u>	<u>595,607</u>	<u>(67,446)</u>
Other financing sources (uses)				
Sale of capital assets	-	24,885	24,885	-
Transfers in	168,977	27,638	-	(27,638)
Transfers out	(125,829)	(594,771)	(402,766)	192,005
Total other financing sources (uses)	<u>43,148</u>	<u>(542,248)</u>	<u>(377,881)</u>	<u>164,367</u>
Net changes in fund balances	1,264	(3)	217,726	96,921
Fund balances, beginning of year	<u>427,842</u>	<u>427,842</u>	<u>427,842</u>	<u>-</u>
Fund balances, end of year	<u>\$ 429,106</u>	<u>\$ 427,839</u>	<u>\$ 645,568</u>	<u>\$ 96,921</u>

CITY OF POTTERVILLE

**MAJOR STREETS
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2020

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenues				
State	\$ 204,402	\$ 218,000	\$ 222,271	\$ 4,271
Special assessment	78,000	6,322	6,703	381
Total revenues	<u>282,402</u>	<u>224,322</u>	<u>228,974</u>	<u>4,652</u>
Expenditures				
Current				
Public works	115,997	67,010	128,714	(61,704)
Debt service				
Principal	70,000	9,856	9,856	-
Interest	-	6,865	6,147	718
Total expenditures	<u>185,997</u>	<u>83,731</u>	<u>144,717</u>	<u>(60,986)</u>
Revenues over (under) expenditures	<u>96,405</u>	<u>140,591</u>	<u>84,257</u>	<u>(56,334)</u>
Other financing sources (uses)				
Transfers in	-	6,426	-	(6,426)
Transfers out	(57,394)	(147,017)	(74,068)	72,949
Total other financing sources (uses)	<u>(57,394)</u>	<u>(140,591)</u>	<u>(74,068)</u>	<u>66,523</u>
Net changes in fund balance	39,011	-	10,189	10,189
Fund balance, beginning of year	<u>153,811</u>	<u>153,811</u>	<u>153,811</u>	<u>-</u>
Fund balance, end of year	<u>\$ 192,822</u>	<u>\$ 153,811</u>	<u>\$ 164,000</u>	<u>\$ 10,189</u>

CITY OF POTTERVILLE

**DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CHANGES IN EMPLOYERS NET PENSION
LIABILITY AND RELATED RATIOS**

FOR THE YEAR ENDED JUNE 30, 2020

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability						
Service cost	\$ 35,870	\$ 28,735	\$ 36,170	\$ 35,691	\$ 36,874	\$ 28,669
Interest	81,467	76,996	74,731	65,527	59,141	54,217
Changes in benefit terms	5,371	(5,161)	(4,266)	(824)	(1,957)	-
Difference between expected and actual experience	(31,905)	17,531	(10,338)	64,611	6,364	-
Changes in assumptions	35,789	-	-	-	34,014	-
Benefit payments including employee refunds	(64,478)	(64,092)	(64,436)	(35,942)	(27,306)	(27,306)
Other	-	-	-	-	-	-
Net change in total pension liability	<u>62,114</u>	<u>54,009</u>	<u>31,861</u>	<u>129,063</u>	<u>107,130</u>	<u>55,580</u>
Total pension liability, beginning of year	<u>1,034,140</u>	<u>980,131</u>	<u>948,270</u>	<u>819,207</u>	<u>712,077</u>	<u>656,497</u>
Total pension liability, ending of year	<u>\$ 1,096,254</u>	<u>\$ 1,034,140</u>	<u>\$ 980,131</u>	<u>\$ 948,270</u>	<u>\$ 819,207</u>	<u>\$ 712,077</u>
Plan Fiduciary Net Position						
Contributions-employer	\$ 43,485	\$ 43,320	\$ 42,593	\$ 46,903	\$ 40,950	\$ 36,760
Contributions-employee	13,139	10,102	6,418	5,139	1,989	-
Net investment income	93,668	(28,611)	86,976	67,872	(8,840)	34,035
Benefit payments including employee refunds	(67,478)	(64,092)	(64,436)	(35,942)	(27,306)	(27,306)
Administrative expense	(1,615)	(1,418)	(1,376)	(1,337)	(1,284)	(1,256)
Net change in plan fiduciary net position	<u>81,199</u>	<u>(40,699)</u>	<u>70,175</u>	<u>82,635</u>	<u>5,509</u>	<u>42,233</u>
Plan fiduciary net position, beginning of year	<u>691,824</u>	<u>732,523</u>	<u>662,348</u>	<u>579,713</u>	<u>574,204</u>	<u>531,971</u>
Plan fiduciary net position, ending of year	<u>\$ 773,023</u>	<u>\$ 691,824</u>	<u>\$ 732,523</u>	<u>\$ 662,348</u>	<u>\$ 579,713</u>	<u>\$ 574,204</u>
Total net pension liability	<u>\$ 323,231</u>	<u>\$ 342,316</u>	<u>\$ 247,608</u>	<u>\$ 285,922</u>	<u>\$ 239,494</u>	<u>\$ 137,873</u>
Plan fiduciary net position as a percentage of the total pension liability	71%	67%	75%	70%	71%	81%
Covered employee payroll	\$ 452,338	\$ 337,271	\$ 431,105	\$ 415,105	\$ 433,298	\$ 336,891
Employer's net pension liability as a percentage of covered employee payroll	71%	101%	57%	69%	55%	41%

Notes to schedule:

Above information is based on measurement date of December 31

CITY OF POTTERVILLE
DEFINED BENEFIT PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2020

Fiscal Year end	Actuarially determined contributions	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered employee payroll	Contributions as a percentage of covered employee payroll
6/30/2015	\$ 36,760	\$ 36,760	\$ -	\$ 336,891	11%
6/30/2016	40,950	40,950	-	433,298	9%
6/30/2017	46,903	46,903	-	415,015	11%
6/30/2018	42,593	42,593	-	431,105	10%
6/30/2019	41,692	41,692	-	337,271	12%
6/30/2020	47,256	47,256	-	452,338	10%

Notes to schedule

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	5 year smoothed (10 years for 2014)
Inflation	2.5% (3-4% for 2014)
Salary increases	3.00% (4.5 for 2014)
Investment rate of return	7.35% (8.00 for 2014)
Retirement age	Varies depending on plan adoption
Mortality	50% female/ 50% male RP-2014 mortality table

Note to schedule:

The schedule is being accumulated prospectively until 10 years of information is presented

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

CITY OF POTTERVILLE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2020

	<u>Special Revenue</u>		<u>Capital Projects</u>		<u>Total</u>
	<u>Local Streets</u>	<u>Park Fund</u>	<u>Capital Projects</u>	<u>Storm Drain Project</u>	
Assets					
Cash and pooled investments	\$ 228,682	\$ 17,820	\$ 25,260	\$ 12,341	\$ 284,103
Accounts receivable	-	8,576	-	-	8,576
Due from other governments	10,313	-	-	-	10,313
Prepaid	-	2,739	-	-	2,739
Total assets	<u>\$ 238,995</u>	<u>\$ 29,135</u>	<u>\$ 25,260</u>	<u>\$ 12,341</u>	<u>\$ 305,731</u>
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ 7,746	\$ 4,420	\$ 4,195	\$ -	\$ 16,361
Accrued liabilities	-	1,065	-	-	1,065
Total liabilities	<u>7,746</u>	<u>5,485</u>	<u>4,195</u>	<u>-</u>	<u>17,426</u>
Fund balances					
Nonspendable					
Prepaid items	-	2,739	-	-	2,739
Restricted					
Streets	231,249	-	-	-	231,249
Assigned					
Capital projects	-	-	21,065	12,341	33,406
City enhancement	-	20,911	-	-	20,911
Total fund balances	<u>231,249</u>	<u>23,650</u>	<u>21,065</u>	<u>12,341</u>	<u>288,305</u>
Total liabilities and fund balances	<u>\$ 238,995</u>	<u>\$ 29,135</u>	<u>\$ 25,260</u>	<u>\$ 12,341</u>	<u>\$ 305,731</u>

CITY OF POTTERVILLE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2020

	Special Revenue		Capital Projects		Total
	Local Streets	Park Fund	Capital Projects	Storm Drain Project	
Revenues					
Intergovernmental revenues					
State	\$ 105,647	\$ -	\$ -	\$ -	\$ 105,647
Charges for services	-	36,384	-	-	36,384
Special assessments	41,177	-	-	-	41,177
Miscellaneous	-	13,715	-	-	13,715
Total revenues	146,824	50,099	-	-	196,923
Expenditures					
Current					
Public works	156,558	-	30,357	-	186,915
Culture and recreation	-	114,824	-	-	114,824
Debt Service					
Principal	144,821	-	-	-	144,821
Interest	153,843	-	-	-	153,843
Total expenditures	455,222	114,824	30,357	-	600,403
Revenues over (under) expenditures	(308,398)	(64,725)	(30,357)	-	(403,480)
Other financing sources (uses)					
Transfers in	391,579	9,297	51,422	-	452,298
Net changes in fund balances	83,181	(55,428)	21,065	-	48,818
Fund balances, beginning of year	148,068	79,078	-	12,341	239,487
Fund balances, end of year	\$ 231,249	\$ 23,650	\$ 21,065	\$ 12,341	\$ 288,305

CITY OF POTTERVILLE
AGENCY FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2020

	<u>Current Tax Fund</u>	<u>Payroll clearing</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 424	\$ 845	\$ 1,269
Total assets	<u>\$ 424</u>	<u>\$ 845</u>	<u>\$ 1,269</u>
Liabilities			
Accounts payable	\$ -	\$ 845	\$ 845
Due to other governmental units	<u>424</u>	<u>-</u>	<u>424</u>
Total liabilities	<u>\$ 424</u>	<u>\$ 845</u>	<u>\$ 1,269</u>

CITY OF POTTERVILLE

**DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE/STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2020

	Governmental Fund Type		Statement of Activities
	General Fund	Adjustments	
Revenues			
Taxes	\$ 50,796	\$ -	\$ 50,796
Investment earnings	<u>1,416</u>	<u>-</u>	<u>1,416</u>
Total revenues	<u>52,212</u>	<u>-</u>	52,212
Expenditures/expenses			
Current			
General government	<u>308,559</u>	<u>76,668</u>	<u>385,227</u>
Revenues over (under) expenditures/expenses	<u>(256,347)</u>	<u>76,668</u>	<u>(333,015)</u>
Net changes in fund balance	(256,347)	<u>256,347</u>	
Change in net position			(333,015)
Fund balance/net position, beginning of year	<u>256,347</u>		<u>333,015</u>
Fund balance/net position, end of year	<u>\$ -</u>		<u>\$ -</u>
Reconciliation of change in fund balances to change in net position			
Net change in fund balances of governmental funds			\$ (256,347)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.			
Capital assets contributed to City general fund			<u>(76,668)</u>
Change in net position of governmental activities			<u>\$ (333,015)</u>

STATISTICAL SECTION

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CITY OF POTTERVILLE

SCHEDULE OF DEBT RETIREMENT AND ANNUAL INTEREST REQUIREMENTS

JUNE 30, 2020

Fiscal Year	2014 GO Bonds		Installment purchase		2016 GO Bonds		2017 GO Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 35,000	\$ 42,221	\$ 3,509	\$ -	\$ 53,000	\$ 59,153	\$ 26,000	\$ 37,969
2022	36,000	41,040	3,509	-	55,000	57,722	27,000	37,092
2023	37,000	39,825	3,509	-	56,000	56,265	28,000	35,235
2024	38,000	38,576	3,509	-	58,000	53,212	29,000	34,257
2025	39,000	37,295	-	-	60,000	51,618	30,000	33,244
2026	41,000	35,978	-	-	61,000	49,968	31,000	32,197
2027	42,000	34,594	-	-	63,000	48,290	32,000	31,117
2028	44,000	33,176	-	-	65,000	46,557	33,000	30,003
2029	45,000	31,691	-	-	66,000	44,770	34,000	28,855
2030	47,000	30,173	-	-	68,000	42,955	35,000	27,675
2031	48,000	28,586	-	-	70,000	41,085	36,000	26,460
2032	50,000	26,966	-	-	72,000	39,160	38,000	25,177
2033	51,000	25,279	-	-	74,000	37,180	39,000	23,861
2034	53,000	23,558	-	-	76,000	35,145	40,000	22,511
2035	55,000	21,769	-	-	78,000	33,055	42,000	21,092
2036	57,000	19,913	-	-	80,000	30,910	43,000	19,643
2037	59,000	17,989	-	-	82,000	28,710	45,000	18,124
2038	61,000	15,997	-	-	85,000	26,455	46,000	16,571
2039	63,000	13,939	-	-	87,000	24,118	48,000	14,951
2040	65,000	11,813	-	-	89,000	21,725	49,000	13,297
2041	67,000	9,619	-	-	92,000	19,278	51,000	11,575
2042	69,000	7,357	-	-	94,000	16,748	53,000	9,788
2043	72,000	5,029	-	-	97,000	14,162	54,000	7,965
2044	77,000	2,599	-	-	100,000	11,495	56,000	6,075
2045	-	-	-	-	102,000	8,745	58,000	4,119
2046	-	-	-	-	105,000	5,940	60,000	2,092
2047	-	-	-	-	111,000	3,052	57,000	-
2048	-	-	-	-	-	-	-	-
2049	-	-	-	-	-	-	-	-
2050	-	-	-	-	-	-	-	-
2051	-	-	-	-	-	-	-	-
2052	-	-	-	-	-	-	-	-
2053	-	-	-	-	-	-	-	-
2054	-	-	-	-	-	-	-	-
2055	-	-	-	-	-	-	-	-
2056	-	-	-	-	-	-	-	-
2057	-	-	-	-	-	-	-	-
	<u>\$ 1,251,000</u>	<u>\$ 594,982</u>	<u>\$ 14,036</u>	<u>\$ -</u>	<u>\$ 2,099,000</u>	<u>\$ 907,473</u>	<u>\$ 1,120,000</u>	<u>\$ 570,945</u>

CITY OF POTTERVILLE

SCHEDULE OF DEBT RETIREMENT AND ANNUAL INTEREST REQUIREMENTS

JUNE 30, 2020

Fiscal Year	2014A Wastewater Bond		2014B Wastewater Bond		2014 Water Bond		2016A Water Bond	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 65,000	\$ 59,428	\$ 24,000	\$ 28,405	\$ 53,000	\$ 48,868	\$ 25,000	\$ 42,598
2022	67,000	57,640	25,000	27,625	55,000	47,410	25,000	41,910
2023	68,000	55,798	25,000	26,813	56,000	45,898	26,000	41,223
2024	70,000	53,928	26,000	26,000	58,000	44,358	27,000	40,508
2025	72,000	52,003	27,000	25,155	59,000	42,763	27,000	39,765
2026	74,000	50,023	28,000	24,278	61,000	41,140	28,000	39,023
2027	76,000	47,988	29,000	23,368	63,000	39,463	29,000	38,253
2028	78,000	45,898	30,000	22,425	64,000	37,730	30,000	37,455
2029	80,000	43,753	31,000	21,450	66,000	35,970	31,000	36,630
2030	83,000	41,553	32,000	20,443	68,000	34,155	31,000	35,778
2031	85,000	39,270	33,000	19,403	70,000	32,285	32,000	34,925
2032	87,000	36,933	35,000	18,330	72,000	30,360	33,000	34,045
2033	90,000	34,540	36,000	17,193	74,000	28,380	34,000	33,138
2034	92,000	32,065	37,000	16,023	76,000	26,345	35,000	32,203
2035	95,000	29,535	38,000	14,820	78,000	24,255	36,000	31,240
2036	97,000	26,923	40,000	13,585	80,000	22,110	37,000	30,250
2037	100,000	24,255	41,000	12,285	82,000	19,910	38,000	29,233
2038	103,000	21,505	43,000	10,953	84,000	17,655	39,000	28,188
2039	106,000	18,673	44,000	9,555	87,000	15,345	40,000	27,115
2040	108,000	15,758	46,000	8,125	89,000	12,953	41,000	26,015
2041	111,000	12,788	47,000	6,630	92,000	10,505	42,000	24,888
2042	114,000	9,735	49,000	5,103	94,000	7,975	44,000	23,733
2043	118,000	6,600	51,000	3,510	97,000	5,390	45,000	22,523
2044	122,000	3,355	57,000	1,853	99,000	2,723	46,000	21,285
2045	-	-	-	-	-	-	47,000	20,020
2046	-	-	-	-	-	-	49,000	18,728
2047	-	-	-	-	-	-	50,000	17,380
2048	-	-	-	-	-	-	51,000	16,005
2049	-	-	-	-	-	-	53,000	14,603
2050	-	-	-	-	-	-	54,000	13,145
2051	-	-	-	-	-	-	56,000	11,660
2052	-	-	-	-	-	-	57,000	10,120
2053	-	-	-	-	-	-	59,000	8,553
2054	-	-	-	-	-	-	60,000	6,930
2055	-	-	-	-	-	-	62,000	5,280
2056	-	-	-	-	-	-	64,000	3,575
2057	-	-	-	-	-	-	66,000	1,815
	<u>\$ 2,161,000</u>	<u>\$ 819,947</u>	<u>\$ 874,000</u>	<u>\$ 403,330</u>	<u>\$ 1,777,000</u>	<u>\$ 673,946</u>	<u>\$ 1,549,000</u>	<u>\$ 939,738</u>

2016A Wastewater Bond		2017 Wastewater Bond		2017 Water Bond		Total Business-type		
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
\$ 40,000	\$ 68,943	\$ 27,000	\$ 63,956	\$ 12,000	\$ 29,057	\$ 246,000	\$ 341,255	\$ 587,255
41,000	67,843	27,000	63,045	12,000	28,653	252,000	334,126	586,126
42,000	66,715	28,000	62,134	13,000	28,247	258,000	326,828	584,828
43,000	65,560	29,000	61,189	13,000	27,808	266,000	319,351	585,351
44,000	64,378	30,000	60,210	14,000	27,369	273,000	311,643	584,643
46,000	63,168	31,000	59,198	14,000	26,897	282,000	303,727	585,727
47,000	61,903	32,000	58,151	15,000	26,425	291,000	295,551	586,551
48,000	60,610	33,000	57,071	15,000	25,919	298,000	287,108	585,108
50,000	59,290	35,000	55,958	16,000	25,413	309,000	278,464	587,464
51,000	57,915	36,000	54,776	16,000	24,872	317,000	269,492	586,492
52,000	56,513	37,000	53,561	17,000	24,332	326,000	260,289	586,289
54,000	55,083	38,000	52,313	17,000	23,759	336,000	250,823	586,823
55,000	53,598	39,000	51,030	18,000	23,185	346,000	241,064	587,064
57,000	52,085	41,000	49,714	19,000	22,578	357,000	231,013	588,013
58,000	50,518	42,000	48,330	19,000	21,936	366,000	220,634	586,634
60,000	48,923	44,000	46,913	20,000	21,295	378,000	209,999	587,999
62,000	47,273	45,000	45,428	20,000	20,620	388,000	199,004	587,004
63,000	45,568	47,000	43,909	21,000	19,945	400,000	187,723	587,723
65,000	43,835	48,000	42,323	22,000	19,237	412,000	176,083	588,083
67,000	42,048	50,000	40,703	23,000	18,493	424,000	164,095	588,095
69,000	40,205	51,000	39,015	23,000	17,718	435,000	151,749	586,749
71,000	38,308	53,000	37,294	24,000	16,942	449,000	139,090	588,090
72,000	36,355	55,000	35,505	25,000	16,132	463,000	126,015	589,015
74,000	34,375	57,000	33,649	26,000	15,287	481,000	112,527	593,527
77,000	32,340	59,000	31,725	27,000	14,410	210,000	98,495	308,495
79,000	30,223	61,000	29,734	28,000	13,499	217,000	92,184	309,184
81,000	28,050	63,000	27,675	29,000	12,555	223,000	85,660	308,660
83,000	25,823	65,000	25,549	30,000	11,576	229,000	78,953	307,953
85,000	23,540	67,000	23,355	31,000	10,564	236,000	72,062	308,062
88,000	21,203	69,000	21,094	32,000	9,517	243,000	64,959	307,959
90,000	18,783	72,000	18,765	33,000	8,437	251,000	57,645	308,645
93,000	16,308	74,000	16,335	34,000	7,323	258,000	50,086	308,086
95,000	13,750	77,000	13,838	35,000	6,175	266,000	42,316	308,316
98,000	11,138	79,000	11,239	36,000	4,995	273,000	34,302	307,302
100,000	8,443	30,000	8,573	37,000	3,780	229,000	26,076	255,076
103,000	5,693	-	-	39,000	2,531	206,000	11,799	217,799
104,000	2,860	-	-	32,000	1,214	202,000	5,889	207,889
\$ 2,507,000	\$ 1,519,166	\$ 1,671,000	\$ 1,443,257	\$ 857,000	\$ 658,695	\$ 11,396,000	\$ 6,458,079	\$ 17,854,079

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CONTROL AND COMPLIANCE



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

November 4, 2020

Honorable Mayor and Members of the City Council
City of Potterville, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Potterville, Michigan, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Potterville, Michigan's basic financial statements, and have issued our report thereon dated November 4, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Potterville, Michigan'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 of Potterville, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Potterville, Michigan's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2020-001, that we consider to be a material weakness.

Compliance and Other Matters

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

Response to Finding

The City of Potterville, Michigan's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Urodebold Haefner LLC

CITY OF POTTERVILLE
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020

FINANCIAL STATEMENT FINDINGS

2020-001 - material weakness

Condition and Criteria: Significant audit adjustments were necessary during the course of the audit to compile year-end financial statements from the City's general ledger balances.

Cause: The City did not provide a trial balance for the audit process with all necessary adjustments to prepare financial statements in accordance with generally accepted accounting principles.

Effect: Auditing standards require significant audit adjustments be reported as a material weakness.

Recommendation: The City's system of controls should be modified so that all adjustment necessary to prepare financial statements in accordance with generally accepted accounting principles are recorded on the general ledger.

Management Response: The City has implemented the following procedures to minimize the number and extent of proposed audit adjustments with a goal of zero proposed audit adjustments being identified during the audit process. Balances reported in the audited financial statements will be reconciled to general ledger balances within 2 weeks of receiving draft audited financial statements. Prior year audit adjustments will be reviewed and considered during the audit preparation process so that audit adjustments are not repeated.