



**CITY OF LITCHFIELD
HILLSDALE COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2021**

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Litchfield, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Litchfield, Michigan (the "City"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the

aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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



Gabridge & Company, PLC
Grand Rapids, MI
November 12, 2021

Management's Discussion and Analysis

City of Litchfield
Management's Discussion and Analysis
June 30, 2021

As management of the City of Litchfield, Michigan (The "City" or "government") 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, 2021. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$8,850,917 (*net position*). The City had an *unrestricted net position* of \$2,523,254.
- The City's revenues were \$2,114,457 and expenses were \$1,761,890 for an increase in net position of \$352,567.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$971,499, an increase of \$192,196 in comparison with the prior year. Approximately 66.3% of this amount, or \$644,348, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$644,348, or approximately 61.2% of total general fund expenditures and transfers out.

Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support 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 financial information on all of the City's assets, deferred outflows and inflows, and liabilities, with the difference 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 for some items that will only result in cash flows in future fiscal periods (e.g., accrued but unpaid pension benefits and earned but unused vacation leave).

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, police and fire protection, streets, and culture and recreation. The business-type activities of the City include water and sewer, and solid waste collection services.

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

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

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

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and major street funds, which are considered to be major funds. Data from the other funds are presented as a separate column as they are considered to be nonmajor funds.

The City adopts an annual appropriated budget for the general fund and each special revenue fund. A budgetary comparison schedule for the general fund and each major special revenue fund has been provided to demonstrate compliance with these budgets.

Proprietary Funds. The City maintains two types of 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 enterprises funds to account for its water, sewer, and solid waste collection operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The City uses an internal service fund to account for equipment costs by allocating the cost to the funds that are using the resources. Because these services predominantly benefit 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 water and sewer operations, both of which are considered to be major funds of the City.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements 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. The City reports one type of fiduciary fund, which is a custodial fund.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire 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 *required supplementary information* concerning the City's budgetary comparison schedules and the City's schedules of funding progress and employer contributions for the pension.

This report also presents other supplementary information which includes the nonmajor fund combining and individual statements. The combining statements are presented immediately following the required supplementary information on pensions.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$8,850,917 at the close of the most recent fiscal year.

City of Litchfield's Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
ASSETS						
<i>Current Assets</i>						
Cash and Investments	\$ 1,076,543	\$ 864,483	\$ 2,101,842	\$ 2,025,390	\$ 3,178,385	\$ 2,889,873
Accounts Receivables, Net	26,688	28,495	9,862	12,349	36,550	40,844
Due from Other Governmental Units	63,374	44,760	-	-	63,374	44,760
Prepaid Items and Inventories	12,361	7,777	28,011	27,575	40,372	35,352
Interfund Balances	-	(271,478)	-	271,478	-	-
Total Current Assets	1,178,966	674,037	2,139,715	2,336,792	3,318,681	3,010,829
<i>Noncurrent Assets</i>						
Investment in Joint Venture	195,788	183,375	-	-	195,788	183,375
Capital Assets, Net	3,706,260	3,740,238	2,360,783	2,353,140	6,067,043	6,093,378
Total Assets	5,081,014	4,597,650	4,500,498	4,689,932	9,581,512	9,287,582
DEFERRED OUTFLOWS OF RESOURCES						
Pension Related	108,177	64,557	21,253	12,599	129,430	77,156
Total Deferred Outflows of Resources	108,177	64,557	21,253	12,599	129,430	77,156
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	12,425	11,050	18,990	64,486	31,415	75,536
Accrued Liabilities	36,995	34,549	5,104	6,960	42,099	41,509
Total Current Liabilities	49,420	45,599	24,094	71,446	73,514	117,045
<i>Noncurrent Liabilities</i>						
Compensated Absences	48,165	42,393	-	-	48,165	42,393
Net Pension Liability	543,424	591,511	106,724	115,439	650,148	706,950
Total Liabilities	641,009	679,503	130,818	186,885	771,827	866,388
DEFERRED INFLOWS OF RESOURCES						
Pension Related	73,717	-	14,481	-	88,198	-
Total Deferred Inflows of Resources	73,717	-	14,481	-	88,198	-
NET POSITION						
Investment in Capital Assets	3,706,260	3,740,238	2,360,783	2,353,140	6,067,043	6,093,378
Restricted	260,620	166,042	-	-	260,620	166,042
Unrestricted	507,585	76,424	2,015,669	2,162,506	2,523,254	2,238,930
Total Net Position	\$ 4,474,465	\$ 3,982,704	\$ 4,376,452	\$ 4,515,646	\$ 8,850,917	\$ 8,498,350

A large portion of the City's net position, \$6,067,043 (or 68.6%), reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used 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, \$260,620, or 2.9%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,523,254, or 28.5%, is unrestricted.

Some of the more significant changes in assets and liabilities of the City are as follows:

- Decrease in net pension liability of \$56,802 due to the City's efforts to reduce pension liability at a faster pace than is required and 13.5% market performance during 2020.
- Increase in cash of \$288,512 is a result of purchases that were expected in the most recent fiscal year unable to be made due to lack of available supply, federal CARES Act grant funds received in the most recent fiscal year related to COVID-19 expenses experienced in the previous fiscal year, and preservation of cash for future capital improvement projects.

City of Litchfield's Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenues						
Program Revenues						
Charges for Services	\$ 202,318	\$ 196,168	\$ 605,903	\$ 655,395	\$ 808,221	\$ 851,563
Operating Grants and Contributions	530,448	458,938	184,200	180,000	714,648	638,938
Capital Grants and Contributions	529	300,115	-	-	529	300,115
Total Program Revenues	<u>733,295</u>	<u>955,221</u>	<u>790,103</u>	<u>835,395</u>	<u>1,523,398</u>	<u>1,790,616</u>
General Revenues						
Property Taxes	400,422	388,987	-	-	400,422	388,987
Unrestricted State Sources	152,520	133,472	-	-	152,520	133,472
Increase in Investment in Joint Venture	12,413	23,536	-	-	12,413	23,536
Interest and Investment Earnings	7,063	8,522	18,641	38,177	25,704	46,699
Total General Revenues	<u>572,418</u>	<u>554,517</u>	<u>18,641</u>	<u>38,177</u>	<u>591,059</u>	<u>592,694</u>
Total Revenues	<u>1,305,713</u>	<u>1,509,738</u>	<u>808,744</u>	<u>873,572</u>	<u>2,114,457</u>	<u>2,383,310</u>
Expenses						
General Government	435,033	489,149	-	-	435,033	489,149
Public Safety	256,838	310,944	-	-	256,838	310,944
Public Works	258,274	253,829	612,133	592,487	870,407	846,316
Community and Economic Development	9,928	4,772	-	-	9,928	4,772
Recreation and Culture	189,684	153,872	-	-	189,684	153,872
Total Expenses	<u>1,149,757</u>	<u>1,212,566</u>	<u>612,133</u>	<u>592,487</u>	<u>1,761,890</u>	<u>1,805,053</u>
Change in Net Position before Transfers	155,956	297,172	196,611	281,085	352,567	578,257
Allocation of Internal Service Fund	271,478	-	(271,478)	-	-	-
Transfers In (Out)	<u>64,327</u>	<u>41,864</u>	<u>(64,327)</u>	<u>(41,864)</u>	<u>-</u>	<u>-</u>
Change in Net Position	491,761	339,036	(139,194)	239,221	352,567	578,257
<i>Net Position at Beginning of Period</i>	3,982,704	3,643,668	4,515,646	4,276,425	8,498,350	7,920,093
Net Position at End of Period	<u>\$ 4,474,465</u>	<u>\$ 3,982,704</u>	<u>\$ 4,376,452</u>	<u>\$ 4,515,646</u>	<u>\$ 8,850,917</u>	<u>\$ 8,498,350</u>

Governmental activities increased the City's net position by \$491,761 for fiscal year ended June 30, 2021 compared to an increase of \$339,036 for the fiscal year ended June 30, 2020. Reasons for the increase in governmental net position are as follows:

- Capital grants and contributions decreased from \$300,115 to \$529 because property purchased for industrial development by TIFA was transferred to the City in the previous fiscal year thereby decreasing contributions from the TIFA of \$274,915 this fiscal year.
- Operating grants and contributions increased from \$638,938 to \$714,648 because state revenue sharing increased by \$18,774, the police department received CARES Act funding of \$30,696, 4,708 and \$17,017 of additional state funds were distributed to local and major streets, respectively.
- Property tax revenue increased \$11,435, or 3%, from \$388,987 to \$400,422.
- Interest and investment earnings decreased \$20,995, or 78%, due to interest rates falling on invested funds.
- General and public safety expenses were reduced by \$108,222 because of increased personnel costs in the previous fiscal year due to COVID-19 not necessary in the current fiscal year.

- Recreation and culture expenses revenues and expenses increased by \$35,812 with \$25,115 due to increased golf course expenses given fewer COVID-19 restrictions during fiscal 2021.

Business-type activities decreased the City's net position by \$139,194 for fiscal year ended June 30, 2021 compared to an increase of \$239,221 for the fiscal year ended June 30, 2020. The reason for the increase in business-type activities net position is the preservation of cash for future infrastructure improvements and capital improvements in the water fund. Although revenues were reduced in water and sewer activities due to industrial business being shut down for a portion of the fiscal year due to COVID-19, operating expenses for water and sewer activities were also reduced.

Financial Analysis of Governmental 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, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Council.

At June 30, 2021, the City's governmental funds reported combined fund balances of \$971,499, an increase of \$192,196 in comparison with the prior year. \$11,546, or 1.2%, of the total fund balance is in nonspendable form (prepaid expenditures and inventories). Approximately 66.3%, or \$644,348, of this amount constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance, \$260,620, or 26.8%, is categorized as *restricted* to indicate that it is restricted for City streets and other specific purposes, or committed for particular purposes (\$54,985 or 5.7%).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$644,348. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures. Unassigned fund balance represents approximately 61.2% of total general fund expenditures and transfers out. The fund balance of the City's general fund increased by \$124,409 during the current fiscal year. The reasons for the increase in general fund balance are:

- State revenue sharing increased by \$18,774.
- Property tax revenue increased \$11,435.
- The police department received CARES Act funding of \$30,696.

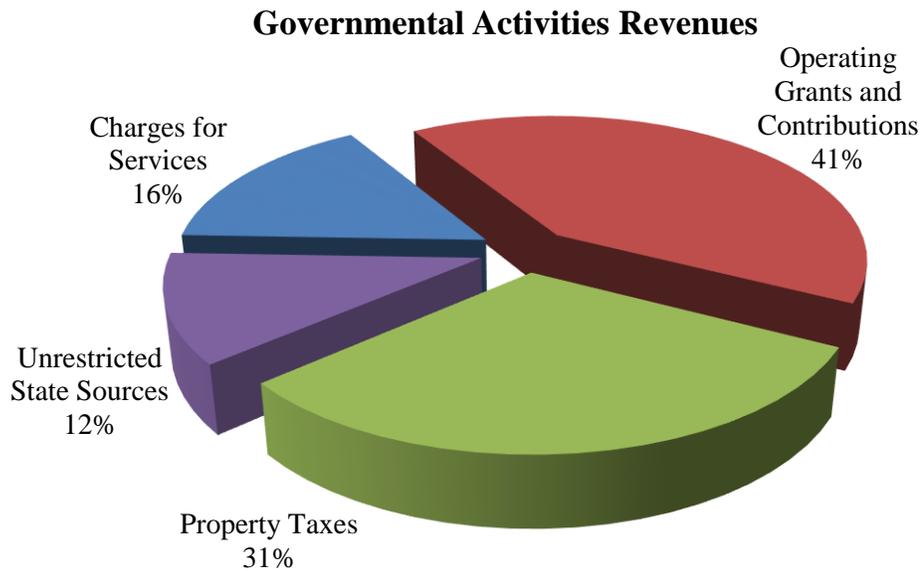
- General and public safety expenses were reduced by \$108,222 because of increased personnel costs in the previous fiscal year due to COVID-19 not necessary in the current fiscal year.

The fund balance of the City’s major street fund increased by \$71,104 during the current fiscal year to an ending balance of \$183,918 due to preservation of cash for future capital improvement projects.

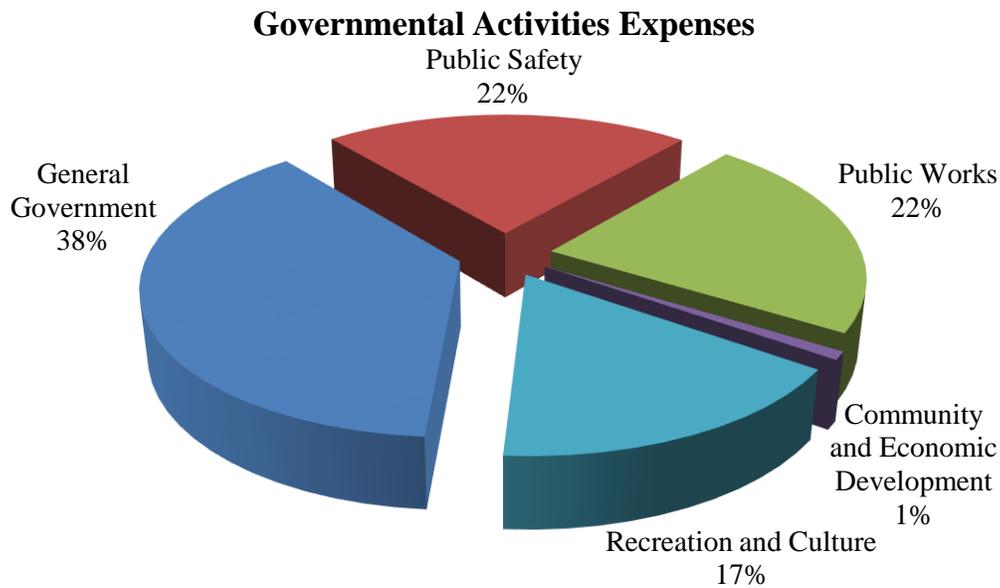
Proprietary Funds. The City’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position at the end of the year was \$1,364,489 for the sewer fund, \$535,649 for the water fund, and \$115,531 for the solid waste collection fund. The change in net position was an increase of \$36,137 for the sewer fund, an increase of \$99,632 for the water fund, and a decrease of \$3,485 for the solid waste collection fund, respectively. Changes for the sewer, water, and solid waste collection funds were described in an earlier section of this report.

Governmental Activities

The following chart summarizes the revenue sources for the governmental activities of the City for the most recent fiscal year-end.



The following chart summarizes the expenses for the governmental activities of the City for the most recent fiscal year-end.



General Fund Budgetary Highlights

Original budget compared to final budget. There were no significant amendments made to the original budgeted appropriations or the original estimated revenues. Minor amendments were made to better allocate expenditures within the fund.

Final budget compared to actual results. The City’s general fund had one minor expenditure in excess of the amount appropriated during the year ended June 30, 2021:

	Final Budget	Actual Amount	Negative Variance
Golf Course	\$ 107,805	\$ 109,903	\$ (2,098)

Capital Assets

The City’s investment in capital assets for its governmental and business-type activities as of June 30, 2021 amounts to \$6,067,043 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, vehicles, machinery, equipment, furniture, and water and sewer systems.

More detailed information about the City’s capital assets can be found in the notes to the financial statements.

Economic Condition and Outlook

Management estimates that approximately \$1.2 million of revenues will be available for appropriation in the general fund in the upcoming budget. Expenditures are expected to change by small amounts compared to 2021. In 2022, the City plans again to use current revenues to provide essential services and to maintain the City's financial reserves at similar levels. Internally, Administration will look to continue to modernize the office and make information readily accessible, transparent, and easy to access both in the office, at home, and in the field. Upgrades to the police department and staff will help minimize paper usage and reduce costs in the long-term. Staff also will invest more effort into grant-seeking and grant-writing to help offset costs of previously budgeted items, as well as projects that are outlined as long-term visions in the City's Master Plan.

Externally, City Administration monitors regularly state and federal level mandates that may have an impact on upcoming budgets. With the recent issues in water quality in other communities, this will continue to be a factor for local governments to consider. If the state elects to further tighten water quality requirements, additional costs could be incurred to ensure compliance. Pandemic recovery continues to be a factor as well. With the change in work-from-home rules around some businesses, the city will need to review the zoning code to ensure that we are welcoming to those seeking to live in Litchfield while working remotely from their homes. Ensuring that zoning and permitting happens efficiently will help to keep construction jobs functioning smoothly and creating needed local income. As the method in which buildings are used economically, making the proper adjustments to planning and zoning will be critical in the future success of Litchfield's downtown. Having a smooth, adaptable, and streamlined process will mean the downtown is ready for anything that comes its way.

2022 is, by all accounts, being viewed as a year of continued growth across the globe, as supply and demand both return to normal levels, due to global supply chains developing protections and redundancies to prevent the current shortages from re-occurring. Litchfield's major industrial park plays a role in the success of major supply chains, and we are well-positioned to continue successfully aiding our residents and businesses.

Contacting the City

This financial report is designed to provide a general overview of the City's finances to its citizens, customers, investors, and creditors and to demonstrate the City's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

City of Litchfield Administrative Office
221 Jonesville Street
Litchfield, MI 49252

Basic Financial Statements

City of Litchfield
Statement of Net Position
June 30, 2021

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
<i>Current Assets</i>				
Cash and Investments	\$ 1,076,543	\$ 2,101,842	\$ 3,178,385	\$ 678,459
Accounts Receivables, Net	26,688	9,862	36,550	7,632
Current Portion of Notes Receivable	--	--	--	66,621
Due from Other Governmental Units	63,374	--	63,374	--
Inventories	--	25,781	25,781	--
Prepaid Items	12,361	2,230	14,591	310
Total Current Assets	1,178,966	2,139,715	3,318,681	753,022
<i>Noncurrent Assets</i>				
Notes Receivable, Net	--	--	--	33,439
Investment in Joint Venture	195,788	--	195,788	--
Investment in Land and Infrastructure Development	--	--	--	655,803
Capital Assets not being Depreciated	1,247,350	297,421	1,544,771	637,494
Capital Assets being Depreciated, Net	2,458,910	2,063,362	4,522,272	1,136,288
Total Assets	5,081,014	4,500,498	9,581,512	3,216,046
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	108,177	21,253	129,430	--
Total Deferred Outflows of Resources	108,177	21,253	129,430	--
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	12,425	18,990	31,415	34,057
Accrued Liabilities	36,995	5,104	42,099	--
Customer Deposits	--	--	--	64,509
Total Current Liabilities	49,420	24,094	73,514	98,566
<i>Noncurrent Liabilities</i>				
Compensated Absences	48,165	--	48,165	--
Net Pension Liability	543,424	106,724	650,148	--
Total Liabilities	641,009	130,818	771,827	98,566
DEFERRED INFLOWS OF RESOURCES				
Pension Related	73,717	14,481	88,198	--
Total Deferred Inflows of Resources	73,717	14,481	88,198	--
NET POSITION				
Investment in Capital Assets	3,706,260	2,360,783	6,067,043	1,773,782
<i>Restricted for:</i>				
Highways and Streets	241,971	--	241,971	--
Other Purposes	18,649	--	18,649	--
<i>Unrestricted</i>	507,585	2,015,669	2,523,254	1,343,698
Total Net Position	\$ 4,474,465	\$ 4,376,452	\$ 8,850,917	\$ 3,117,480

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Litchfield
Statement of Activities
For the year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government								
Governmental Activities:								
General Government	\$ 435,033	\$ 75,602	\$ 103,600	\$ --	\$ (255,831)	\$ --	\$ (255,831)	\$ --
Public Safety	256,838	33,057	53,202	--	(170,579)	--	(170,579)	--
Public Works	258,274	92,494	229,143	--	63,363	--	63,363	--
Community and Economic Development	9,928	--	34,352	--	24,424	--	24,424	--
Recreation and Culture	189,684	1,165	110,151	529	(77,839)	--	(77,839)	--
Total Governmental Activities	1,149,757	202,318	530,448	529	(416,462)	--	(416,462)	--
Business-type Activities:								
Sewer	221,660	243,675	--	--	--	22,015	22,015	--
Water	262,968	238,615	184,200	--	--	159,847	159,847	--
Solid Waste Collection	127,505	123,613	--	--	--	(3,892)	(3,892)	--
Total Business-type Activities	612,133	605,903	184,200	--	--	177,970	177,970	--
Total Primary Government	\$ 1,761,890	\$ 808,221	\$ 714,648	\$ 529	(416,462)	177,970	(238,492)	--
Component Units								
Downtown Development Authority	\$ 12,057	\$ --	\$ 9,639	\$ --	--	--	--	(2,418)
Tax Increment Finance Authority	743,604	193,073	5,600	--	--	--	--	(544,931)
Total Component Units	\$ 755,661	\$ 193,073	\$ 15,239	\$ --	--	--	--	(547,349)
General Purpose Revenues and Transfers:								
Revenues								
Property Taxes					400,422	--	400,422	145,908
Interest and Investment Earnings					7,063	18,641	25,704	19,551
Unrestricted State Sources					152,520	--	152,520	459,460
Increase in Investment in Joint Venture					12,413	--	12,413	--
Allocation of Internal Service Fund					271,478	(271,478)	--	--
Transfers					64,327	(64,327)	--	--
Total General Revenues and Transfers					908,223	(317,164)	591,059	624,919
Change in Net Position					491,761	(139,194)	352,567	77,570
<i>Net Position at Beginning of Period</i>					3,982,704	4,515,646	8,498,350	3,039,910
Net Position at End of Period					\$ 4,474,465	\$ 4,376,452	\$ 8,850,917	\$ 3,117,480

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Litchfield
Balance Sheet
Governmental Funds
June 30, 2021

	<u>Special Revenue</u>			<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Streets</u>	<u>Other Governmental Funds</u>	
ASSETS				
Cash and Investments	\$ 675,723	\$ 157,368	\$ 82,402	\$ 915,493
Accounts Receivables, Net	26,663	25	--	26,688
Due from Other Governmental Units	28,016	27,113	8,245	63,374
Prepaid Items	11,546	--	--	11,546
<i>Total Assets</i>	<u>\$ 741,948</u>	<u>\$ 184,506</u>	<u>\$ 90,647</u>	<u>\$ 1,017,101</u>
LIABILITIES				
Accounts Payable	\$ 8,662	\$ --	\$ 222	\$ 8,884
Accrued Liabilities	35,768	588	362	36,718
<i>Total Liabilities</i>	<u>44,430</u>	<u>588</u>	<u>584</u>	<u>45,602</u>
FUND BALANCE				
Nonspendable	11,546	--	--	11,546
Restricted	18,649	183,918	58,053	260,620
Committed	22,975	--	32,010	54,985
Unassigned	644,348	--	--	644,348
<i>Total Fund Balance</i>	<u>697,518</u>	<u>183,918</u>	<u>90,063</u>	<u>971,499</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 741,948</u>	<u>\$ 184,506</u>	<u>\$ 90,647</u>	<u>\$ 1,017,101</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Litchfield
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2021

Total Fund Balance - Governmental Funds	\$	971,499
Net Position of internal service funds that are treated as proprietary in the fund level statements are treated as governmental in the entity-wide statements		548,463
General government capital assets of \$5,075,809, net of accumulated depreciation of \$1,759,965, are not financial resources and, accordingly, are not reported in the funds.		3,315,844
Net pension liability and related deferred amounts are not due and payable in the current period or do not represent current financial resources and, therefore, are not reported in the funds.		(508,964)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.		(48,165)
Investments in joint ventures are not financial resources and, accordingly, are not reported in the funds.		195,788
Total Net Position - Governmental Activities	\$	<u>4,474,465</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Litchfield
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the year Ended June 30, 2021

	<u>General</u>	<u>Special Revenue</u> Major Streets	<u>Other</u> Governmental Funds	<u>Total</u> Governmental Funds
Revenues				
Property Taxes	\$ 400,422	\$ --	\$ --	\$ 400,422
Intergovernmental	447,807	158,172	53,647	659,626
Licenses and Permits	11,651	--	--	11,651
Charges for Services	1,165	--	--	1,165
Fines and Forfeits	448	--	--	448
Interest and Rents	48,739	541	118	49,398
Other Revenues	255,754	--	529	256,283
Total Revenues	1,165,986	158,713	54,294	1,378,993
Expenditures				
General Government	426,453	--	--	426,453
Public Safety	326,977	--	--	326,977
Public Works	135,631	87,609	93,227	316,467
Community and Economic Development	18,188	--	--	18,188
Recreation and Culture	145,325	--	8,398	153,723
Capital Outlay	--	--	20,713	20,713
Total Expenditures	1,052,574	87,609	122,338	1,262,521
Excess of Revenues Over (Under) Expenditures	113,412	71,104	(68,044)	116,472
Other Financing Sources (Uses)				
Transfers In	11,397	--	64,727	76,124
Transfers Out	(400)	--	--	(400)
Net Other Financing Sources (Uses)	10,997	--	64,727	75,724
Net Change in Fund Balance	124,409	71,104	(3,317)	192,196
<i>Fund Balance at Beginning of Period</i>	573,109	112,814	93,380	779,303
Fund Balance at End of Period	\$ 697,518	\$ 183,918	\$ 90,063	\$ 971,499

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Litchfield
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the year Ended June 30, 2021

Total Net Change in Fund Balances - Governmental Funds	\$	192,196
Changes in net position of internal service funds that are treated as enterprise fund changes in net position in the fund level statements are treated as governmental fund changes in net position in the entity-wide statements.		56,120
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay of \$152,710 is exceeded by depreciation expense of \$188,645 and net disposal of capital assets of \$16,729.		(52,664)
The statement of activities reports changes to net pension liability and pension related deferrals as pension expense; however, the expenditures recorded on the governmental funds equals actual pension contributions.		17,990
Changes to compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.		(5,772)
Changes in certain assets and liabilities on the government-wide statements, such as the equity interest in joint ventures, do not require or provide resources and, accordingly, are excluded from the fund statements. This represents the increase in the equity interest in joint ventures.		12,413
Allocation of prior year's allocation of the internal service fund from business-type activities to governmental activities.		271,478
Changes in Net Position - Governmental Activities	\$	<u>491,761</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Litchfield
Statement of Net Position
Proprietary Funds
June 30, 2021

	Business-type Activities - Enterprise Funds				Governmental Activities Internal Service Fund
	Sewer	Water	Solid Waste Collection	Total Enterprise Funds	
ASSETS					
<i>Current Assets</i>					
Cash and Investments	\$ 1,405,191	\$ 555,188	\$ 141,463	\$ 2,101,842	\$ 161,050
Accounts Receivables, Net	4,108	3,174	2,580	9,862	--
Inventories	3,311	22,470	--	25,781	--
Prepaid Items	910	1,320	--	2,230	815
Total Current Assets	1,413,520	582,152	144,043	2,139,715	161,865
<i>Noncurrent Assets</i>					
Capital Assets not being Depreciated	252,771	44,650	--	297,421	--
Capital Assets being Depreciated, Net	975,724	1,087,638	--	2,063,362	390,416
Total Assets	2,642,015	1,714,440	144,043	4,500,498	552,281
DEFERRED OUTFLOWS OF RESOURCES					
Pension Related	8,944	8,193	4,116	21,253	--
Total Deferred Outflows of Resources	8,944	8,193	4,116	21,253	--
LIABILITIES					
<i>Current Liabilities</i>					
Accounts Payable	4,512	6,243	8,235	18,990	3,541
Accrued Liabilities	2,462	1,696	946	5,104	277
Total Current Liabilities	6,974	7,939	9,181	24,094	3,818
<i>Noncurrent Liabilities</i>					
Net Pension Liability	44,907	41,175	20,642	106,724	--
Total Liabilities	51,881	49,114	29,823	130,818	3,818
DEFERRED INFLOWS OF RESOURCES					
Pension Related	6,094	5,582	2,805	14,481	--
Total Deferred Inflows of Resources	6,094	5,582	2,805	14,481	--
NET POSITION					
Investment in Capital Assets	1,228,495	1,132,288	--	2,360,783	390,416
<i>Unrestricted</i>	1,364,489	535,649	115,531	2,015,669	158,047
Total Net Position	\$ 2,592,984	\$ 1,667,937	\$ 115,531	\$ 4,376,452	\$ 548,463

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Litchfield
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the year Ended June 30, 2021

	Business-type Activities - Enterprise Funds				Governmental Activities Internal Service Funds
	Sewer	Water	Solid Waste Collection	Total Enterprise Funds	
Operating Revenues					
Charges for Services	\$ 240,779	\$ 256,354	\$ 123,613	\$ 620,746	\$ 206,949
<i>Total Operating Revenues</i>	240,779	256,354	123,613	620,746	206,949
Operating Expenses					
General Operations and Maintenance	180,259	178,096	127,505	485,860	133,412
Depreciation	41,401	84,872	--	126,273	55,223
<i>Total Operating Expenses</i>	221,660	262,968	127,505	612,133	188,635
<i>Operating Income (Loss)</i>	19,119	(6,614)	(3,892)	8,613	18,314
Non-Operating Revenues (Expenses)					
Interest and Investment Earnings	14,022	4,212	407	18,641	377
Loss on Disposal of Capital Assets	(2,042)	(22,340)	--	(24,382)	(1,326)
Other Revenues	4,938	188,801	--	193,739	50,152
<i>Net Non-Operating Revenues (Expenses)</i>	16,918	170,673	407	187,998	49,203
<i>Income Before Contributions and Transfers</i>	36,037	164,059	(3,485)	196,611	67,517
Transfers In	100	300	--	400	--
Transfers Out	--	(64,727)	--	(64,727)	(11,397)
<i>Change In Net Position</i>	36,137	99,632	(3,485)	132,284	56,120
<i>Net Position at Beginning of Period</i>	2,556,847	1,568,305	119,016	4,244,168	492,343
<i>Net Position at End of Period</i>	\$ 2,592,984	\$ 1,667,937	\$ 115,531	\$ 4,376,452	\$ 548,463

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Litchfield
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2021

	<u>Business-type Activities - Enterprise Funds</u>				Governmental
	<u>Sewer</u>	<u>Water</u>	<u>Solid Waste Collection</u>	<u>Total Enterprise Funds</u>	Internal Service Fund
Cash Flows from Operating Activities					
Cash Received from Charges for Services	\$ 242,073	\$ 257,247	\$ 123,913	\$ 623,233	\$ -
Cash Received from Interfund Services Provided	-	-	-	-	208,927
Cash Paid to Employees for Services and Fringe Benefits	(54,141)	(52,941)	(19,054)	(126,136)	(29,147)
Cash Paid to Suppliers for Good and Services	(131,343)	(180,911)	(98,146)	(410,400)	(103,062)
<i>Net Cash Provided by Operating Activities</i>	<u>56,589</u>	<u>23,395</u>	<u>6,713</u>	<u>63,302</u>	<u>76,718</u>
Cash Flows from Non-capital Financing Activities					
Other Non-Operating Revenues, Including Contributions	4,938	188,801	-	193,739	50,152
Transfers In (Out)	100	(64,427)	-	(64,327)	(11,397)
<i>Net Cash Provided by Non-capital Financing Activities</i>	<u>5,038</u>	<u>124,374</u>	<u>-</u>	<u>129,412</u>	<u>38,755</u>
Cash Flows from Capital and Related Financing Activities					
Capital Asset Purchases	(16,976)	(141,322)	-	(158,298)	(75,235)
Loss on Disposal of Capital Assets	-	-	-	-	-
<i>Net Cash Used in Capital and Related Financing Activities</i>	<u>(16,976)</u>	<u>(141,322)</u>	<u>-</u>	<u>(158,298)</u>	<u>(75,235)</u>
Cash Flows from Investing Activities					
Interest and Investment Earnings	14,022	4,212	407	18,641	377
<i>Net Cash Provided by Investing Activities</i>	<u>14,022</u>	<u>4,212</u>	<u>407</u>	<u>14,429</u>	<u>377</u>
<i>Net Increase in Cash and Investments</i>	58,673	10,659	7,120	76,452	40,615
<i>Cash and Investments - Beginning of Year</i>	1,346,518	544,529	134,343	2,025,390	120,435
Cash and Investments - End of Year	<u>\$ 1,405,191</u>	<u>\$ 555,188</u>	<u>\$ 141,463</u>	<u>\$ 2,101,842</u>	<u>\$ 161,050</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Litchfield
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2021

	<u>Business-type Activities - Enterprise Funds</u>				Governmental
	<u>Sewer</u>	<u>Water</u>	<u>Solid Waste Collection</u>	<u>Total Enterprise Funds</u>	Activities Internal Service Fund
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities					
Operating Income (Loss)	\$ 19,119	\$ (6,614)	\$ (3,892)	\$ 8,613	\$ 18,314
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities					
Depreciation Expense	41,401	84,872	-	126,273	55,223
Changes in Assets, Deferred Outflows/Inflows, and Liabilities					
Accounts Receivables, Net	1,294	893	300	2,487	1,978
Inventories	(1)	(1,110)	-	(1,111)	-
Prepaid Items	300	375	-	675	(105)
Accounts Payable	(3,151)	(50,297)	7,952	(45,496)	1,437
Accrued Liabilities	413	(2,350)	81	(1,856)	(129)
Net Pension Liability and Related Deferred Items	(2,786)	(2,374)	2,272	(2,888)	-
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 56,589</u>	<u>\$ 23,395</u>	<u>\$ 6,713</u>	<u>\$ 63,302</u>	<u>\$ 76,718</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Litchfield
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2021

	Custodial Funds
ASSETS	
Cash and Cash Equivalents	\$ 26,416
<i>Total Assets</i>	26,416
LIABILITIES	
Undistributed Collections	-
<i>Total Liabilities</i>	-
NET POSITION	
Restricted for Individuals, Organizations, and Agencies	\$ 26,416

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Litchfield
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2021

	Custodial Funds
Additions	
Taxes Collected for Other Governments	\$ 1,080,003
Interest	86
<i>Total Additions</i>	1,080,089
Deductions	
Payments of Property Taxes to Other Governments	1,080,003
<i>Total Deductions</i>	1,080,003
<i>Change in Net Position</i>	86
Net Position at Beginning of Period	26,330
<i>Net Position at End of Period</i>	\$ 26,416

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Litchfield
Combining Statement of Net Position
Component Units
June 30, 2021

	Downtown Development Authority	Tax Increment Finance Authority	Total Component Units
ASSETS			
<i>Current Assets</i>			
Cash and Investments	\$ 33,266	\$ 645,193	\$ 678,459
Accounts Receivables, Net	--	7,632	7,632
Current Portion of Notes Receivable	--	66,621	66,621
Prepaid Items	--	310	310
Total Current Assets	33,266	719,756	753,022
<i>Noncurrent Assets</i>			
Notes Receivable, Net	--	33,439	33,439
Investment in Land and Infrastructure Development	--	655,803	655,803
Capital Assets not being Depreciated	--	637,494	637,494
Capital Assets being Depreciated, Net	--	1,136,288	1,136,288
Total Assets	33,266	3,182,780	3,216,046
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	2,885	31,172	34,057
Customer Deposits	--	64,509	64,509
Total Liabilities	2,885	95,681	98,566
NET POSITION			
Investment in Capital Assets	--	1,773,782	1,773,782
<i>Unrestricted</i>	30,381	1,313,317	1,343,698
Total Net Position	\$ 30,381	\$ 3,087,099	\$ 3,117,480

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Litchfield
Combining Statement of Activities
Component Units
For the year Ended June 30, 2021

	Downtown Development Authority	Tax Increment Finance Authority	Total Component Units
Expenses			
Community and Economic Development	\$ 12,057	\$ 743,604	\$ 755,661
Total Expenses	12,057	743,604	755,661
Program Revenues			
Charges for Services	--	193,073	193,073
Operating Grants and Contributions	9,639	5,600	15,239
Total Program Revenues	9,639	198,673	208,312
Net Program Revenues (Expenses)	(2,418)	(544,931)	(547,349)
General Revenue			
Property Taxes	--	145,908	145,908
Intergovernmental	--	459,460	459,460
Interest and Investment Earnings	4	19,547	19,551
Total General Revenues	4	624,915	624,919
Change in Net Position	(2,414)	79,984	77,570
<i>Net Position at Beginning of Period</i>	32,795	3,007,115	3,039,910
Net Position at End of Period	\$ 30,381	\$ 3,087,099	\$ 3,117,480

The Notes to the Financial Statements are an integral part of these Financial Statements

Notes to the Financial Statements

City of Litchfield

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The financial statements of the City of Litchfield (the “City” or “government”) have been prepared in conformity with generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial-reporting principles. The more significant of the City’s accounting policies are described below.

Reporting Entity

The City of Litchfield is governed by a 7-member elected City Council, which appoints the City Manager. The City provides the following services as authorized by its charter to its residents: law enforcement, fire protection, highways and streets, sanitation, public improvements, recreation and culture, planning and zoning, and general administrative services.

The accompanying financial statements present the City’s primary government and its component units, entities for which the government is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influences on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and the general available to its citizens.

Joint Venture

The City participates with Litchfield Township in the Litchfield Fire Department (the “Department”), a joint venture pursuant to an agreement entered into between both parties. In accordance with the provisions of Governmental Accounting Standards Board No. 14, the joint venture results from the ongoing financial responsibility of the Department’s operations agreed to by the aforementioned municipalities pursuant to the contractual agreement. A seven-member Board of Directors comprised of two members of the City of Litchfield Council, two members of the Litchfield Township Board, one member of the Scipio Township Board, and one member from the community at large governs the Board. Either the City or Litchfield Township has the power to terminate the joint venture. However, notice of termination must be given six months prior to the Department’s fiscal year-end. Upon termination, all property of the Department will be liquidated, and any outstanding indebtedness will be paid. The proceeds then remaining will be divided equally between the City and Litchfield Township.

City of Litchfield

Notes to the Financial Statements

The Department is funded by fire contracts with local townships and equal contributions made by the City and Litchfield Township. The Department reported expenditures in excess of revenues in the amount of \$160,661 in its year ended June 30, 2021 audited financial statements. The City reported a \$12,413 increase to net position in its governmental activities on the government-wide financial statements for the Department's operating activity, a 6.8% change in net position. The City's investment in the joint venture is reported in the statement of net position under governmental activities in the amount of \$195,788. The Department did not engage the City's auditors to audit the Department's financial statements. Copies of the Department's audited financial statements may be obtained at the City's offices.

Discretely Presented Component Units

The following component units are reported in a separate column to emphasize that, while legally separate, the City remains financially accountable for the entities or the nature and significant of the relationship between the entities and the City is such that exclusion of the entities would render the financial statements misleading or incomplete.

Downtown Development Authority - The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body is selected by the City Council. In addition, the DDA's budget is subject to approval by the City Council. The financial statements of the DDA are included in the City's financial statements and are not audited separately.

Tax Increment Finance Authority - The Tax Increment Finance Authority (TIFA) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The TIFA is audited separately from the City and complete financial statements may be obtained from the City's offices.

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. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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

City of Litchfield

Notes to the Financial Statements

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.

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 a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absences expenditures are recorded only when payment is due.

Property taxes, state revenue sharing, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City of Litchfield reports the following major governmental funds:

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

The ***major streets fund*** is used to account for the restricted financial sources that are for repairs and maintenance of the City's major streets.

City of Litchfield

Notes to the Financial Statements

The City reports the following proprietary funds:

The *sewer fund* is used to account for the operations required to provide sewer services to the general public. The costs (expenses, including depreciation) are financed or recovered primarily through user charges.

The *water fund* is used to account for the operations required to provide water services to the general public. The costs (expenses, including depreciation) are financed or recovered primarily through user charges.

Additionally, the government reports the following fund types:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

Capital projects funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Internal service funds account for the financing of goods or services provided by the City to other departments or funds on a cost reimbursement basis.

Custodial funds are custodial in nature and do not present results of operations or have a measurement focus. Custodial funds are accounted for using the accrual basis of accounting. These funds are used to account for asset that the government holds for others in a custodial capacity (such as taxes collected for other governments).

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* 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. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses are not meeting this definition are reported as nonoperating revenues and expenses.

City of Litchfield

Notes to the Financial Statements

Financial Statement Presentation – Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, all local government investment pools, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value at the balance sheet date.

State statutes and City policy authorize the City to invest in:

- Bonds, securities, other obligations, and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.
- 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.
- In United States government or federal agency obligation repurchase agreements.
- Bankers' acceptances of United States banks.
- 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.
- External investment pools as authorized by Public Act 20 as amended through March, 1997.

Receivables and Payables

All trade receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

City of Litchfield

Notes to the Financial Statements

Due from Other Governmental Units

Due from other governmental units consists of amounts due from the State of Michigan or other governments for various payments and grants.

Inventories

Inventories are valued at cost. Cost is determined using the first-in, first-out method. Inventories consist of water and sewer system supplies.

Prepaid Items

Prepaid expenditures in the governmental funds, such as insurance premiums, which are expected to be written off within the next fiscal year, are included in net current assets. Reported prepaid expenditures are equally offset by nonspendable fund balance, which indicates they do not constitute "available spendable resources" even though they are a component of net current assets.

Capital Assets

Capital assets, which include land and land improvements, buildings and improvements, vehicles, machinery, 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 statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life of at least two years. 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 their acquisition value 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. Capital assets are depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Land Improvements	10 - 20
Buildings and Improvements	10 - 50
Swimming Pool	15 - 20
Machinery, Equipment, and Furniture	3 - 20
Vehicles	3 - 20
Streets	20 - 30
Sidewalks	25 - 50
Water and Sewer Distribution System	40 - 90

City of Litchfield

Notes to the Financial Statements

Compensated Absences

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

Pension

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to the pension, 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.

Deferred Outflows/Inflows of Resources

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

The City has several items that qualify for reporting in these categories and are reported in the statement of net position. These items correspond to the City's net pension liability and are related to the net difference between projected and actual earnings on pension plan investments, differences between expected and actual experience, changes of assumptions, and contributions subsequent to the measurement date.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

City of Litchfield

Notes to the Financial Statements

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

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

City of Litchfield

Notes to the Financial Statements

Unassigned fund balance is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the City Council.

Property Tax Revenue Recognition

The City bills and collects property taxes and distributed them to other local units of government. Properties are assessed as of December 31, and the related property taxes are levied and become payable on July 1 of the following year for summer taxes and December 1 for winter taxes. Summer and winter taxes are due without penalty if paid by September 14 and February 14, respectively. Delinquent real property taxes are turned over to the County and added to the County tax roll. The County remits all of the City's uncollected delinquent real property tax to the City by June 30. Uncollected personal property taxes are not accrued because the date of collection is uncertain. The 2020 taxable valuation of the City totaled \$33,465,496 on which ad valorem taxes levied consisted of 13.000 mills for the City's operating purposes, after TIFA capture. These amounts are recognized in the general fund financial statements as tax revenue.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental, enterprise, and component unit funds are netted as part of the reconciliation to the government-wide financial statements.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary and Budgetary Accounting

The General and major Special Revenue Funds budgets shown as required supplementary information were prepared on the same modified accrual basis used to reflect actual results. This basis is consistent with accounting principles generally accepted in the United States of America. The City employs the following procedures in establishing the budgetary data reflected in the financial statements.

City of Litchfield

Notes to the Financial Statements

- a. The City Manager submits to the City Council the proposed operating budgets for the fiscal year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to July 1, the budget is legally enacted through passage of resolution.
- d. The budget is legally adopted at the departmental expenditure level for the General Fund and the total expenditure level for the Special Revenue Funds; however, they are maintained at the account level for control purposes. Any revisions that alter the total expenditures of any fund must be approved by the City Council. Violations, if any, are noted in the required supplementary information section.
- e. Appropriations unused at June 30 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the City Council during the year. Individual amendments were appropriately approved by the City Council as required.

Excess of Expenditures over Budget

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. Budgetary control is exercised at the activity level in the general fund and the function level in other funds.

The City had one expenditure in excess of the amount appropriated during the year ended June 30, 2021:

	Final Budget	Actual Amount	Negative Variance
General Fund			
Golf Course	\$ 107,805	\$ 109,903	\$ (2,098)

City of Litchfield

Notes to the Financial Statements

Note 3 - Deposits and Investments

Following is a reconciliation of deposit balances as of June 30, 2021:

	Primary Government	Component Units	Totals
Statement of Net Position			
Cash and Investments	\$ 3,178,385	\$ 678,459	\$ 3,856,844
Statement of Fiduciary Net Position			
Cash and Investments	26,416	-	26,416
<i>Total Cash and Investments</i>	\$ 3,204,801	\$ 678,459	\$ 3,883,260

Deposits and Investments

Checking and Savings Accounts	\$ 900,884
Certificates of Deposit (matures within one year)	2,364,810
Certificates of Deposit (matures in more than one year)	250,213
Investments (Michigan CLASS)	366,753
Cash on Hand	600
<i>Total Deposits and Investments</i>	\$ 3,883,260

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits might 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, \$349,108 of the City's bank balance of \$851,498 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the City believes it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk - Investments. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment credit risk. All investments are insured under SPIC. Credit risk ratings, where applicable, are summarized as follows: Michigan CLASS investments of \$366,753 had a S&P rating of AAAM.

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state

City of Litchfield

Notes to the Financial Statements

law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates for investments held at year-end are summarized as follows: there were \$2,364,810 of certificates of deposit that mature within one year, \$250,213 of certificates of deposit that mature in more than one year, and \$366,753 of Michigan CLASS investments with no maturity.

Fair Value Measurement

The City is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the City's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

As of June 30, 2021, the City had \$366,753 of Level 2 Michigan CLASS investments and the Tax Increment Finance Authority (discretely presented component unit) had investment in land and infrastructure development (not reported above) in the amount of \$655,803 with a Level 3 fair value measurement.

Note 4 - Interfund Transfers

The following schedule summarizes the operating transfers during the year:

Transfer In	Transfer Out	Amount
Local Streets	Water	\$ 64,727
General	Equipment Revolving	11,397
Water	General	300
Sewer	General	100

City of Litchfield

Notes to the Financial Statements

Interfund transfers are used to: 1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; 2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and 3) use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 5 - Capital Assets

Capital asset activity for governmental activities during the year was as follows:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not being Depreciated				
Land	\$ 1,177,106	\$ -	\$ -	\$ 1,177,106
Construction in Progress	69,854	28,973	(28,583)	70,244
<i>Subtotal</i>	<u>1,246,960</u>	<u>28,973</u>	<u>(28,583)</u>	<u>1,247,350</u>
Capital Assets being Depreciated				
Land Improvements	538,044	-	-	538,044
Buildings and Improvements	577,727	3,170	-	580,897
Swimming Pool	496,507	-	-	496,507
Machinery, Equipment, and Furniture	459,813	23,869	(21,989)	461,693
Vehicles	786,775	51,366	-	838,141
Streets	1,680,299	135,161	-	1,815,460
Sidewalks	23,061	-	-	23,061
<i>Subtotal</i>	<u>4,562,226</u>	<u>213,566</u>	<u>(21,989)</u>	<u>4,753,803</u>
Less Accumulated Depreciation				
Land Improvements	(224,551)	(24,078)	-	(248,629)
Buildings and Improvements	(246,225)	(11,733)	-	(257,958)
Swimming Pool	(172,979)	(27,899)	-	(200,878)
Machinery, Equipment, and Furniture	(327,518)	(21,990)	17,923	(331,585)
Vehicles	(530,850)	(43,419)	-	(574,269)
Streets	(562,455)	(113,980)	-	(676,435)
Sidewalks	(4,370)	(769)	-	(5,139)
<i>Subtotal</i>	<u>(2,068,948)</u>	<u>(243,868)</u>	<u>17,923</u>	<u>(2,294,893)</u>
Capital Assets being Depreciated, Net	<u>2,493,278</u>	<u>(30,302)</u>	<u>(4,066)</u>	<u>2,458,910</u>
Capital Assets, Net	<u>\$ 3,740,238</u>	<u>\$ (1,329)</u>	<u>\$ (32,649)</u>	<u>\$ 3,706,260</u>

City of Litchfield

Notes to the Financial Statements

Capital asset activity for the internal service fund (included above) during the year was as follows:

Internal Service Fund	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets being Depreciated:				
Machinery and Equipment	\$ 332,778	\$ 23,869	\$ (11,249)	\$ 345,398
Vehicles	528,580	51,366	-	579,946
<i>Subtotal</i>	<u>861,358</u>	<u>75,235</u>	<u>(11,249)</u>	<u>925,344</u>
Less Accumulated Depreciation:				
Machinery and Equipment	(209,847)	(18,929)	9,923	(218,853)
Vehicles	(279,781)	(36,294)	-	(316,075)
<i>Subtotal</i>	<u>(489,628)</u>	<u>(55,223)</u>	<u>9,923</u>	<u>(534,928)</u>
<i>Internal Service, Capital Assets, Net</i>	<u>\$ 371,730</u>	<u>\$ 20,012</u>	<u>\$ (1,326)</u>	<u>\$ 390,416</u>

Capital asset activity for business-type activities during the year was as follows:

Business-type Activities	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not being Depreciated				
Land	\$ 278,590	\$ -	\$ -	\$ 278,590
Construction in Progress	269,328	18,831	(269,328)	18,831
<i>Subtotal</i>	<u>547,918</u>	<u>18,831</u>	<u>(269,328)</u>	<u>297,421</u>
Capital Assets being Depreciated				
Water and Sewer Distribution System	7,896,899	408,795	(34,033)	8,271,661
Vehicles	22,900	-	-	22,900
<i>Subtotal</i>	<u>7,919,799</u>	<u>408,795</u>	<u>(34,033)</u>	<u>8,294,561</u>
Less Accumulated Depreciation				
Water and Sewer Distribution System	(6,091,677)	(126,273)	9,651	(6,208,299)
Vehicles	(22,900)	-	-	(22,900)
<i>Subtotal</i>	<u>(6,114,577)</u>	<u>(126,273)</u>	<u>9,651</u>	<u>(6,231,199)</u>
Capital Assets being Depreciated, Net	<u>1,805,222</u>	<u>282,522</u>	<u>(24,382)</u>	<u>2,063,362</u>
<i>Capital Assets, Net</i>	<u>\$ 2,353,140</u>	<u>\$ 301,353</u>	<u>\$ (293,710)</u>	<u>\$ 2,360,783</u>

City of Litchfield

Notes to the Financial Statements

Depreciation expense was charged to the City as follows:

Governmental Activities	
General Government	\$ 23,523
Public Safety	7,244
Public Works	121,917
Recreation and Culture	35,961
Depreciation Charged to Internal Service Funds	55,223
Total Governmental Activities	\$ 243,868
Business-type Activities	
Sewer	\$ 41,401
Water	84,872
Total Business-type Activities	\$ 126,273

Capital asset activity for the Tax Increment Finance Authority during the year was as follows:

Tax Increment Finance Authority	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not being Depreciated				
Land	\$ 548,983	\$ -	\$ -	\$ 548,983
Construction in Progress	7,277	-	(5,000)	2,277
Intangible Assets	-	86,234	-	86,234
<i>Subtotal</i>	556,260	86,234	(5,000)	637,494
Capital Assets being Depreciated				
Buildings and Improvements	1,452,753	-	-	1,452,753
Equipment and Furniture	216,910	10,000	-	226,910
<i>Subtotal</i>	1,669,663	10,000	-	1,679,663
Less Accumulated Depreciation				
Buildings and Improvements	(360,945)	(36,620)	-	(397,565)
Equipment and Furniture	(126,415)	(19,395)	-	(145,810)
<i>Subtotal</i>	(487,360)	(56,015)	-	(543,375)
Capital Assets being Depreciated, Net	1,182,303	(46,015)	-	1,136,288
Capital Assets, Net	\$ 1,738,563	\$ 40,219	\$ (5,000)	\$ 1,773,782

Note 6 - Long-term Obligations

The following is a summary of the long-term obligations' activity for the year:

Governmental Activities	Beginning Balance	Additions	Ending Balance
Compensated Absences	\$ 42,393	\$ 5,772	\$ 48,165

City of Litchfield

Notes to the Financial Statements

Compensated absences in governmental activities are liquidated by the general fund.

Note 7 - Defined Benefit Pension Plan

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. The employer 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 accessing the MERS website at www.mersofmich.com.

Retirement benefits for employees are calculated as follows:

Division	Benefit Multiplier	Final Average Compensation (Years)	Normal Retirement Age	Unreduced Benefit (Age/Years of Service)	Reduced Benefit (Age/Years of Service)	Vesting (Years)
General - Open	2.00% (No Max)	5	60	50/25	55/15	6

Employees Covered by Benefit Terms

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

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	6
Inactive Plan Members Entitled To But Not Yet Receiving Benefits	4
Active Plan Members	8
<i>Total Employees Covered By MERS</i>	18

Contributions

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

City of Litchfield

Notes to the Financial Statements

For the year ended June 30, 2021, the City had the following contribution amounts:

<u>Division</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>
General - Open	5.00%	19.21%

Net Pension Liability

The net pension liability reported at June 30, 2021 was determined using a measure of the total pension liability and the pension net position as of December 31, 2020. The December 31, 2020 total pension liability was determined by an actuarial valuation performed as of December 31, 2020.

Actuarial Assumptions

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

Inflation	2.50%
Salary Increases	3.00%, in the long-term
Investment Rate of Return	7.35%, net of investment and administrative expense including inflation

Although no specific price inflation assumptions are needed for the valuation, the 3.75% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%. Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend. The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.

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

City of Litchfield

Notes to the Financial Statements

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>Target Gross Rate of Return</u>	<u>Long-term Expected Gross Rate of Return</u>	<u>Inflation Assumption</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equity	60.00%	7.75%	4.65%	2.50%	3.15%
Global Fixed Income	20.00%	3.75%	0.75%	2.50%	0.25%
Private Investments	20.00%	9.75%	1.95%	2.50%	1.45%
	<u>100.00%</u>		<u>7.35%</u>		<u>4.85%</u>

Discount Rate

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

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

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Net Position</u>	<u>Net Pension Liability</u>
Balance at December 31, 2019	\$ 2,150,504	\$ 1,443,554	\$ 706,950
<i>Changes for the Year:</i>			
Service Cost	43,372	-	43,372
Interest on Total Pension Liability	160,811	-	160,811
Differences Between Expected and Actual Experience	11,540	-	11,540
Changes of Assumptions	50,851	-	50,851
Employer Contributions	-	111,993	(111,993)
Employee Contributions	-	22,399	(22,399)
Net Investment Income	-	191,941	(191,941)
Benefit Payments, Including Refunds	(112,517)	(112,517)	-
Administrative Expenses	-	(2,957)	2,957
<i>Net Changes</i>	<u>154,057</u>	<u>210,859</u>	<u>(56,802)</u>
Balance at December 31, 2020	<u>\$ 2,304,561</u>	<u>\$ 1,654,413</u>	<u>\$ 650,148</u>
	Allocated to:		
		Governmental Activities	\$ 543,424
		Business-type Activities	106,724
		Total	<u>\$ 650,148</u>

City of Litchfield

Notes to the Financial Statements

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

The following presents the net pension liability of the City, calculated using the discount rate of 7.60%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.60%) or one percentage point higher (8.60%) than the current rate.

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
Net Pension Liability of the City	\$ 918,890	\$ 650,148	\$ 422,297

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

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

For the year ended June 30, 2021 the City recognized pension expense of \$88,023.

The City reported deferred outflows/inflows of resources related to pensions from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Differences Between Projected and Actual Earnings on Pension Plan Investments	\$ -	\$ 60,687
Differences Between Expected and Actual Experience	13,125	27,511
Changes of Assumptions	66,946	-
Employer Contributions to the Plan Subsequent to the Measurement Date*	49,359	-
Total	\$ 129,430	\$ 88,198
Allocated to:		
Governmental Activities	\$ 108,177	\$ 73,717
Business-type Activities	21,253	14,481
Total	\$ 129,430	\$ 88,198

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

City of Litchfield

Notes to the Financial Statements

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

Years Ending	
June 30,	Amount
2022	\$ 16,359
2023	23,592
2024	(31,775)
2025	(16,303)

Significant Changes to the Pension Valuation

At the February 27, 2020, board meeting, the MERS Retirement Board adopted demographic assumptions effective with the December 31, 2020, annual actuarial valuation, which will impact contributions beginning in 2022. A 5-year experience study analyzing historical experience from 2013 through 2018 was completed in February 2020. In addition to changes to the economic assumptions which took effect with the fiscal year 2021 contribution rates, the experience study recommended updated demographic assumptions, including adjustments to the following actuarial assumptions: mortality, retirement, disability, and termination rates. Changes to the demographic assumptions resulting from the experience study have been approved by the MERS Retirement Board and are effective beginning with the December 31, 2020, actuarial valuation, first impacting 2022 contributions.

Statement of Fiduciary Net Position

As of June 30, 2021, the City had no payable due to MERS for employer and employee contributions. Detailed information about the pension plan's fiduciary net position is available in the separately issued MERS financial report.

Note 8 - Operating Lease

The City entered into an annual lease agreement to lease City-owned farmland to a local individual. The terms of the lease require the individual to pay the City \$24,100 annually, through April, at which time the lease is renewable.

Note 9 - Fund Balances - Governmental Funds

The City reports fund balance in governmental funds based on the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

City of Litchfield

Notes to the Financial Statements

Detailed information on fund balances of governmental funds is as follows:

	<u>General Fund</u>	<u>Major Streets</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable				
Prepaid Items	\$ 11,546	\$ -	\$ -	\$ 11,546
Total Nonspendable	<u>11,546</u>	<u>-</u>	<u>-</u>	<u>11,546</u>
Restricted for:				
Highways and Streets	-	183,918	58,053	241,971
Police Training	953	-	-	953
Youth Sports	8,881	-	-	8,881
Stage	2,275	-	-	2,275
Veterans Memorial	6,540	-	-	6,540
Total Restricted	<u>18,649</u>	<u>183,918</u>	<u>58,053</u>	<u>260,620</u>
Committed for:				
Fire Truck Replacement	22,975	-	-	22,975
Swimming Pool Construction	-	-	32,010	32,010
Total Committed	<u>22,975</u>	<u>-</u>	<u>32,010</u>	<u>54,985</u>
Unassigned	<u>644,348</u>	<u>-</u>	<u>-</u>	<u>644,348</u>
Total Fund Balances - Governmental Funds	<u>\$ 697,518</u>	<u>\$ 183,918</u>	<u>\$ 90,063</u>	<u>\$ 971,499</u>

Note 10- Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, unemployment benefits, as well as medical and workers' compensation benefits provided to employees. The City has purchased commercial insurance for general liability on buildings and property, equipment damage and theft, and limited tort claims for specific City facilities or events.

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

The City continues to carry commercial insurance for all other risk of loss, including employee health and accident insurance. Settled claims relating to the commercial insurance have not

City of Litchfield

Notes to the Financial Statements

exceeded the amount of insurance coverage in any of the past three fiscal years. There was no reduction in coverage obtained through commercial insurance during the past year.

Note 11 - Contingencies

The City participates in a number of federally assisted grant programs. These programs are subject to program compliance audits. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

As the case with other entities, the City faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceeds have been asserted as of year-end.

Note 12 - Tax Abatement Disclosure

Industrial Facilities Exemption (IFT)

The City has entered into property tax abatement agreements with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended. The IFT on a new plant and non-industrial property, such as some high-tech personal property, is computed at 50% of the property tax bill for new property. For rehabilitation properties, the taxable values can be frozen. There are no provisions to recapture taxes; however, the abatement may be eliminated if taxes are not paid timely.

For the year ended June 30, 2021, the City's property tax revenue for general operations was reduced by \$38,486.

Note 13 - Subsequent Events

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals in the United States and worldwide. In response, the United States federal government and individual state and local governments have implemented measures to combat the outbreak that have impacted business operations. During the 2020-2021 fiscal year, the City's operations were significantly impacted, as shelter-in-place orders and government mandates impacted census volumes. The City has moved to mitigate the impact by managing the workforce, actively managing cash balances, and implementing other cost reduction measures.

Required Supplementary Information

City of Litchfield
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance
	Original	Final		Positive (Negative) Final to Actual
Revenues				
Property Taxes	\$ 400,599	\$ 400,368	\$ 400,422	\$ 54
Intergovernmental	378,168	437,502	447,807	10,305
Licenses and Permits	12,163	11,690	11,651	(39)
Charges for Services	--	1,165	1,165	--
Fines and Forfeits	1,000	800	448	(352)
Interest and Rents	38,914	48,337	48,739	402
Other Revenues	252,885	261,297	255,754	(5,543)
Total Revenues	<u>1,083,729</u>	<u>1,161,159</u>	<u>1,165,986</u>	<u>4,827</u>
Other Financing Sources				
Transfers In	11,810	10,267	11,397	1,130
Total Revenues and Other Financing Sources	<u>1,095,539</u>	<u>1,171,426</u>	<u>1,177,383</u>	<u>5,957</u>
Expenditures				
General Government				
City Council	7,273	7,293	7,271	22
City Manager	113,566	113,398	111,260	2,138
Clerk	88,298	86,434	85,849	585
Board of Review	1,083	873	257	616
Treasurer	95,234	94,314	94,344	(30)
Assessor	25,019	32,265	31,528	737
Elections	4,750	3,599	3,143	456
Building and Grounds	20,554	21,208	20,955	253
Attorney Counsel	7,300	5,500	4,275	1,225
Cemetery	7,674	7,745	2,178	5,567
Other General Government	70,501	69,238	65,393	3,845
Total General Government	<u>441,252</u>	<u>441,867</u>	<u>426,453</u>	<u>15,414</u>
Public Safety				
Police Department	302,781	296,816	288,137	8,679
Fire Department	38,841	38,841	38,840	1
Total Public Safety	<u>341,622</u>	<u>335,657</u>	<u>326,977</u>	<u>8,680</u>
Public Works				
Streets and Sidewalks	25,830	26,359	25,679	680
Other Public Works	125,646	116,906	109,952	6,954
Total Public Works	<u>151,476</u>	<u>143,265</u>	<u>135,631</u>	<u>7,634</u>
Community and Economic Development				
Planning and Zoning	9,188	9,306	5,289	4,017
Economic Development	4,000	14,839	12,899	1,940
Total Community and Economic Development	<u>13,188</u>	<u>24,145</u>	<u>18,188</u>	<u>5,957</u>
Recreation and Culture				
Parks and Recreation	39,971	34,337	32,025	2,312
Christmas Decorations	--	8	--	8
Golf Course	97,111	107,805	109,903	(2,098)
Other Recreation and Culture	9,916	4,492	3,397	1,095
Total Recreation and Culture	<u>146,998</u>	<u>146,642</u>	<u>145,325</u>	<u>1,317</u>
Total Expenditures	<u>1,094,536</u>	<u>1,091,576</u>	<u>1,052,574</u>	<u>39,002</u>
Other Financing Uses				
Transfers Out	400	400	400	--
Total Expenditures and Other Financing Uses	<u>1,094,936</u>	<u>1,091,976</u>	<u>1,052,974</u>	<u>39,002</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>603</u>	<u>79,450</u>	<u>124,409</u>	<u>44,959</u>
Net Change in Fund Balance	<u>603</u>	<u>79,450</u>	<u>124,409</u>	<u>44,959</u>
<i>Fund Balance at Beginning of Period</i>	573,109	573,109	573,109	--
Fund Balance at End of Period	<u>\$ 573,712</u>	<u>\$ 652,559</u>	<u>\$ 697,518</u>	<u>\$ 44,959</u>

City of Litchfield
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Major Streets
For the year Ended June 30, 2021

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative) Final to Actual
Revenues				
Intergovernmental	\$ 144,850	\$ 163,338	\$ 158,172	\$ (5,166)
Interest and Rents	1,500	458	541	83
Total Revenues	<u>146,350</u>	<u>163,796</u>	<u>158,713</u>	<u>(5,083)</u>
Expenditures				
Public Works	79,313	107,221	87,609	19,612
Total Expenditures	<u>79,313</u>	<u>107,221</u>	<u>87,609</u>	<u>19,612</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>67,037</u>	<u>56,575</u>	<u>71,104</u>	<u>14,529</u>
Net Change in Fund Balance	67,037	56,575	71,104	14,529
<i>Fund Balance at Beginning of Period</i>	112,814	112,814	112,814	--
Fund Balance at End of Period	<u>\$ 179,851</u>	<u>\$ 169,389</u>	<u>\$ 183,918</u>	<u>\$ 14,529</u>

City of Litchfield
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Last Seven Calendar Years (Schedule is built prospectively upon implementation of GASB 68)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability							
Service Cost	\$ 43,372	\$ 44,052	\$ 43,853	\$ 40,455	\$ 39,413	\$ 35,595	\$ 33,174
Interest on Total Pension Liability	160,811	160,055	154,474	146,341	140,481	137,136	132,261
Differences Between Expected and Actual Experience	11,540	(42,116)	(16,132)	24,577	3,094	(39,476)	-
Changes of Assumptions	50,851	66,091	-	-	-	68,869	-
Benefit Payments, Including Refunds	(112,517)	(112,517)	(112,517)	(110,270)	(110,270)	(110,270)	(104,862)
Net Change in Pension Liability	<u>154,057</u>	<u>115,565</u>	<u>69,678</u>	<u>101,103</u>	<u>72,718</u>	<u>91,854</u>	<u>60,573</u>
<i>Total Pension Liability - Beginning</i>	2,150,505	2,034,940	1,965,262	1,864,159	1,791,441	1,699,587	1,639,014
Total Pension Liability - Ending (a)	<u>\$ 2,304,562</u>	<u>\$ 2,150,505</u>	<u>\$ 2,034,940</u>	<u>\$ 1,965,262</u>	<u>\$ 1,864,159</u>	<u>\$ 1,791,441</u>	<u>\$ 1,699,587</u>
Plan Fiduciary Net Position							
Contributions - Employer	\$ 111,993	\$ 96,283	\$ 80,391	\$ 72,236	\$ 65,377	\$ 60,500	\$ 59,373
Contributions - Employee	22,399	21,376	20,098	19,227	18,679	17,286	16,964
Net Investment Income (Loss)	191,941	173,786	(52,792)	158,492	124,917	(17,141)	70,355
Benefit Payments, Including Refunds	(112,517)	(112,517)	(112,517)	(110,270)	(110,270)	(110,270)	(104,862)
Administrative Expenses	(2,957)	(2,993)	(2,602)	(2,508)	(2,467)	(2,511)	(2,580)
Net Change in Plan Fiduciary Net Position	<u>210,859</u>	<u>175,935</u>	<u>(67,422)</u>	<u>137,177</u>	<u>96,236</u>	<u>(52,136)</u>	<u>39,250</u>
<i>Plan Fiduciary Net Position - Beginning</i>	1,443,555	1,267,620	1,335,042	1,197,865	1,101,629	1,153,765	1,114,515
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,654,414</u>	<u>\$ 1,443,555</u>	<u>\$ 1,267,620</u>	<u>\$ 1,335,042</u>	<u>\$ 1,197,865</u>	<u>\$ 1,101,629</u>	<u>\$ 1,153,765</u>
Net Pension Liability - Ending (a) - (b)	\$ 650,148	\$ 706,950	\$ 767,320	\$ 630,220	\$ 666,294	\$ 689,812	\$ 545,822
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	71.8%	67.1%	62.3%	67.9%	64.3%	61.5%	67.9%
Covered Payroll	\$ 411,495	\$ 417,253	\$ 417,253	\$ 384,550	\$ 373,582	\$ 351,037	\$ 327,155
Net Pension Liability as a Percentage of Covered Payroll	158.0%	169.4%	183.9%	163.9%	178.4%	196.5%	166.8%

* Built prospectively upon implementation on GASB 68

City of Litchfield
Required Supplementary Information
Schedule of Contributions
Last Seven Fiscal Years

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 94,346	\$ 81,088	\$ 65,970	\$ 70,356	\$ 68,328	\$ 45,082	\$ 44,136
Contributions in Relation to the Actuarially Determined Contribution	107,940	106,800	84,446	91,463	84,056	64,165	58,246
Contribution Deficiency (Excess)	<u>\$ (13,594)</u>	<u>\$ (25,712)</u>	<u>\$ (18,476)</u>	<u>\$ (21,107)</u>	<u>\$ (15,728)</u>	<u>\$ (19,083)</u>	<u>\$ (14,110)</u>
Covered Payroll	\$ 363,742	\$ 417,253	\$ 417,253	\$ 384,550	\$ 373,582	\$ 351,037	\$ 327,155
Contributions as a Percentage of Covered Payroll	29.7%	25.6%	20.2%	23.8%	22.5%	18.3%	17.8%

Notes

Valuation Date

Actuarially determined contribution amounts are calculated as of December 31 each year, which is 18 months prior to the beginning of the fiscal year in which the contributions are required.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry-age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	18 Years
Asset Valuation Method	5 Years; Smoothed
Inflation	2.50%
Salary Increases	3.00% in the Long-Term
Investment Rate of Return	7.35%, Net of Investment Expense, including Inflation
Retirement Age	Experience-Based Tables of Rates that are Specific to the Type of Eligibility Condition
Mortality	Rates Used were Based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female Blend

* Built prospectively upon implementation on GASB 68

Combining and Individual Fund Statements and Schedules

City of Litchfield
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2021

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Local Streets</u>	<u>Swimming Pool Reconstruction</u>	
ASSETS			
Cash and Investments	\$ 50,170	\$ 32,232	\$ 82,402
Due from Other Governmental Units	8,245	--	8,245
<i>Total Assets</i>	<u>\$ 58,415</u>	<u>\$ 32,232</u>	<u>\$ 90,647</u>
LIABILITIES			
Accounts Payable	\$ --	\$ 222	\$ 222
Accrued Liabilities	362	--	362
<i>Total Liabilities</i>	<u>362</u>	<u>222</u>	<u>584</u>
FUND BALANCE			
Restricted	58,053	--	58,053
Committed	--	32,010	32,010
Unassigned	--	--	--
<i>Total Fund Balance</i>	<u>58,053</u>	<u>32,010</u>	<u>90,063</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 58,415</u>	<u>\$ 32,232</u>	<u>\$ 90,647</u>

City of Litchfield
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the year Ended June 30, 2021

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Local Streets</u>	<u>Swimming Pool Reconstruction</u>	
Revenues			
Intergovernmental	\$ 53,647	\$ --	\$ 53,647
Interest and Rents	41	77	118
Other Revenues	--	529	529
<i>Total Revenues</i>	<u>53,688</u>	<u>606</u>	<u>54,294</u>
Expenditures			
Public Works	93,227	--	93,227
Recreation and Culture	--	8,398	8,398
Capital Outlay	--	20,713	20,713
<i>Total Expenditures</i>	<u>93,227</u>	<u>29,111</u>	<u>122,338</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(39,539)</u>	<u>(28,505)</u>	<u>(68,044)</u>
Other Financing Sources			
Transfers In	64,727	--	64,727
<i>Net Other Financing Sources</i>	<u>64,727</u>	<u>--</u>	<u>64,727</u>
<i>Net Change in Fund Balance</i>	<u>25,188</u>	<u>(28,505)</u>	<u>(3,317)</u>
<i>Fund Balance at Beginning of Period</i>	32,865	60,515	93,380
<i>Fund Balance at End of Period</i>	<u>\$ 58,053</u>	<u>\$ 32,010</u>	<u>\$ 90,063</u>

City of Litchfield
Component Unit - Downtown Development Authority (DDA)
Statement of Net Position and DDA Fund Balance Sheet
June 30, 2021

	<u>DDA Fund Balance Sheet</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
<i>Current Assets</i>			
Cash and Investments	\$ 33,266	\$ -	\$ 33,266
Total Assets	<u>33,266</u>	<u>-</u>	<u>33,266</u>
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	2,885	-	2,885
Total Liabilities	<u>2,885</u>	<u>-</u>	<u>2,885</u>
FUND BALANCE			
Unassigned	30,381	-	30,381
Total Fund Balance	<u>30,381</u>	<u>-</u>	<u>30,381</u>
Total Liabilities and Fund Balance	<u>\$ 33,266</u>		
NET POSITION			
Unrestricted		-	30,381
Total Net Position		<u>\$ -</u>	<u>\$ 30,381</u>

City of Litchfield
Component Unit - Downtown Development Authority (DDA)
Statement of Activities and DDA Fund Revenue,
Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2021

	DDA Fund Revenue, Expenditures, and Changes in Fund Balance	Adjustments	Statement of Activities
Expenditures / Expenses			
Community and Economic Development	\$ 12,057	\$ -	\$ 12,057
<i>Total Expenditures / Expenses</i>	<u>12,057</u>	<u>-</u>	<u>12,057</u>
Program Revenue			
Charges for Services	9,639	-	9,639
<i>Total Program Revenue</i>	<u>9,639</u>	<u>-</u>	<u>9,639</u>
General Revenue			
Interest and Investment Earnings	4	-	4
<i>Total General Revenue</i>	<u>4</u>	<u>-</u>	<u>4</u>
<i>Net Change in Fund Balance / Net Position</i>	<u>(2,414)</u>	<u>-</u>	<u>(2,414)</u>
Beginning of Year Fund Balance / Net Position	32,795		32,795
<i>End of Year Fund Balance / Net Position</i>	<u>\$ 30,381</u>		<u>\$ 30,381</u>

November 12, 2021

To the City Council
City of Litchfield, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Litchfield, Michigan (the “City”) for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 1, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. There were no new accounting policies adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2021. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management’s estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management’s estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- The assumptions used in the actuarial valuation of the pension are based on historical trends and industry standards.

We evaluated key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

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

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 12, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the management's discussion and analysis, budgetary comparison information, and the schedules for the defined benefit pension plan, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

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

Very truly yours,

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the printed name of the company.

Gabridge & Company, PLC
Grand Rapids, MI