



**CITY OF LITCHFIELD
HILLSDALE COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2023**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements***Opinions***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Litchfield, Michigan (the "City"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the pension schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements

in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City'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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in dark ink that reads "Gabridge & Company". The script is cursive and fluid, with the ampersand being a simple loop.

Gabridge & Company, PLC
Grand Rapids, Michigan
December 18, 2023

Management's Discussion and Analysis

City of Litchfield
Management's Discussion and Analysis
June 30, 2023

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, 2023. 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 \$9,153,117 (*net position*). The City had an *unrestricted net position* of \$2,868,800.
- The City's revenues were \$2,521,794 and expenses were \$2,399,082 for an increase in net position of \$122,712.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$1,197,435, an increase of \$127,249 in comparison with the prior year. Approximately 62.4% of this amount, or \$747,164, 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 \$747,164, or approximately 61.8% 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 \$9,153,117 at the close of the most recent fiscal year.

City of Litchfield's Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
ASSETS						
<i>Current Assets</i>						
Cash and Investments	\$ 1,440,257	\$ 1,399,913	\$ 2,385,786	\$ 2,294,682	\$ 3,826,043	\$ 3,694,595
Accounts Receivables, Net	24,987	6,258	15,012	9,290	39,999	15,548
Leases Receivable	11,019	24,626	-	-	11,019	24,626
Due from Other Governmental Units	65,119	64,038	-	-	65,119	64,038
Prepaid Items and Inventories	15,273	15,930	40,466	31,406	55,739	47,336
Total Current Assets	1,556,655	1,510,765	2,441,264	2,335,378	3,997,919	3,846,143
<i>Noncurrent Assets</i>						
Investment in Joint Venture	228,582	209,388	-	-	228,582	209,388
Leases Receivable, Long-term	81,650	106,900	-	-	81,650	106,900
Capital Assets, Net	3,504,288	3,505,350	2,358,497	2,337,556	5,862,785	5,842,906
Total Assets	5,371,175	5,332,403	4,799,761	4,672,934	10,170,936	10,005,337
DEFERRED OUTFLOWS OF RESOURCES						
Pension Related	238,355	142,806	62,418	32,028	300,773	174,834
Total Deferred Outflows of Resources	238,355	142,806	62,418	32,028	300,773	174,834
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	29,550	24,966	20,046	29,935	49,596	54,901
Accrued Liabilities	20,444	16,794	3,519	1,158	23,963	17,952
Unearned Revenue	138,116	139,294	-	-	138,116	139,294
Current Portion of Long-Term Debt	1,582	-	-	-	1,582	-
Internal Balances	(1,614)	(579)	1,614	579	-	-
Total Current Liabilities	188,078	180,475	25,179	31,672	213,257	212,147
<i>Noncurrent Liabilities</i>						
Long-term Debt	4,747	-	-	-	4,747	-
Compensated Absences	34,500	28,539	-	-	34,500	28,539
Net Pension Liability	769,203	510,352	201,432	114,467	970,635	624,819
Total Liabilities	996,528	719,366	226,611	146,139	1,223,139	865,505
DEFERRED INFLOWS OF RESOURCES						
Pension Related	-	121,918	-	27,345	-	149,263
Deferred Lease Revenue	95,453	134,998	-	-	95,453	134,998
Total Deferred Inflows of Resources	95,453	256,916	-	27,345	95,453	284,261
NET POSITION						
Net Investment in Capital Assets	3,497,959	3,505,350	2,358,497	2,337,555	5,856,456	5,842,905
Restricted	427,861	365,365	-	-	427,861	365,365
Unrestricted	591,729	628,212	2,277,071	2,193,923	2,868,800	2,822,135
Total Net Position	\$ 4,517,549	\$ 4,498,927	\$ 4,635,568	\$ 4,531,478	\$ 9,153,117	\$ 9,030,405

A large portion of the City's net position, \$5,856,456 (or 64.1%), 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, \$427,861, or 4.6%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,868,800, or 31.3%, is unrestricted.

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

- Cash and investments increased by \$131,448 which closely follows the increase in governmental fund balance of \$127,249.

- Increases in net pension liability of \$345,816 and pension related deferred outflows of resources of \$125,939 and decrease in deferred inflows of \$149,263 due to the performance (investment losses of 10.37%) of the pension plan during the year.
- Total leases receivable and deferred lease revenue decreased by \$38,857 and 39,545, respectively, as a result of receipt of principal payments on balances owed to the City and recognition of the related revenue.

City of Litchfield's Changes in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
Revenues						
Program Revenues						
Charges for Services	\$ 401,306	\$ 377,244	\$ 878,646	\$ 795,972	\$ 1,279,952	\$ 1,173,216
Operating Grants and Contributions	518,864	469,087	1,800	45,886	520,664	514,973
Capital Grants and Contributions	-	699	-	-	-	699
Total Program Revenues	920,170	847,030	880,446	841,858	1,800,616	1,688,888
General Revenues						
Property Taxes	435,493	416,701	-	-	435,493	416,701
Unrestricted State Sources	169,765	166,564	-	-	169,765	166,564
Increase in Investment in Joint Venture	19,194	13,600	-	-	19,194	13,600
Interest and Investment Earnings	31,747	8,633	36,012	8,583	67,759	17,216
Proceeds from Sale of Capital Assets	16,300	-	12,667	-	28,967	-
Total General Revenues	672,499	605,498	48,679	8,583	721,178	614,081
Total Revenues	1,592,669	1,452,528	929,125	850,441	2,521,794	2,302,969
Expenses						
General Government	583,113	455,361	-	-	583,113	455,361
Public Safety	384,396	365,347	-	-	384,396	365,347
Public Works	420,161	386,709	825,235	695,615	1,245,396	1,082,324
Community and Economic Development	108,290	87,680	-	-	108,290	87,680
Recreation and Culture	77,887	132,769	-	-	77,887	132,769
Total Expenses	1,573,847	1,427,866	825,235	695,615	2,399,082	2,123,481
Change in Net Position before Transfers	18,822	24,662	103,890	154,826	122,712	179,488
Transfers In (Out)	(200)	(200)	200	200	-	-
Change in Net Position	18,622	24,462	104,090	155,026	122,712	179,488
<i>Net Position at Beginning of Period</i>	<i>4,498,927</i>	<i>4,474,465</i>	<i>4,531,478</i>	<i>4,376,452</i>	<i>9,030,405</i>	<i>8,850,917</i>
Net Position at End of Period	\$ 4,517,549	\$ 4,498,927	\$ 4,635,568	\$ 4,531,478	\$ 9,153,117	\$ 9,030,405

Governmental activities increased the City's net position by \$18,622 for fiscal year ended June 30, 2023 compared to an increase of \$24,462 for the fiscal year ended June 30, 2022. Reasons for the increase in governmental net position are as follows:

- Charges for services increased by \$24,062 due in large part to increases in administrative charges.
- Governmental activities increased operating grants and contributions can largely be attributed to receipt of funds from the Tax Increment Financing Authority as operations costs reimbursement for payroll costs.
- Increases in governmental activities expenses can largely be attributed to the previously mentioned changes in net pension liability and related deferred amounts. These changes were the result of a 10.37% loss on pension related investments during the year covered by the pension plan's actuarial valuation.

- Decreased recreation and culture expenses for the year can be attributed to decreased pool related projects costs for the current year.

Business-type activities increased the City's net position by \$104,090 for fiscal year ended June 30, 2023 compared to a increase of \$155,026 for the fiscal year ended June 30, 2022.

Business type activities revenues increased mostly as a result of a new waste removal contract necessitating higher fees. Operating grants and contributions were \$44,086 less than the previous year due to no receipt of TIFA reimbursements during the year as these typically occur based on need. Increased public works expenses relate, largely, to the previously mentioned new waste removal contract.

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, 2023, the City's governmental funds reported combined fund balances of \$1,197,435, an increase of \$127,249 in comparison with the prior year. \$14,423, or 1.2%, of the total fund balance is in non-spendable form (prepaid expenditures and inventories). Approximately 62.4%, or \$747,164, of this amount constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance, \$427,861, or 35.7%, is categorized as *restricted* to indicate that it is restricted for City streets and other specific purposes, or committed for particular purposes (\$7,987 or 0.7%).

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 \$747,164. 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 61.8% of total general fund expenditures and transfers out. The fund balance of the City's general fund increased by \$52,407 during the current fiscal year. Increases in property tax revenues and unrestricted state aid, along with transfers in, were enough to more than offset the increased expenditures incurred by the City for the current year.

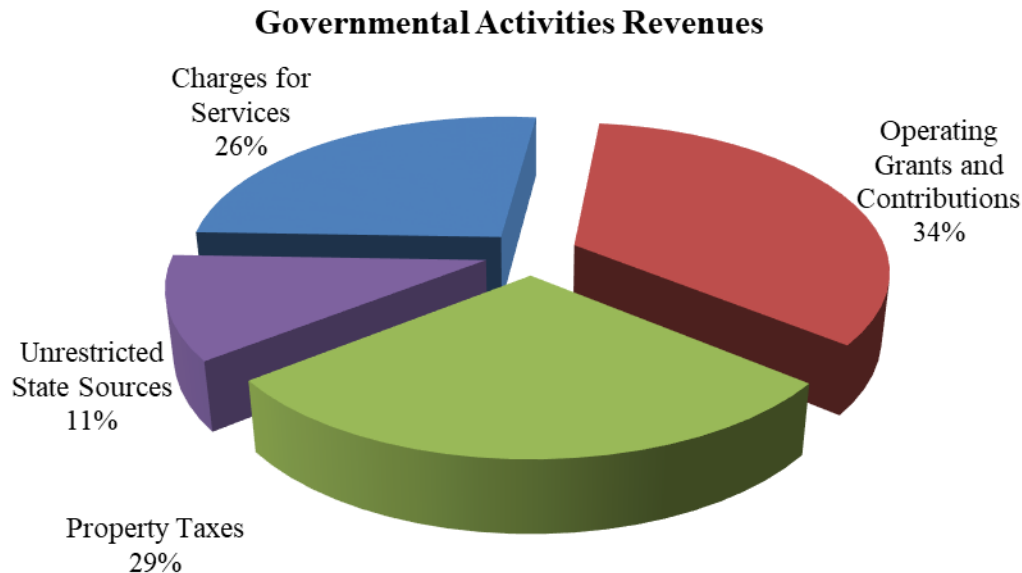
The fund balance of the City's major street fund increased by \$62,700 during the current fiscal year to an ending balance of \$336,827. State revenues from P.A. 51 continued to provide more revenue than the current year's major streets expenditures.

The ARPA fund accounts for the monies received from the federal government as part of the Covid-19 relief package for local units of government (the American Rescue Plan Act). These revenues are considered earned when an eligible expenditure has been assigned for reimbursement from these funds. At year end, the City has \$138,116 of ARPA funds on hand that have not yet been earned as no qualifying expenditures have been assigned for reimbursement with these funds; until such time, the revenue will be considered unearned and will be a liability on the City's balance sheet.

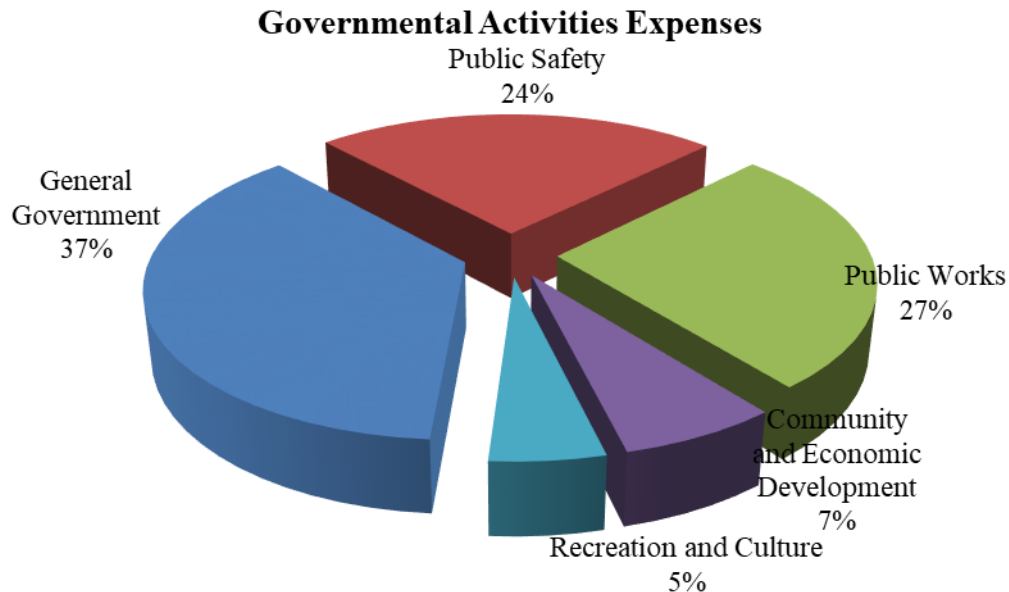
Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position at the end of the year was \$1,447,430 for the sewer fund, \$780,400 for the water fund, and \$49,241 for the solid waste collection fund. The change in net position was an increase of \$14,857 for the sewer fund, an increase of \$150,378 for the water fund, and a decrease of \$61,145 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 had no expenditures in excess of amounts appropriated during the year.

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2023 amounts to \$5,842,905 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, streets, 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. In 2024, the City plans again to use current revenues to provide essential services. Internally, Administration continues to modernize the office, and provide each department with the tools needed to reduce long-term costs, as well as replace aging equipment. The police department is now fully staffed, with the hiring of one part-time officer, the return of a full-time Sergeant, and the addition of a recruit currently attending the

academy. Staff continues to seek out grant opportunities 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 and Capital Improvements Program.

Externally, City Administration monitors regularly state and federal level issues that may have an impact on upcoming budgets. The most glaring issues currently deal with inflation and the rise in not only consumer products, but the overall cost of doing business. The Conference Board, an economic non-profit think tank since 1918, predicts a short and mild recession to start 2024, with inflation to remain above pre-pandemic levels for the next several years. The blame for this lies with unresolved supply and demand issues. The ageing demographic in the US could also have a slight impact on labor. The University of Michigan predicts that Michigan could see positive job gains, despite acknowledging the impending recession, which has traditionally not fared well for the automotive sectors. The University also expects building permits to decline. The city continues to review the zoning code to ensure that we are welcoming to those seeking to live, work, and play in Litchfield.

2024 is, by all accounts, being viewed as a down year nationally and globally. Locally speaking, the success of many of our industries will hinge on how the automotive industry adjusts to a pending recession, supply chain issues, and electrification. Thankfully, the TIFA's efforts to diversify the industrial park have been paying off and the city should mimic these efforts in the downtown and surrounding areas to ensure there are more "recession-proof" businesses to help weather any type of economic storms.

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, 2023

	Primary Government			
	Governmental	Business-type	Total	Component Units
	Activities	Activities		
ASSETS				
<i>Current Assets</i>				
Cash and Investments	\$ 1,440,257	\$ 2,385,786	\$ 3,826,043	\$ 1,349,784
Accounts Receivables, Net	24,987	15,012	39,999	16,467
Leases Receivable	11,019	--	11,019	--
Current Portion of Notes Receivable	--	--	--	271,890
Due from Other Governmental Units	65,119	--	65,119	--
Inventories	--	29,324	29,324	--
Prepaid Items	15,273	11,142	26,415	830
Total Current Assets	1,556,655	2,441,264	3,997,919	1,638,971
<i>Noncurrent Assets</i>				
Notes Receivable, Net	--	--	--	228,110
Investment in Joint Venture	228,582	--	228,582	--
Investment in Land and Infrastructure Development	--	--	--	434,169
Capital Assets not being Depreciated	1,273,637	344,180	1,617,817	60,000
Capital Assets being Depreciated, Net	2,230,651	2,014,317	4,244,968	960,859
Leases Receivable, Long-term	81,650	--	81,650	--
Total Assets	5,371,175	4,799,761	10,170,936	3,322,109
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	238,355	62,418	300,773	--
Total Deferred Outflows of Resources	238,355	62,418	300,773	--
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	29,550	20,046	49,596	42,057
Accrued Liabilities	20,444	3,519	23,963	--
Unearned Revenue	138,116	--	138,116	--
Customer Deposits	--	--	--	10,491
Current Portion of Long-term Debt	1,582	--	1,582	--
<i>Internal Balances*</i>	<i>(1,614)</i>	<i>1,614</i>	<i>--</i>	<i>--</i>
Total Current Liabilities	188,078	25,179	213,257	52,548
<i>Noncurrent Liabilities</i>				
Long-term Debt	4,747	--	4,747	--
Compensated Absences	34,500	--	34,500	--
Net Pension Liability	769,203	201,432	970,635	--
Total Liabilities	996,528	226,611	1,223,139	52,548
DEFERRED INFLOWS OF RESOURCES				
Deferred Lease Revenues	95,453	--	95,453	--
Revenues Intended to Finance a Subsequent Year	--	--	--	250,000
Total Deferred Inflows of Resources	95,453	--	95,453	250,000
NET POSITION				
Net Investment in Capital Assets	3,497,959	2,358,497	5,856,456	1,020,859
<i>Restricted for:</i>				
Highways and Streets	408,999	--	408,999	--
Other Purposes	33,285	--	33,285	--
<i>Unrestricted</i>	<i>577,306</i>	<i>2,277,071</i>	<i>2,854,377</i>	<i>1,998,702</i>
Total Net Position	\$ 4,517,549	\$ 4,635,568	\$ 9,153,117	\$ 3,019,561

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, 2023**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total	
Primary Government								
Governmental Activities:								
General Government	\$ 583,113	\$ 324,439	\$ 117,678	\$ --	\$ (140,996)	\$ --	\$ (140,996)	\$ --
Public Safety	384,396	50,706	40,027	--	(293,663)	--	(293,663)	--
Public Works	420,161	24,181	350,983	--	(44,997)	--	(44,997)	--
Community and Economic Development	108,290	--	622	--	(107,668)	--	(107,668)	--
Recreation and Culture	77,887	1,980	9,554	--	(66,353)	--	(66,353)	--
Total Governmental Activities	1,573,847	401,306	518,864	--	(653,677)	--	(653,677)	--
Business-type Activities:								
Sewer	279,662	260,296	1,600	--	--	(17,766)	(17,766)	--
Water	318,375	455,276	200	--	--	137,101	137,101	--
Solid Waste Collection	227,198	163,074	--	--	--	(64,124)	(64,124)	--
Total Business-type Activities	825,235	878,646	1,800	--	--	55,211	55,211	--
Total Primary Government	\$ 2,399,082	\$ 1,279,952	\$ 520,664	\$ --	(653,677)	55,211	(598,466)	--
Component Units								
Downtown Development Authority	\$ 10,998	\$ --	\$ 11,000	\$ --	--	--	--	2
Tax Increment Finance Authority	1,046,759	195,682	--	--	--	--	--	(851,077)
Total Component Units	\$ 1,057,757	\$ 195,682	\$ 11,000	\$ --	--	--	--	(851,075)
General Purpose Revenues and Transfers:								
Revenues								
Property Taxes					435,493	--	435,493	136,329
Interest and Investment Earnings					31,747	36,012	67,759	29,745
Unrestricted State Sources					169,765	--	169,765	556,031
Gain on Disposal of Capital Assets					16,300	12,667	28,967	109,002
Increase in Investment in Joint Venture					19,194	--	19,194	--
Transfers					(200)	200	--	--
Total General Revenues and Transfers					672,299	48,879	721,178	831,107
Change in Net Position					18,622	104,090	122,712	(19,968)
<i>Net Position at Beginning of Period</i>					<i>4,498,927</i>	<i>4,531,478</i>	<i>9,030,405</i>	<i>3,039,529</i>
Net Position at End of Period					\$ 4,517,549	\$ 4,635,568	\$ 9,153,117	\$ 3,019,561

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

**City of Litchfield
Balance Sheet
Governmental Funds
June 30, 2023**

	Special Revenue			Other	Total
	General	Major Streets	ARPA	Governmental Funds	Governmental Funds
ASSETS					
Cash and Investments	\$ 745,996	\$ 310,183	\$ 140,929	\$ 72,110	\$ 1,269,218
Accounts Receivables, Net	24,268	158	--	--	24,426
Leases Receivable	92,669	--	--	--	92,669
Due from Other Governmental Units	26,944	28,701	--	9,474	65,119
Prepaid Items	14,423	--	--	--	14,423
<i>Total Assets</i>	\$ 904,300	\$ 339,042	\$ 140,929	\$ 81,584	\$ 1,465,855
LIABILITIES					
Accounts Payable	\$ 10,527	\$ 1,831	\$ --	\$ 1,362	\$ 13,720
Accrued Liabilities	19,894	246	--	63	20,203
Unearned Revenue	--	--	138,116	--	138,116
Due to Other Funds	790	138	--	--	928
<i>Total Liabilities</i>	31,211	2,215	138,116	1,425	172,967
DEFERRED INFLOWS OF RESOURCES					
Deferred Lease Revenues	95,453	--	--	--	95,453
<i>Total Liabilities and Deferred Inflows of Resources</i>	126,664	2,215	138,116	1,425	268,420
FUND BALANCE					
Nonspendable	14,423	--	--	--	14,423
Restricted	16,049	336,827	2,813	72,172	427,861
Committed	--	--	--	7,987	7,987
Unassigned	747,164	--	--	--	747,164
<i>Total Fund Balance</i>	777,636	336,827	2,813	80,159	1,197,435
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	\$ 904,300	\$ 339,042	\$ 140,929	\$ 81,584	\$ 1,465,855

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, 2023

Total Fund Balance - Governmental Funds	\$ 1,197,435
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.	599,245
General government capital assets of \$4,973,569, net of accumulated depreciation of \$1,915,934, are not financial resources and, accordingly, are not reported in the funds.	3,057,635
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.	(530,848)
Investments in joint ventures are not financial resources and, accordingly, are not reported in the funds.	228,582
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(34,500)
Total Net Position - Governmental Activities	\$ <u>4,517,549</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, 2023

	<u>Special Revenue</u>			<u>Other</u>	<u>Total</u>
	<u>General</u>	<u>Major Streets</u>	<u>ARPA</u>	<u>Governmental</u>	<u>Governmental</u>
				<u>Funds</u>	<u>Funds</u>
Revenues					
Property Taxes	\$ 435,493	\$ --	\$ --	\$ --	\$ 435,493
Intergovernmental	420,892	172,572	--	59,469	652,933
Licenses and Permits	2,327	--	--	--	2,327
Charges for Services	12,471	--	1,178	--	13,649
Fines and Forfeits	616	--	--	--	616
Interest and Rents	51,142	5,128	2,802	1,162	60,234
Other Revenues	313,596	--	--	7,896	321,492
Total Revenues	<u>1,236,537</u>	<u>177,700</u>	<u>3,980</u>	<u>68,527</u>	<u>1,486,744</u>
Expenditures					
General Government	530,067	--	1,177	--	531,244
Public Safety	384,237	--	--	--	384,237
Public Works	139,055	115,000	--	59,084	313,139
Community and Economic Development	108,290	--	--	--	108,290
Recreation and Culture	47,495	--	--	104	47,599
Total Expenditures	<u>1,209,144</u>	<u>115,000</u>	<u>1,177</u>	<u>59,188</u>	<u>1,384,509</u>
Excess of Revenues Over					
(Under) Expenditures	<u>27,393</u>	<u>62,700</u>	<u>2,803</u>	<u>9,339</u>	<u>102,235</u>
Other Financing Sources (Uses)					
Proceeds from Sale of Capital Assets	8,300	--	--	--	8,300
Transfers In	16,914	--	--	--	16,914
Transfers Out	(200)	--	--	--	(200)
Net Other Financing Sources (Uses)	<u>25,014</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>25,014</u>
Net Change in Fund Balance	<u>52,407</u>	<u>62,700</u>	<u>2,803</u>	<u>9,339</u>	<u>127,249</u>
Fund Balance at Beginning of Period	<u>725,229</u>	<u>274,127</u>	<u>10</u>	<u>70,820</u>	<u>1,070,186</u>
Fund Balance at End of Period	<u>\$ 777,636</u>	<u>\$ 336,827</u>	<u>\$ 2,813</u>	<u>\$ 80,159</u>	<u>\$ 1,197,435</u>

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, 2023

Total Net Change in Fund Balances - Governmental Funds	\$ 127,249
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	7,314
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 \$126,348 is exceeded by depreciation expense of \$186,124 and net disposal of capital assets of \$28,014.	(87,790)
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.	(41,384)
Changes to compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.	(5,961)
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.	19,194
Changes in Net Position - Governmental Activities	\$ <u>18,622</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, 2023**

	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	\$ 1,497,090	\$ 808,057	\$ 80,639	\$ 2,385,786	\$ 171,039
Accounts Receivables, Net	5,831	5,243	3,938	15,012	561
Inventories	3,311	26,013	--	29,324	--
Prepaid Items	850	1,385	8,907	11,142	850
Due from Other Funds	--	--	--	--	2,542
Total Current Assets	1,507,082	840,698	93,484	2,441,264	174,992
<i>Noncurrent Assets</i>					
Capital Assets not being Depreciated	254,502	89,678	--	344,180	--
Capital Assets being Depreciated, Net	951,828	1,062,489	--	2,014,317	446,653
Total Assets	2,713,412	1,992,865	93,484	4,799,761	621,645
DEFERRED OUTFLOWS OF RESOURCES					
Pension Related	22,157	24,015	16,246	62,418	--
Total Deferred Outflows of Resources	22,157	24,015	16,246	62,418	--
LIABILITIES					
<i>Current Liabilities</i>					
Accounts Payable	9,102	5,902	5,042	20,046	15,830
Accrued Liabilities	948	713	1,858	3,519	241
Current Portion of Long-term Debt	--	--	--	--	1,582
Due to Other Funds	256	199	1,159	1,614	--
Total Current Liabilities	10,306	6,814	8,059	25,179	17,653
<i>Noncurrent Liabilities</i>					
Long-term Debt	--	--	--	--	4,747
Net Pension Liability	71,503	77,499	52,430	201,432	--
Total Liabilities	81,809	84,313	60,489	226,611	22,400
NET POSITION					
Net Investment in Capital Assets	1,206,330	1,152,167	--	2,358,497	440,323
<i>Unrestricted</i>	1,447,430	780,400	49,241	2,277,071	158,922
Total Net Position	\$ 2,653,760	\$ 1,932,567	\$ 49,241	\$ 4,635,568	\$ 599,245

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, 2023

	Business-type Activities - Enterprise Funds				Governmental Activities Internal Service Fund
	Sewer	Water	Solid Waste Collection	Total Enterprise Funds	
Operating Revenues					
Charges for Services	\$ 258,378	\$ 269,023	\$ 163,074	\$ 690,475	\$ 199,868
Total Operating Revenues	258,378	269,023	163,074	690,475	199,868
Operating Expenses					
General Operations and Maintenance	245,445	237,455	227,198	710,098	190,121
Depreciation	34,217	80,920	--	115,137	63,950
Total Operating Expenses	279,662	318,375	227,198	825,235	254,071
Operating Income (Loss)	(21,284)	(49,352)	(64,124)	(134,760)	(54,203)
Non-Operating Revenues (Expenses)					
Interest and Investment Earnings	19,856	13,177	2,979	36,012	4,013
Gain on Disposal of Capital Assets	12,667	--	--	12,667	8,000
Other Revenues	3,518	186,453	--	189,971	66,418
Net Non-Operating Revenues (Expenses)	36,041	199,630	2,979	238,650	78,431
Income Before Contributions and Transfers	14,757	150,278	(61,145)	103,890	24,228
Transfers In	100	100	--	200	--
Transfers Out	--	--	--	--	(16,914)
Change In Net Position	14,857	150,378	(61,145)	104,090	7,314
<i>Net Position at Beginning of Period</i>	<i>2,638,903</i>	<i>1,782,189</i>	<i>110,386</i>	<i>4,531,478</i>	<i>591,931</i>
Net Position at End of Period	\$ 2,653,760	\$ 1,932,567	\$ 49,241	\$ 4,635,568	\$ 599,245

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, 2023

	Business-type Activities - Enterprise Funds				Governmental Activities Internal Service Fund
	Sewer	Water	Solid Waste Collection	Total Enterprise Funds	
Cash Flows from Operating Activities					
Cash Received from Charges for Services	\$ 256,309	\$ 266,554	\$ 161,890	\$ 684,753	\$ -
Cash Received from Interfund Services Provided	-	-	-	-	200,564
Cash Paid to Employees for Services and Fringe Benefits	(62,113)	(66,947)	(61,188)	(190,248)	(37,101)
Cash Paid to Suppliers for Good and Services	(173,178)	(176,446)	(157,584)	(507,208)	(137,708)
Net Cash Provided (Used) by Operating Activities	21,018	23,161	(56,882)	(35,864)	25,755
Cash Flows from Non-capital Financing Activities					
Other Non-Operating Revenues, Including Contributions	3,283	186,078	1,024	190,385	66,325
Transfers In (Out)	100	100	-	200	(16,914)
Net Cash Provided by Non-capital Financing Activities	3,383	186,178	1,024	190,585	49,411
Cash Flows from Capital and Related Financing Activities					
Capital Asset Purchases	(20,983)	(89,140)	-	(110,123)	(126,581)
Payments on long-term debt and interest expense	-	-	-	-	(1,582)
Gain on Disposal of Capital Assets	(12,667)	-	-	(12,667)	(8,000)
Net Cash Used by Capital and Related Financing Activities	(33,650)	(89,140)	-	(122,790)	(136,163)
Cash Flows from Investing Activities					
Interest and Investment Earnings	19,856	13,177	2,979	36,012	4,013
Net Cash Provided by Investing Activities	19,856	13,177	2,979	22,835	4,013
Net Increase (Decrease) in Cash and Investments	10,607	133,376	(52,879)	91,104	(56,984)
<i>Cash and Investments - Beginning of Year</i>	<i>1,486,483</i>	<i>674,681</i>	<i>133,518</i>	<i>2,294,682</i>	<i>228,023</i>
Cash and Investments - End of Year	\$ 1,497,090	\$ 808,057	\$ 80,639	\$ 2,385,786	\$ 171,039

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, 2023

	Business-type Activities - Enterprise Funds				Governmental Activities Internal Service Fund
	Sewer	Water	Solid Waste Collection	Total Enterprise Funds	
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities					
Operating Income (Loss)	\$ (21,284)	\$ (49,352)	\$ (64,124)	\$ (134,760)	\$ (54,203)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities					
Depreciation Expense	34,217	80,920	-	115,137	63,950
Changes in Assets, Deferred Outflows/Inflows, and Liabilities					
Accounts Receivables, Net	(2,069)	(2,469)	(1,184)	(5,722)	696
Prepaid Items	(69)	(84)	(8,907)	(9,060)	(69)
Accounts Payable	4,783	(16,050)	1,378	(9,889)	15,254
Accrued Liabilities	379	338	1,644	2,361	127
Net Pension Liability and Related Deferred Items	5,061	9,858	14,311	29,230	-
Net Cash Provided (Used) by Operating Activities	\$ 21,018	\$ 23,161	\$ (56,882)	\$ (35,864)	\$ 25,755

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, 2023

	<u>Custodial Funds</u>
	<u>Current Tax Collection</u>
ASSETS	
Cash and Investments	\$ 32,562
<i>Total Assets</i>	<u>32,562</u>
LIABILITIES	
Undistributed Collections	<u>--</u>
<i>Total Liabilities</i>	<u>--</u>
NET POSITION	
<i>Restricted for Individuals, Organizations, and Agencies</i>	<u>\$ 32,562</u>

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, 2023

	<u>Custodial Funds</u>
	Current Tax
	Collection
ADDITIONS	
Property Taxes Collected for Other Governments	\$ 1,138,594
Interest and Other Revenue	3,186
<i>Total Additions</i>	<u>1,141,780</u>
DEDUCTIONS	
Other Payments	172
Payments of Property Taxes to Other Governments	1,141,780
<i>Total Deductions</i>	<u>1,141,952</u>
<i>Net Increase (Decrease) in Net Position</i>	<u>(172)</u>
<i>Net Position at Beginning of Period</i>	26,334
<i>Net Position at End of Period</i>	<u><u>\$ 26,162</u></u>

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, 2023

	Downtown Development Authority	Tax Increment Finance Authority	Total Component Units
ASSETS			
<i>Current Assets</i>			
Cash and Investments	\$ 34,939	\$ 1,314,845	\$ 1,349,784
Accounts Receivables, Net	--	16,467	16,467
Current Portion of Notes Receivable	--	271,890	271,890
Prepaid Items	--	830	830
<i>Total Current Assets</i>	34,939	1,604,032	1,638,971
<i>Noncurrent Assets</i>			
Notes Receivable, Net	--	228,110	228,110
Investment in Land and Infrastructure Development	--	434,169	434,169
Capital Assets not being Depreciated	--	60,000	60,000
Capital Assets being Depreciated, Net	--	960,859	960,859
<i>Total Assets</i>	34,939	3,287,170	3,322,109
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	--	42,057	42,057
Customer Deposits	--	10,491	10,491
<i>Total Liabilities</i>	--	52,548	52,548
DEFERRED INFLOWS OF RESOURCES			
Revenues Intended to Finance a Subsequent Year	--	250,000	250,000
<i>Total Deferred Inflows of Resources</i>	--	250,000	250,000
NET POSITION			
Net Investment in Capital Assets	--	1,020,859	1,020,859
<i>Unrestricted</i>	34,939	1,963,763	1,998,702
<i>Total Net Position</i>	\$ 34,939	\$ 2,984,622	\$ 3,019,561

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, 2023

	Downtown Development Authority	Tax Increment Finance Authority	Total Component Units
Expenses			
Community and Economic Development	\$ 10,998	\$ 1,046,759	\$ 1,057,757
Total Expenses	<u>10,998</u>	<u>1,046,759</u>	<u>1,057,757</u>
Program Revenues			
Charges for Services	--	195,682	195,682
Operating Grants and Contributions	11,000	--	11,000
Total Program Revenues	<u>11,000</u>	<u>195,682</u>	<u>206,682</u>
Net Program Revenues (Expenses)	<u>2</u>	<u>(851,077)</u>	<u>(851,075)</u>
General Revenue			
Property Taxes	--	136,329	136,329
Intergovernmental	--	556,031	556,031
Interest and Investment Earnings	7	29,738	29,745
Gain on Disposal of Capital Assets	--	109,002	109,002
Total General Revenues	<u>7</u>	<u>831,100</u>	<u>831,107</u>
Change in Net Position	<u>9</u>	<u>(19,977)</u>	<u>(19,968)</u>
<i>Net Position at Beginning of Period</i>	34,930	3,004,599	3,039,529
Net Position at End of Period	<u>\$ 34,939</u>	<u>\$ 2,984,622</u>	<u>\$ 3,019,561</u>

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.

These financial statements of the City present the activity of the 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 revenues in excess of expenses in the amount of \$38,388 in its year ended June 30, 2023 audited financial statements. The City reported a \$19,194 increase to net position in its governmental activities on the government-wide financial statements for the Department's operating activity, a 9.2% 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 \$228,582. 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

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The **ARPA fund** accounts for the funding received through the American Rescue Plan Act and related expenditures.

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.

The **solid waste fund** is used to account for the operations required to provide waste removal 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

City of Litchfield

Notes to the Financial Statements

services. All revenues and expenses are not meeting this definition are reported as nonoperating revenues and expenses.

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

City of Litchfield

Notes to the Financial Statements

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.”

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.

City of Litchfield

Notes to the Financial Statements

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

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.

City of Litchfield

Notes to the Financial Statements

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.

Additionally, the City recognizes deferred lease revenues that qualify for reporting as a deferred inflow. Governmental activities, in the government-wide financial statements, report deferred lease revenues to be collected by the City in future periods.

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.

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).

City of Litchfield

Notes to the Financial Statements

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.

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 2022 taxable valuation of the City totaled \$35,688,324 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.

City of Litchfield

Notes to the 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.

- 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.

City of Litchfield

Notes to the Financial Statements

The City had no expenditures in excess of the amount appropriated during the year ended June 30, 2023.

Note 3 - Deposits and Investments

Following is a reconciliation of deposit balances as of June 30, 2023:

	Primary Government	Component Units	Totals
Statement of Net Position			
Cash and Investments	\$ 3,826,043	\$ 1,349,784	\$ 5,175,827
Statement of Fiduciary Net Position			
Cash and Investments	32,562	-	32,562
<i>Total Cash and Investments</i>	<i>\$ 3,858,605</i>	<i>\$ 1,349,784</i>	<i>\$ 5,208,389</i>
Deposits and Investments			
Checking and Savings Accounts			\$ 1,044,464
Certificates of Deposit (matures within one year)			3,169,882
Certificates of Deposit (matures in more than one year)			252,316
Investments (Michigan CLASS)			741,127
Cash on Hand			600
<i>Total Deposits and Investments</i>			<i>\$ 5,208,389</i>

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, \$74,449 of the City's bank balance of \$4,248,015 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 \$741,127 had a S&P rating of AAAm.

City of Litchfield

Notes to the Financial Statements

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 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 \$3,169,882 of certificates of deposit that mature within one year, \$252,316 of certificates of deposit that mature in more than one year, and \$741,127 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, 2023, the City had \$741,127 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 \$453,205 with a Level 3 fair value measurement.

City of Litchfield

Notes to the Financial Statements

Note 4 - Interfund Balances and Interfund Transfers

The following schedules summarize interfund activity during the year:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Equipment Revolving	General	\$ 790
Equipment Revolving	Major Streets	138
Equipment Revolving	Sewer	256
Equipment Revolving	Water	199
Equipment Revolving	Solid Waste	1,159

Interfund balances resulted from the time lag between the dates that: 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Internal Service Fund	\$ 16,914
Sewer	General	100
Water	General	100

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.

City of Litchfield

Notes to the Financial Statements

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	\$ 1,195,706	\$ -	\$ (14,671)	\$ 1,181,035
Construction in Progress	27,736	75,704	(10,838)	92,602
<i>Subtotal</i>	<u>1,223,442</u>	<u>75,704</u>	<u>(25,509)</u>	<u>1,273,637</u>
Capital Assets being Depreciated				
Land Improvements	540,549	-	(2,505)	538,044
Buildings and Improvements	626,943	9,000	-	635,943
Swimming Pool	370,004	-	-	370,004
Machinery, Equipment, and Furniture	480,683	49,705	(17,848)	512,540
Vehicles	845,939	123,271	(102,489)	866,721
Streets	1,823,620	-	-	1,823,620
Intangible assets	-	27,144	-	27,144
Sidewalks	28,727	-	-	28,727
<i>Subtotal</i>	<u>4,716,465</u>	<u>209,120</u>	<u>(122,842)</u>	<u>4,802,743</u>
Less Accumulated Depreciation				
Land Improvements	(272,708)	(24,078)	-	(296,786)
Buildings and Improvements	(270,151)	(14,839)	-	(284,990)
Swimming Pool	(126,416)	(24,100)	-	(150,516)
Machinery, Equipment, and Furniture	(353,028)	(22,152)	17,848	(357,332)
Vehicles	(612,480)	(44,728)	94,692	(562,516)
Streets	(793,867)	(118,207)	-	(912,074)
Intangible assets	-	(1,029)	-	(1,029)
Sidewalks	(5,907)	(942)	-	(6,849)
<i>Subtotal</i>	<u>(2,434,557)</u>	<u>(250,075)</u>	<u>112,540</u>	<u>(2,572,092)</u>
Capital Assets being Depreciated, Net	<u>2,281,908</u>	<u>(40,955)</u>	<u>(35,811)</u>	<u>2,230,651</u>
Capital Assets, Net	<u>\$ 3,505,350</u>	<u>\$ 34,749</u>	<u>\$ (61,320)</u>	<u>\$ 3,504,288</u>

City of Litchfield

Notes to the Financial Statements

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	\$ 262	\$ (4,295)	\$ 274,557
Construction in Progress	43,438	26,186	-	69,624
<i>Subtotal</i>	<u>322,028</u>	<u>26,448</u>	<u>(4,295)</u>	<u>344,181</u>
Capital Assets being Depreciated				
Water and Sewer Distribution System	8,342,462	113,926	-	8,456,388
Vehicles	22,900	-	-	22,900
<i>Subtotal</i>	<u>8,365,362</u>	<u>113,926</u>	<u>-</u>	<u>8,479,288</u>
Less Accumulated Depreciation				
Water and Sewer Distribution System	(6,326,934)	(115,137)	-	(6,442,071)
Vehicles	(22,900)	-	-	(22,900)
<i>Subtotal</i>	<u>(6,349,834)</u>	<u>(115,137)</u>	<u>-</u>	<u>(6,464,971)</u>
Capital Assets being Depreciated, Net	<u>2,015,528</u>	<u>(1,211)</u>	<u>-</u>	<u>2,014,317</u>
Capital Assets, Net	<u>\$ 2,337,556</u>	<u>\$ 25,237</u>	<u>\$ (4,295)</u>	<u>\$ 2,358,498</u>

Depreciation expense was charged to the City as follows:

Governmental Activities

General Government	\$ 27,154
Public Safety	159
Public Works	128,524
Recreation and Culture	30,288
Depreciation Charged to Internal Service Funds	63,950

Total Governmental Activities \$ 250,075

Business-type Activities

Sewer	\$ 34,217
Water	80,920

Total Business-type Activities \$ 115,137

Component Units

Tax Increment Finance Authority	<u>\$ 60,307</u>
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City of Litchfield

Notes to the Financial Statements

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	\$ 85,000	\$ -	\$ (25,000)	\$ 60,000
Construction in Progress	407,136	-	(407,136)	-
<i>Subtotal</i>	<u>492,136</u>	<u>-</u>	<u>(432,136)</u>	<u>60,000</u>
Capital Assets being Depreciated				
Buildings and Improvements	1,323,922	-	(240,288)	1,083,634
Equipment and Furniture	314,006	86,190	-	400,196
<i>Subtotal</i>	<u>1,637,928</u>	<u>86,190</u>	<u>(240,288)</u>	<u>1,483,830</u>
Less Accumulated Depreciation				
Buildings and Improvements	(388,174)	(29,212)	46,769	(370,617)
Equipment and Furniture	(100,052)	(52,302)	-	(152,354)
<i>Subtotal</i>	<u>(488,226)</u>	<u>(81,514)</u>	<u>46,769</u>	<u>(522,971)</u>
Capital Assets being Depreciated, Net	<u>1,149,702</u>	<u>4,676</u>	<u>(193,519)</u>	<u>960,859</u>
Capital Assets, Net	<u>\$ 1,641,838</u>	<u>\$ 4,676</u>	<u>\$ (625,655)</u>	<u>\$ 1,020,859</u>

Note 6 - Long-term Obligations

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

Governmental Activities	Balance at June 30, 2022	Additions	Deletions	Balance at June 30, 2023	Due Within One Year
Direct placement installment purchase agreement, annual principal payments of \$1,582 at 0% for safety equipment maturing in 2027.	\$ -	\$ 7,912	\$ 1,582	\$ 6,330	\$ 1,582
Compensated Absences	28,539	5,961	-	34,500	-
Total Governmental Activities	<u>\$ 6,027,241</u>	<u>\$ 13,873</u>	<u>\$ 1,582</u>	<u>\$ 40,830</u>	<u>\$ 1,582</u>

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

Annual debt service requirements, exclusive of compensated absences, to maturity are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2024	\$ 1,582	\$ -	\$ 1,582
2025	1,582	-	1,582
2026	1,582	-	1,582
2027	1,584	-	1,584
Totals	<u>\$ 6,330</u>	<u>\$ -</u>	<u>\$ 6,330</u>

City of Litchfield

Notes to the Financial Statements

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:

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

Employees Covered by Benefit Terms

At the December 31, 2022 valuation date, the following employees were covered by the benefit terms:

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	7
Inactive Plan Members Entitled To But Not Yet Receiving Benefits	4
Active Plan Members	10
<i>Total Employees Covered By MERS</i>	<u>21</u>

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, 2023, the City had the following contribution amounts:

<u>Division</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>
General - Open	5.00%	21.38%

Net Pension Liability

The net pension liability reported at June 30, 2023 was determined using a measure of the total pension liability and the pension net position as of December 31, 2022. The December 31, 2022 total pension liability was determined by an actuarial valuation performed as of December 31, 2022.

Actuarial Assumptions

The total pension liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	3.00% plus merit and longevity: 3.00% in the long-term
Investment Rate of Return	7.00%, net of investment and administrative expense including inflation

Although no specific price inflation assumptions are needed for the valuation, the 3.0% long-term wage inflation assumption would be consistent with a price inflation of 3-4%. Mortality rates used were based on a version of Pub-2010 and fully generational MP-2019. The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2014-2018.

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 geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Target Allocation Gross Rate of Return	Long-term Expected Gross Rate of Return	Inflation Assumption	Long-term Expected Real Rate of Return
Global Equity	60.00%	7.00%	4.20%	2.50%	2.70%
Global Fixed Income	20.00%	4.50%	0.90%	2.50%	0.40%
Private Investments	20.00%	9.50%	1.90%	2.50%	1.40%
Totals	100.00%		7.00%		4.50%

Discount Rate

Discount rate. The discount rate used to measure the total pension liability is 7.25%. The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because, for GASB 68 purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses. 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:

	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2021	\$ 2,525,087	\$ 1,900,268	\$ 624,819
<i>Changes for the Year:</i>			
Service Cost	54,296	-	54,296
Interest on Total Pension Liability	180,240	-	180,240
Differences Between Expected and Actual Experience	54,358	-	54,358
Employer Contributions	-	120,096	(120,096)
Employee Contributions	-	23,627	(23,627)
Net Investment Loss	-	(197,109)	197,109
Benefit Payments, Including Refunds	(132,320)	(132,320)	-
Administrative Expenses	-	(3,536)	3,536
<i>Net Changes</i>	<u>156,574</u>	<u>(189,242)</u>	<u>345,816</u>
Balance at December 31, 2022	\$ 2,681,661	\$ 1,711,026	\$ 970,635

City of Litchfield

Notes to the Financial Statements

The net pension liability was allocated between governmental and business-type activities as follows:

Allocated to:	
Governmental Activities	\$ 769,203
Business-type Activities	201,432
Total	\$ 970,635

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 7.25%, 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 (6.25%) or one percentage point higher (8.25%) than the current rate.

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability of the City	<u>\$ 1,275,210</u>	<u>\$ 970,635</u>	<u>\$ 712,069</u>

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, 2023 the City recognized pension expense of \$199,838.

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	\$ 154,461	\$ -
Differences Between Expected and Actual Experience	51,547	-
Changes of Assumptions	30,319	-
Employer Contributions to the Plan Subsequent to the Measurement Date*	64,446	-
Total	\$ 300,773	\$ -

Allocated to:		
Governmental Activities	\$ 238,355	\$ -
Business-type Activities	62,418	-
Total	\$ 300,773	\$ -

City of Litchfield

Notes to the Financial Statements

*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, 2024.

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

Years Ending June 30,	Amount
2024	\$ 68,080
2025	42,456
2026	58,758
2027	67,033

Note 8 - Leases Receivable

The City is reporting total lease receivables of \$92,669 as of June 30, 2023. For fiscal year 2023 the City reported lease revenue of \$7,212 and interest revenue of \$2,453 related to lease payments received. These leases are summarized as follows:

Lease	Lease Receivable	Lease Revenue	Lease Interest Revenue
Farm Lease Agreement	\$ 27,747	\$ 4,567	\$ 803
Radio Communication Tower Lease Agreement	64,922	2,645	1,650
Totals	\$ 92,669	\$ 7,212	\$ 2,453

Farm Lease Agreement - January 1, 2022 the City entered into a 5-year lease agreement with a City resident for the right to occupy and use land for agricultural purposes, plant crops, and harvest crops. Based on this agreement, the City is receiving annual payments through 2027.

Radio Communications Tower Site Lease Agreement - July 1, 2017 the City entered into a 20-year lease agreement with Hillsdale County Central Dispatch for the right to occupy and use land for the installation and use of radio communications antenna tower and radio equipment building for the provision of 911 communications. This lease agreement included the right to extend the lease for two (2) additional and successive five-year terms. The City plans to execute all extensions. Based on this agreement, the City is receiving monthly payments through June 2047.

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

City of Litchfield

Notes to the Financial Statements

government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

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

	<u>General Fund</u>	<u>Major Streets</u>	<u>ARPA</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable					
Prepaid Items	\$ 14,423	\$ -	\$ -	\$ -	\$ 14,423
Restricted for:					
Highways and Streets	-	336,827	-	72,172	408,999
Police Training	458	-	-	-	458
Youth Sports	3,669	-	-	-	3,669
Stage	2,275	-	-	-	2,275
Veterans Memorial	9,647	-	-	-	9,647
ARPA	-	-	2,813	-	2,813
Total Restricted	<u>16,049</u>	<u>336,827</u>	<u>2,813</u>	<u>72,172</u>	<u>427,861</u>
Committed for:					
Swimming Pool Construction	-	-	-	7,987	7,987
Unassigned	<u>746,476</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>746,476</u>
Total Fund Balances - Governmental Funds	<u>\$ 776,948</u>	<u>\$ 336,827</u>	<u>\$ 2,813</u>	<u>\$ 80,159</u>	<u>\$ 1,196,747</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 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.

City of Litchfield

Notes to the Financial Statements

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, 2023, the City's property tax revenue for general operations was reduced by \$37,815.

Note 13 - Subsequent Events

Management has evaluated subsequent events through December 18, 2023, the date these financial statements were available to be issued and is not aware of any events that would have a significant financial impact on the City.

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, 2023

	Budgeted Amounts			Variance Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
Property Taxes	\$ 435,978	\$ 435,447	\$ 435,493	\$ 46
Intergovernmental	455,432	423,435	420,892	(2,543)
Licenses and Permits	1,521	2,021	2,327	306
Charges for Services	11,900	12,280	12,471	191
Fines and Forfeits	250	250	616	366
Interest and Rents	48,325	46,825	51,142	4,317
Other Revenues	283,060	315,553	313,596	(1,957)
Total Revenues	1,236,466	1,235,811	1,236,537	726
Other Financing Sources				
Proceeds from Sale of Capital Assets	--	25,000	8,300	(16,700)
Transfers In	14,884	17,301	16,914	(387)
Total Revenues and Other Financing Sources	1,251,350	1,278,112	1,261,751	(16,361)
Expenditures				
General Government				
City Council	8,927	9,207	8,675	532
City Manager	94,508	93,508	92,494	1,014
Clerk	104,811	104,325	103,928	397
Board of Review	906	919	540	379
Treasurer	108,387	109,105	108,063	1,042
Assessor	23,419	23,486	23,441	45
Elections	7,594	17,160	17,010	150
Building and Grounds	27,928	33,545	32,394	1,151
Attorney Counsel	5,375	12,165	10,415	1,750
Other General Government	102,013	139,363	133,107	6,256
Total General Government	483,868	542,783	530,067	12,716
Public Safety				
Police Department	354,250	349,038	343,827	5,211
Fire Department	40,410	40,410	40,410	--
Total Public Safety	394,660	389,448	384,237	5,211
Public Works				
Streets and Sidewalks	25,352	26,184	23,632	2,552
Other Public Works	109,376	121,526	115,423	6,103
Total Public Works	134,728	147,710	139,055	8,655
Community and Economic Development				
Planning and Zoning	8,346	7,645	7,255	390
Economic Development	23,346	101,619	101,035	584
Total Community and Economic Development	31,692	109,264	108,290	974
Recreation and Culture				
Parks and Recreation	24,513	25,259	24,473	786
Golf Course	7,600	11,750	11,015	735
Other Recreation and Culture	11,091	12,473	12,007	466
Total Recreation and Culture	43,204	49,482	47,495	1,987
Total Expenditures	1,088,152	1,238,687	1,209,144	29,543
Other Financing Uses				
Transfers Out	288,157	200	200	--
Total Expenditures and Other Financing Uses	1,376,309	1,238,887	1,209,344	29,543
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(124,959)	39,225	52,407	13,182
Net Change in Fund Balance	(124,959)	39,225	52,407	13,182
Fund Balance at Beginning of Period	725,229	725,229	725,229	--
Fund Balance at End of Period	\$ 600,270	\$ 764,454	\$ 777,636	\$ 13,182

City of Litchfield
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Major Streets
For the Year Ended June 30, 2023

	Budgeted Amounts			Variance Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 488,237	\$ 176,118	\$ 172,572	\$ (3,546)
Interest and Rents	200	4,900	5,128	228
Total Revenues	488,437	181,018	177,700	(3,318)
Expenditures				
Public Works	580,278	239,943	115,000	124,943
Total Expenditures	580,278	239,943	115,000	124,943
Excess (Deficiency) of Revenues Over Expenditures	(91,841)	(58,925)	62,700	121,625
Net Change in Fund Balance	(91,841)	(58,925)	62,700	121,625
<i>Fund Balance at Beginning of Period</i>	<i>274,127</i>	<i>274,127</i>	<i>274,127</i>	<i>--</i>
Fund Balance at End of Period	\$ 182,286	\$ 215,202	\$ 336,827	\$ 121,625

City of Litchfield
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
ARPA
For the Year Ended June 30, 2023

	Budgeted Amounts			Variance Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 138,255	\$ --	\$ 1,178	\$ 1,178
Interest and Rents	--	2,785	2,802	17
Total Revenues	<u>138,255</u>	<u>2,785</u>	<u>3,980</u>	<u>1,195</u>
Expenditures				
Other General Government	138,255	1,178	1,177	1
Total Expenditures	<u>138,255</u>	<u>1,178</u>	<u>1,177</u>	<u>1</u>
Excess of Revenues				
Over Expenditures	--	1,607	2,803	1,196
Net Change in Fund Balance	<u>--</u>	<u>1,607</u>	<u>2,803</u>	<u>1,196</u>
<i>Fund Balance at Beginning of Period</i>	10	10	10	--
Fund Balance at End of Period	<u>\$ 10</u>	<u>\$ 1,617</u>	<u>\$ 2,813</u>	<u>\$ 1,196</u>

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

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability									
Service Cost	\$ 54,296	\$ 45,039	\$ 43,372	\$ 44,052	\$ 43,853	\$ 40,455	\$ 39,413	\$ 35,595	\$ 33,174
Interest on Total Pension Liability	180,240	172,294	160,811	160,055	154,474	146,341	140,481	137,136	132,261
Differences Between Expected and Actual Experience	54,358	32,336	11,540	(42,116)	(16,132)	24,577	3,094	(39,476)	-
Changes of Assumptions **	-	90,955	50,851	66,091	-	-	-	68,869	-
Benefit Payments, Including Refunds	(132,320)	(120,098)	(112,518)	(112,517)	(112,517)	(110,270)	(110,270)	(110,270)	(104,862)
Net Change in Pension Liability	156,574	220,526	154,056	115,565	69,678	101,103	72,718	91,854	60,573
<i>Total Pension Liability - Beginning</i>	2,525,087	2,304,561	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)	\$ 2,681,661	\$ 2,525,087	\$ 2,304,561	\$ 2,150,505	\$ 2,034,940	\$ 1,965,262	\$ 1,864,159	\$ 1,791,441	\$ 1,699,587
Plan Fiduciary Net Position									
Contributions - Employer	\$ 120,096	\$ 110,678	\$ 111,993	\$ 96,283	\$ 80,391	\$ 72,236	\$ 65,377	\$ 60,500	\$ 59,373
Contributions - Employee	23,627	22,527	22,399	21,376	20,098	19,227	18,679	17,286	16,964
Net Investment Income (Loss)	(197,109)	235,451	191,941	173,786	(52,792)	158,492	124,917	(17,141)	70,355
Benefit Payments, Including Refunds	(132,320)	(120,098)	(112,518)	(112,517)	(112,517)	(110,270)	(110,270)	(110,270)	(104,862)
Administrative Expenses	(3,536)	(2,703)	(2,957)	(2,993)	(2,602)	(2,508)	(2,467)	(2,511)	(2,580)
Net Change in Plan Fiduciary Net Position	(189,242)	245,855	210,858	175,935	(67,422)	137,177	96,236	(52,136)	39,250
<i>Plan Fiduciary Net Position - Beginning</i>	1,900,268	1,654,413	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)	\$ 1,711,026	\$ 1,900,268	\$ 1,654,413	\$ 1,443,555	\$ 1,267,620	\$ 1,335,042	\$ 1,197,865	\$ 1,101,629	\$ 1,153,765
Net Pension Liability - Ending (a) - (b)	\$ 970,635	\$ 624,819	\$ 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	63.8%	75.3%	71.8%	67.1%	62.3%	67.9%	64.3%	61.5%	67.9%
Covered Payroll	\$ 494,948	\$ 423,296	\$ 411,495	\$ 417,253	\$ 417,253	\$ 384,550	\$ 373,582	\$ 351,037	\$ 327,155
Net Pension Liability as a Percentage of Covered Payroll	196.1%	147.6%	158.0%	169.4%	183.9%	163.9%	178.4%	196.5%	166.8%

* Built prospectively upon implementation on GASB 68

Notes to Schedule:

* Built prospectively upon implementation on GASB Statement No.68. An additional year will be added each year until ten years are presented.

**The following were significant changes to economic and demographic assumptions:

2015 valuation - The investment rate of return assumption was reduced from 8.25% to 8.0%, the wage inflation assumption was reduced from 4.50% to 3.75%, inflation rates changed from 3.0-4.0% to 3.25%, and the mortality assumption was updated to be based on the RP-2014 tables.

2019 valuation - The investment rate of return assumption was reduced from 8.00% to 7.60%, the wage inflation assumption was reduced from 3.75% to 3.00%.

2020 valuation - Mortality rates were changed to the recently issued Pub-2010 mortality general rates as published by the Society of Actuaries along with a change to sex-distinct assumptions

2021 valuation - The investment rate of return assumption was reduced from 7.60% to 7.25%.

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 119,463	\$ 99,894	\$ 94,346	\$ 81,088	\$ 65,970	\$ 70,356	\$ 68,328	\$ 45,082	\$ 44,136
Contributions in Relation to the Actuarially Determined Contribution	127,960	119,860	107,940	106,800	84,446	91,463	84,056	64,165	58,246
Contribution Deficiency (Excess)	<u>\$ (8,497)</u>	<u>\$ (19,966)</u>	<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	\$ 511,838	\$ 467,231	\$ 363,742	\$ 417,253	\$ 417,253	\$ 384,550	\$ 373,582	\$ 351,037	\$ 327,155
Contributions as a Percentage of Covered Payroll	25.0%	25.7%	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	16 Years
Asset Valuation Method	5 Years; Smoothed
Inflation	2.50%
Salary Increases	3.00% in the Long-Term
Investment Rate of Return	7.00%, 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 Pub-2010 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, 2023**

	<u>Special Revenue</u>	<u>Capital Projects</u>	
	<u>Local Streets</u>	<u>Swimming Pool Reconstruction</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS			
Cash and Investments	\$ 64,123	\$ 7,987	\$ 72,110
Due from Other Governmental Units	9,474	--	9,474
<i>Total Assets</i>	<u>\$ 73,597</u>	<u>\$ 7,987</u>	<u>\$ 81,584</u>
LIABILITIES			
Accounts Payable	\$ 1,362	\$ --	\$ 1,362
Accrued Liabilities	63	--	63
<i>Total Liabilities</i>	<u>1,425</u>	<u>--</u>	<u>1,425</u>
FUND BALANCE			
Restricted	72,172	--	72,172
Committed	--	7,987	7,987
Unassigned	--	--	--
<i>Total Fund Balance</i>	<u>72,172</u>	<u>7,987</u>	<u>80,159</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 73,597</u>	<u>\$ 7,987</u>	<u>\$ 81,584</u>

City of Litchfield
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2023

	<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	\$ 59,469	\$ --	\$ 59,469
Interest and Rents	1,162	--	1,162
Other Revenues	--	7,896	7,896
<i>Total Revenues</i>	<u>60,631</u>	<u>7,896</u>	<u>68,527</u>
Expenditures			
Public Works	59,084	--	59,084
Recreation and Culture	--	104	104
<i>Total Expenditures</i>	<u>59,084</u>	<u>104</u>	<u>59,188</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,547</u>	<u>7,792</u>	<u>9,339</u>
<i>Net Change in Fund Balance</i>	<u>1,547</u>	<u>7,792</u>	<u>9,339</u>
<i>Fund Balance at Beginning of Period</i>	70,625	195	70,820
<i>Fund Balance at End of Period</i>	<u>\$ 72,172</u>	<u>\$ 7,987</u>	<u>\$ 80,159</u>

City of Litchfield
Component Unit - Downtown Development Authority (DDA)
Statement of Net Position and DDA Fund Balance Sheet
June 30, 2023

	DDA Fund Balance Sheet	Adjustments	Statement of Net Position
ASSETS			
<i>Current Assets</i>			
Cash and Investments	\$ 34,939	\$ -	\$ 34,939
<i>Total Assets</i>	34,939	-	34,939
FUND BALANCE			
Unassigned	34,939	-	34,939
<i>Total Fund Balance</i>	34,939	-	34,939
<i>Total Liabilities and Fund Balance</i>	\$ 34,939		
NET POSITION			
Unrestricted		-	34,939
<i>Total Net Position</i>		\$ -	\$ 34,939

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, 2023

	DDA Fund Revenue, Expenditures, and Changes in Fund Balance	Adjustments	Statement of Activities
Expenditures / Expenses			
Community and Economic Development	\$ 10,998	\$ -	\$ 10,998
<i>Total Expenditures / Expenses</i>	10,998	-	10,998
Program Revenue			
Operating Grants	11,000	-	11,000
<i>Total Program Revenue</i>	11,000	-	11,000
General Revenue			
Interest and Investment Earnings	7	-	7
<i>Total General Revenue</i>	7	-	7
<i>Net Change in Fund Balance / Net Position</i>	9	-	9
Beginning of Year Fund Balance / Net Position	34,930		34,930
<i>End of Year Fund Balance / Net Position</i>	\$ 34,939		\$ 34,939

December 18, 2023

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, 2023. 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 August 17, 2023. 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, 2023. 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 December 18, 2023.

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 dark ink that reads "Gabridge & Company". The script is cursive and fluid, with the ampersand being particularly stylized.

Gabridge & Company, PLC
Grand Rapids, MI