

City of Scottville
Mason County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

June 30, 2021



City of Scottville

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INDEPENDENT AUDITOR'S REPORT

City Commission
City of Scottville
Scottville, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, schedule of changes in net pension liability and related ratios, and pension system schedule of contributions on pages 4 through 11 and 46 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

City Commission
City of Scottville
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Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 27, 2021, on our consideration of the City of Scottville, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Scottville, Michigan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Scottville, Michigan's internal control over financial reporting and compliance.



Hart, Michigan
October 27, 2021

This discussion and analysis is intended to serve as an introduction to the City of Scottville's basic financial statements. This report consists of a series of financial statements for the City as of June 30, 2021. The City's basic financial statements are comprised of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City operations in more detail than the government-wide financial statements.

This report also contains other required supplementary information in addition to the basic financial statements themselves.

FINANCIAL HIGHLIGHTS

At the close of the fiscal year, the City of Scottville had total assets/deferred outflows of resources of \$11,256,950 and total liabilities/deferred inflows of resources of \$4,158,966 leaving total net position of \$7,097,984. Of this amount, \$1,266,092 (unrestricted net position) may be used to meet the ongoing obligations to citizens and creditors.

Governmental activities had an increase in net position of \$103,699, and business-type activities had a decrease in net position of \$14,403. The component unit had a decrease in net position of \$2,172.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. The statements are similar to those of a private sector business.

The Statement of Net Position presents information of all the City's assets/deferred outflows of resources and liabilities/deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide statements mentioned above distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The government activities of the City include general government, public safety, public works, community and economic development, and culture and recreation activities. The business-type activities of the City include water and sewer services.

The Statement of Net Position and the Statement of Activities include not only the City of Scottville itself (known as the primary government), but also a discretely presented component unit. Component units are separate legal entities for which the City has some level of accountability. The City has one component unit shown in a separate column on the Statement of Net Position and Statement of Activities which is the Downtown Development Authority (DDA). The DDA exists primarily to promote community and economic development normally financed through the issuance and repayment of debt to finance capital projects in the downtown area of the City.

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. Unlike the government-wide financial statements, governmental fund financial statements focus on current sources, uses, and balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-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 short-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 the two.

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 Fund, Major Streets Fund, and Garbage and Refuse Collection Fund. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds. The City has two enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds financial statements provide separate information for the Water and Sewer funds, both of which are major funds.

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

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General Fund, Major Streets Fund, and Garbage and Refuse Collection Fund.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information after the notes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Recall that the Statement of Net Position provides the perspective of the City as a whole. The first table presented below provides a summary of the City's net position. As of June 30, 2021, the City's net position from governmental activities totaled \$2,674,509 and \$4,423,475 from business-type activities, creating a government-wide net position total of \$7,097,984. For comparison purposes as of June 30, 2020, the City's net position from governmental activities totaled \$2,570,810 and \$4,437,878 from business-type activities, creating a government wide net position total of \$7,008,688.

In examining composition of net position, the reader should note the amount of governmental activities include net position that is invested in capital assets (i.e., streets, buildings, furniture and equipment, etc.). These assets are used to provide services to the residents, and are not available to pay salaries, operational expenses or fund capital projects. Certain other governmental net position is shown as restricted, meaning that it is subject to external restrictions on how it may be used. The unrestricted net position for governmental-type activities actually depicts a balance of \$656,592. This represents the amount of discretionary cash or investments that can be used for general government operations.

For governmental activities, current and other assets increased due to no significant projects or capital purchases. Capital assets decreased due to current year depreciation expense exceeding capital additions. Noncurrent liabilities decreased because of a lower net pension liability. Deferred inflows and outflows related to the City's pension plan fluctuate based on a variety of factors.

The business-type activities show a total of \$4,423,475 in net position of which \$609,500 is unrestricted net position. The Sewer Fund and Water Fund unrestricted net position are \$444,703 and \$150,194, respectively. Capital assets decreased due to current year depreciation expense exceeding capital additions. Noncurrent liabilities decreased because of scheduled debt service and a lower net pension liability.

Net Position

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current assets and other assets	\$ 1,505,190	\$ 1,306,724	\$ 788,809	\$ 648,056	\$ 2,293,999	\$ 1,954,780
Capital assets	1,365,503	1,512,183	7,514,391	7,778,480	8,879,894	9,290,663
Total assets	2,870,693	2,818,907	8,303,200	8,426,536	11,173,893	11,245,443
Deferred outflows of resources	68,107	46,353	14,950	10,175	83,057	56,528
Total assets and deferred outflows of resources	2,938,800	2,865,260	8,318,150	8,436,711	11,256,950	11,301,971
Current liabilities	97,067	114,539	216,518	234,435	313,585	348,974
Noncurrent liabilities	93,449	108,200	3,661,962	3,748,657	3,755,411	3,856,857
Total liabilities	190,516	222,739	3,878,480	3,983,092	4,068,996	4,205,831
Deferred inflows of resources	73,775	71,711	16,195	15,741	89,970	87,452
Total liabilities and deferred inflows of resources	264,291	294,450	3,894,675	3,998,833	4,158,966	4,293,283
Net position						
Net investment in capital assets	1,365,503	1,512,183	3,734,140	3,911,798	5,099,643	5,423,981
Restricted	652,414	517,264	79,835	58,868	732,249	576,132
Unrestricted	656,592	541,363	609,500	467,212	1,266,092	1,008,575
Total net position	\$ 2,674,509	\$ 2,570,810	\$ 4,423,475	\$ 4,437,878	\$ 7,097,984	\$ 7,008,688

Changes in Net Position

The results of this year's operations for the City as a whole are reported in the Statement of Activities, which shows the changes in net position for fiscal year 2021. You will also see a revenue and expense comparison with fiscal year 2020.

Governmental Activities

During the fiscal year ending June 30, 2021, the City's governmental activities experienced an overall increase in net position of \$103,699.

Charges for services increased due to increased rates and reservations at Riverside Park. Operating grants increased due to additional funding for coronavirus relief and roads from the State of Michigan. Public Safety expenses increased due to an additional position and related expenses. Culture and recreation expenses increased due to increased usage and activity at Riverside Park.

Business-type Activities

During the fiscal year ending June 30, 2021, the City experienced an overall decrease in net position of \$14,403. The following table shows these results.

Charges for services increased due to an increase in water and sewer rates.

Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues						
Charges for services	\$ 315,691	\$ 200,824	\$ 741,489	\$ 669,513	\$ 1,057,180	\$ 870,337
Operating grants	269,810	204,580	-	-	269,810	204,580
Capital grants and contributions	-	-	2,125	-	2,125	-
General revenues						
Property taxes	441,253	429,046	-	-	441,253	429,046
Grants and contributions not restricted	197,030	170,488	-	-	197,030	170,488
Unrestricted investment earnings	6,421	12,485	4,236	8,353	10,657	20,838
Miscellaneous	34,184	30,662	-	-	34,184	30,662
Total revenues	1,264,389	1,048,085	747,850	677,866	2,012,239	1,725,951
Expenses:						
General government	362,232	342,968	-	-	362,232	342,968
Public safety	214,815	155,193	-	-	214,815	155,193
Public works	378,473	393,323	-	-	378,473	393,323
Culture and recreation	195,948	164,870	-	-	195,948	164,870
Interest on long term debt	9,222	-	-	-	9,222	-
Sewer	-	-	436,357	484,239	436,357	484,239
Water	-	-	325,896	355,384	325,896	355,384
Total expenses	1,160,690	1,056,354	762,253	839,623	1,922,943	1,895,977
Change in net position	103,699	(8,269)	(14,403)	(161,757)	89,296	(170,026)
Net position - Beginning	2,570,810	2,579,079	4,437,878	4,599,635	7,008,688	7,178,714
Net position - Ending	\$ 2,674,509	\$ 2,570,810	\$ 4,423,475	\$ 4,437,878	\$ 7,097,984	\$ 7,008,688

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As stated earlier in this discussion and analysis, 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 in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2021 fiscal year, the governmental funds reported a combined unassigned fund balance of \$413,273, all of which is in the General Fund. The remainder of the fund balance is nonspendable as it has been spent on prepaid items or inventories for the following year or is held in reserve for perpetual care, restricted for streets and highways, garbage and refuse collection, or sculpture as shown on page 14.

The General Fund is the chief operating fund of the City. The General Fund pays for administration, public safety, public works, assessments, elections, legal, recreation, boards and commissions, and other minor functions. The General Fund ended the year with a fund balance of \$421,159, an increase of \$62,307 from fiscal year 2020. The health of the General Fund may be measured by the ratio of unassigned General Fund fund balance to annual General Fund expenditures. Unassigned fund balance represents 48 percent of the General Fund expenditures.

Proprietary funds

The City's proprietary funds provide the same type of information found in the governmental financial statement, but in more detail. Net position of the Sewer Fund decreased by \$45,933 while the net position of the Water Fund increased by \$27,620, resulting in an overall decrease of \$18,313.

General Fund Budget

During the current fiscal year, the City made several amendments to its original General Fund budget. The most significant of those is listed below:

- City Commission expenditures were originally budgeted at \$38,092 and were amended to \$60,200 due to more legal costs and a search for a new city manager.
- City Manager expenditures were originally budgeted at \$73,780 and were amended to \$102,208 due to a severance payment to a former city manager and costs related to covering the position while it was vacant.
- City hall and grounds expenditures were originally budgeted at \$48,841 and were amended to \$62,930 due to new phone and internet service hookup.
- Department of public works expenditures were originally budgeted at \$77,798 and were amended to \$95,611 as the original budget did not cover the cost of public works employees working in the General Fund.
- Riverside Park and grounds expenditures were originally budgeted at \$78,045 and were amended to \$127,079 due to various repairs, increase in wages, and additional activity at the campground.

The following comments summarize the major variations from the final budget to actual revenues and expenditures:

- Federal revenues were over budget by \$25,092 due to unbudgeted grants for coronavirus relief and public safety.
- State revenues were over budget by \$52,449 due to Local Community Stabilization payments and State revenue sharing coming in higher than expected.
- Charges for services were over budget by \$88,473 due to an increase in reservations and rates at Riverside Park.

Capital Asset Administration

Significant capital additions during the year included work on a new shared lift station through Mason County's sewer system. The DDA also purchased the Scottville Optimist Club building. Additional information on the City's capital assets can be found in Note F of the "Notes to Financial Statements" of this report.

Debt Administration

As of June 30, 2021, the City had outstanding long-term bonds and other obligations of \$3,837,951 consisting of various intergovernmental revenue obligations, landfill remediation costs, and compensated absences. The City also had a net pension liability of \$70,060 as of June 30, 2021.

On the governmental side of the City, the largest source of debt is the landfill remediation costs. The liability is estimated each year based on the average actual costs over the four most recent years, then extrapolated to the number of years remaining. The change in estimate is shown as a decrease in the debt in the current year. The balance of the landfill remediation liability at June 30, 2021 is \$45,000.

During the year ended June 30, 2021, the DDA issued \$51,189 of new debt to finance the purchase of the Scottville Optimist Club. As of June 30, 2021, the full \$51,189 was outstanding.

Additional information on the City's long-term debt can be found in Note H of the "Notes to Financial Statements" of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Scottville's 2021/2022 budget set millage rate of 16.9 mills, which is the same rate as in 2020/2021. The millage rate in the Garbage and Refuse Collection Fund for 2021/2022 is 2.60 mills which is the same rate as in 2020/2021.

In 2021, the City began preliminary work towards the adoption of a formal Capital Improvement Program to better plan and budget for capital expenditures, with further efforts scheduled for 2022. The City is also working on repair and maintenance plans for our facilities, including City Hall, the Department of Public Works building, Riverside Park, and McPhail Field. Updates are in progress for plans already adopted by the City, such as the City Master Plan, Parks and Recreation Master Plan, and the Downtown Development Authority TIF Plan. The City has also undertaken energy efficient projects to reduce costs at many of the city owned properties. LED interior lighting and replacement of several overhead intersection lights with LEDs, reduced mowing activities, and more efficient order of operations within the DPW have reduced costs.

Water and Sewer rates will continue to be reviewed annually. Ludington continues to raise water and sewer rates due to projects happening at their water and sewer plants. Water and sewer rate adjustments were made in 2020 to reflect current cost increases, however continuing debt service and future rate increases from Ludington still have the potential to affect the City's water and sewer rates. Replacement of aging and non-functioning water meters at the City's largest water users has increased revenue and accountability.

The City is continuing its efforts to clean up blighted properties through active enforcement. While progress has been made over the past couple of years, court action has been successful for gaining compliance on some of the more problematic properties. Inspections have begun on the Residential Rental Inspection program and will continue over the next two years to complete the baseline assessment. In addition, more focus will also be shifted to the Downtown and storefront development, including providing financial incentives such as mini-grants from the Downtown Development Authority and their work to renovate the recently acquired Optimist Property.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, residents, voters, customers and investors with a general overview of the City's finances as well as to depict the City's accountability for the money it receives and spends. If you have questions about this report or need additional information, we welcome you to contact City Hall at 231-757-4729, Scottville City Hall, located at 105 North Main Street, Scottville, MI 49454. Scottville City Hall is open Monday through Friday from 8:00 AM to 5:00 PM excluding most national holidays.

City of Scottville
STATEMENT OF NET POSITION
June 30, 2021

	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
Current assets				
Cash and investments	\$ 1,360,438	\$ 613,517	\$ 1,973,955	\$ 57,850
Assets managed by others	67,191	-	67,191	-
Receivables	13,447	64,845	78,292	-
Due from other governmental units	68,172	-	68,172	-
Internal balances	(14,603)	14,603	-	-
Inventories	2,659	12,009	14,668	-
Prepaid items	7,886	-	7,886	-
Total current assets	1,505,190	704,974	2,210,164	57,850
Noncurrent assets				
Restricted assets	-	83,835	83,835	-
Capital assets, net				
Nondepreciable	182,488	6,457	188,945	25,594
Depreciable	1,183,015	7,507,934	8,690,949	23,036
Total noncurrent assets	1,365,503	7,598,226	8,963,729	48,630
Total assets	2,870,693	8,303,200	11,173,893	106,480
DEFERRED OUTFLOWS OF RESOURCES				
Related to pension	68,107	14,950	83,057	-
Total assets and deferred outflows of resources	2,938,800	8,318,150	11,256,950	106,480
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	38,251	24,462	62,713	3,520
Customer deposits	-	6,988	6,988	-
Due to other governmental units	10,616	54,168	64,784	-
Unearned revenues - campground fees	26,500	-	26,500	-
Bonds and other obligations, due within one year	21,700	130,900	152,600	10,200
Total current liabilities	97,067	216,518	313,585	13,720
Noncurrent liabilities				
Bonds and other obligations, less amounts due within one year	36,000	3,649,351	3,685,351	40,989
Net pension liability	57,449	12,611	70,060	-
Total noncurrent liabilities	93,449	3,661,962	3,755,411	40,989
Total liabilities	190,516	3,878,480	4,068,996	54,709
DEFERRED INFLOWS OF RESOURCES				
Related to pension	73,775	16,195	89,970	-
Total liabilities and deferred inflows of resources	264,291	3,894,675	4,158,966	54,709
NET POSITION				
Net investment in capital assets	1,365,503	3,734,140	5,099,643	(2,559)
Restricted				
Streets and highways	556,103	-	556,103	-
Capital projects	-	43,335	43,335	-
Debt service	-	36,500	36,500	-
Garbage and refuse collection	41,770	-	41,770	-
Perpetual care - nonexpendable	53,453	-	53,453	-
Sculpture	1,088	-	1,088	-
Unrestricted	656,592	609,500	1,266,092	54,330
Total net position	\$ 2,674,509	\$ 4,423,475	\$ 7,097,984	\$ 51,771

The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF ACTIVITIES
For the year ended June 30, 2021

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 362,232	\$ 8,849	\$ 15,280	\$ -	\$ (338,103)	\$ -	\$ (338,103)	\$ -
Public safety	214,815	47,724	26,518	-	(140,573)	-	(140,573)	-
Public works	378,473	52,251	221,692	-	(104,530)	-	(104,530)	-
Culture and recreation	195,948	206,867	6,320	-	17,239	-	17,239	-
Interest on long-term debt	9,222	-	-	-	(9,222)	-	(9,222)	-
Total governmental activities	1,160,690	315,691	269,810	-	(575,189)	-	(575,189)	-
Business-type activities								
Sewer	436,357	388,466	-	-	-	(47,891)	(47,891)	-
Water	325,896	353,023	-	2,125	-	29,252	29,252	-
Total business-type activities	762,253	741,489	-	2,125	-	(18,639)	(18,639)	-
Total primary government	\$ 1,922,943	\$ 1,057,180	\$ 269,810	\$ 2,125	(575,189)	(18,639)	(593,828)	-
Component unit								
Downtown Development Authority								
Community and economic development	\$ 22,301	\$ -	\$ 7,285	\$ -	-	-	-	(15,016)
Interest on long-term debt	2,115	-	-	-	-	-	-	(2,115)
Total component unit	\$ 24,416	\$ -	\$ 7,285	\$ -	-	-	-	(17,131)
General revenues								
Property taxes					441,253	-	441,253	14,626
Grants and contributions not restricted to specific programs					197,030	-	197,030	-
Unrestricted investment earnings					6,421	4,236	10,657	333
Miscellaneous					34,184	-	34,184	-
Total general revenues					678,888	4,236	683,124	14,959
Change in net position					103,699	(14,403)	89,296	(2,172)
Net position at beginning of year					2,570,810	4,437,878	7,008,688	53,943
Net position at end of year					\$ 2,674,509	\$ 4,423,475	\$ 7,097,984	\$ 51,771

The accompanying notes are an integral part of this statement.

City of Scottville
BALANCE SHEET
 Governmental Funds
 June 30, 2021

	General Fund	Major Streets Fund	Garbage and Refuse Collection Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 417,372	\$ 381,180	\$ 87,044	\$ 146,122	\$ 1,031,718
Assets managed by others	-	-	-	67,191	67,191
Accounts receivable	9,766	-	3,681	-	13,447
Due from other governmental units	37,521	22,723	-	7,928	68,172
Due from other funds	13,738	-	-	-	13,738
Inventories	-	-	2,659	-	2,659
Prepaid items	7,886	-	-	-	7,886
Total assets	\$ 486,283	\$ 403,903	\$ 93,384	\$ 221,241	\$1,204,811
LIABILITIES					
Accounts payable	\$ 12,305	\$ -	\$ 6,534	\$ -	\$ 18,839
Accrued liabilities	15,703	398	80	364	16,545
Due to other governmental units	10,616	-	-	-	10,616
Due to other funds	-	-	-	13,738	13,738
Unearned revenues - campground fees	26,500	-	-	-	26,500
Total liabilities	65,124	398	6,614	14,102	86,238
FUND BALANCES					
Nonspendable					
Inventories	-	-	2,659	-	2,659
Prepaid items	7,886	-	-	-	7,886
Perpetual care	-	-	-	53,453	53,453
Restricted					
Streets and highways	-	403,505	-	152,598	556,103
Garbage and refuse collection	-	-	84,111	-	84,111
Sculpture	-	-	-	1,088	1,088
Unassigned	413,273	-	-	-	413,273
Total fund balances	421,159	403,505	86,770	207,139	1,118,573
Total liabilities and fund balances	\$ 486,283	\$ 403,903	\$ 93,384	\$ 221,241	\$1,204,811

The accompanying notes are an integral part of this statement.

City of Scottville
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION**
 June 30, 2021

Total fund balances—governmental funds \$ 1,118,573

Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Cost of capital assets	\$ 3,204,287	
Accumulated depreciation	<u>(1,898,212)</u>	1,306,075

Long-term liabilities in governmental activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Landfill remediation cost	(45,000)	
Compensated absences	(12,700)	
Net pension liability and related deferred outflows/inflows of resources	<u>(63,117)</u>	(120,817)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the Statement of Net Position.

Net position of the internal service funds	385,281	
Internal balances representing the cumulative difference between actual costs and amounts charged to business-type activities	<u>(14,603)</u>	<u>370,678</u>

Net position of governmental activities		<u>\$ 2,674,509</u>
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The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Governmental Funds
 For the year ended June 30, 2021

	General Fund	Major Streets Fund	Garbage and Refuse Collection Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 385,430	\$ -	\$ 55,823	\$ -	\$ 441,253
Licenses and permits	11,493	-	-	-	11,493
Intergovernmental revenues					
Federal	25,092	-	-	-	25,092
State	193,199	165,795	4,382	55,897	419,273
Charges for services	260,073	-	52,251	-	312,324
Fines and forfeitures	1,434	-	-	-	1,434
Investment earnings	1,651	1,973	477	666	4,767
Gain from assets managed by others	-	-	-	14,980	14,980
Other	32,119	-	-	-	32,119
Total revenues	910,491	167,768	112,933	71,543	1,262,735
EXPENDITURES					
Current					
General government	361,941	-	-	-	361,941
Public safety	219,905	-	-	-	219,905
Public works	133,758	59,254	92,233	56,397	341,642
Culture and recreation	147,568	-	-	-	147,568
Debt service					
Principal	-	-	9,222	-	9,222
Total expenditures	863,172	59,254	101,455	56,397	1,080,278
Excess of revenues over (under) expenditures	47,319	108,514	11,478	15,146	182,457
OTHER FINANCING SOURCES (USES)					
Transfers in	14,988	-	-	28,000	42,988
Transfers out	-	(28,000)	-	(14,988)	(42,988)
Total other financing sources (uses)	14,988	(28,000)	-	13,012	-
Net change in fund balances	62,307	80,514	11,478	28,158	182,457
Fund balances at beginning of year	358,852	322,991	75,292	178,981	936,116
Fund balances at end of year	\$ 421,159	\$ 403,505	\$ 86,770	\$ 207,139	\$1,118,573

The accompanying notes are an integral part of this statement.

City of Scottville
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2021

Net change in fund balances—total governmental funds \$ 182,457

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

Governmental funds report outlays for capital assets as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense (131,118)

The issuance of long-term debt provides current financial resources to governmental funds, but increases liabilities in the Statement of Net Position. Repayment of debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position.

Repayment of principal on long-term debt	\$ 9,222	
Change in estimated costs of landfill remediation	<u>5,778</u>	15,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Change in compensated absences	600	
Change in net pension liability and related deferred outflows/inflows of resources	<u>20,441</u>	21,041

The internal service fund is used by management to charge the costs of equipment used to individual funds. The net revenue of certain activities of the internal service fund is reported with governmental activities.

Change in net position of the internal service fund	20,229	
Change in internal balances representing the current year difference between actual costs and amounts charged to business-type activities	<u>(3,910)</u>	<u>16,319</u>

Change in net position of governmental activities		<u>\$ 103,699</u>
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The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF NET POSITION
 Proprietary Funds
 June 30, 2021

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer	Water	Total	
ASSETS				
Current assets				
Cash and investments	\$ 457,487	\$ 156,030	\$ 613,517	\$ 328,720
Accounts receivable	35,370	29,475	64,845	-
Inventories	-	12,009	12,009	-
Total current assets	492,857	197,514	690,371	328,720
Noncurrent assets				
Restricted assets	5,000	78,835	83,835	-
Capital assets				
Land	-	6,457	6,457	-
Utility systems	7,365,216	3,928,727	11,293,943	-
Buildings and improvements	-	-	-	17,748
Equipment and furniture	89,776	11,613	101,389	560,959
Less accumulated depreciation	(2,562,870)	(1,324,528)	(3,887,398)	(519,279)
Net capital assets	4,892,122	2,622,269	7,514,391	59,428
Total noncurrent assets	4,897,122	2,701,104	7,598,226	59,428
Total assets	5,389,979	2,898,618	8,288,597	388,148
DEFERRED OUTFLOWS OF RESOURCES				
Related to pension	5,814	9,136	14,950	-
Total assets and deferred outflows of resources	5,395,793	2,907,754	8,303,547	388,148
LIABILITIES				
Current liabilities				
Accounts payable	4,248	-	4,248	2,821
Accrued liabilities	15,417	4,797	20,214	46
Customer deposits	-	6,988	6,988	-
Due to other governmental units	23,101	31,067	54,168	-
Bonds and other obligations, due within one year	84,700	46,200	130,900	-
Total current liabilities	127,466	89,052	216,518	2,867
Noncurrent liabilities				
Bonds and other obligations, less amounts due within one year	1,743,050	1,906,301	3,649,351	-
Net pension liability	4,904	7,707	12,611	-
Total noncurrent liabilities	1,747,954	1,914,008	3,661,962	-
Total liabilities	1,875,420	2,003,060	3,878,480	2,867
DEFERRED INFLOWS OF RESOURCES				
Related to pension	6,298	9,897	16,195	-
Total liabilities and deferred inflows of resources	1,881,718	2,012,957	3,894,675	2,867
NET POSITION				
Net investment in capital assets	3,064,372	669,768	3,734,140	59,428
Restricted				
Replacement	5,000	38,335	43,335	-
Debt service	-	36,500	36,500	-
Unrestricted	444,703	150,194	594,897	325,853
Total net position	\$ 3,514,075	\$ 894,797	4,408,872	\$ 385,281
Adjustment to report the cumulative internal balance for the net effect of the activity between the internal service fund and the enterprise funds over time			14,603	
Net position of business-type activities			\$ 4,423,475	

The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 Proprietary Funds
 For the year ended June 30, 2021

	Business-type Activities - Enterprise Funds			Governmental Activities- Internal Service Fund
	Sewer	Water	Total	
OPERATING REVENUES				
Charges for services	\$ 388,466	\$ 353,023	\$ 741,489	\$ 78,412
OPERATING EXPENSES				
Administration	38,582	20,022	58,604	-
Operations	138,545	176,237	314,782	44,275
Depreciation	200,315	97,266	297,581	15,562
Total operating expenses	377,442	293,525	670,967	59,837
Operating income (loss)	11,024	59,498	70,522	18,575
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	2,779	1,457	4,236	1,654
Connection fees	-	2,125	2,125	-
Interest expense	(59,736)	(35,460)	(95,196)	-
Total nonoperating revenue (expenses)	(56,957)	(31,878)	(88,835)	1,654
Change in net position	(45,933)	27,620	(18,313)	20,229
Net position at beginning of year	3,560,008	867,177		365,052
Net position at end of year	\$3,514,075	\$ 894,797		\$ 385,281
Adjustment for the net effect of the current year activity between the internal service fund and the enterprise funds			3,910	
Change in net position of business-type activities			\$ (14,403)	

The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended June 30, 2021

	Business-type Activities - Enterprise Funds			Governmental Activities- Internal Service Fund
	Sewer	Water	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 375,324	\$ 339,482	\$ 714,806	\$ -
Receipts from interfund services provided	2,039	2,982	5,021	78,412
Payments to suppliers	(167,886)	(154,832)	(322,718)	(43,587)
Payments to employees	(21,954)	(33,825)	(55,779)	(1,849)
Payment for interfund services used	(3,470)	(13,036)	(16,506)	-
Net cash provided by (used for) operating activities	184,053	140,771	324,824	32,976
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital debt	33,492	-	33,492	-
Connection fees	-	2,125	2,125	-
Purchases of capital assets	(33,492)	-	(33,492)	-
Principal paid on capital debt	(74,728)	(45,195)	(119,923)	-
Interest paid on capital debt	(59,736)	(35,660)	(95,396)	-
Net cash provided by (used for) capital and related financing activities	(134,464)	(78,730)	(213,194)	-
CASH FLOW FROM INVESTING ACTIVITIES				
Investment earnings	2,779	1,457	4,236	1,654
Net increase (decrease) in cash and investments	52,368	63,498	115,866	34,630
Cash and investments at beginning of year	410,119	171,367	581,486	294,090
Cash and investments at end of year	\$ 462,487	\$ 234,865	\$ 697,352	\$ 328,720
Reconciliation of cash and investments to statement of net position				
Cash and investments	\$ 457,487	\$ 156,030	\$ 613,517	\$ 328,720
Restricted assets	5,000	78,835	83,835	-
	\$ 462,487	\$ 234,865	\$ 697,352	\$ 328,720
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ 11,024	\$ 59,498	\$ 70,522	\$ 18,575
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation expense	200,315	97,266	297,581	15,562
Change in assets and liabilities				
Accounts receivable	(11,103)	(9,059)	(20,162)	-
Inventories	-	(815)	(815)	-
Accounts payables	2,053	(397)	1,656	(1,154)
Accrued liabilities	(1,762)	(2,683)	(4,445)	(7)
Customer deposits	-	(1,500)	(1,500)	-
Due to other governmental units	(16,474)	(1,539)	(18,013)	-
Net cash provided by (used for) operating activities	\$ 184,053	\$ 140,771	\$ 324,824	\$ 32,976

The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF NET POSITION
Fiduciary Fund
June 30, 2021

	<u>Custodial Fund</u> <u>Escrow Tax</u> <u>Trust</u>
ASSETS	
Cash and investments	\$ -
LIABILITIES	
Due to other governmental units	<u>-</u>
NET POSITION	
Restricted for individuals, organizations, and other governments	<u><u>\$ -</u></u>

The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF CHANGES IN NET POSITION
 Fiduciary Fund
 For the year ended June 30, 2021

	Custodial Fund
	Escrow Tax
	Trust
ADDITION	
Property tax collections for other governments	\$ 630,449
DEDUCTIONS	
Payments of property taxes to other governments	630,449
Change in net position	-
Net position at beginning of year	-
Net position at end of year	\$ -

The accompanying notes are an integral part of this statement.

City of Scottville
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Scottville (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government 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 is a municipal corporation governed by an elected seven-member commission with an appointed mayor. The accompanying financial statements present the City and its component units, entities for which the City is considered financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Discretely Presented Component Unit

Downtown Development Authority (DDA). The DDA's purpose is the collection of tax increment revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the City's downtown district. Board members of the DDA are appointed by the City Commission. The DDA is fiscally dependent on the City since the City Commission approves the DDA budget and must approve any debt issuance. The DDA is presented as a governmental fund type.

Basis of Presentation—Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As discussed earlier, the City's discretely presented component units are reported in a separate column in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

City of Scottville
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Basis of Presentation—Government-wide and Fund Financial Statements—Continued

The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City 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 accounts for money distributed by the State of Michigan for construction and maintenance of major streets within the City.

The Garbage and Refuse Collection Fund is used to account for a millage levied for refuse collection.

The City reports the following major proprietary funds:

The Sewer Fund operates the City's sewage pumping station, collection systems and pays for access to the City of Ludington's sewage treatment plant.

The Water Fund operates the City's water distribution system.

Additionally, the City reports the following fund types:

The Internal Service Fund accounts for equipment management services provided to other funds of the government on a cost reimbursement basis.

The Custodial Fund is used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment funds, or private-purpose trust funds.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

City of Scottville
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

The 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 City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, franchise taxes, 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met. 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 government.

The proprietary and fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of six months or less from the date of acquisition.

Investments for the City are reported at fair value (generally based on quoted market prices).

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

City of Scottville
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Cash and Investments—Continued

The component unit’s cash and investments are maintained within the City’s investment pool.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. The cost of such inventories is recorded as expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or 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 in excess of two years.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the City chose to include only items acquired since July 1, 2003 as allowed by generally accepted accounting principles.

As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	15-40
Infrastructure	20-30
Sewer and water systems	10-66
Vehicles and equipment	5-20

City of Scottville
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Defined Benefit Plan

The City offers a defined benefit pension plan to its employees through Municipal Employees Retirement System (MERS). The City records a net pension liability for the difference between the total pension liability calculated by the actuary and the Plan's fiduciary net position. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's 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, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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 of net position to report as restricted and unrestricted 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 City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions

Sometimes the City 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 City'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. The City itself can establish limitation on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority.

City of Scottville
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Fund Balance Policies—Continued

The City Commission is the highest level of decision-making authority for the City that can, by formal action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by formal action remains in place until a similar action is taken (another formal action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Commission has by resolution authorized the City Manager to assign fund balance. The City Commission 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.

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Taxes

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and collects taxes for the county, school and State of Michigan. Taxes are levied and lien on July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollected real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all of these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. The City recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2020 state taxable value for real/personal property of the City totaled approximately \$21,899,000 of which approximately \$280,000 was captured by the DDA. The ad valorem taxes levied consisted of 16.90 mills for operation and 2.60 mills for garbage collection. An additional 1.997 mills are levied on the approximately \$2,722,000 in taxable value in the DDA district. These amounts are recognized in the respective General Fund, Garbage and Refuse Collection Fund, and DDA component unit with additional captured amounts also shown in the DDA component unit.

Compensated Absences

City employees are granted paid time off (PTO) in varying amounts based on length of service. Upon six months of continuous employment, an employee will be paid upon resignation, separation, or retirement for PTO hours accumulated but not used (computed at the rate of pay earned upon separation) up to a maximum of 80 hours. The liability for these compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements.

City of Scottville
NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Revenues and Expenditures/Expenses—Continued

Compensated Absences—Continued

The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Commission. The legal level of budgetary control is the department level. The City Commission made several supplemental budgetary appropriations throughout the year.

Excess of Expenditures over Appropriations

During the year ended June 30, 2021, actual expenditures exceeded appropriations for:

	Final Budget	Actual
General Fund		
General government		
City commission	\$ 60,200	\$ 61,366
Clerk	31,770	33,854
Public works		
Street lighting	20,000	27,253
Culture and recreation		
Riverside Park and grounds	127,079	130,507
Garbage and Refuse Fund		
Public works		
Professional services	90,557	92,233

These over expenditures were funded with available fund balance.

City of Scottville
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2021, the City had only cash and cash equivalents.

Deposit and Investment Risks

Interest Rate Risk

The City's investment policy limits investment maturities to five years or less and requires the overall weighted average duration of its entire portfolio be less than three years as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The City's investment policy limits various types of investments to certain percentages of the City's total investment portfolio as a means of managing its risk.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2021, \$1,679,943 of the City's bank balance of \$2,140,774 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy sets certain requirements for financial institutions to be eligible to do business with the City as a means to limit its risk.

Foreign Currency Risk

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

City of Scottville
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Restricted Cash and Investments

Restrictions are placed on assets by bond ordinance and City Commission action. At June 30, 2021, cash and investments are restricted as follows:

Business-type activities

Water Fund	
Repair, replacement, and improvement (RRI) fund	\$ 38,335
Bond reserve fund	<u>40,500</u>
	78,835
Sewer Fund	
Replacement reserve fund	<u>5,000</u>
	<u><u>\$ 83,835</u></u>

NOTE D—ASSETS MANAGED BY OTHERS

As allowed by MCL 128.4, the City is authorized to place perpetual care monies in community foundations.

The Fund

The City has one fund with the Community Foundation of Mason County (Community Foundation).

The City of Scottville Cemetery Perpetual Care Fund (Fund) was established by the City primarily to be used for the care and maintenance of the cemeteries that are operated by the City. The agreement with the Community Foundation allows the use of the Fund's income in accordance with the Community Foundation's spending policy and principal in certain circumstances. The Community Foundation invests the contributions to the fund in various types of marketable equity and debt securities, U.S. Treasuries, commercial paper, and certificates of deposit. The majority of investments are uninsured and uncollateralized.

Reporting of the Assets of the Funds

The investments held at the Community Foundation, which were contributed by the City to the Fund along with the earnings on these investments, are reported at fair value as assets of the City.

City of Scottville
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE D—ASSETS MANAGED BY OTHERS—Continued

Summary of the Community Foundation Fund

A summary of revenues, expenses, and changes in the assets at fair value of the Fund for the year ended June 30, 2021 follows:

Revenues	
Contributions	\$ 300
Dividends and interest	1,260
Realized and unrealized gain on investments	<u>14,265</u>
	15,825
Expenses	
Administration fees	<u>545</u>
Revenues over (under) expenses	15,280
Assets at beginning of year	<u>51,911</u>
Assets at end of year	<u>\$ 67,191</u>

The Board of Trustees of the Community Foundation has the power to modify any restriction or condition on the distribution of funds for any specified charitable purpose or to a specified organization if, in the sole judgment of the Board, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served. The authority to modify restrictions is sometimes referred to as “variance power” and is a legal standard imposed on all community foundations.

City of Scottville
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE E—FAIR VALUE MEASUREMENTS

The framework for measuring fair value 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) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City the ability to access.

Level 2 Inputs to the valuation methodology include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2021.

Assets managed by others: The assets are valued based upon the City's allocable share of the Community Foundation of Mason County (Community Foundation) pooled investment portfolio. The allocable share is based on the value of the underlying assets owned by the fund, minus its liabilities.

The assets managed by others are valued monthly by the Community Foundation and are allocated based upon each organization's calculated share of the Community Foundation's pooled investment portfolio. Each entity with an interest within the pooled investments receives a statement from the Community Foundation indicating the additions to the investment (via contributions), withdrawals from the investment (via grants), and the investment returns allocated via a unitization process. The City calculates the fair value of its beneficial interest in the pooled investment assets held by the Community Foundation based on the estimated fair value of the underlying assets. The Community Foundation controls the investments and makes all management and investment decisions.

City of Scottville
NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE E—FAIR VALUE MEASUREMENTS—Continued

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the City believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the City’s assets at fair value on a recurring basis as of June 30, 2021:

	Assets at Fair Value as of June 30, 2021			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets managed by others	\$ -	\$ 67,191	\$ -	\$ 67,191

NOTE F—CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2021</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 182,488	\$ -	\$ -	\$ 182,488
Capital assets, being depreciated:				
Land improvements	1,141,606	-	-	1,141,606
Buildings and improvements	954,670	-	-	954,670
Vehicles and equipment	750,488	-	-	750,488
Infrastructure	753,742	-	-	753,742
Total capital assets, being depreciated	3,600,506	-	-	3,600,506
Less accumulated depreciation:				
Land improvements	598,476	57,080	-	655,556
Buildings and improvements	697,689	26,736	-	724,425
Vehicles and equipment	634,866	25,177	-	660,043
Infrastructure	339,780	37,687	-	377,467
Total accumulated depreciation	2,270,811	146,680	-	2,417,491
Total capital assets, being depreciated, net	1,329,695	(146,680)	-	1,183,015
Capital assets, net	\$ 1,512,183	\$ (146,680)	\$ -	\$ 1,365,503

City of Scottville
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE F—CAPITAL ASSETS—Continued

	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 6,457	\$ -	\$ -	\$ 6,457
Capital assets, being depreciated:				
Water system	3,928,727	-	-	3,928,727
Sewer system	7,511,269	33,492	179,545	7,365,216
Vehicles and equipment	103,510	-	2,121	101,389
Total capital assets, being depreciated	11,543,506	33,492	181,666	11,395,332
Less accumulated depreciation:				
Water system	1,223,682	96,105	2,121	1,317,666
Sewer system	2,488,847	193,036	179,545	2,502,338
Vehicles and equipment	58,954	8,440	-	67,394
Total accumulated depreciation	3,771,483	297,581	181,666	3,887,398
Total capital assets, being depreciated, net	7,772,023	(264,089)	-	7,507,934
Capital assets, net	\$ 7,778,480	\$ (264,089)	\$ -	\$ 7,514,391

Depreciation

Depreciation expense has been charged to functions as follows:

Governmental activities:

General government	\$ 9,421
Public safety	1,392
Public works	70,215
Culture and recreation	50,090
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets.	15,562
	\$ 146,680

Business-type activities:

Sewer	\$ 200,315
Water	97,266
	\$ 297,581

City of Scottville
NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE F—CAPITAL ASSETS—Continued

	Balance	Additions	Deductions	Balance
	July 1, 2020			June 30, 2021
Component unit:				
Capital assets, not being depreciated:				
Land	\$ -	\$ 25,594	\$ -	\$ 25,594
Capital assets, being depreciated:				
Buildings and improvements	-	25,595	-	25,595
Less accumulated depreciation:				
Buildings and improvements	-	2,559	-	2,559
Total capital assets, being depreciated, net	-	23,036	-	23,036
Capital assets, net	\$ -	\$ 48,630	\$ -	\$ 48,630

Depreciation

Depreciation expense was charged to community and economic development.

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2021 is as follows:

Due To/From Other Funds:

The Cemetery Perpetual Care Fund owes the General Fund \$13,738 for investment income to be used for cemetery maintenance.

Interfund Transfers

The composition of interfund transfers as of June 30, 2021 is as follows:

Interfund transfers:

	Transfers in:			
	General	Other	Total	
	Fund	Governmental		Purpose
		Funds		
Transfers out:				
Major Streets Fund	\$ -	\$ 28,000	\$ 28,000	Operations subsidy
Other governmental funds	14,988	-	14,988	Operations subsidy
Total	\$ 14,988	\$ 28,000	\$ 42,988	

City of Scottville
NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE H—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the City for the year ended June 30, 2021.

	Balance			Balance	Due Within
	July 1, 2020	Additions	Reductions	June 30, 2021	One Year
Governmental activities:					
Landfill remediation costs	\$ 60,000	\$ -	\$ 15,000	\$ 45,000	\$ 9,000
Compensated absences	13,300	25,427	26,027	12,700	12,700
Governmental activities long-term liabilities	\$ 73,300	\$ 25,427	\$ 41,027	\$ 57,700	\$ 21,700
Business-type activities:					
Direct borrowings and direct placements					
Intergovernmental revenue obligations	\$ 3,866,682	\$ 33,492	\$ 119,923	\$ 3,780,251	\$ 130,900
Component unit:					
Direct borrowings and direct placements	\$ -	\$ 51,189	\$ -	\$ 51,189	\$ 10,200

The business-type activities intergovernmental revenue obligations are secured by revenues of the Water and Sewer funds. If the City defaults, the obligations are callable.

The component unit direct borrowings and direct placement obligation is secured by the component unit's real property. If the City defaults, the interest rate increases by 0.25 percent and an additional 0.25 percent increase during each thirty-day period thereafter during which notice default continues up to maximum interest rate limitations under applicable law.

City of Scottville
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE H—LONG-TERM DEBT—Continued

	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Balance</u>
Governmental activities:			
Landfill remediation costs (note I)	N/A	June 2026	<u>\$ 45,000</u>
Business-type activities:			
Direct borrowings and direct placements			
Intergovernmental revenue obligations:			
\$125,996 Obligation to Mason County	5.2% to 5.5%	March 2030	\$ 78,501
\$233,478 Obligation to Mason County	3.25%	April 2041	231,750
\$1,840,000 Obligation to Mason County	3.25%	April 2040	1,596,000
\$1,654,000 USDA Rural Development loan	1.6%	June 2056	1,505,000
\$440,000 USDA Rural Development loan	1.6%	June 2056	<u>369,000</u>
			<u>\$ 3,780,251</u>
Component unit:			
Direct borrowings and direct placement			
\$51,189 Obligation to bank	4.25%	August 2025	<u>\$ 51,189</u>

The USDA obligations are not backed by the full faith and credit of the City.

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

Annual debt services to maturity for obligations from direct borrowings and direct placements outstanding as of June 30, 2021 follow:

Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Component unit</u>	
	<u>Other Debt</u>		<u>Direct Borrowings and Direct Placements</u>		<u>Direct Borrowings and Direct Placements</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 9,000	\$ -	\$ 130,900	\$ 94,588	\$ 10,200	\$ 1,984
2023	9,000	-	136,300	92,044	10,200	1,542
2024	9,000	-	140,500	88,169	10,200	1,101
2025	9,000	-	142,800	84,106	10,200	660
2026	9,000	-	146,300	79,928	10,389	218
2027-2031	-	-	788,500	333,495	-	-
2032-2036	-	-	860,900	216,996	-	-
2037-2041	-	-	507,300	107,213	-	-
2042-2046	-	-	292,000	70,656	-	-
2047-2051	-	-	318,000	46,524	-	-
2052-2056	-	-	316,751	20,231	-	-
	<u>\$ 45,000</u>	<u>\$ -</u>	<u>\$ 3,780,251</u>	<u>\$ 1,233,950</u>	<u>\$ 51,189</u>	<u>\$ 5,505</u>

City of Scottville
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE I—OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City manages its liability and property risk by participating in the Michigan Municipal Risk Management Authority (MMRMA), a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMRMA for its insurance coverage. The MMRMA is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Contingent Liabilities

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

Landfill Remediation

During 1996, the City completed the landfill remediation project. As part of the landfill remediation, the City must continue to monitor the area. The monitoring will be done through the testing of well samples twice a year for at least thirty years. The estimated liability is reported in Note H. The liability is estimated based on the average actual costs over four years, then extrapolated to the number of years remaining. The change in estimate this year resulted in a decrease to the liability for governmental activities at July 1, 2020 of \$5,778.

City of Scottville
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE J—EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN

Defined Benefit Pension Plan

Plan Description

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

Benefits Provided

The Plan provides certain retirement, disability and death benefits to plan members and beneficiaries. Public Act 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS. The Plan covers all full-time employees.

Benefits provided by the Plan have a multiplier of 1.70 percent. The vesting period is 10 years. Normal retirement age is 60 with early retirement at 50 with 25 years of service or 55 with 15 years of service. Final average compensation is calculated based on 5 years.

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	4
Active employees	9
Total employees covered by MERS	<u><u>16</u></u>

Contributions

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

For the year ended June 30, 2021, City contribution rate was 9.42 percent of annual covered payroll. No contribution is required from the employees unless the contribution rate is in excess of 10 percent.

Net Pension Liability

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

City of Scottville
NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE J—EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN—Continued

Defined Benefit Pension Plan—Continued

Actuarial Assumptions

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

Inflation	2.5 percent
Salary increases	3.0 percent in the long-term
Investment rate of return	7.35 percent, net of administrative and investment expenses

Although no specific price inflation assumptions are needed for the valuation, the 3.0 percent long-term wage inflation assumption would be consistent with a price inflation of 3-4 percent. 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 through 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Target Gross Rate of Return	Long-Term Expected Gross Rate of Return	Inflation Assumption	Long-Term Expected Real Rate of Return
Global equity	60.0%	7.75%	4.65%	2.50%	3.15%
Global fixed income	20.0%	3.75%	0.75%	2.50%	0.25%
Private assets	20.0%	9.75%	1.95%	2.50%	1.45%
Total	100.0%		7.35%		4.85%

City of Scottville
NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE J—EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN—Continued

Defined Benefit Pension Plan—Continued

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent for 2020. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those 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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Position (b)	Net Pension Liability (a)-(b)
Balance at January 1, 2020	\$ 788,241	\$ 717,266	\$ 70,975
Changes for the year			
Service cost	26,963	-	26,963
Interest	59,318	-	59,318
Difference between expected and actual experience	10,506	-	10,506
Changes in assumptions	27,704	-	27,704
Contributions - employer	-	34,541	(34,541)
Net investment income	-	92,312	(92,312)
Administrative expenses	-	(1,447)	1,447
Benefit payments including refund of employee contributions	(42,444)	(42,444)	-
Net changes	82,047	82,962	(915)
Balance at December 31, 2020	\$ 870,288	\$ 800,228	\$ 70,060

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

The following presents the net pension liability of the City, calculated using the discount rate of 7.60 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
City's net pension liability	\$ 183,612	\$ 70,060	\$ (23,540)

City of Scottville
NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE J—EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN—Continued

Defined Benefit Pension Plan—Continued

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

Note: 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 expense.

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

For the year ended June 30, 2021, the City recognized pension expense of \$16,542. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ 8,755	\$ 65,590
Differences in assumptions	51,831	-
Net difference between projected and actual net investment income	-	24,380
Contributions subsequent to the measurement date*	22,471	-
Total	\$ 83,057	\$ 89,970

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

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

Year Ending June 30,	Amount
2022	\$ (10,535)
2023	(4,281)
2024	(20,245)
2025	(693)
2026	6,370

Payables to the Pension Plan

At June 30, 2021, the City reported a payable of \$3,536 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2021.

City of Scottville
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE J—EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN—Continued

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to certain full-time employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

Under the Plan, the City's matching contribution for eligible full-time employees is equal to 100 percent of the amount deferred by the employee up to 6 percent of the employee's gross wages. For the year ended June 30, 2021, the City's matching contribution expense was \$9,192.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

NOTE K—UPCOMING PRONOUNCEMENTS

GASB Statement 87—*Leases* was issued by the GASB in June 2017 and will be effective for the City's 2022 fiscal year. The objective of this Statement is to better meet the information needs of financial statements users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB Statement 96—*Subscription-Based Information Technology Arrangements* was issued by the GASB in May 2020 and will be effective for the City's 2023 fiscal year. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

NOTE L—RISKS AND UNCERTAINTIES

The COVID-19 pandemic that the world is experiencing is unprecedented. It is nearly impossible to fully understand the impact that it will have on the economy and on the City's operations. As of June 30, 2021, the City is continuing to implement risk mitigation tactics including all aspects of the City's business transactions with customers, vendors and human interaction within and outside of the City.

REQUIRED SUPPLEMENTARY INFORMATION

City of Scottville
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 407,100	\$ 407,100	\$ 385,430	\$ (21,670)
Licenses and permits	9,100	9,100	11,493	2,393
Intergovernmental revenues				
Federal	-	-	25,092	25,092
State	140,750	140,750	193,199	52,449
Charges for services	171,600	171,600	260,073	88,473
Fines and forfeitures	3,000	3,000	1,434	(1,566)
Investment earnings	6,000	6,000	1,651	(4,349)
Other	33,000	33,000	32,119	(881)
Total revenues	<u>770,550</u>	<u>770,550</u>	910,491	139,941
EXPENDITURES				
Current				
General government				
City commission	38,092	60,200	61,366	(1,166)
City manager	73,780	102,208	103,114	(906)
Elections	7,281	8,915	8,629	286
Assessor and board of review	13,294	13,930	13,263	667
Clerk	27,016	31,770	33,854	(2,084)
Treasurer	35,183	39,377	39,265	112
City hall and grounds	48,841	62,930	58,396	4,534
Parking lot and mall	24,957	18,257	17,641	616
Brookside Cemetery	21,181	26,629	26,413	216
Public safety				
Police department	248,010	230,831	214,301	16,530
Fire department	1,620	-	-	-
Zoning inspections	19,330	6,963	5,604	1,359
Public works				
Department of public works	77,798	95,611	93,742	1,869
Alleys and sidewalks	20,230	13,121	12,763	358
Street lighting	20,000	20,000	27,253	(7,253)
Culture and recreation				
Recreation department	14,877	17,618	17,061	557
Riverside Park and grounds	78,045	127,079	130,507	(3,428)
Total expenditures	<u>769,535</u>	<u>875,439</u>	863,172	12,267
Excess of revenues over (under) expenditures	1,015	(104,889)	47,319	152,208
OTHER FINANCING SOURCES				
Transfers in	-	-	14,988	14,988
Net change in fund balance	<u>\$ 1,015</u>	<u>\$ (104,889)</u>	62,307	<u>\$ 167,196</u>
Fund balance at beginning of year			358,852	
Fund balance at end of year			<u>\$ 421,159</u>	

City of Scottville
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Major Streets Fund
For the year ended June 30, 2021

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental revenues - State	\$ 113,900	\$ 113,900	\$ 165,795	\$ 51,895
Investment earnings	-	-	1,973	1,973
Total revenues	113,900	113,900	167,768	53,868
EXPENDITURES				
Current				
Public works				
Maintenance	34,650	16,649	17,550	(901)
Traffic services	2,419	3,593	3,434	159
Trunkline maintenance	19,959	17,459	17,041	418
Winter maintenance	24,031	24,031	18,723	5,308
Administration	2,700	2,700	2,506	194
Total expenditures	83,759	64,432	59,254	5,178
Excess of revenues over (under) expenditures	30,141	49,468	108,514	59,046
OTHER FINANCING USES				
Transfers out	(28,000)	(28,000)	(28,000)	-
Net change in fund balance	<u>\$ 2,141</u>	<u>\$ 21,468</u>	80,514	<u>\$ 59,046</u>
Fund balance at beginning of year			<u>322,991</u>	
Fund balance at end of year			<u><u>\$ 403,505</u></u>	

City of Scottville
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Garbage and Refuse Collection Fund
For the year ended June 30, 2021

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 54,000	\$ 54,000	\$ 55,823	\$ 1,823
Intergovernmental revenues - State	-	-	4,382	4,382
Charges for services	48,300	48,300	52,251	3,951
Investment earnings	-	-	477	477
Total revenues	102,300	102,300	112,933	10,633
EXPENDITURES				
Current				
Public works				
Professional services	77,535	90,557	92,233	(1,676)
Debt service				
Principal	24,750	24,750	9,222	15,528
Total expenditures	102,285	115,307	101,455	13,852
Net change in fund balance	<u>\$ 15</u>	<u>\$ (13,007)</u>	11,478	<u>\$ 24,485</u>
Fund balance at beginning of year			<u>75,292</u>	
Fund balance at end of year			<u>\$ 86,770</u>	

City of Scottville
Required Supplementary Information
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last Ten Fiscal Years (Amounts were determined as of December 31 of each fiscal year)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY							
Service cost	\$ 26,963	\$ 15,824	\$ 15,319	\$ 17,950	\$ 17,495	\$ 16,877	\$ 17,257
Interest	59,318	62,642	59,131	56,021	52,270	48,867	45,180
Differences between expected and actual experience	10,506	(79,341)	(5,376)	(15,699)	-	(19,452)	-
Changes in assumptions	27,704	30,126	-	-	(5,554)	32,010	-
Benefit payments, including refunds of employee contributions	(42,444)	(32,250)	(18,612)	(17,558)	(17,558)	(17,558)	(17,558)
Net change in total pension liability	82,047	(2,999)	50,462	40,714	46,653	60,744	44,879
Total pension liability at beginning of year	788,241	791,240	740,778	700,064	653,411	592,667	547,788
Total pension liability at end of year (a)	\$ 870,288	\$ 788,241	\$ 791,240	\$ 740,778	\$ 700,064	\$ 653,411	\$ 592,667
PLAN FIDUCIARY NET POSITION							
Contributions-employer	\$ 34,541	\$ 24,571	\$ 22,823	\$ 22,200	\$ 20,943	\$ 19,268	\$ 19,497
Net investment income	92,312	87,110	(26,637)	77,949	59,879	(8,064)	31,503
Benefit payments, including refunds or employee contributions	(42,444)	(32,250)	(18,612)	(17,558)	(17,558)	(17,558)	(17,558)
Administrative expenses	(1,447)	(1,500)	(1,301)	(1,231)	(1,181)	(1,167)	(1,160)
Net change in plan fiduciary net position	82,962	77,931	(23,727)	81,360	62,083	(7,521)	32,282
Plan fiduciary net position at beginning of year	717,266	639,335	663,062	581,702	519,619	527,140	494,858
Plan fiduciary net position at end of year (b)	\$ 800,228	\$ 717,266	\$ 639,335	\$ 663,062	\$ 581,702	\$ 519,619	\$ 527,140
City's net pension liability at end of year (a)-(b)	\$ 70,060	\$ 70,975	\$ 151,905	\$ 77,716	\$ 118,362	\$ 133,792	\$ 65,527
Plan fiduciary net position as a percentage of the total pension liability	91.95%	91.00%	80.80%	89.51%	83.09%	79.52%	88.94%
Covered employee payroll	\$ 396,517	\$ 260,692	\$ 234,953	\$ 273,213	\$ 269,990	\$ 264,946	\$ 270,914
City's net pension liability as a percentage of covered employee payroll	17.67%	27.23%	64.65%	28.45%	43.84%	50.50%	24.19%

Notes to Schedule

Additional actuarial data is not available and will be provided in subsequent years.

City of Scottville
Required Supplementary Information
PENSION SYSTEM SCHEDULE OF CONTRIBUTIONS
Last Ten Fiscal Years (Amounts were determined as of June 30 of each fiscal year)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Actuarially determined contribution	\$ 41,363	\$ 28,616	\$ 23,002	\$ 22,577	\$ 21,946	\$ 20,264	\$ 19,051	\$ 18,376	\$ 13,539	\$ 16,779
Contributions in relation to the actuarially determined contribution	41,363	28,616	23,002	22,577	21,946	20,264	19,051	18,376	13,539	16,779
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 396,517	\$ 260,692	\$ 234,953	\$ 273,213	\$ 269,990	\$ 264,946	\$ 270,914	\$ 251,241	\$ 249,025	\$ 251,241
Contributions as percentage of covered employee payroll	10.4%	11.0%	9.8%	8.3%	8.1%	7.6%	7.0%	7.3%	5.4%	6.7%

Notes to Schedule

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, Closed
Remaining amortization period	18 years
Asset valuation method	5-year smoothed market
Inflation	2.5 percent
Salary increases	3.0 percent in the long-term
Investment rate of return	7.35 percent, net of investment and administrative expenses
Retirement age	50-60 years of age depending on years of service
Mortality	Based on a version of Pub-2010 and fully generational MP-2019

OTHER SUPPLEMENTAL INFORMATION

City of Scottville
COMBINING BALANCE SHEET
 Other Governmental Funds
 June 30, 2021

	Total Other Governmental Funds	Special Revenue Funds		Permanent Fund
		Local Streets	Sculpture	Cemetery Perpetual
ASSETS				
Cash and investments	\$ 146,122	\$ 145,034	\$ 1,088	\$ -
Assets managed by others	67,191	-	-	67,191
Due from other governmental units	7,928	7,928	-	-
Total assets	\$ 221,241	\$ 152,962	\$ 1,088	\$ 67,191
LIABILITIES				
Accrued liabilities	\$ 364	\$ 364	\$ -	\$ -
Due to other funds	13,738	-	-	13,738
Total liabilities	14,102	364	-	13,738
FUND BALANCES				
Nonspendable - perpetual care	53,453	-	-	53,453
Restricted				
Streets and highways	152,598	152,598	-	-
Sculpture	1,088	-	1,088	-
Total fund balances	207,139	152,598	1,088	53,453
Total liabilities and fund balances	\$ 221,241	\$ 152,962	\$ 1,088	\$ 67,191

City of Scottville
**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**
Other Governmental Funds
For the year ended June 30, 2021

	Total Other Governmental Funds	Special Revenue Funds		Permanent Fund
		Local Streets	Sculpture	Cemetery Perpetual
REVENUES				
Intergovernmental revenues - State	\$ 55,897	\$ 55,897	\$ -	\$ -
Investment earnings	666	652	6	8
Gain from assets managed by others	14,980	-	-	14,980
Total revenues	71,543	56,549	6	14,988
EXPENDITURES				
Current				
Public works	56,397	56,397	-	-
Excess of revenues over (under) expenditures	15,146	152	6	14,988
OTHER FINANCING SOURCES (USES)				
Transfers in	28,000	28,000	-	-
Transfers out	(14,988)	-	-	(14,988)
Total other financing sources (uses)	13,012	28,000	-	(14,988)
Net change in fund balances	28,158	28,152	6	-
Fund balances at beginning of year	178,981	124,446	1,082	53,453
Fund balances at end of year	\$ 207,139	\$ 152,598	\$ 1,088	\$ 53,453