



CITY OF POTTERVILLE, MICHIGAN

FINANCIAL STATEMENTS

and

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2022



**Vredeveld Haefner LLC
CPAs and Consultants**

CITY OF POTTERVILLE

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CITY OF POTTERVILLE

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Vredeveld Haefner LLC

CPAs and Consultants
10302 20th Avenue
Grand Rapids, MI 49534
Fax (616) 828-0307

Douglas J. Vredeveld, CPA
(616) 446-7474
Peter S. Haefner, CPA
(616) 460-9388

INDEPENDENT AUDITORS' REPORT

November 21, 2022

City Council
City of Pottersville, Michigan

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Pottersville, Michigan (the "City"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Pottersville, Michigan, as of June 30, 2022, 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.

Basis for Opinions

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. We are required to be independent of the City of Pottersville, Michigan, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Pottersville, Michigan's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Potterville, Michigan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Potterville, Michigan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 and the budgetary comparison information and benefit plan schedules on pages 39 through 43 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.

Supplementary 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 nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the statistical section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2022, on our consideration of the City of Pottersville'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 Pottersville's internal control over financial reporting and compliance.

Orederfeld Haefner LLC

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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, 2022.

Financial Highlights

The financial statements, which follow this Management's Discussion and Analysis, provide these significant key financial highlights for the 2022 fiscal year as follows:

- Governmental activities ended the year with positive net position of \$5,601,901.
- Business-type activities ended the year with positive net position of \$5,776,026.
- General fund ended the year with unassigned fund balance of \$861,863.

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 Tax Increment Financing Authority (TIFA) for which the City is financially accountable. Information for this 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 Unit. The City's financial statements include reporting on a separate legal entity for which the City has some level of financial responsibility. The entity is shown in a separate column in the accompanying financial statements. The City's component unit is 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 \$11,377,927 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>	
	2021	2022	2021	2022	2021	2022
Assets						
Current and other assets	\$ 1,736,776	\$ 2,038,701	\$ 1,501,406	\$ 1,579,202	\$ 3,238,182	\$ 3,617,903
Capital assets	10,168,201	9,764,918	15,441,519	15,217,864	25,609,720	24,982,782
Total assets	11,904,977	11,803,619	16,942,925	16,797,066	28,847,902	28,600,685
Deferred outflows	87,400	92,545	-	-	87,400	92,545
Liabilities						
Current liabilities	307,284	478,725	350,671	381,040	657,955	859,765
Long-term liabilities	5,966,482	5,698,708	10,898,000	10,640,000	16,864,482	16,338,708
Total liabilities	6,273,766	6,177,433	11,248,671	11,021,040	17,522,437	17,198,473
Deferred inflows	51,701	116,830	-	-	51,701	116,830
Net position						
Net investment in capital assets						
assets	4,345,560	4,151,115	4,291,519	4,319,864	8,637,079	8,470,979
Restricted	253,069	337,546	336,640	395,400	589,709	732,946
Unrestricted	1,068,281	1,113,240	1,066,095	1,060,762	2,134,376	2,174,002
Total net position	\$5,666,910	\$5,601,901	\$5,694,254	\$5,776,026	\$11,361,164	\$11,377,927

The largest portion of the City's net position in the amount of 74% 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 7% 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 19%, 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, 2022, was \$3,157,214 while total cost of all programs and services was \$3,140,451. This results in an increase in net position of \$16,763. 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>	
	2021	2022	2021	2022	2021	2022
Revenues						
Program revenues						
Charges for services	\$137,962	\$ 98,553	\$1,093,855	\$1,133,025	\$1,231,817	\$1,231,578
Operating grants and contributions	373,954	544,091	-	-	373,954	544,091
Capital grants and contributions	5,000	-	-	-	5,000	-
General revenues						
Property taxes	833,244	895,926	-	-	833,244	895,926
State shared revenues	299,713	400,346	-	-	299,713	400,346
Investment earnings	3,587	3,672	-	-	3,587	3,672
Other	46,066	81,601	-	-	46,066	81,601
Total revenues	1,699,526	2,024,189	1,093,855	1,133,025	2,793,381	3,157,214
Expenses						
General government	486,919	611,532	-	-	486,919	611,532
Public safety	376,615	456,753	-	-	376,615	456,753
Public works	582,284	477,163	-	-	582,284	477,163
Community and economic development	191,048	214,632	-	-	191,048	214,632
Interest on long-term debt	186,469	179,939	-	-	186,469	179,939
Wastewater	-	-	686,529	689,597	686,529	689,597
Water	-	-	469,675	510,835	469,675	510,835
Total expenses	1,823,335	1,940,019	1,156,204	1,200,432	2,979,539	3,140,451
Increase (decrease) before transfers	(123,809)	84,170	(62,349)	(67,407)	(186,158)	16,763
Transfers in (out)	(92,069)	(149,179)	92,069	149,179	-	-
Increase (decrease) in net position	(215,878)	(65,009)	29,720	81,772	(186,158)	16,763
Net position – beginning	5,882,788	5,666,910	5,664,534	5,694,254	11,547,322	11,361,164
Net position – ending	\$5,666,910	\$5,601,901	\$5,694,254	\$5,776,026	\$11,361,164	\$11,377,927

Governmental Activities During the year the City invested \$477,163 or 25% in public works, \$611,532 or 31% in general government and \$456,753 in public safety or 24%. Culture and recreation and interest on debt made up the remaining 25% of governmental activities. The preceding table shows that the governmental activities decreased the City's net position by \$65,009 during this fiscal year primarily as a result of depreciation on capital assets.

Business-type Activities Business-type activities increased the City's net position by \$81,772 during the year.

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 \$1,294,108 an increase of \$236,985 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 \$913,642. 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 61% of total general fund expenditures and transfers out.

The major and local street funds are 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 of the major and local street funds at the end of the year amounted to \$244,998 and \$92,548 respectively. Change in the fund balances of the major and local street funds amounted to an increase of \$67,372 and \$17,105, respectively.

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 an increase in net position of \$40,592 and the water fund increased net position by \$41,180. 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
 - Property taxes budgeted was increased to reflect additional taxable value.
 - Federal revenue was reduced to reflect actual grants received.
 - State revenue was increased to reflect additional state shared revenue.
 - The expenditure budget was not significantly modified.

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, 2022, amounted to \$24,982,782 (net of accumulated depreciation). Of this amount, \$9,764,918 was for its governmental activities and \$15,217,864 was for its business-type activities. This investment in capital assets includes land, buildings, equipment and vehicles, and infrastructure.

Significant current year additions to enterprise fund capital assets included land and system infrastructure.

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 \$16,511,803. Of this amount, \$5,613,803 was for governmental activities while \$10,898,000 was for business-type activities. Principal payments during the year were \$208,838 and \$252,000 for governmental and business-type activities, respectively. There were no current year additions to long-term debt.

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 2022-2023 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 Treasurer, City of Potterville, 319 Nelson Street, Potterville, MI 48876.

BASIC FINANCIAL STATEMENTS

CITY OF POTTERVILLE
STATEMENT OF NET POSITION
JUNE 30, 2022

	Primary Government			Component Unit
	Governmental	Business-Type		Tax Increment
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Finance Authority</u>
Assets				
Cash and pooled investments	\$ 1,335,820	\$ 1,050,236	\$ 2,386,056	\$ 64,221
Accounts receivable	-	132,786	132,786	-
Special assessments receivable	525,200	-	525,200	-
Due from other governments	116,618	-	116,618	-
Prepays	61,063	780	61,843	-
Restricted cash and pooled investment	-	395,400	395,400	-
Capital assets				
Land	317,766	375,076	692,842	-
Construction in progress	-	-	-	166,731
Depreciable capital assets, net	9,447,152	14,842,788	24,289,940	544,216
Total assets	<u>11,803,619</u>	<u>16,797,066</u>	<u>28,600,685</u>	<u>775,168</u>
Deferred outflows of resources				
Pension related	92,545	-	92,545	-
Liabilities				
Accounts payable	48,242	28,903	77,145	18,473
Accrued liabilities	73,666	94,137	167,803	-
Unearned revenue	144,600	-	144,600	-
Debt due within one year	212,217	258,000	470,217	50,000
Noncurrent liabilities				
Compensated absences	61,924	-	61,924	-
Net pension liability	235,198	-	235,198	-
Debt due in more than one year	5,401,586	10,640,000	16,041,586	355,000
Total liabilities	<u>6,177,433</u>	<u>11,021,040</u>	<u>17,198,473</u>	<u>423,473</u>
Deferred inflows of resources				
Pension related	116,830	-	116,830	-
Net position				
Net investment in capital assets	4,151,115	4,319,864	8,470,979	305,947
Restricted for				
Streets	337,546	-	337,546	-
Debt service	-	395,400	395,400	-
Unrestricted	1,113,240	1,060,762	2,174,002	45,748
Total net position	<u>\$ 5,601,901</u>	<u>\$ 5,776,026</u>	<u>\$ 11,377,927</u>	<u>\$ 351,695</u>

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

CITY OF POTTERVILLE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2022

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental activities				
General government	\$ 611,532	\$ 34,065	\$ 144,604	\$ -
Public safety	456,753	546	520	-
Public works	477,163	-	398,962	-
Culture and recreation	214,632	63,942	5	-
Interest on long-term debt	179,939	-	-	-
Total governmental activities	1,940,019	98,553	544,091	-
Business-type activities				
Wastewater	689,597	581,010	-	-
Water	510,835	552,015	-	-
Total business-type activities	1,200,432	1,133,025	-	-
Total primary government	\$ 3,140,451	\$ 1,231,578	\$ 544,091	\$ -
Component unit				
Tax Increment Finance Authority	\$ 80,254	\$ -	\$ -	\$ -
Total component units	\$ 80,254	\$ -	\$ -	\$ -

(Continued)

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

CITY OF POTTERVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Tax Increment Finance Authority
Changes in net assets				
Net (expense) revenue	\$ (1,297,375)	\$ (67,407)	\$ (1,364,782)	\$ (80,254)
General revenues				
Property taxes	895,926	-	895,926	185,151
State shared revenues - unrestricted	400,346	-	400,346	-
Unrestricted investment earnings	3,672	-	3,672	85
Other general revenues	81,601	-	81,601	1,047
Transfers - internal activities	(149,179)	149,179	-	-
Total general revenues and transfers	1,232,366	149,179	1,381,545	186,283
Change in net position	(65,009)	81,772	16,763	106,029
Net position, beginning of year	5,666,910	5,694,254	11,361,164	245,666
Net position, end of year	\$ 5,601,901	\$ 5,776,026	\$ 11,377,927	\$ 351,695

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

CITY OF POTTERVILLE

GOVERNMENTAL FUNDS BALANCE SHEET

JUNE 30, 2022

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets					
Cash and pooled investments	\$ 977,905	\$ 208,204	\$ 82,810	\$ 40,394	\$ 1,309,313
Special assessment receivable	-	73,956	451,244	-	525,200
Due from other governments	65,205	36,794	14,619	-	116,618
Prepays	<u>51,779</u>	<u>-</u>	<u>-</u>	<u>9,284</u>	<u>61,063</u>
Total assets	<u>\$ 1,094,889</u>	<u>\$ 318,954</u>	<u>\$ 548,673</u>	<u>\$ 49,678</u>	<u>\$ 2,012,194</u>
Liabilities, deferred inflows and fund balances					
Liabilities					
Accounts payable	\$ 23,617	\$ -	\$ 4,881	\$ 5,481	\$ 33,979
Accrued liabilities	13,030	-	-	-	13,030
Accrued liabilities	<u>144,600</u>	<u>-</u>	<u>-</u>	<u>1,277</u>	<u>145,877</u>
Total liabilities	<u>181,247</u>	<u>-</u>	<u>4,881</u>	<u>6,758</u>	<u>192,886</u>
Deferred inflows of resources					
Unavailable receivables	<u>-</u>	<u>73,956</u>	<u>451,244</u>	<u>-</u>	<u>525,200</u>
Fund balances					
Nonspendable					
Prepaid items	51,779	-	-	9,284	61,063
Restricted					
Streets	-	244,998	92,548	-	337,546
Assigned					
City enhancement	-	-	-	22,688	22,688
Capital projects	-	-	-	10,948	10,948
Unassigned	<u>861,863</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>861,863</u>
Total fund balances	<u>913,642</u>	<u>244,998</u>	<u>92,548</u>	<u>42,920</u>	<u>1,294,108</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,094,889</u>	<u>\$ 318,954</u>	<u>\$ 548,673</u>	<u>\$ 49,678</u>	<u>\$ 2,012,194</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, 2022

Fund balances - total governmental funds	\$ 1,294,108
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Amounts reported for *governmental activities* in the statement of net position are different because:

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

Add - land	317,766
Add - capital assets (net of accumulated depreciation)	9,292,208

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	525,200
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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	149,435
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Certain deferred items do not impact current financial resources and are not reported in The governmental funds

Deduct - deferred inflows - pension related	(116,830)
Add - deferred outflows - pension related	92,545

Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.

Deduct - compensated absences payable	(61,924)
Deduct - long-term debt payable	(5,606,785)
Deduct - net pension liability	(235,198)
Deduct - accrued interest on long-term debt payable	(48,624)

Net position of governmental activities	<u>\$ 5,601,901</u>
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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, 2022

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues					
Taxes	\$ 895,926	\$ -	\$ -	\$ -	\$ 895,926
Intergovernmental revenues					
Federal	144,604	-	-	-	144,604
State	400,846	231,407	92,398	-	724,651
Local	-	41,338	33,819	-	75,157
Licenses and permits	8,098	-	-	-	8,098
Charges for services	546	-	-	63,942	64,488
Fines & forfeitures	2,785	-	-	-	2,785
Special assessments	-	6,373	38,947	-	45,320
Investment earnings	3,672	-	-	-	3,672
Contributions and donations	20	-	-	-	20
Miscellaneous	104,783	-	-	5	104,788
Total revenues	<u>1,561,280</u>	<u>279,118</u>	<u>165,164</u>	<u>63,947</u>	<u>2,069,509</u>
Expenditures					
Current					
General government	429,425	-	-	-	429,425
Public safety	337,103	-	-	-	337,103
Public works	15,650	107,022	51,098	3,134	176,904
Culture and recreation	-	-	-	157,071	157,071
Other functions	196,099	-	-	-	196,099
Debt service					
Principal	39,207	10,560	155,562	-	205,329
Interest	28,748	6,664	146,002	-	181,414
Total expenditures	<u>1,046,232</u>	<u>124,246</u>	<u>352,662</u>	<u>160,205</u>	<u>1,683,345</u>
Revenues over (under) expenditures	<u>515,048</u>	<u>154,872</u>	<u>(187,498)</u>	<u>(96,258)</u>	<u>386,164</u>
Other financing sources (uses)					
Transfers in	-	-	204,603	105,910	310,513
Transfers out	(372,192)	(87,500)	-	-	(459,692)
Total other financing sources (uses)	<u>(372,192)</u>	<u>(87,500)</u>	<u>204,603</u>	<u>105,910</u>	<u>(149,179)</u>
Net changes in fund balances	142,856	67,372	17,105	9,652	236,985
Fund balances, beginning of year	<u>770,786</u>	<u>177,626</u>	<u>75,443</u>	<u>33,268</u>	<u>1,057,123</u>
Fund balances, end of year	<u>\$ 913,642</u>	<u>\$ 244,998</u>	<u>\$ 92,548</u>	<u>\$ 42,920</u>	<u>\$ 1,294,108</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, 2022

Net changes in fund balances - total governmental funds	\$ 236,985
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Amounts reported for *governmental activities* 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.

Deduct - depreciation expense	(383,575)
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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	(45,320)
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Issuance of bonds or notes provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. 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	205,329
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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	(4,378)
Add - decrease in net pension liability	59,935
Add - increase in deferred outflows - pension related	5,145
Deduct - increase in deferred inflows - pension related	(65,129)
Add - decrease in accrued interest	1,475

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>(75,476)</u>
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Change in net position of governmental activities	<u>\$ (65,009)</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF POTTERVILLE
PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2022

	Enterprise Funds		Enterprise Fund Total	Governmental Activities Internal Service Fund
Assets	<u>Wastewater</u>	<u>Water</u>	<u>Total</u>	<u>Fund</u>
Current assets				
Cash and pooled investments	\$ 166,416	\$ 883,820	\$ 1,050,236	\$ 26,507
Accounts receivable	68,607	64,179	132,786	-
Prepays	-	780	780	-
Total current assets	<u>235,023</u>	<u>948,779</u>	<u>1,183,802</u>	<u>26,507</u>
Noncurrent assets				
Restricted cash and pooled investment	253,050	142,350	395,400	-
Capital assets				
Land	293,863	81,213	375,076	-
Capital assets, net	<u>9,091,215</u>	<u>5,751,573</u>	<u>14,842,788</u>	<u>154,944</u>
Total noncurrent assets	<u>9,638,128</u>	<u>5,975,136</u>	<u>15,613,264</u>	<u>154,944</u>
Total assets	<u>9,873,151</u>	<u>6,923,915</u>	<u>16,797,066</u>	<u>181,451</u>
Liabilities				
Current liabilities				
Accounts payable	3,840	25,063	28,903	14,263
Accrued liabilities	59,697	34,440	94,137	10,735
Current portion of long-term debt	<u>163,000</u>	<u>95,000</u>	<u>258,000</u>	<u>3,509</u>
Total current liabilities	<u>226,537</u>	<u>154,503</u>	<u>381,040</u>	<u>28,507</u>
Long-term liabilities				
Debt payable, net of current portion	<u>6,734,000</u>	<u>3,906,000</u>	<u>10,640,000</u>	<u>3,509</u>
Total liabilities	<u>6,960,537</u>	<u>4,060,503</u>	<u>11,021,040</u>	<u>32,016</u>
Net position				
Net investment in capital assets	2,488,078	1,831,786	4,319,864	147,926
Restricted for revenue bond retirement	253,050	142,350	395,400	-
Unrestricted	<u>171,486</u>	<u>889,276</u>	<u>1,060,762</u>	<u>1,509</u>
Total net position	<u>\$ 2,912,614</u>	<u>\$ 2,863,412</u>	<u>\$ 5,776,026</u>	<u>\$ 149,435</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, 2022

	Enterprise Funds		Enterprise Fund Total	Governmental Activities Internal Service Funds
	<u>Wastewater</u>	<u>Water</u>	<u>Total</u>	<u>Funds</u>
Operating revenue				
Charges for services	\$ 581,010	\$ 552,015	\$ 1,133,025	\$ 567,433
Total operating revenue	<u>581,010</u>	<u>552,015</u>	<u>1,133,025</u>	<u>567,433</u>
Operating expense				
Shared labor and equipment	135,185	178,391	313,576	373,811
Supplies	20,247	8,702	28,949	20,759
Contractual services	16,752	11,730	28,482	-
Utilities	-	-	-	153,489
Repairs and maintenance	15,206	35,668	50,874	54,751
Professional fees	-	7,218	7,218	-
Depreciation	<u>295,482</u>	<u>152,386</u>	<u>447,868</u>	<u>40,099</u>
Total operating expense	<u>482,872</u>	<u>394,095</u>	<u>876,967</u>	<u>642,909</u>
Operating income (loss)	98,138	157,920	256,058	(75,476)
Non-operating revenue (expense)				
Interest expense	<u>(206,725)</u>	<u>(116,740)</u>	<u>(323,465)</u>	<u>-</u>
Income (loss) before transfers	(108,587)	41,180	(67,407)	(75,476)
Transfers				
Transfers in	<u>149,179</u>	<u>-</u>	<u>149,179</u>	<u>-</u>
Changes in net assets	40,592	41,180	81,772	(75,476)
Net assets, beginning of year	<u>2,872,022</u>	<u>2,822,232</u>	<u>5,694,254</u>	<u>224,911</u>
Net assets, end of year	<u>\$ 2,912,614</u>	<u>\$ 2,863,412</u>	<u>\$ 5,776,026</u>	<u>\$ 149,435</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, 2022

	<u>Enterprise Funds</u>		<u>Enterprise Fund Total</u>	<u>Governmental Activities Internal Service Funds</u>
	<u>Wastewater</u>	<u>Water</u>		
Cash flows from operating activities				
Receipts from customers and users	\$ 582,611	\$ 557,581	\$ 1,140,192	\$ -
Receipts from internal services provided	-	-	-	567,433
Payments to employees	(136,128)	(179,146)	(315,274)	(371,665)
Payments to suppliers	(49,107)	(39,801)	(88,908)	(210,260)
Net cash provided by (used in) operating activities	<u>397,376</u>	<u>338,634</u>	<u>736,010</u>	<u>(14,492)</u>
Cash flows from non-capital financing activities				
Transfers in	149,179	-	149,179	-
Cash flows from capital and related financing activities				
Principal paid on long-term debt	(160,000)	(92,000)	(252,000)	(3,509)
Interest paid	(206,725)	(116,740)	(323,465)	-
Acquisitions of capital assets	(166,713)	(57,500)	(224,213)	(20,391)
Net cash provided by (used in) capital and related financing activities	<u>(533,438)</u>	<u>(266,240)</u>	<u>(799,678)</u>	<u>(23,900)</u>
Net increase (decrease) in cash and pooled investments	13,117	72,394	85,511	(38,392)
Cash and pooled investments, beginning of year	<u>406,349</u>	<u>953,776</u>	<u>1,360,125</u>	<u>64,899</u>
Cash and pooled investments, end of year	<u>\$ 419,466</u>	<u>\$ 1,026,170</u>	<u>\$ 1,445,636</u>	<u>\$ 26,507</u>
Cash flows from operating activities				
Operating income (loss)	\$ 98,138	\$ 157,920	\$ 256,058	\$ (75,476)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	295,482	152,386	447,868	40,099
Change in operating assets and liabilities which provided (used) cash				
Accounts receivable	1,676	5,641	7,317	-
Prepaid assets and other items	-	398	398	20,455
Customer deposits	(75)	(75)	(150)	-
Accounts payable	3,098	23,119	26,217	(1,716)
Accrued liabilities	(943)	(755)	(1,698)	2,146
Net cash provided by (used in) operating activities	<u>\$ 397,376</u>	<u>\$ 338,634</u>	<u>\$ 736,010</u>	<u>\$ (14,492)</u>

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

CITY OF POTTERVILLE

FIDUCIARY FUNDS *COMBINING STATEMENT OF FIDUCIARY NET POSITION*

JUNE 30, 2022

	<u>Custodial Fund</u> <u>Current Tax</u> <u>Fund</u>
Assets	
Cash and pooled investments	\$ 202
Liabilities	
Due to other governmental units	<u>202</u>
Net position	
Restricted	<u>\$ -</u>

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

CITY OF POTTERVILLE
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Custodial Fund</u> <u>Current Tax</u> <u>Fund</u>
Additions	
Taxes and benefits collected for other entities	\$ 2,492,808
Total additions	<u>2,492,808</u>
Deductions	
Taxes and benefits paid to other entities	<u>2,492,808</u>
Total deductions	<u>2,492,808</u>
Changes in net position	-
Net position, beginning of year	<u>-</u>
Net position, end of year	<u><u>\$ -</u></u>

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

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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 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 changes 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*.

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.

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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. 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 major streets. Financing is provided by the City's share of the State's fuel and weight taxes.

The *Local Streets Fund* is used to account for the construction and maintenance of local 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.

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.

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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 *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 *Custodial Funds* are used to account for the collection and disbursement of property taxes that are collected on behalf of outside governments or other.

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.

Investments

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

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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.

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

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

Compensated Absences

Under contracts negotiated with employee groups and personnel policy, individual employees have a vested right to receive payments for unused personal time off (PTO) 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.

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.

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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 custodial 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 2021 summer roll has been recognized in these statements. City taxes are billed and due July 1, and become delinquent after September 14.

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.

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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, 2022, the City incurred no expenditures in excess of the amounts appropriated at the level of budgetary control.

3. CASH AND INVESTMENTS

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

	Primary Government	Component Units	Fiduciary Fund	Total
Cash and pooled investment	\$2,386,056	\$64,221	\$202	\$2,450,479
Restricted cash and pooled investment	395,400	-	-	395,400
Total	\$2,781,456	\$64,221	\$202	\$2,845,879

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

Deposits	\$2,845,214
Cash on hand	665
Total	\$2,845,879

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 \$2,871,237 was exposed to custodial credit risk because the balance was either insured or collateralized.

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

4. INTERFUND TRANSACTIONS AND BALANCES

Transfers in and out for the year ended June 30, 2022 are as follows:

<u>Transfers out</u>	<u>Transfers in</u>			<u>Total</u>
	<u>Local Streets</u>	<u>Nonmajor governmental</u>	<u>Waste water</u>	
General fund	\$117,103	\$105,910	\$149,179	\$372,192
Major Streets	87,500	-	-	87,500
Total	\$204,603	\$105,910	\$149,179	\$459,692

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.

5. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<u>Balance July 1, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2022</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 317,766	\$ -	\$ -	\$ 317,766
Construction in progress	23,906	-	23,906	-
Total capital assets, not being depreciated	341,672	-	23,906	317,766
Capital assets, being depreciated				
Buildings	936,687	-	-	936,687
Land improvements	6,765,286	23,906	-	6,789,192
Paved roads	7,087,595	-	-	7,087,595
Unpaved roads	67,770	-	-	67,770
Bike path	273,493	-	-	273,493
Equipment	666,468	20,391	23,590	663,269
Total capital assets, being depreciated	15,797,299	44,297	23,590	15,818,006
Less accumulated depreciation for				
Buildings	359,392	28,843	-	388,235
Land improvements	1,677,974	136,162	-	1,814,136
Paved roads	3,297,721	174,236	-	3,471,957
Unpaved roads	63,252	2,259	-	65,511
Bike path	188,780	6,236	-	195,016
Equipment	383,651	75,938	23,590	435,999
Total accumulated depreciation	5,970,770	423,674	23,590	6,370,854
Net capital assets, being depreciated	9,826,529	(379,377)	-	9,447,152
Governmental Activities capital assets, net	\$10,168,201	\$(379,377)	\$23,906	\$9,764,918

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

	Balance July 1, <u>2021</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2022</u>
Business-type Activities				
Capital assets, not being depreciated				
Land	\$ 260,076	\$ 115,000	\$ -	\$ 375,076
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	260,076	115,000	-	375,076
Capital assets being depreciated				
Treatment system	9,266,394	109,213	-	9,375,607
Collection/distributions system	9,420,507	-	-	9,420,507
Machinery and equipment	1,624,044	-	-	1,624,044
Total capital assets, being depreciated	20,310,945	109,213	-	20,420,158
Less accumulated depreciation for				
Treatment system	1,440,924	185,409	-	1,626,333
Collection/distributions system	3,176,529	194,995	-	3,371,524
Machinery and equipment	512,049	67,464	-	579,513
Total accumulated depreciation	5,129,502	447,868	-	5,577,370
Net capital assets, being depreciated	15,181,443	(338,655)	-	14,842,788
Business-type Activities capital assets, net	\$15,441,519	\$(223,655)	\$ -	\$15,217,864
Component Units				
Capital assets, not being depreciated				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	166,731	-	166,731
Total capital assets, not being depreciated	-	166,731	-	166,731
Capital assets being depreciated				
Buildings and improvements	842,657	-	-	842,657
Equipment	30,148	-	-	30,148
Total capital assets, being depreciated	872,805	-	-	872,805
Less accumulated depreciation for				
Buildings and improvements	256,308	42,133	-	298,441
Equipment	30,148	-	-	30,148
Total accumulated depreciation	286,456	42,133	-	328,589
Net capital assets, being depreciated	586,349	(42,133)	-	544,216
Component Unit capital assets, net	\$586,349	\$124,598	\$ -	\$710,947

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

Governmental Activities	
General government	\$ 23,375
Public safety	37,109
Public works	274,587
Recreation and culture	48,504
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	40,099
Total depreciation expense - governmental activities	\$423,674

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

Business-type Activities	
Sewer	\$295,482
Water	<u>152,386</u>
Total depreciation expense - business- type activities	<u>\$447,868</u>

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.

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, 2021):

Active plan members	7
Inactive employees entitled but not yet receiving benefits	9
Inactive employees or beneficiaries currently receiving benefits	<u>4</u>
Total	<u>20</u>

Contributions

The City is required to contribute at an actuarially determined amount, which for the current year was \$3,956 a month. Participating employees are required to contribute at a rate of 4.42% 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, 2021, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

The total pension liability in the December 31, 2021 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increases: base wage inflation of 3.00% annually

Investment rate of return: 7.00%, net of investment expense, including inflation

Mortality rates used for non-disabled plan member were based on PubG-2010 tables with future mortality improvements using RP-2019 scale applied fully generationally from the Pub-2010 base year of 2010. Mortality rates used for disabled plan member were based on PubNS-2010 Disabled Retiree Tables.

The actuarial assumptions used in the valuation were based on the results of the most recent (2018) 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.

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%	4.50%	2.70%
Global Fixed Income	20.0%	2.00%	0.40%
Private Investments	20.0%	7.00%	1.40%
Inflation			2.50%
Administrative fee			0.25%
Investment rate of return			7.25%

Discount rate. The discount rate used to measure the total pension liability is 7.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

Changes in the Net Pension Liability

	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a)-(b)
Balance at December 31, 2020	\$1,162,433	\$867,300	\$295,133
Changes for the Year:			
Service cost	34,129	-	34,129
Interest	82,959	-	82,959
Change in benefits	-	-	-
Differences between expected and actual experience	(41,241)	-	(41,241)
Change in assumptions	47,002	-	47,002
Contributions: employer	-	45,888	(45,888)
Contributions: employee	-	19,735	(19,735)
Net investment income	-	122,573	(122,573)
Benefit payments, including refunds	(70,468)	(70,468)	-
Administrative expense	-	(1,407)	1,407
Other changes	4,005	-	4,005
Net changes	56,386	116,321	(59,935)
Balance at December 31, 2021	\$1,218,819	\$983,621	\$235,198

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 7.25%, as well as what the employer's net pension liability would be using a discount rate that is 1 percentage point lower (6.25%) or higher (8.25%) than the current rate.

	1% Decrease	Current discount rate	1% Increase
Total pension liability	\$1,372,011	\$1,218,819	\$1,092,308
Fiduciary net position	983,621	983,621	983,621
Net pension liability	\$ 388,390	\$ 235,198	\$ 108,687

Pension expense and deferred outflows of resources related to pensions

For the year ended June 30, 2022 the employer recognized pension expense of \$50,224. 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	\$ 3,506	\$ (46,666)
Differences in assumptions	63,953	-
(Excess) deficit investment returns	-	(70,164)
Contributions subsequent to the measurement date*	25,086	-
Total	\$92,545	\$(116,830)

* 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 2023.

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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:

2022	\$ 508
2023	(18,986)
2024	(18,909)
2025	(11,984)
Total	<u>\$(49,371)</u>

Defined Contribution Plan

The City provides a defined contribution pension plan (the Plan) that provides pension benefits to all participating full-time employees, administered by the Municipal Employees Retirement System (MERS) of Michigan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are required to contribute 1.5% minimum 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 \$5,609 and the Board contributed \$1,688 to the plan.

7. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended June 30, 2022:

	<u>Balance July 1, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2022</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%	\$1,216,000	\$ -	\$ 36,000	\$1,180,000	\$ 37,000
\$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%	2,046,000	-	55,000	1,991,000	56,000
\$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%	1,094,000	-	27,000	1,067,000	28,000
\$14,036 2020 Act 99 installment purchase; due in annual payments of \$3,509 through 2024 plus interest	10,527	-	3,509	7,018	3,509
\$37,089 2021 Act 99 installment purchase; due in monthly payments through 2024	26,114	-	12,329	13,785	12,708

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

	<u>Balance July 1, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2022</u>	<u>Due Within One Year</u>
\$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%	\$1,430,000	\$ -	\$ 75,000	\$1,355,000	\$ 75,000
Total long-term debt	5,822,641	-	208,838	5,613,803	212,217
Accrued employee benefits	57,546	4,378	-	61,924	-
Total Governmental Activities	\$5,880,187	\$4,378	\$208,838	\$5,675,727	\$212,217
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%	\$ 2,096,000	\$ -	\$ 67,000	\$ 2,029,000	\$ 68,000
\$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%	850,000	-	25,000	825,000	25,000
\$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%	2,467,000	-	41,000	2,426,000	42,000
\$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%	1,644,000	-	27,000	1,617,000	28,000
\$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%	1,724,000	-	55,000	1,669,000	56,000
\$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%	1,524,000	-	25,000	1,499,000	26,000
\$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%	845,000	-	12,000	833,000	13,000
Total Business-type Activities	\$11,150,000	\$ -	\$252,000	\$10,898,000	\$258,000

CITY OF POTTERVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

Component Unit	Balance July 1, <u>2021</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2022</u>	Due Within One Year
Tax Increment Bond	<u>\$450,000</u>	\$ -	\$45,000	<u>\$405,000</u>	<u>\$50,000</u>

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2022 are as follows:

Year Ending <u>June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Component unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 212,217	\$ 177,233	\$ 258,000	\$ 326,828	\$ 50,000	\$ 17,432
2024	209,586	169,835	266,000	319,351	50,000	15,282
2025	209,000	163,792	273,000	311,644	55,000	12,945
2026	213,000	157,540	282,000	303,726	55,000	10,457
2027	222,000	151,039	291,000	295,550	60,000	7,811
2028-2032	1,201,000	644,525	1,586,000	1,346,178	135,000	6,568
2033-2037	1,379,000	436,259	1,835,000	1,101,714	-	-
2038-2042	1,019,000	233,231	2,120,000	818,738	-	-
2043-2047	949,000	71,273	1,594,000	514,883	-	-
2048-2052	-	-	1,217,000	323,704	-	-
2053-2057	-	-	1,176,000	120,381	-	-
Total	<u>\$5,613,803</u>	<u>\$2,204,727</u>	<u>\$10,898,000</u>	<u>\$5,782,697</u>	<u>\$405,000</u>	<u>\$70,495</u>

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, 2022

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, 2022 the City abated property tax revenues of approximately \$4,600.

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, 2022

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive</u> <u>(Negative)</u>
Revenues				
Taxes				
Property taxes	\$ 867,600	\$ 895,790	\$ 895,926	\$ 136
Intergovernmental revenues				
Federal	250,000	144,604	144,604	-
State	265,500	380,064	400,846	20,782
Licenses and permits	6,000	8,875	8,098	(777)
Charges for services	178	531	546	15
Fines & forfeitures	2,000	2,644	2,785	141
Investment earnings	3,000	3,300	3,672	372
Contributions and donations	-	20	20	-
Miscellaneous	35,200	90,855	104,783	13,928
Total revenues	<u>1,429,478</u>	<u>1,526,683</u>	<u>1,561,280</u>	<u>34,597</u>
Expenditures				
Current				
General government				
Mayor	1,438	880	872	8
Council/City Manager	122,847	122,195	118,601	3,594
Assessor	24,268	24,118	23,432	686
Clerk	53,403	49,945	45,160	4,785
Treasurer	93,484	93,458	92,698	760
City hall	82,617	127,831	112,299	15,532
Other	27,961	31,147	30,747	400
Planning	16,918	7,852	5,616	2,236
	<u>422,937</u>	<u>457,426</u>	<u>429,425</u>	<u>28,001</u>
Public safety				
Police department	229,584	220,284	212,303	7,981
Fire department	124,800	124,800	124,800	-
	<u>354,384</u>	<u>345,084</u>	<u>337,103</u>	<u>7,981</u>
Public works				
Department of public works	1,450	16,660	15,650	1,010
Other functions				
Community and economic development	42,978	44,269	43,995	274
Unallocated	99,629	152,104	152,104	-
	<u>142,607</u>	<u>196,373</u>	<u>196,099</u>	<u>274</u>
Debt service				
Principal	39,878	32,257	39,207	(6,950)
Interest	29,067	39,396	28,748	10,648
	<u>68,945</u>	<u>71,653</u>	<u>67,955</u>	<u>3,698</u>
Total expenditures	<u>990,322</u>	<u>1,087,196</u>	<u>1,046,232</u>	<u>40,964</u>
Revenues over (under) expenditures	<u>439,156</u>	<u>439,487</u>	<u>515,048</u>	<u>75,561</u>
Other financing sources (uses)				
Transfers out	(514,560)	(372,192)	(372,192)	-
Net changes in fund balances	(75,404)	67,295	142,856	75,561
Fund balances, beginning of year	<u>770,786</u>	<u>770,786</u>	<u>770,786</u>	<u>-</u>
Fund balances, end of year	<u>\$ 695,382</u>	<u>\$ 838,081</u>	<u>\$ 913,642</u>	<u>\$ 75,561</u>

CITY OF POTTERVILLE

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

FOR THE YEAR ENDED JUNE 30, 2022

	Budget Amounts		Actual	Variance
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive (Negative)</u>
Revenues				
Intergovernmental revenues				
State	\$ 175,000	\$ 227,000	\$ 231,407	\$ 4,407
Local	40,000	41,335	41,338	3
Special assessment	1,757	6,373	6,373	-
Total revenues	<u>216,757</u>	<u>274,708</u>	<u>279,118</u>	<u>4,410</u>
Expenditures				
Current				
Public works	114,002	122,178	107,022	15,156
Debt service				
Principal	10,560	10,570	10,560	10
Interest	6,663	6,670	6,664	6
Total expenditures	<u>131,224</u>	<u>139,418</u>	<u>124,246</u>	<u>15,172</u>
Revenues over (under) expenditures	<u>85,533</u>	<u>135,290</u>	<u>154,872</u>	<u>19,582</u>
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(87,500)	(87,500)	(87,500)	-
Total other financing sources (uses)	<u>(87,500)</u>	<u>(87,500)</u>	<u>(87,500)</u>	<u>-</u>
Net changes in fund balance	(1,967)	47,790	67,372	19,582
Fund balance, beginning of year	<u>177,626</u>	<u>177,626</u>	<u>177,626</u>	<u>-</u>
Fund balance, end of year	<u>\$ 175,659</u>	<u>\$ 225,416</u>	<u>\$ 244,998</u>	<u>\$ 19,582</u>

CITY OF POTTERVILLE

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

FOR THE YEAR ENDED JUNE 30, 2022

	Budget Amounts		Actual	Variance
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive (Negative)</u>
Revenues				
Intergovernmental revenues				
State	\$ 62,285	\$ 91,000	\$ 92,398	\$ 1,398
Local	31,306	33,800	33,819	19
Special assessment	10,723	38,963	38,947	(16)
Total revenues	<u>104,314</u>	<u>163,763</u>	<u>165,164</u>	<u>1,401</u>
Expenditures				
Current				
Public works	163,092	66,800	51,098	15,702
Debt service				
Principal	147,444	139,966	155,562	(15,596)
Interest	155,562	161,600	146,002	15,598
Total expenditures	<u>466,099</u>	<u>368,366</u>	<u>352,662</u>	<u>15,704</u>
Revenues over (under) expenditures	<u>(361,785)</u>	<u>(204,603)</u>	<u>(187,498)</u>	<u>17,105</u>
Other financing sources (uses)				
Transfers in	420,779	204,603	204,603	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>420,779</u>	<u>204,603</u>	<u>204,603</u>	<u>-</u>
Net changes in fund balance	58,994	-	17,105	17,105
Fund balance, beginning of year	<u>75,443</u>	<u>75,443</u>	<u>75,443</u>	<u>-</u>
Fund balance, end of year	<u>\$ 134,437</u>	<u>\$ 75,443</u>	<u>\$ 92,548</u>	<u>\$ 17,105</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, 2022

	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability								
Service cost	\$ 34,129	\$ 33,842	\$ 35,870	\$ 28,735	\$ 36,170	\$ 35,691	\$ 36,874	\$ 28,669
Interest	82,959	81,874	81,467	76,996	74,731	65,527	59,141	54,217
Changes in benefit terms	-	(7,039)	5,371	(5,161)	(4,266)	(824)	(1,957)	-
Difference between expected and actual experience	(41,241)	(2,503)	(31,905)	17,531	(10,338)	64,611	6,364	-
Changes in assumptions	47,002	28,768	35,789	-	-	-	34,014	-
Benefit payments including employee refunds	(70,468)	(65,763)	(67,478)	(64,092)	(64,436)	(35,942)	(27,306)	(27,306)
Other	4,005	-	-	-	-	-	-	-
Net change in total pension liability	<u>56,386</u>	<u>69,179</u>	<u>59,114</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>1,162,433</u>	<u>1,093,254</u>	<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>\$ 1,218,819</u>	<u>\$ 1,162,433</u>	<u>\$ 1,093,254</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	\$ 45,888	\$ 44,430	\$ 43,485	\$ 43,320	\$ 42,593	\$ 46,903	\$ 40,950	\$ 36,760
Contributions-employee	19,735	16,836	13,139	10,102	6,418	5,139	1,989	-
Net investment income	122,573	100,341	93,668	(28,611)	86,976	67,872	(8,840)	34,035
Benefit payments including employee refunds	(70,468)	(65,763)	(67,478)	(64,092)	(64,436)	(35,942)	(27,306)	(27,306)
Administrative expense	(1,407)	(1,567)	(1,615)	(1,418)	(1,376)	(1,337)	(1,284)	(1,256)
Net change in plan fiduciary net position	<u>116,321</u>	<u>94,277</u>	<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>867,300</u>	<u>773,023</u>	<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>\$ 983,621</u>	<u>\$ 867,300</u>	<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>\$ 235,198</u>	<u>\$ 295,133</u>	<u>\$ 320,231</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	81%	75%	71%	67%	75%	70%	71%	81%
Covered employee payroll	\$ 392,283	\$ 413,716	\$ 452,338	\$ 337,271	\$ 431,105	\$ 415,105	\$ 433,298	\$ 336,891
Employer's net pension liability as a percentage of covered employee payroll	60%	71%	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, 2022

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%
6/30/2021	41,604	41,604	-	413,716	10%
6/30/2022	47,472	47,472	-	392,283	12%

Notes to schedule

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	17 years
Asset valuation method	5 year smoothed (10 years for 2014)
Inflation	2.50%
Salary increases	3.00% (beginning with 2019 valuation)
Investment rate of return	7.00%
Retirement age	Varies depending on plan adoption
Mortality	Mortality rates used for non-disabled plan member were based on PubG-2010 tables with future mortality improvements using RP-2019 scale applied fully generationally from the Pub-2010 base year of 2010. Mortality rates used for disabled plan member were based on PubNS-2010 Disabled Retiree Tables.

Note to schedule:

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

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**COMBINING FUND FINANCIAL
STATEMENTS**

CITY OF POTTERVILLE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2022

	<u>Special Revenue</u>	<u>Capital Projects</u>		
	<u>Park Fund</u>	<u>Capital Projects</u>	<u>Storm Drain Project</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$ 29,446	\$ 3,869	\$ 7,079	\$ 40,394
Prepaid	<u>9,284</u>	<u>-</u>	<u>-</u>	<u>9,284</u>
Total assets	<u>\$ 38,730</u>	<u>\$ 3,869</u>	<u>\$ 7,079</u>	<u>\$ 49,678</u>
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 5,481	\$ -	\$ -	\$ 5,481
Accrued liabilities	<u>1,277</u>	<u>-</u>	<u>-</u>	<u>1,277</u>
Total liabilities	<u>6,758</u>	<u>-</u>	<u>-</u>	<u>6,758</u>
Fund balances				
Nonspendable				
Prepaid items	9,284	-	-	9,284
Assigned				
Capital projects	-	3,869	7,079	10,948
City enhancement	<u>22,688</u>	<u>-</u>	<u>-</u>	<u>22,688</u>
Total fund balances	<u>31,972</u>	<u>3,869</u>	<u>7,079</u>	<u>42,920</u>
Total liabilities and fund balances	<u>\$ 38,730</u>	<u>\$ 3,869</u>	<u>\$ 7,079</u>	<u>\$ 49,678</u>

CITY OF POTTERVILLE

NONMAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2022

	Special Revenue	Capital Projects		
	Park Fund	Capital Projects	Storm Drain Project	Total
Revenues				
Charges for services	\$ 63,942	\$ -	\$ -	\$ 63,942
Miscellaneous	5	-	-	5
Total revenues	63,947	-	-	63,947
Expenditures				
Current				
Public works	-	1,833	1,301	3,134
Culture and recreation	157,071	-	-	157,071
Total expenditures	157,071	1,833	1,301	160,205
Revenues over (under) expenditures	(93,124)	(1,833)	(1,301)	(96,258)
Other financing sources (uses)				
Transfers in	98,256	2,654	5,000	105,910
Net changes in fund balances	5,132	821	3,699	9,652
Fund balances, beginning of year	26,840	3,048	3,380	33,268
Fund balances, end of year	\$ 31,972	\$ 3,869	\$ 7,079	\$ 42,920

STATISTICAL SECTION

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CITY OF POTTERVILLE

SCHEDULE OF DEBT RETIREMENT AND ANNUAL INTEREST REQUIREMENTS

JUNE 30, 2022

Fiscal Year	2014 GO Bonds		Installment purchase		Installment purchase		2016 GO Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 37,000	\$ 39,825	\$ 3,509	\$ 70	\$ 12,708	\$ 243	\$ 56,000	\$ 56,265
2024	38,000	38,576	3,509	30	1,077	3	58,000	53,212
2025	39,000	37,295	-	-	-	-	60,000	51,616
2026	41,000	35,978	-	-	-	-	61,000	49,967
2027	42,000	34,594	-	-	-	-	63,000	48,290
2028	44,000	33,176	-	-	-	-	65,000	46,557
2029	45,000	31,691	-	-	-	-	66,000	44,770
2030	47,000	30,173	-	-	-	-	68,000	42,955
2031	48,000	28,586	-	-	-	-	70,000	41,085
2032	50,000	26,966	-	-	-	-	72,000	39,160
2033	51,000	25,279	-	-	-	-	74,000	37,180
2034	53,000	23,558	-	-	-	-	76,000	35,145
2035	55,000	21,769	-	-	-	-	78,000	33,055
2036	57,000	19,913	-	-	-	-	80,000	30,910
2037	59,000	17,989	-	-	-	-	82,000	28,710
2038	61,000	15,997	-	-	-	-	85,000	26,455
2039	63,000	13,939	-	-	-	-	87,000	24,118
2040	65,000	11,813	-	-	-	-	89,000	21,725
2041	67,000	9,619	-	-	-	-	92,000	19,278
2042	69,000	7,357	-	-	-	-	94,000	16,748
2043	72,000	5,029	-	-	-	-	97,000	14,162
2044	77,000	2,599	-	-	-	-	100,000	11,495
2045	-	-	-	-	-	-	102,000	8,745
2046	-	-	-	-	-	-	105,000	5,940
2047	-	-	-	-	-	-	111,000	3,052
2048	-	-	-	-	-	-	-	-
2049	-	-	-	-	-	-	-	-
2050	-	-	-	-	-	-	-	-
2051	-	-	-	-	-	-	-	-
2052	-	-	-	-	-	-	-	-
2053	-	-	-	-	-	-	-	-
2054	-	-	-	-	-	-	-	-
2055	-	-	-	-	-	-	-	-
2056	-	-	-	-	-	-	-	-
2057	-	-	-	-	-	-	-	-
	<u>\$ 1,180,000</u>	<u>\$ 511,721</u>	<u>\$ 7,018</u>	<u>\$ 100</u>	<u>\$ 13,785</u>	<u>\$ 246</u>	<u>\$ 1,991,000</u>	<u>\$ 790,595</u>

[illegible]

CITY OF POTTERVILLE

SCHEDULE OF DEBT RETIREMENT AND ANNUAL INTEREST REQUIREMENTS

JUNE 30, 2022

Fiscal Year	2014A Wastewater Bond		2014B Wastewater Bond		2014 Water Bond		2016A Water Bond	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
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>\$ 2,029,000</u>	<u>\$ 702,879</u>	<u>\$ 825,000</u>	<u>\$ 347,300</u>	<u>\$ 1,669,000</u>	<u>\$ 577,668</u>	<u>\$ 1,499,000</u>	<u>\$ 855,230</u>

2016A Wastewater Bond		2017 Wastewater Bond		2017 Water Bond		Total Business-type		
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
\$ 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	27,370	273,000	311,644	584,644
46,000	63,168	31,000	59,198	14,000	26,896	282,000	303,726	585,726
47,000	61,903	32,000	58,151	15,000	26,424	291,000	295,550	586,550
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	23,761	336,000	250,825	586,825
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	16,940	449,000	139,088	588,088
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	12,557	223,000	85,662	308,662
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	7,322	258,000	50,085	308,085
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	1,213	202,000	5,888	207,888
\$ 2,426,000	\$ 1,382,380	\$ 1,617,000	\$ 1,316,256	\$ 833,000	\$ 600,984	\$ 10,898,000	\$ 5,782,697	\$ 16,680,697

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SINGLE AUDIT SECTION



Vredeveld Haefner LLC

CPAs and Consultants
10302 20th Avenue
Grand Rapids, MI 49534
Fax (616) 828-0307

Douglas J. Vredeveld, CPA
(616) 446-7474
Peter S. Haefner, CPA
(616) 460-9388

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 21, 2022

City Council
City of Pottersville, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Pottersville, Michigan, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Pottersville, Michigan's basic financial statements, and have issued our report thereon dated November 21, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Pottersville, Michigan's internal control over financial reporting (internal control) as a basis for designing 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 City of Pottersville, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Pottersville, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Pottersville, 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 financial statements. 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*.

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.

Vredendal Haefner LLC



Vredeveld Haefner LLC

CPAs and Consultants
10302 20th Avenue
Grand Rapids, MI 49534
Fax (616) 828-0307

Douglas J. Vredeveld, CPA
(616) 446-7474
Peter S. Haefner, CPA
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

November 21, 2022

To the City Council
City of Potterville, Michigan

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited City of Potterville, Michigan's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of City of Potterville, Michigan's major federal programs for the year ended June 30, 2022. City of Potterville, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, City of Potterville, Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City of Potterville, Michigan and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of City of Potterville, Michigan's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to City of Potterville, Michigan's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City of Potterville, Michigan's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about City of Potterville, Michigan's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding City of Potterville, Michigan's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of City of Potterville, Michigan's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City of Potterville, Michigan's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Urodeuxeld Haefner LLC

CITY OF POTTERVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass- through Grantor's Number	Expenditures
U.S. Department of Housing and Urban Development			
Community Facilities Bond 2014	10.766		\$ 1,180,000
Community Facilities Bond 2016	10.766		1,991,000
Community Facilities Bond 2014	10.766		<u>1,067,000</u>
Total U.S. Department of Housing and Urban Development			<u>4,238,000</u>
U.S. Department of Treasury			
Coronavirus State and Local Recovery Funds (ARPA)	21.019		<u>144,604</u>
Total Federal Awards			<u><u>\$ 4,382,604</u></u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF POTTERVILLE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2022

1. The Schedule of Expenditures of Federal Awards is prepared in accordance with the modified accrual basis of accounting with the exception of the Community Facilities Bonds which are required to be reported as expenditures until the bonds are repaid.

2. Reconciliation of revenues from federal sources per financial statements and expenditures per the Schedule of Expenditures of Federal Awards:

Federal revenue reported in governmental funds	\$ 144,604
Capital grant	
Expenditures reported on the schedule of expenditure of federal awards	<u>4,382,604</u>
Balance of loans expended in prior years and payable at year end	<u>\$ 4,238,000</u>

3. The City did not elect to use the 10% de minimis cost rate as covered in Uniform Guidance section 2 CFR 200.414 indirect costs.

CITY OF POTTERVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	<u> </u> yes	<u> X </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	<u> </u> yes	<u> X </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> none reported
Type of auditors' report issued on compliance for major programs	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	<u> </u> yes	<u> X </u> no

Identification of major programs:

CFDA Number(s)

10.766

Name of Federal Program or Cluster

Community Facilities Bonds

Dollar threshold used to distinguish between Type A and B programs:

\$750,000

Auditee qualified as low-risk auditee?

 yes X no

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS

2021-001

This finding was addressed