

**CITY OF CARO**

*REPORT ON FINANCIAL STATEMENTS  
(with required supplementary and  
additional supplementary information)*

*YEAR ENDED JUNE 30, 2020*

# TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1 & 2
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3 - 9
<b>BASIC FINANCIAL STATEMENTS</b>	
<i>Government-Wide Financial Statements</i>	
<i>Statement of Net Position</i>	10
<i>Statement of Activities</i>	11
<i>Fund Financial Statements</i>	
<i>Balance Sheet - Governmental Funds</i>	12
<i>Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position</i>	13
<i>Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds</i>	14 & 15
<i>Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities</i>	16
<i>Statement of Net Position - Proprietary Funds</i>	17
<i>Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds</i>	18
<i>Statement of Cash Flows - Proprietary Funds</i>	19
<i>Notes to Financial Statements</i>	20 - 36
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
<i>Budgetary Comparison Schedule - General Fund</i>	37
<i>Budgetary Comparison Schedule - Major Street &amp; Trunkline Fund</i>	38
<i>Budgetary Comparison Schedule - Local Street Fund</i>	39
<i>Budgetary Comparison Schedule - Refuse/Sanitation Fund</i>	40
<i>Budgetary Comparison Schedule - Fire Fund</i>	41
<i>Changes in Net Pension Liability and Related Ratios</i>	42
<i>Schedule of Employer Contributions</i>	43
<i>Notes to Required Supplementary Information</i>	44

## **TABLE OF CONTENTS (continued)**

PAGE NUMBER

**ADDITIONAL SUPPLEMENTARY INFORMATION**

*Nonmajor Governmental Fund Types:*

*Combining Balance Sheet* 45

*Combining Statement of Revenues, Expenditures and Changes in  
Fund Balances* 46

**Governmental Component Units**

*Balance Sheet* 47

*Statement of Revenues, Expenditures and Change in Fund Balance - Budget and Actual* 48

*Major Street and Trunkline and Local Street Funds – Schedule of Expenditures* 49

*Independent Auditor's Report on Internal Control Over Financial Reporting And on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With Government Auditing Standards* 50 & 51

*Schedule of Findings and Responses* 52



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## INDEPENDENT AUDITOR'S REPORT

Honorable City Council  
City of Caro  
Caro, Michigan 48723

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Caro, State of Michigan, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Caro, State of Michigan, as of June 30, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Caro's basic financial statements. The additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2020, on our consideration of the City of Caro'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 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 City of Caro's internal control over financial reporting and compliance.

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
CARO, MICHIGAN

December 21, 2020

# CITY OF CARO, MICHIGAN

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## Management's Discussion and Analysis

Our discussion and analysis of the City of Caro's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2020. Please read it in conjunction with the City's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2020:

- The fund balance in the General Fund decreased from \$4,220,135 to \$3,546,176.
- State-shared revenue, the City's second largest General Fund revenue source, increased by \$13,406 from the prior fiscal year. The \$459,077 received from the State of Michigan was above the budgeted projection of \$400,000.
- The government's total net position for the Governmental Activities increased by \$812,372.

### **Using This Annual Report**

This annual report consists of a series of 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. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds.

# CITY OF CARO, MICHIGAN

## Management's Discussion and Analysis

### The City as a Whole

The following table shows, in a condensed format, the net position as of June 30, 2020:

	Governmental Activities	Business-Type Activities	Component Unit	Total
Current assets	\$ 7,747,006	\$ 4,306,371	\$ 284,667	\$ 12,338,044
Noncurrent assets	13,805,311	12,983,774	1,685,627	28,474,712
Total assets	21,552,317	17,290,145	1,970,294	40,812,756
Current liabilities	315,290	521,679	404	837,373
Long-term liabilities	400,386	3,340,329	-	3,740,715
Total liabilities	715,676	3,862,008	404	4,578,088
Deferred inflows of resources	13,919	-	-	13,919
Net position:				
Net investment in capital assets	13,426,337	9,157,205	1,685,627	24,269,169
Restricted	2,135,890	704,747	-	2,840,637
Unrestricted	5,260,495	3,566,185	284,263	9,110,943
Total net position	\$ 20,822,722	\$ 13,428,137	\$ 1,969,890	\$ 36,220,749

The City's combined net position increased from \$34,914,746 a year ago to \$36,220,749.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations ended the fiscal year with a balance of \$5,260,495 in the governmental activities.

# CITY OF CARO, MICHIGAN

## Management's Discussion and Analysis

The following table shows, in a condensed format, the net position as of June 30, 2019 were:

	Governmental Activities	Business-Type Activities	Component Unit	Total
Current assets	\$ 6,888,307	\$ 3,052,403	\$ 450,881	\$ 10,391,591
Noncurrent assets	13,816,000	14,309,363	1,454,688	29,580,051
Total assets	20,704,307	17,361,766	1,905,569	39,971,642
Current liabilities	211,687	552,208	404	764,299
Long-term liabilities	426,687	3,810,327	-	4,237,014
Total liabilities	638,374	4,362,535	404	5,001,313
Deferred inflows of resources	55,583	-	-	55,583
Net position:				
Net investment in capital assets	13,042,356	9,404,795	1,454,688	23,901,839
Restricted	2,301,430	695,799		2,997,229
Unrestricted	4,666,564	2,898,637	450,477	8,015,678
Total net position	\$ 20,010,350	\$ 12,999,231	\$ 1,905,165	\$ 34,914,746

# CITY OF CARO, MICHIGAN

## Management's Discussion and Analysis

The following table shows the changes of the net position for the year ended June 30, 2020:

	Governmental Activities	Business-Type Activities	Component Unit	Total
Revenues				
Program revenues:				
Charges for services	\$ 880,370	\$ 2,656,825	\$ -	\$ 3,537,195
Operating grants and contributions			176,575	176,575
Capital grants and contributions	137,305			137,305
General revenue:				
Property taxes	1,608,678		128,394	1,737,072
Intergovernmental revenue	965,608			965,608
Investment earnings	114,117	76,248		190,365
Sale of assets	6,556	5,029		11,585
Miscellaneous	122,180	15,933	6,349	144,462
<b>Total revenues</b>	<b>3,834,814</b>	<b>2,754,035</b>	<b>311,318</b>	<b>6,900,167</b>
Program Expenses				
General government	321,262			321,262
Road maintenance and repair	413,477			413,477
Health and sanitation	432,996			432,996
Public safety	771,846			771,846
Public works	466,687	2,325,129		2,791,816
Culture and recreation	75,435			75,435
Community development	49,753		246,593	296,346
Unallocated depreciation	477,066			477,066
Interest on long-term debt	13,920			13,920
<b>Total expenses</b>	<b>3,022,442</b>	<b>2,325,129</b>	<b>246,593</b>	<b>5,594,164</b>
Changes in Net Position	812,372	428,906	64,725	1,306,003
Net Position - Beginning of Year	20,010,350	12,999,231	1,905,165	34,914,746
Net Position - End of Year	<u>\$ 20,822,722</u>	<u>\$ 13,428,137</u>	<u>\$ 1,969,890</u>	<u>\$ 36,220,749</u>

# CITY OF CARO, MICHIGAN

## Management's Discussion and Analysis

The following table shows the changes of the net position for the year ended June 30, 2019:

	Governmental Activities	Business-Type Activities	Component Unit	Total
<b>Revenues</b>				
Program revenues:				
Charges for services	\$ 846,324	\$ 2,389,618	\$ -	\$ 3,235,942
Operating grants and contributions	12,562			12,562
General revenue:				
Property taxes	1,585,986		123,641	1,709,627
Intergovernmental revenue	998,638		5,800	1,004,438
Investment earnings	93,610	55,427		149,037
Miscellaneous	129,878	18,545	28,403	176,826
Net transfers	(10,000)		10,000	-
<b>Total revenues</b>	<b>3,656,998</b>	<b>2,463,590</b>	<b>167,844</b>	<b>6,288,432</b>
<b>Program Expenses</b>				
General government	369,942			369,942
Road maintenance and repair	325,686			325,686
Health and sanitation	431,974			431,974
Public safety	706,192			706,192
Public works	392,666	2,229,754		2,622,420
Culture and recreation	145,293			145,293
Community development	44,090		231,505	275,595
Unallocated depreciation	445,159			445,159
<b>Total expenses</b>	<b>2,861,002</b>	<b>2,229,754</b>	<b>231,505</b>	<b>5,322,261</b>
<b>Changes in Net Position</b>	<b>795,996</b>	<b>233,836</b>	<b>(63,661)</b>	<b>966,171</b>
<b>Net Position - Beginning of Year</b>	<b>19,214,354</b>	<b>12,765,395</b>	<b>1,968,826</b>	<b>33,948,575</b>
<b>Net Position - End of Year</b>	<b>\$ 20,010,350</b>	<b>\$ 12,999,231</b>	<b>\$ 1,905,165</b>	<b>\$ 34,914,746</b>

### **Business-type Activities**

The City's business-type activities consist of the Water and Sewer Funds. The City provides water to residents from seven ground water wells. Sewage treatment is provided through a City-owned and operated sewage treatment plant.

The Water Fund had an increase in net position of \$319,149, and its cash balance increased by \$438,002. Operating revenues for the fund increased from last year.

The Sewer Fund had an increase in net position of \$109,757 on operating revenues of \$1,653,394. Revenues were up about 9.6%. Cash flow for the Sewer Fund increased by \$275,592.

### **The City's Funds**

Our analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for the current year include the General, Major Street and Trunkline, Local Street, Refuse, and Fire Funds.

The General Fund pays for most of the City's governmental services. The most significant are Public Safety, Public Works, and Recreation, which incurred expenses of over \$950,000 in the current fiscal year. These costs and approximately \$444,000 of the other General Fund departments are funded by real and personal property taxes and other general revenue sources of the General Fund.

### **City's Budgetary Highlights**

The General Fund revenue reported an original budget of \$1,888,995 and an amended budget of \$2,080,428. The actual General Fund revenues amounted to \$2,185,918. The main difference between the budgeted and actual revenues was due to higher than anticipated miscellaneous and state revenue sharing.

The General Fund expenditures reported an original budget of \$2,652,185 and an amended budget of \$1,514,721. The actual General Fund expenditures were \$1,394,095. The main difference between the budgeted and actual expenditures was less than expected public safety and building and grounds expenditures.

The Major Street & Trunkline Fund revenue reported an original budget of \$707,500 and an amended budget of \$448,606. The actual Major Street & Trunkline revenues amounted to \$596,736. The main difference between the budgeted and actual revenues was due to higher than anticipated intergovernmental and miscellaneous revenue.

The Major Street & Trunkline Fund expenditures reported an original budget of \$1,419,821 and an amended budget of \$238,955. The actual Major Street & Trunkline Fund expenditures were \$439,261. The main difference between the budgeted and actual expenditures was more than expected road construction expenditures.

The Local Street Fund revenue reported an original budget of \$143,250 and an amended budget of \$199,230. The actual Local Street revenues amounted to \$199,494.

The Local Street Fund expenditures reported an original budget of \$178,485 and an amended budget of \$439,524. The actual Local Street Fund expenditures were \$447,940. The main difference between the budgeted and actual expenditures was more than expected maintenance expenditures.

The Refuse/Sanitation Fund revenue reported an original budget of \$403,925 and an amended budget of \$406,875. The actual Refuse/Sanitation revenues amounted to \$411,126.

The Refuse/Sanitation Fund expenditures reported an original budget of \$445,145 and an amended budget of \$444,847. The actual Refuse/Sanitation Fund expenditures were \$432,996. The main difference between the budgeted and actual expenditures was less than expected contracted services expenditures.

The Fire Fund revenue reported an original budget of \$123,882 and an amended budget of \$154,267. The actual Fire revenues amounted to \$146,580.

The Fire Fund expenditures reported an original budget of \$173,475 and an amended budget of \$184,176. The actual Fire Fund expenditures were \$201,272. The main difference between the budgeted and actual expenditures was more than expected wages, benefits, and insurance expenditures.

### **Capital Asset and Debt Administration**

As of June 30, 2020, the City had a total of approximately \$28.5 million (net of depreciation) invested in a broad range of capital assets, including roads, buildings, equipment, and water and sewer lines.

Bonded and other long-term obligations decreased by \$550,137 for all funds.

More detailed information concerning capital assets and long-term debt can be found in Notes 5 and 6, respectively, in the notes to the financial statements.

### **Economic Factors and Next Year's Budgets and Rates**

The City of Caro, along with other local jurisdictions and the State of Michigan, continues to face an increasingly challenging economic environment of which several internal and external factors will influence current and future decision making.

Some sources of income for the City, such as state shared revenue, have been negatively impacted by the economic conditions caused by the COVID-19 global pandemic and are expected to decrease over the next two-to-three fiscal years. The City will project this revenue conservatively at lower levels to account for this uncertainty. In addition to unexpected reductions in revenue, there were unexpected increases in expenditures related to the City's ongoing response to the pandemic. There have been some short-term offsets through various state and federal grants, but the long-term impact is not clear. There may also be other unknown economic impacts as well, such as loss of property tax revenue from failed enterprises and newly unemployed residents as well as higher-than-usual delinquencies in utility bill payments. Administration will plan for these contingencies, monitor these conditions and recommend budget adjustments as necessary.

The City has worked towards reducing expenses every fiscal year while trying to increase effectiveness, and increase the total level of efficiency throughout our organization. As we have increased our internal efficiency, our upcoming 2020-2021 fiscal year budget will continue to reflect steady levels of real property tax revenue throughout the city as a whole. We will continue to look for all available grants and other opportunities to improve infrastructure and enhance citizen's quality of life.

The City of Caro will remain committed to performing capital improvement throughout several areas of our infrastructure. Over the last several years there has been a major street reconstruction project, and within the fiscal year 2020-2021 there will be numerous infrastructure additions.

Throughout the last year, the level of service has been maintained by elected officials and committed employees within the City of Caro which has raised the efficiency and effectiveness of every tax dollar spent.

This audit is an extremely important tool for the City and provides reliable benchmarks for the overall financial future of the City. The annual audit allows for long term comparisons of almost all facets of our operations and also gives a transparent and open view of the financial workings of the City of Caro.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City's office.

## BASIC FINANCIAL STATEMENTS

**CITY OF CARO**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2020**

	<u>Primary Government</u>			<u>Reporting Entity</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Unit</u>	<u>Totals</u>
<b><u>ASSETS</u></b>					
Cash and cash equivalents	\$ 7,137,778	\$ 3,328,957	\$ 10,466,735	\$ 113,342	\$ 10,580,077
Receivables (net)	181,931	307,517	489,448	170,025	659,473
Inventories		91,000	91,000		91,000
Prepaid expenses	66,453	8,150	74,603	1,300	75,903
Restricted cash		704,747	704,747		704,747
Interfund advances	134,000	(134,000)	-		-
Net pension asset	226,844		226,844		226,844
Capital assets, net of depreciation	13,010,682	12,865,338	25,876,020	1,061,339	26,937,359
Capital assets, not being depreciated	794,629	118,436	913,065	624,288	1,537,353
<b>TOTAL ASSETS</b>	<b>21,552,317</b>	<b>17,290,145</b>	<b>38,842,462</b>	<b>1,970,294</b>	<b>40,812,756</b>
<b><u>LIABILITIES</u></b>					
Accounts payable, accrued & other liabilities	125,756	35,439	161,195	-	161,195
Accrued interest payable	-	16,240	16,240		16,240
Unearned revenue	153,534		153,534	404	153,938
Current maturities of long-term debt	36,000	470,000	506,000		506,000
Noncurrent liabilities:					
Noncurrent portion of long-term debt	342,974	3,340,329	3,683,303		3,683,303
Accumulated compensated absences	57,412		57,412		57,412
<b>TOTAL LIABILITIES</b>	<b>715,676</b>	<b>3,862,008</b>	<b>4,577,684</b>	<b>404</b>	<b>4,578,088</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>					
Related to pensions	13,919	-	13,919	-	13,919
<b><u>NET POSITION</u></b>					
Net investment in capital assets	13,426,337	9,157,205	22,583,542	1,685,627	24,269,169
Restricted for:					
Streets	1,783,104		1,783,104		1,783,104
Refuse	276,779		276,779		276,779
Fire	75,653		75,653		75,653
Drug forfeiture	354		354		354
Water & sewer		704,747	704,747		704,747
Unrestricted	5,260,495	3,566,185	8,826,680	284,263	9,110,943
<b>TOTAL NET POSITION</b>	<b>\$ 20,822,722</b>	<b>\$ 13,428,137</b>	<b>\$ 34,250,859</b>	<b>\$ 1,969,890</b>	<b>\$ 36,220,749</b>

See notes to financial statements.



**CITY OF CARO**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2020**

	<u>GENERAL</u>	<u>MAJOR STREET &amp; TRUNKLINE</u>	<u>LOCAL STREET</u>	<u>REFUSE/ SANITATION</u>	<u>FIRE</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b><u>ASSETS</u></b>							
Cash and cash equivalents	\$ 3,391,468	\$ 1,818,837	\$ 334,739	\$ 271,758	\$ 248,362	\$ 750,787	\$ 6,815,951
Accounts receivable, net	19,857	47,194	19,034	38,816	-	26,064	150,965
Taxes receivable	26,528	-	-	639	-	3,799	30,966
Prepaid expenditures	57,052	500	-	700	4,200	500	62,952
Interfund advances	134,000	-	-	-	-	-	134,000
<b>TOTAL ASSETS</b>	<b><u>\$ 3,628,905</u></b>	<b><u>\$ 1,866,531</u></b>	<b><u>\$ 353,773</u></b>	<b><u>\$ 311,913</u></b>	<b><u>\$ 252,562</u></b>	<b><u>\$ 781,150</u></b>	<b><u>\$ 7,194,834</u></b>
<b><u>LIABILITIES &amp; FUND BALANCES</u></b>							
Liabilities:							
Accounts payable	\$ 26,686	\$ 66,082	\$ -	\$ -	\$ -	\$ 12,472	\$ 105,240
Accrued salaries & wages	20,516	-	-	-	-	-	20,516
Unearned revenue	35,527	-	-	-	91,943	26,064	153,534
Total Liabilities	82,729	66,082	-	-	91,943	38,536	279,290
Fund Balances:							
Nonspendable for:							
Prepaid	57,052	500	-	700	4,200	500	62,952
Advances	134,000	-	-	-	-	-	134,000
Restricted for:							
Streets	-	1,167,769	186,367	-	-	428,968	1,783,104
Refuse	-	-	-	276,779	-	-	276,779
Fire	-	-	-	-	75,653	-	75,653
Drug Forfeiture	-	-	-	-	-	354	354
Committed for:							
Public Safety Building	400,000	-	-	-	-	-	400,000
Assigned for:							
Subsequent year expenditures	735,389	632,180	167,406	34,434	80,766	312,792	1,962,967
Unassigned	2,219,735	-	-	-	-	-	2,219,735
Total Fund Balances	3,546,176	1,800,449	353,773	311,913	160,619	742,614	6,915,544
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 3,628,905</u></b>	<b><u>\$ 1,866,531</u></b>	<b><u>\$ 353,773</u></b>	<b><u>\$ 311,913</u></b>	<b><u>\$ 252,562</u></b>	<b><u>\$ 781,150</u></b>	<b><u>\$ 7,194,834</u></b>

See notes to financial statements.

**CITY OF CARO**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**YEAR ENDED JUNE 30, 2020**

<b>Total fund balances for governmental funds</b>	<b>\$ 6,915,544</b>
Total net position for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Cost of capital assets	18,141,095
Accumulated depreciation	(4,868,573)
Net pension asset	226,844
Deferred inflows of resources - related to pensions	(13,919)
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Compensated absences	(57,412)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
	(378,974)
Internal service funds are included as part of governmental activities.	858,117
	858,117
<b>Net position of governmental activities</b>	<b>\$ 20,822,722</b>

See notes to financial statements.

**CITY OF CARO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2020**

	<u>GENERAL</u>	<u>MAJOR STREET &amp; TRUNKLINE</u>	<u>LOCAL STREET</u>	<u>REFUSE/ SANITATION</u>
REVENUES:				
Taxes	\$ 1,484,884	\$ 82,652	\$ 41,142	\$ -
Licenses & permits	5,399			
Intergovernmental revenue:				
Federal	-	137,305		
State	459,077	353,378	153,153	
Charges for services	114,579	-	-	399,160
Fines & forfeitures	6,088			
Miscellaneous	115,891	23,401	5,199	11,966
<b>TOTAL REVENUES</b>	<u>2,185,918</u>	<u>596,736</u>	<u>199,494</u>	<u>411,126</u>
EXPENDITURES:				
Legislative	38,225			
Elections	5,966			
Board of review	2,570			
Assessor	30,497			
Executive	101,035			
Clerk/Treasurer	77,043			
Industrial park	394			
Buildings & grounds	93,476			
Historical center	899			
Police department	641,766			
Planning & zoning	41,209			
Fire department				
Public works department	235,827			
Refuse department				432,996
Recreation department	75,435			
Community promotion	49,753			
Streets		439,261	447,940	
Miscellaneous				
Debt Service:				
Principal				
Interest				
<b>TOTAL EXPENDITURES</b>	<u>1,394,095</u>	<u>439,261</u>	<u>447,940</u>	<u>432,996</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>791,823</u>	<u>157,475</u>	<u>(248,446)</u>	<u>(21,870)</u>
OTHER FINANCING SOURCES (USES):				
Sale of assets	-			
Transfers in	-	654,821	366,877	-
Transfers out	(1,465,782)	(86,877)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(1,465,782)</u>	<u>567,944</u>	<u>366,877</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	(673,959)	725,419	118,431	(21,870)
<b>FUND BALANCES - JULY 1</b>	<u>4,220,135</u>	<u>1,075,030</u>	<u>235,342</u>	<u>333,783</u>
<b>FUND BALANCES - JUNE 30</b>	<u>\$ 3,546,176</u>	<u>\$ 1,800,449</u>	<u>\$ 353,773</u>	<u>\$ 311,913</u>

See notes to financial statements.

**CITY OF CARO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2020**

	<u>FIRE</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL PRIMARY GOVERNMENT</u>	<u>COMPONENT UNITS</u>	<u>JUNE 30, 2020</u>
REVENUES:					
Taxes	\$ -	\$ -	\$ 1,608,678	\$ 128,394	\$ 1,737,072
Licenses & permits			5,399		5,399
Intergovernmental revenue:					
Federal			137,305	176,575	313,880
State			965,608	-	965,608
Charges for services	122,982		636,721		636,721
Fines & forfeitures			6,088		6,088
Miscellaneous	23,598	39,741	219,796	6,349	226,145
<b>TOTAL REVENUES</b>	<u>146,580</u>	<u>39,741</u>	<u>3,579,595</u>	<u>311,318</u>	<u>3,890,913</u>
EXPENDITURES:					
Legislative			38,225		38,225
Elections			5,966		5,966
Board of review			2,570		2,570
Assessor			30,497		30,497
Executive			101,035		101,035
Clerk/Treasurer			77,043		77,043
Industrial park			394		394
Buildings & grounds			93,476		93,476
Historical center			899		899
Police department			641,766		641,766
Planning & zoning			41,209		41,209
Fire department	201,272		201,272		201,272
Public works department			235,827		235,827
Refuse department			432,996		432,996
Recreation department			75,435		75,435
Community promotion			49,753		49,753
Streets		308,871	1,196,072		1,196,072
Miscellaneous		-	-	477,532	477,532
Debt Service:					
Principal		36,000	36,000	-	36,000
Interest		13,920	13,920	-	13,920
<b>TOTAL EXPENDITURES</b>	<u>201,272</u>	<u>358,791</u>	<u>3,274,355</u>	<u>477,532</u>	<u>3,751,887</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(54,692)</u>	<u>(319,050)</u>	<u>305,240</u>	<u>(166,214)</u>	<u>139,026</u>
OTHER FINANCING SOURCES (USES):					
Sale of assets	6,556		6,556	-	6,556
Transfers in	64,450	516,431	1,602,579	-	1,602,579
Transfers out	(49,920)	-	(1,602,579)	-	(1,602,579)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>21,086</u>	<u>516,431</u>	<u>6,556</u>	<u>-</u>	<u>6,556</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(33,606)</u>	<u>197,381</u>	<u>311,796</u>	<u>(166,214)</u>	<u>145,582</u>
FUND BALANCES - JULY 1	<u>194,225</u>	<u>545,233</u>	<u>6,603,748</u>	<u>450,477</u>	<u>7,054,225</u>
FUND BALANCES - JUNE 30	<u>\$ 160,619</u>	<u>\$ 742,614</u>	<u>\$ 6,915,544</u>	<u>\$ 284,263</u>	<u>\$ 7,199,807</u>

See notes to financial statements.

**CITY OF CARO**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2020**

Net change in fund balances - total governmental funds \$ 311,796

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

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

Depreciation expense	(477,066)
Capital outlay	825,047

The issuance of long-term debt provides current financial resources to governmental funds while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Principal payments	36,000
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Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued absences at the beginning of the year	47,713
Accrued absences at the end of the year	(57,412)

Internal Service Funds are used by management to charge the costs of certain activities, such as insurance, motor pool, and central services, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.

72,456

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.

Pension related items	53,838
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Change in net position of governmental activities

\$ 812,372

See notes to financial statements.

**CITY OF CARO**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2020**

	<u>BUSINESS-TYPE ACTIVITIES</u>			<u>GOVERNMENTAL</u>
	<u>WATER</u>	<u>SEWAGE DISPOSAL</u>	<u>TOTAL ENTERPRISE FUNDS</u>	<u>ACTIVITIES INTERNAL SERVICE FUNDS</u>
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 2,075,886	\$ 1,253,071	\$ 3,328,957	\$ 321,827
Accounts receivable - net	88,939	218,578	307,517	-
Inventories	53,000	38,000	91,000	-
Prepaid expenses	2,800	5,350	8,150	3,501
Restricted cash	163,179	541,568	704,747	-
Capital assets	8,253,863	21,663,998	29,917,861	1,676,402
Less accumulated depreciation & amortization	<u>(4,653,242)</u>	<u>(12,280,845)</u>	<u>(16,934,087)</u>	<u>(1,143,613)</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 5,984,425</u></b>	<b><u>\$ 11,439,720</u></b>	<b><u>\$ 17,424,145</u></b>	<b><u>\$ 858,117</u></b>
<b><u>LIABILITIES &amp; NET POSITION</u></b>				
Liabilities:				
Accounts payable	\$ 25,000	\$ -	\$ 25,000	\$ -
Customer deposits payable	10,439	-	10,439	-
Current maturities of long-term debt	95,000	375,000	470,000	-
Accrued interest payable	3,231	13,009	16,240	-
Interfund advances	-	134,000	134,000	-
Revenue bonds payable - long-term	<u>513,215</u>	<u>2,827,114</u>	<u>3,340,329</u>	<u>-</u>
Total Liabilities	<u>646,885</u>	<u>3,349,123</u>	<u>3,996,008</u>	<u>-</u>
Net Position:				
Net investment in capital assets	2,989,175	6,168,030	9,157,205	532,789
Restricted	163,179	541,568	704,747	-
Unrestricted	<u>2,185,186</u>	<u>1,380,999</u>	<u>3,566,185</u>	<u>325,328</u>
Total Net Position	<u>5,337,540</u>	<u>8,090,597</u>	<u>13,428,137</u>	<u>858,117</u>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<b><u>\$ 5,984,425</u></b>	<b><u>\$ 11,439,720</u></b>	<b><u>\$ 17,424,145</u></b>	<b><u>\$ 858,117</u></b>

See notes to financial statements.

**CITY OF CARO**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN NET POSITION**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2020**

	<b>BUSINESS-TYPE ACTIVITIES</b>			<b>GOVERNMENTAL</b>
	<b>WATER</b>	<b>SEWAGE DISPOSAL</b>	<b>TOTAL ENTERPRISE FUNDS</b>	<b>INTERNAL SERVICE FUNDS</b>
<b>OPERATING REVENUES:</b>				
Water & sewer system sales	\$ 1,001,438	\$ 1,619,283	\$ 2,620,721	\$ -
Equipment rent	-	-	-	234,200
Other services, charges & sales	11,921	24,183	36,104	-
Interest & penalties	14,240	-	14,240	-
Miscellaneous	6,005	9,928	15,933	9,449
<b>TOTAL OPERATING REVENUES</b>	<b>1,033,604</b>	<b>1,653,394</b>	<b>2,686,998</b>	<b>243,649</b>
<b>OPERATING EXPENSES:</b>				
Salaries & wages	130,153	285,721	415,874	34,841
Payroll taxes	9,344	20,416	29,760	2,407
Fringe benefits	37,072	78,831	115,903	10,039
Operating supplies	64,740	89,808	154,548	26,429
General fund administrative	10,000	-	10,000	40,000
Contracted services	60,312	225,536	285,848	21,594
Telephone	737	3,615	4,352	112
Insurance	10,201	24,638	34,839	7,383
Heat, light & power	102,805	124,166	226,971	18,161
Depreciation & amortization	232,510	638,997	871,507	66,592
Capital outlay	-	-	-	2,250
Equipment rental	49,660	20,489	70,149	-
Other	26,201	8,806	35,007	1,052
<b>TOTAL OPERATING EXPENSES</b>	<b>733,735</b>	<b>1,521,023</b>	<b>2,254,758</b>	<b>230,860</b>
<b>OPERATING INCOME (LOSS)</b>	<b>299,869</b>	<b>132,371</b>	<b>432,240</b>	<b>12,789</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Gain (loss) on sale of fixed assets	-	5,029	5,029	-
Interest earned	33,046	28,962	62,008	5,014
Interest expense	(13,766)	(56,605)	(70,371)	-
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>19,280</b>	<b>(22,614)</b>	<b>(3,334)</b>	<b>5,014</b>
<b>CHANGES IN NET POSITION</b>	<b>319,149</b>	<b>109,757</b>	<b>428,906</b>	<b>17,803</b>
<b>TOTAL NET POSITION - JULY 1</b>	<b>5,018,391</b>	<b>7,980,840</b>	<b>12,999,231</b>	<b>840,314</b>
<b>TOTAL NET POSITION - JUNE 30</b>	<b>\$ 5,337,540</b>	<b>\$ 8,090,597</b>	<b>\$ 13,428,137</b>	<b>\$ 858,117</b>

See notes to financial statements.

**CITY OF CARO**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2020**

	<b>BUSINESS-TYPE ACTIVITIES</b>			<b>GOVERNMENTAL</b>
	<b>WATER</b>	<b>SEWAGE DISPOSAL</b>	<b>TOTAL ENTERPRISE FUNDS</b>	<b>ACTIVITIES INTERNAL SERVICE FUNDS</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from customers and users	\$ 1,043,950	\$ 1,664,473	\$ 2,708,423	\$ -
Receipts from interfund services provided	-	-	-	243,649
Payments to suppliers	(298,983)	(507,058)	(806,041)	(116,981)
Payments to employees	(176,569)	(384,968)	(561,537)	(47,287)
Net cash provided by operating activities	<u>568,398</u>	<u>772,447</u>	<u>1,340,845</u>	<u>79,381</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Purchases of capital assets	-	(97,718)	(97,718)	(11,939)
Gain on sale of asset	-	5,029	5,029	-
Principal paid on debt	(148,836)	(375,000)	(523,836)	-
Interest paid on debt	(14,606)	(58,128)	(72,734)	-
Net cash provided (used) by capital and related financing activities	<u>(163,442)</u>	<u>(525,817)</u>	<u>(689,259)</u>	<u>(11,939)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest received	33,046	28,962	62,008	5,014
Net cash provided by investing activities	<u>33,046</u>	<u>28,962</u>	<u>62,008</u>	<u>5,014</u>
Net increase in cash and cash equivalents	438,002	275,592	713,594	72,456
CASH & CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,801,063</u>	<u>1,519,047</u>	<u>3,320,110</u>	<u>249,371</u>
CASH & CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,239,065</u>	<u>\$ 1,794,639</u>	<u>\$ 4,033,704</u>	<u>\$ 321,827</u>
Reconciliation of operating income to net cash provided used by operating activities:				
Operating income (loss)	\$ 299,869	\$ 132,371	\$ 432,240	\$ 12,789
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation and amortization	232,510	638,997	871,507	66,592
(Increase) decrease in accounts receivable	10,346	11,079	21,425	-
Increase (decrease) in accounts payable	25,673	-	25,673	-
Increase (decrease) in due to other funds	-	(10,000)	(10,000)	-
Total adjustments	<u>268,529</u>	<u>640,076</u>	<u>908,605</u>	<u>66,592</u>
Net cash provided by operating activities	<u>\$ 568,398</u>	<u>\$ 772,447</u>	<u>\$ 1,340,845</u>	<u>\$ 79,381</u>

See notes to financial statements.

**CITY OF CARO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**DESCRIPTION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS:**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the City. *Governmental activities* normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions. *Business-type activities* are supported by fees and charges.

**REPORTING ENTITY:**

The City of Caro is governed by an elected council with a city manager, who oversees the daily operations. The City receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the City is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Council members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. The City provides various services to its residents including law enforcement, fire protection, community enrichment and human services. The component unit discussed below included in the City's financial reporting entity because of the significance of its operational or financial relationship is with the City.

The following is a description of the component unit:

Discretely Presented Component Unit:

The component unit columns in the combined financial statements include the financial data of the Downtown Development Authority. These financial statements are reported on pages 47 and 48 to emphasize that they are legally separate from the City.

The Downtown Development Authority of the City of Caro is an Authority created pursuant to Public Act 197 of 1975. The purpose of the Authority is to analyze the impact of economic changes and growth in the Downtown District and develop plans to promote orderly economic growth in the "Downtown Development District."

**BASIS OF PRESENTATION – GOVERNMENT-WIDE FINANCIAL STATEMENTS:**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for the governmental funds and proprietary funds.

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

**BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS:**

The fund financial statements provide information about the City's funds. The emphasis of fund financial statements is on major governmental and enterprise funds. 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 street fund* accounts for the maintenance and improvement activities for streets designated as major within the City. Funding is primarily through state trunkline maintenance and through state shared gas and weight taxes.

The *local street fund* accounts for the maintenance and construction activities for streets designated as local within the City. Funding is primarily through state shared gas and weight taxes.

The *refuse fund* accounts for the tax levy for the purpose of operating the refuse collection.

The *fire fund* accounts for the activities of the fire department including charges for fire service and operating expenses.

**CITY OF CARO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

The government reports the following major proprietary funds:

The *sewer fund* accounts for the activities of the sewage collection system.

The *water fund* accounts for the activities of the water distribution system.

Other Non-major Funds:

The nonmajor *special revenue funds* account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements. The City reports the *municipal street fund* and the *drug forfeiture fund* as its nonmajor special revenue funds.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the government reports the following fund types:

*Internal service funds* account for machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis.

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 transfers to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

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, they are eliminated in the preparation of the government-wide financial statements.

**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 generally 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 lease are reported as other financing sources.

Property taxes, state and federal revenue 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. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are generally considered to be measurable and available only when cash is received by the City.

**CITY OF CARO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer funds are charges to customers for sales and services. The water and sewer 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.

**BUDGETARY INFORMATION:**

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The City does not utilize encumbrance accounting.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. A budget is submitted to the Council for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by the Council resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. During the year, the City incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

	<u>Appropriation</u>	<u>Expenditure</u>	<u>Excess</u>
<b>General Fund</b>			
Assessor	\$ 30,286	\$ 30,497	\$ 211
Public works	233,172	235,827	2,655
Community promotion	48,234	49,753	1,519
<b>Major Street Fund</b>			
Construction	117,943	317,840	199,897
Routine maintenance	71,576	72,080	504
Trees and shrubs	292	324	32
Administrative	36,431	37,063	632
Transfers out	81,201	86,877	5,676
<b>Local Street Fund</b>			
Routine maintenance	406,613	419,020	12,407
<b>Refuse Fund</b>			
Miscellaneous	7,716	9,185	1,469
<b>Fire Fund</b>			
Wages & benefits	69,813	80,386	10,573
Contracted services	25,314	25,691	377
Insurance	15,751	20,966	5,215
Miscellaneous	49,867	50,798	931

**CITY OF CARO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Council.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to the year ended June 30<sup>th</sup>.

**ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE:**

1. Cash and cash equivalents

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

2. Investments

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration (NCUA), but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

3. Inventories and prepaid items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/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.

4. Restricted assets

Certain proceeds of enterprise fund bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants and Michigan law.

**CITY OF CARO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

5. Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, etc.) are reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Group purchases are evaluated on a case by case basis. Donated capital assets are valued at their estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

Land/Land Improvements	0 - 50
Buildings	10 - 50
Bridges	50
Meters	13 - 20
Storm/Sewer lines	30 - 67
Sidewalks/Trailways	30
Water lines	50
Source of Supply	6 - 50
Motor Vehicles & Related Equipment	3 - 10
Machinery & Equipment	5 - 20
Roads	5 - 20
Parking lots	20
Traffic Signals	15

6. Defined benefit plan

For purposes of measuring the Net Pension Asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of Caro Retirement Plan and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported by the City of Caro. 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.

7. Deferred outflows/inflows of resources

Deferred outflow:

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/expenditure) until then. The City has no items that qualify for reporting in this category.

Deferred inflow:

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. The City has one item that qualifies for reporting in this category. It is the future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary.

**CITY OF CARO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

8. Net position flow assumption

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

9. 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 balances 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.

10. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of the resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

Amounts in the assigned fund balance classification are intended to be used by the Council for specific purposes, but do not meet the criteria to be classified as committed. The Council may also assign fund balances 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.

11. Use of estimates

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

**REVENUES AND EXPENDITURES/EXPENSES:**

1. 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 that are restricted to meeting the operational requirements for a particular function or segment. All taxes, including those dedicated for specific purposes, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**CITY OF CARO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

2. Property taxes

Property taxes become an enforceable lien on the property as of July 1. Taxes are levied on July 1 and are due in September. The City bills and collects its own property taxes. City tax revenues are recognized in the year of levy. The City also bills and collects the property taxes for the county, intermediate school district and local school district.

The 2019 taxable valuation of the City totaled \$88,431,536, on which ad valorem taxes consisted of 16.1643 mills for operating purposes. This resulted in \$1,425,930 for operating expenses.

3. Compensated absences

The City's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements.

4. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year which they are incurred.

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

**NOTE 2 - DEPOSITS AND INVESTMENTS:**

The City maintains a pooled account for substantially all of its cash. Each fund type's portion of this pool is maintained through the use of separate accounts within the pooled account. This cash is shown in their respective funds for financial reporting purposes.

**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, 2020, \$5,826,521 of the City's bank balance of \$11,294,113 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount of the City's deposits was \$11,284,824.

**Custodial credit risk - investments.** For an investment, this 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 will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business.

**Interest rate risk.** In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements.

**Concentration of credit risk.** The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's 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.

**CITY OF CARO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

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

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

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

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

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

The asset 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.

The City does not have any investments subject to the fair value measurement.

The cash and cash equivalents referred to above have been reported in the cash and cash equivalents captions on the financial statements, based upon criteria disclosed in Note 1.

The following summarizes the categorization of these amounts as of June 30, 2020:

Cash - Governmental Activities	\$ 7,137,778
Cash - Business-Type Activities	3,328,957
Restricted Cash - Business-Type Activities	704,747
Cash - Component Unit	113,342
	<u>\$ 11,284,824</u>

**NOTE 3 – RECEIVABLES – PRIMARY GOVERNMENT:**

Receivables at June 30, 2020 consist of the following:

	<b>GENERAL</b>	<b>SPECIAL REVENUE</b>	<b>ENTERPRISE</b>	<b>TOTAL</b>
Receivables:				
Accounts	\$ 24,857	\$ 131,108	\$ 335,517	\$ 491,482
Taxes	26,528	4,438		30,966
Allowance for Uncollectibles	(5,000)		(28,000)	(33,000)
<b>TOTAL RECEIVABLES</b>	<b>\$ 46,385</b>	<b>\$ 135,546</b>	<b>\$ 307,517</b>	<b>\$ 489,448</b>

**CITY OF CARO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

**NOTE 4 – INTERFUND RECEIVABLES AND PAYABLES:**

Interfund receivable and payable balances for the year ended June 30, 2020 consisted of the following amounts:

		<b>RECEIVABLE</b>	
		<b>General Fund</b>	<b>TOTAL</b>
<b>PAYABLE</b>	<b>Sewer Fund</b>	\$ 134,000	\$ 134,000
	<b>Total</b>	\$ 134,000	\$ 134,000

The amount owed from the sewer fund to the general fund is considered noncurrent and is reported as interfund advances.

**NOTE 5 – CAPITAL ASSETS:**

A summary of property, plant, and equipment at June 30, 2020 is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 501,869	\$ -	\$ -	\$ 501,869
Construction-in-progress		292,760		292,760
Total capital assets not being depreciated	501,869	292,760	-	794,629
Capital assets being depreciated				
Land improvements	5,148,232	15,680		5,163,912
Infrastructure	8,383,263	489,835		8,873,098
Buildings, additions and improvements	1,350,303	10,233		1,360,536
Machinery and equipment	2,164,320	4,600	220,000	1,948,920
Motor vehicles and related equipment	1,664,463	11,939		1,676,402
Total capital assets being depreciated	18,710,581	532,287	220,000	19,022,868
Less accumulated depreciation for				
Land improvements	7,155	1,224		8,379
Infrastructure	3,094,713	280,458		3,375,171
Buildings, additions and improvements	330,653	29,002		359,655
Machinery and equipment	1,245,578	99,790	220,000	1,125,368
Motor vehicles and related equipment	1,077,021	66,592		1,143,613
Total accumulated depreciation	5,755,120	477,066	220,000	6,012,186
Net capital assets being depreciated	12,955,461	55,221	-	13,010,682
Governmental activities capital assets, net	\$ 13,457,330	\$ 347,981	\$ -	\$ 13,805,311

**CITY OF CARO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

<b>Business-type activities</b>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 118,436	\$ -	\$ -	\$ 118,436
Total capital assets not being depreciated	<u>118,436</u>	<u>-</u>	<u>-</u>	<u>118,436</u>
Capital assets being depreciated				
Buildings, additions and improvements	14,472,198			14,472,198
Machinery and equipment	6,058,441	97,718		6,156,159
Motor vehicles and related equipment	983,599			983,599
Water system	4,282,376			4,282,376
Sewer system	3,905,093			3,905,093
Total capital assets being depreciated	<u>29,701,707</u>	<u>97,718</u>	<u>-</u>	<u>29,799,425</u>
Less accumulated depreciation for				
Buildings, additions and improvements	7,275,516	293,983		7,569,499
Machinery and equipment	3,743,996	369,377		4,113,373
Motor vehicles and related equipment	681,595	24,172		705,767
Water system	1,974,132	98,598		2,072,730
Sewer system	2,387,340	85,378		2,472,718
Total accumulated depreciation	<u>16,062,579</u>	<u>871,508</u>	<u>-</u>	<u>16,934,087</u>
Net capital assets being depreciated	<u>13,639,128</u>	<u>(773,790)</u>	<u>-</u>	<u>12,865,338</u>
Business-type activities capital assets, net	<u>\$ 13,757,564</u>	<u>\$ (773,790)</u>	<u>\$ -</u>	<u>\$ 12,983,774</u>

<b>Component unit</b>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 298,182	\$ 260,249	\$ -	\$ 558,431
Construction-in-progress		65,857		65,857
Total capital assets not being depreciated	<u>298,182</u>	<u>326,106</u>	<u>-</u>	<u>624,288</u>
Capital assets being depreciated				
Land improvements	681,793			681,793
Infrastructure	1,895,409			1,895,409
Machinery and equipment	27,444	14,100		41,544
Total capital assets being depreciated	<u>2,604,646</u>	<u>14,100</u>	<u>-</u>	<u>2,618,746</u>
Less accumulated depreciation for				
Land improvements	150,401	13,307		163,708
Infrastructure	1,271,592	94,849		1,366,441
Machinery and equipment	26,147	1,111		27,258
Total accumulated depreciation	<u>1,448,140</u>	<u>109,267</u>	<u>-</u>	<u>1,557,407</u>
Net capital assets being depreciated	<u>1,156,506</u>	<u>(95,167)</u>	<u>-</u>	<u>1,061,339</u>
Component unit capital assets, net	<u>\$ 1,454,688</u>	<u>\$ 230,939</u>	<u>\$ -</u>	<u>\$ 1,685,627</u>

**CITY OF CARO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

All depreciation is computed using the straight-line method. Equipment Rental Fund assets are combined with Governmental Activities assets on the Statement of Net Position. Depreciation expense was recorded as follows:

Governmental activities	\$ 477,066
Business-type activities	871,508
Component unit	<u>109,267</u>
 Total depreciation expense	 <u><u>\$ 1,457,841</u></u>

Depreciation expense for the year ended June 30, 2020 amounted to \$1,457,841. The City determined that it was impractical to allocate governmental activities depreciation to the various governmental activities as the assets serve multiple functions.

**NOTE 6 - LONG-TERM OBLIGATIONS:**

The City issues general obligation bonds to provide funds for the acquisition, construction, and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

The following is a summary of long-term obligations for the City for the year ended June 30, 2020:

	General obligation bonds	Notes from direct borrowings and direct placements	Compensated absences	Total
<b><u>GOVERNMENTAL ACTIVITIES:</u></b>				
Balance July 1, 2019	\$ -	\$ 414,974	\$ 47,713	\$ 462,687
Additions			9,699	9,699
Deletions		<u>(36,000)</u>		<u>(36,000)</u>
Balance June 30, 2020	<u>-</u>	<u>378,974</u>	<u>57,412</u>	<u>436,386</u>
Due within one year		36,000		36,000
Due in more than one year	<u>\$ -</u>	<u>\$ 342,974</u>	<u>\$ 57,412</u>	<u>\$ 400,386</u>
 <b><u>BUSINESS-TYPE ACTIVITIES:</u></b>				
Balance July 1, 2019	\$ 4,334,165	\$ -	\$ -	\$ 4,334,165
Additions				-
Deletions	<u>(523,836)</u>			<u>(523,836)</u>
Balance June 30, 2020	<u>3,810,329</u>	<u>-</u>	<u>-</u>	<u>3,810,329</u>
Due within one year	470,000			470,000
Due in more than one year	<u>\$ 3,340,329</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,340,329</u>

**CITY OF CARO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

Long-term obligations at June 30, 2020 is comprised of the following issues:

**GOVERNMENTAL ACTIVITIES:**

**Notes from direct borrowings and direct placements:**

Loan payable to Huntington National Bank dated February 13, 2019 for the purchase of a firetruck. Annual payments carry a rate of 3.47%. Principal payments are due on an annual basis and range from \$36,000 to \$47,974. \$ 378,974

Total notes from direct borrowings and direct placements 378,974

Compensated absences 57,412

Total governmental activities long-term obligations \$ 436,386

**BUSINESS-TYPE ACTIVITIES**

**General obligation bonds:**

Revenue bonds dated September 22, 2005, in an amount not to exceed \$1,780,000 for the purpose of the arsenic removal project. The loan has an interest rate of 2.125%. \$ 608,215

County revenue bonds, totaling \$7,730,000 with an interest rate of 1.625% for waste treatment plant upgrades. 3,202,114

Total business-type activities long-term obligations \$ 3,810,329

The annual requirements to amortize long-term obligations outstanding exclusive of compensated absences payments as of June 30, 2020 are as follows:

<u>YEAR ENDING JUNE 30,</u>	<u>GOVERNMENTAL ACTIVITIES</u> <u>NOTES FROM DIRECT</u> <u>BORROWINGS AND DIRECT</u> <u>PLACEMENTS</u>		<u>BUSINESS-TYPE ACTIVITIES</u> <u>GENERAL OBLIGATION</u> <u>BONDS</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2021	\$ 36,000	\$ 13,150	\$ 470,000	\$ 63,949	\$ 583,099
2022	38,000	11,901	480,000	55,784	585,685
2023	39,000	10,583	490,000	47,484	587,067
2024	41,000	9,229	500,000	38,968	589,197
2025	42,000	7,807	510,000	30,318	590,125
2026-2028	182,974	16,166	1,360,329	42,231	1,601,700
	<u>378,974</u>	<u>68,836</u>	<u>3,810,329</u>	<u>278,734</u>	<u>4,536,873</u>
Compensated absences	57,412				57,412
	<u>\$ 436,386</u>	<u>\$ 68,836</u>	<u>\$ 3,810,329</u>	<u>\$ 278,734</u>	<u>\$ 4,594,285</u>

**NOTE 7 - PENSION PLANS/DEFERRED COMPENSATION PLAN:**

**DEFINED BENEFIT PENSION PLAN:**

**Plan Description** - City of Caro administers the City of Caro Retirement Plan - a single-employer defined benefit pension plan that provides pensions for participants as defined by the plan document. The plan is currently closed to new participants. Management of the plan is the responsibility of the City Clerk/Treasurer.

**CITY OF CARO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

**Benefits Provided** - The Plan provides retirement and death benefits. Retirement benefits for plan members are calculated as 1.5% of the member's average of the final 5 consecutive 12-month periods ending June 30 preceding the participant's normal retirement date multiplied by the member's years of service after June 1, 1966, plus accrued benefits at May 31, 1966. Plan members are eligible to retire at age 62, or with reduced benefits, as early as age 55 with 10 years of service. Death benefits consist of a return of employee contributions with interest or the spouse's portion of the joint and 50% survivor benefit payable at the participant's normal retirement age.

**Summary of Plan Participants** - At the July 31, 2019 valuation date, the following employees were covered by the benefit terms:

Inactive plan members receiving benefits	6
Inactive members entitled to, not yet receiving benefits	5
Active plan members	<u>0</u>
Total participants	<u><u>11</u></u>

**Contributions** - Article 9, section 24 of the Regulations of the State of Michigan constitution requires the financial benefits arising on account of service rendered each year be funded during that year. The City retains an actuary to determine the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

**Assumptions and Methods**

The City's pension liability was measured as of July 31, 2019.

**Actuarial Assumptions** - The total pension liability was determined by an actuarial valuation as of July 31, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	Implicit in long term real rate of return
Salary increases	0.00%, there are no active participants
Investment rate of return	5.80% net of investment expense, including inflation,
Mortality Table	IRS 2019 P.V. M Annuitants 1.430(h)(3)(male and female rates)

The long-term expected rate of return on retirement plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of retirement plan investment expense 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. Best estimates of arithmetic real rates of return for each major asset class included in the retirement plan's target asset allocation as of July 31, 2016 are summarized in the following table:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Domestic equity	42.0%	7.15%
International equity	18.0%	7.25%
Fixed income	36.0%	3.75%
Real assets	3.0%	4.00%
Cash	1.0%	2.50%
	<u><u>100.0%</u></u>	

The sum of target allocations times long term expected rates is 5.80%.

**CITY OF CARO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

**Discount Rate** - The discount rate used to measure the total pension liability was 5.80%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made consistent with the most recent recommended contribution. Based on those assumptions, the retirement plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments plus future administrative expenses of current plan members. The discount rate used for the beginning of year net pension liability was 5.44%.

**Net Pension Liability**

**Changes in the Net Pension Liability (Asset) -**

	Total pension liability <u>(a)</u>	Plan fiduciary net position <u>(b)</u>	Net pension liability (asset) <u>(a) - (b)</u>
<b>Balance at July 31, 2018</b>	\$ 1,458,365	\$ 1,673,035	\$ (214,670)
<b>Changes during the year</b>			
Service cost	-		-
Interest	76,981		76,981
Experience (gains)/losses	2,929		2,929
Change of assumptions	(51,854)		(51,854)
Contributions - employer			-
Contributions - employee			-
Net investment income		54,778	(54,778)
Benefit payments;			-
Including refunds of employee contributions	(86,552)	(86,552)	-
Administrative expenses		(14,548)	14,548
Other changes	-	-	-
<b>Total changes</b>	<u>(58,496)</u>	<u>(46,322)</u>	<u>(12,174)</u>
<b>Balance at July 31, 2019</b>	<u><u>\$ 1,399,869</u></u>	<u><u>\$ 1,626,713</u></u>	<u><u>\$ (226,844)</u></u>

**Discount Rate Sensitivities** - The following presents the net pension liability (NPL) of the City, calculated using the discount rate of 5.80%, 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 (4.80%) or 1 percentage point higher (6.80%) than the current rate:

	<u>1% Lower</u>	<u>Discount Rate</u>	<u>1% Higher</u>
Total Pension Liability	\$ 1,535,275	\$ 1,399,869	\$ 1,283,549
Plan Fiduciary Net Position	<u>(1,626,713)</u>	<u>(1,626,713)</u>	<u>(1,626,713)</u>
Net Pension Liability (Asset)	<u><u>\$ (91,438)</u></u>	<u><u>\$ (226,844)</u></u>	<u><u>\$ (343,164)</u></u>

**Pension Plan Fiduciary Net Position** - Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report.

**CITY OF CARO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

**Deferred Inflows and Outflows of Resources Related to Pension Plan** -For the year ended June 30, 2020, the City recognized pension expense of approximately \$(53,838). The City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Net difference between projected and actual plan investment earnings	\$ -	\$ (13,919)
	\$ -	\$ (13,919)

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

Year ended July 31,	Amount
2020	\$ (4,375)
2021	(17,345)
2022	(65)
2023	7,866

**DEFINED CONTRIBUTION PENSION PLAN:**

The City of Caro Money Purchase Plan is a defined contribution pension plan established by the City of Caro to provide benefits at retirement to certain City officials. At June 30, 2020, there were 23 plan members. The City is required to contribute 6% to 10% of annual covered payroll. Plan provisions and contribution requirements are established and may be amended by the City Council. The total employee contributions were \$5,694 and the total employer contributions were \$87,385 for the year ended June 30, 2020. Employees are 100% vested in the 401a plan.

**BASIS OF ACCOUNTING:**

The financial statements of the City of Caro Money Purchase Plan are prepared using the accrual basis of accounting. Employer and plan member contributions are recognized in the period that the contributions are due.

**VALUATION OF INVESTMENTS:**

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value.

Mutual fund investments of \$1,132,760 were held at June 30, 2020.

**DEFERRED COMPENSATION PLAN:**

The City of Caro offers City employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the City of Caro's financial statements.

**NOTE 8 – RESTRICTED CASH:**

Restricted cash for debt retirement and maintenance.

**PROPRIETARY**  
\$704,747

**CITY OF CARO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

**NOTE 9 – INTERFUND TRANSFERS:**

Transfers were made between funds to subsidize operations. Interfund transfers for the year ended June 30, 2020 consisted of the following amounts:

		<u>Transfers Out</u>			
		<u>General Fund</u>	<u>Major Street Fund</u>	<u>Fire Fund</u>	<u>TOTAL</u>
<b>Transfers In</b>	<b>Major Street Fund</b>	\$ 654,821			\$ 654,821
	<b>Local Street Fund</b>	280,000	\$ 86,877		366,877
	<b>Fire Fund</b>	64,450			64,450
	<b>Nonmajor Governmental</b>	466,511		\$ 49,920	516,431
	<b>Total</b>	<u>\$ 1,465,782</u>	<u>\$ 86,877</u>	<u>\$ 49,920</u>	<u>\$ 1,602,579</u>

**NOTE 10 - SEGMENT INFORMATION:**

The City maintains two enterprise funds that provide water and sewer services. Segment information for the year ended June 30, 2020, is as follows:

	<u>WATER</u>	<u>SEWAGE DISPOSAL</u>	<u>TOTAL ENTERPRISE FUNDS</u>
Operating revenue	\$ 1,033,604	\$ 1,653,394	\$ 2,686,998
Depreciation & amortization expense	232,510	638,997	871,507
Operating income (loss)	299,869	132,371	432,240
Change in net position	319,149	109,757	428,906
Property, plant & equipment:			
Additions	-	97,718	97,718
Dispositions	-	-	-
Net working capital (deficit)	2,086,955	1,126,990	3,213,945
Total identifiable assets	5,984,425	11,439,720	17,424,145
Total net position	5,337,540	8,090,597	13,428,137

**NOTE 11 – OPERATING LEASES:**

The City entered into a 5-year lease agreement in March 2019 for the lease of a new copy machine for \$299 per month. At June 30, 2020, future lease payments under this lease are as follows:

June 30, 2021	\$ 3,588
June 30, 2022	3,588
June 30, 2023	3,588
June 30, 2024	2,691
	<u>\$ 13,455</u>

**CITY OF CARO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

**NOTE 12 – COMMITMENTS AND CONTINGENCIES:**

The City is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent third parties. Settled claims from these risks have not exceeded insurance coverage for the past three years.

**NOTE 13 - TAX ABATEMENTS:**

**INDUSTRIAL FACILITIES EXEMPTION**

Municipalities within the City's boundaries entered into property tax abatement agreements with local business under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended. An Industrial Facilities Tax Exemption (IFT) certificate entitles the facility to exemption from ad valorem real and/or personal property taxes for a term for 1-12 years as determined by the local unit of government. The IFT on new plant and new industrial property is computed at 50% of the taxes levied. The municipalities can elect to freeze the taxable values for rehabilitation properties.

For the year ended June 30, 2020, the City's property tax revenue for general operations were reduced by \$736 under this program. There were no significant abatements entered into by other governmental units.

**NOTE 14 – SUBSEQUENT EVENTS:**

In September 2019, Council approved \$394,000 for construction of a new police building. Construction did not begin until the 2020-2021 fiscal year.

**NOTE 15 – UPCOMING ACCOUNTING PRONOUNCEMENTS:**

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and will be effective for the City's 2021 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the City's 2022 year end. The objective of this Statement is to increase 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 principal that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use 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.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF CARO**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2020**

	<b>BUDGET</b>		<b>ACTUAL</b>	<b>VARIANCE WITH FINAL BUDGET</b>
	<b>ORIGINAL</b>	<b>FINAL</b>		
<b>REVENUES:</b>				
Taxes	\$ 1,387,023	\$ 1,483,275	\$ 1,484,884	\$ 1,609
Licenses & permits	250	5,351	5,399	48
Intergovernmental revenue:				
State	400,000	400,000	459,077	59,077
Charges for services	80,501	108,607	114,579	5,972
Fines & forfeitures	6,550	3,279	6,088	2,809
Miscellaneous	14,671	79,916	115,891	35,975
<b>TOTAL REVENUES</b>	<u>1,888,995</u>	<u>2,080,428</u>	<u>2,185,918</u>	<u>105,490</u>
<b>EXPENDITURES:</b>				
Legislative	36,144	40,200	38,225	1,975
Elections	18,200	8,582	5,966	2,616
Board of review	2,553	2,690	2,570	120
Assessor	33,100	30,286	30,497	(211)
Executive	122,152	111,296	101,035	10,261
Clerk/Treasurer	84,400	83,162	77,043	6,119
Industrial park	1,029	790	394	396
Buildings & grounds	761,805	123,918	93,476	30,442
Historical center	2,845	1,045	899	146
Police department	730,318	705,708	641,766	63,942
Planning & zoning	50,385	43,076	41,209	1,867
Public works department	178,224	233,172	235,827	(2,655)
Recreation department	574,522	82,562	75,435	7,127
Community promotion	56,508	48,234	49,753	(1,519)
<b>TOTAL EXPENDITURES</b>	<u>2,652,185</u>	<u>1,514,721</u>	<u>1,394,095</u>	<u>120,626</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(763,190)</u>	<u>565,707</u>	<u>791,823</u>	<u>226,116</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	10,000	10,000	-	(10,000)
Transfers out	(1,205,782)	(1,465,782)	(1,465,782)	-
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<u>(1,195,782)</u>	<u>(1,455,782)</u>	<u>(1,465,782)</u>	<u>(10,000)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u><u>\$ (1,958,972)</u></u>	<u><u>\$ (890,075)</u></u>	<u>(673,959)</u>	<u><u>\$ 216,116</u></u>
<b>FUND BALANCE - JULY 1</b>			<u>4,220,135</u>	
<b>FUND BALANCE - JUNE 30</b>			<u><u>\$ 3,546,176</u></u>	

**CITY OF CARO**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**MAJOR STREET & TRUNKLINE FUND**  
**YEAR ENDED JUNE 30, 2020**

	<b>BUDGET</b>		<b>ACTUAL</b>	<b>VARIANCE WITH FINAL BUDGET</b>
	<b>ORIGINAL</b>	<b>FINAL</b>		
REVENUES:				
Taxes	\$ 84,000	\$ 82,652	\$ 82,652	\$ -
Intergovernmental revenue	622,000	362,736	490,683	127,947
Miscellaneous	1,500	3,218	23,401	20,183
<b>TOTAL REVENUES</b>	<b>707,500</b>	<b>448,606</b>	<b>596,736</b>	<b>148,130</b>
EXPENDITURES:				
Construction	1,226,700	117,943	317,840	(199,897)
Routine maintenance - street & storm sewers	76,595	71,576	72,080	(504)
Trees & shrubs	-	292	324	(32)
Snow & ice controls	31,049	5,291	5,291	-
Sweeping & flushing	7,760	6,924	6,663	261
Draining, signs & signals	40,498	498	-	498
Administrative	37,219	36,431	37,063	(632)
<b>TOTAL EXPENDITURES</b>	<b>1,419,821</b>	<b>238,955</b>	<b>439,261</b>	<b>(200,306)</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(712,321)</b>	<b>209,651</b>	<b>157,475</b>	<b>(52,176)</b>
OTHER FINANCING SOURCES (USES):				
Transfers in	712,321	654,821	654,821	-
Transfers out	-	(81,201)	(86,877)	(5,676)
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ -</b>	<b>\$ 783,271</b>	<b>725,419</b>	<b>\$ (57,852)</b>
FUND BALANCE - JULY 1			1,075,030	
FUND BALANCE - JUNE 30			<b>\$ 1,800,449</b>	

**CITY OF CARO**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**LOCAL STREET FUND**  
**YEAR ENDED JUNE 30, 2020**

	<b>BUDGET</b>		<b>ACTUAL</b>	<b>VARIANCE WITH FINAL BUDGET</b>
	<b>ORIGINAL</b>	<b>FINAL</b>		
REVENUES:				
Taxes	\$ 43,000	\$ 41,142	\$ 41,142	\$ -
Intergovernmental revenue	100,000	156,859	153,153	(3,706)
Miscellaneous	250	1,229	5,199	3,970
<b>TOTAL REVENUES</b>	<b>143,250</b>	<b>199,230</b>	<b>199,494</b>	<b>264</b>
EXPENDITURES:				
Construction - street & storm sewers	6,500	-	-	-
Routine maintenance - street & storm sewers	138,685	406,613	419,020	(12,407)
Administrative	33,300	32,911	28,920	3,991
<b>TOTAL EXPENDITURES</b>	<b>178,485</b>	<b>439,524</b>	<b>447,940</b>	<b>(8,416)</b>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(35,235)	(240,294)	(248,446)	(8,152)
OTHER FINANCING SOURCES (USES):				
Transfers in	57,500	361,201	366,877	5,676
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 22,265</b>	<b>\$ 120,907</b>	118,431	<b>\$ (2,476)</b>
FUND BALANCE - JULY 1			235,342	
FUND BALANCE - JUNE 30			<b>\$ 353,773</b>	

**CITY OF CARO**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**REFUSE/SANITATION FUND**  
**YEAR ENDED JUNE 30, 2020**

	<b>BUDGET</b>		<b>ACTUAL</b>	<b>VARIANCE WITH FINAL BUDGET</b>
	<b>ORIGINAL</b>	<b>FINAL</b>		
REVENUES:				
Charges for services	\$ 400,000	\$ 400,000	\$ 399,160	\$ (840)
Miscellaneous	<u>3,925</u>	<u>6,875</u>	<u>11,966</u>	<u>5,091</u>
TOTAL REVENUES	<u>403,925</u>	<u>406,875</u>	<u>411,126</u>	<u>4,251</u>
EXPENDITURES:				
Sanitation:				
Wages and benefits	34,497	34,199	30,750	3,449
Contracted services	402,932	402,932	393,061	9,871
Miscellaneous	<u>7,716</u>	<u>7,716</u>	<u>9,185</u>	<u>(1,469)</u>
TOTAL EXPENDITURES	<u>445,145</u>	<u>444,847</u>	<u>432,996</u>	<u>11,851</u>
NET CHANGE IN FUND BALANCE	<u>\$ (41,220)</u>	<u>\$ (37,972)</u>	(21,870)	<u>\$ 16,102</u>
FUND BALANCE - JULY 1			<u>333,783</u>	
FUND BALANCE - JUNE 30			<u>\$ 311,913</u>	

**CITY OF CARO**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**FIRE FUND**  
**YEAR ENDED JUNE 30, 2020**

	<b>BUDGET</b>		<b>ACTUAL</b>	<b>VARIANCE WITH FINAL BUDGET</b>
	<b>ORIGINAL</b>	<b>FINAL</b>		
REVENUES:				
Charges for services	\$122,982	\$122,982	\$ 122,982	\$ -
Miscellaneous	900	31,285	23,598	(7,687)
<b>TOTAL REVENUES</b>	<b>123,882</b>	<b>154,267</b>	<b>146,580</b>	<b>(7,687)</b>
EXPENDITURES:				
Fire:				
Wages and benefits	65,560	69,813	80,386	(10,573)
Contracted services	23,383	25,314	25,691	(377)
Capital outlay	15,800	13,431	13,431	-
Insurance	22,000	15,751	20,966	(5,215)
Administrative expense	10,000	10,000	10,000	-
Miscellaneous	36,732	49,867	50,798	(931)
<b>TOTAL EXPENDITURES</b>	<b>173,475</b>	<b>184,176</b>	<b>201,272</b>	<b>(17,096)</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(49,593)</b>	<b>(29,909)</b>	<b>(54,692)</b>	<b>(24,783)</b>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of assets	-	6,556	6,556	-
Transfers in	64,450	64,450	64,450	-
Transfers out	(49,920)	(49,920)	(49,920)	-
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (35,063)</b>	<b>\$ (8,823)</b>	<b>(33,606)</b>	<b>\$ (24,783)</b>
FUND BALANCE - JULY 1			194,225	
FUND BALANCE - JUNE 30			<u>\$ 160,619</u>	

**CITY OF CARO**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**CITY OF CARO RETIREMENT PLAN**  
**LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED**  
**AS OF 7/31 OF EACH FISCAL YEAR)**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>TOTAL PENSION LIABILITY:</b>						
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,752
Interest	76,981	74,917	71,285	76,234	75,657	85,869
Changes of benefit terms	-	-	-	-	-	-
Difference between expected and actual experience	2,929	5,859	8,605	7,223	3,626	(722)
Change of assumptions	(51,854)	43,216	(83,957)	112,409	(24,713)	27,164
Benefit payments (including refunds of employee contributions)	<u>(86,552)</u>	<u>(85,557)</u>	<u>(85,557)</u>	<u>(85,557)</u>	<u>(87,043)</u>	<u>(74,581)</u>
<b>NET CHANGE IN TOTAL PENSION LIABILITY</b>	<b>(58,496)</b>	<b>38,435</b>	<b>(89,624)</b>	<b>110,309</b>	<b>(32,473)</b>	<b>46,482</b>
<b>TOTAL PENSION LIABILITY - BEGINNING OF YEAR</b>	<b><u>1,458,365</u></b>	<b><u>1,419,930</u></b>	<b><u>1,509,554</u></b>	<b><u>1,399,245</u></b>	<b><u>1,431,718</u></b>	<b><u>1,385,236</u></b>
<b>TOTAL PENSION LIABILITY - END OF YEAR (a)</b>	<b>1,399,869</b>	<b>1,458,365</b>	<b>1,419,930</b>	<b>1,509,554</b>	<b>1,399,245</b>	<b>1,431,718</b>
<b>PLAN FIDUCIARY NET POSITION:</b>						
Contributions - employer	-	-	-	-	-	-
Contributions - employee	-	-	-	-	-	836
Net investment income	54,778	126,051	169,541	25,203	78,375	177,393
Benefit payments (including refunds of employee contributions)	(86,552)	(85,557)	(85,557)	(85,557)	(87,043)	(74,581)
Administrative expenses	(14,548)	(14,955)	(14,370)	(14,214)	(15,015)	(14,833)
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FIDUCIARY NET POSITION</b>	<b>(46,322)</b>	<b>25,539</b>	<b>69,614</b>	<b>(74,568)</b>	<b>(23,683)</b>	<b>88,815</b>
<b>PLAN FIDUCIARY NET POSITION - BEGINNING OF YEAR</b>	<b><u>1,673,035</u></b>	<b><u>1,647,496</u></b>	<b><u>1,577,882</u></b>	<b><u>1,652,450</u></b>	<b><u>1,676,133</u></b>	<b><u>1,587,318</u></b>
<b>PLAN FIDUCIARY NET POSITION - END OF YEAR (b)</b>	<b><u>1,626,713</u></b>	<b><u>1,673,035</u></b>	<b><u>1,647,496</u></b>	<b><u>1,577,882</u></b>	<b><u>1,652,450</u></b>	<b><u>1,676,133</u></b>
<b>NET PENSION LIABILITY - ENDING (a)-(b)</b>	<b><u><u>\$(226,844)</u></u></b>	<b><u><u>\$(214,670)</u></u></b>	<b><u><u>\$(227,566)</u></u></b>	<b><u><u>\$( 68,328)</u></u></b>	<b><u><u>\$(253,205)</u></u></b>	<b><u><u>\$(244,415)</u></u></b>
<b>PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY</b>	<b>116.20%</b>	<b>114.72%</b>	<b>116.03%</b>	<b>104.53%</b>	<b>118.10%</b>	<b>117.07%</b>
<b>COVERED EMPLOYEE PAYROLL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET PENSION LIABILITY AS PERCENTAGE OF PAYROLL</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the City presents information for those years for which information is available.

**CITY OF CARO**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**CITY OF CARO RETIREMENT PLAN**  
**LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED**  
**AS OF 6/30 OF EACH FISCAL YEAR)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined total contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer contribution	-	-	-	-	-	-
Employee contribution	-	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>					
Covered employee payroll	-	-	-	-	-	-
Employer contribution as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the City presents information for those years for which information is available.

**CITY OF CARO**  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2020

**Changes of benefit terms:** There were no changes of benefit terms.

**Changes of assumptions:** The mortality table was updated from the 2018 IRC Section 430(h)(3) Annuitant Table.

ADDITIONAL SUPPLEMENTARY INFORMATION

**CITY OF CARO**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUND TYPES**  
**JUNE 30, 2020**

	<u>SPECIAL REVENUE</u>			<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
	<u>DEBT SERVICE</u>	<u>MUNICIPAL STREET</u>	<u>DRUG FORFEITURE</u>	
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ -	\$ 750,433	\$ 354	\$ 750,787
Accounts receivable	-	26,064	-	26,064
Taxes receivable	-	3,799	-	3,799
Prepaid expenditures	-	500	-	500
<b>TOTAL ASSETS</b>	<b><u>\$ -</u></b>	<b><u>\$ 780,796</u></b>	<b><u>\$ 354</u></b>	<b><u>\$ 781,150</u></b>
<b><u>LIABILITIES &amp; FUND BALANCES</u></b>				
Liabilities:				
Accounts payable	\$ -	\$ 12,472	\$ -	\$ 12,472
Unearned revenue	-	26,064	-	26,064
Total Liabilities	-	38,536	-	38,536
Fund Balances:				
Nonspendable for prepaid	-	500	-	500
Restricted for:				
Streets		428,968		428,968
Drug forfeiture			354	354
Assigned for:				
Subsequent year expenditures		312,792		312,792
Total Fund Balances	-	742,260	354	742,614
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ -</u></b>	<b><u>\$ 780,796</u></b>	<b><u>\$ 354</u></b>	<b><u>\$ 781,150</u></b>

**CITY OF CARO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUND TYPES**  
**YEAR ENDED JUNE 30, 2020**

	<u>SPECIAL REVENUE</u>			<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
	<u>DEBT SERVICE</u>	<u>MUNICIPAL STREET</u>	<u>DRUG FORFEITURE</u>	
REVENUES:				
Miscellaneous	\$ -	\$ 39,735	\$ 6	\$ 39,741
TOTAL REVENUES	<u>-</u>	<u>39,735</u>	<u>6</u>	<u>39,741</u>
EXPENDITURES:				
Streets		308,871		308,871
Debt Service:				
Principal	36,000			36,000
Interest	13,920			13,920
TOTAL EXPENDITURES	<u>49,920</u>	<u>308,871</u>	<u>-</u>	<u>358,791</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(49,920)</u>	<u>(269,136)</u>	<u>6</u>	<u>(319,050)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	49,920	466,511	-	516,431
TOTAL OTHER FINANCING SOURCES (USES)	<u>49,920</u>	<u>466,511</u>	<u>-</u>	<u>516,431</u>
NET CHANGE IN FUND BALANCES	-	197,375	6	197,381
FUND BALANCES - JULY 1	<u>-</u>	<u>544,885</u>	<u>348</u>	<u>545,233</u>
FUND BALANCES - JUNE 30	<u>\$ -</u>	<u>\$ 742,260</u>	<u>\$ 354</u>	<u>\$ 742,614</u>

**CITY OF CARO**  
**GOVERNMENTAL COMPONENT UNITS**  
**BALANCE SHEET**  
**JUNE 30, 2020**

**DOWNTOWN  
DEVELOPMENT  
AUTHORITY**

---

**ASSETS**

Cash and cash equivalents	\$	113,342
Accounts receivable		170,025
Prepaid expenditures		1,300
		<hr/>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u><u>284,667</u></u></b>

**LIABILITIES & FUND BALANCE**

Liabilities:		
Unearned revenue	\$	404
		<hr/>
Total Liabilities		<hr/> 404
Fund Balance:		
Nonspendable for prepaid		1,300
Restricted		138,953
Assigned for subsequent year expenditures		144,010
		<hr/>
Total Fund Balance		<hr/> 284,263
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<b>\$</b>	<b><u><u>284,667</u></u></b>

**CITY OF CARO**  
**GOVERNMENTAL COMPONENT UNITS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGE IN FUND BALANCE - BUDGET AND ACTUAL**  
**YEAR ENDED JUNE 30, 2020**

**DOWNTOWN DEVELOPMENT AUTHORITY**

	<b><u>BUDGET</u></b>	<b><u>ACTUAL</u></b>	<b><u>VARIANCE WITH FINAL BUDGET</u></b>
REVENUES:			
Taxes	\$ 128,394	\$ 128,394	\$ -
Federal grants	6,550	176,575	170,025
Miscellaneous	2,112	6,349	4,237
	<u>137,056</u>	<u>311,318</u>	<u>174,262</u>
TOTAL REVENUES			
EXPENDITURES:			
Contract services	344,103	343,811	292
Miscellaneous	62,487	61,348	1,139
Future projects	72,373	72,373	-
	<u>478,963</u>	<u>477,532</u>	<u>1,431</u>
TOTAL EXPENDITURES			
NET CHANGE IN FUND BALANCE	<u><u>\$(341,907)</u></u>	(166,214)	<u><u>\$ 175,693</u></u>
FUND BALANCE - JULY 1		<u>450,477</u>	
FUND BALANCE - JUNE 30		<u><u>\$ 284,263</u></u>	

**CITY OF CARO**  
**MAJOR STREET AND TRUNKLINE AND LOCAL STREET FUNDS**  
**SCHEDULE OF EXPENDITURES**  
**YEAR ENDED JUNE 30, 2020**

	<u>MAJOR STREET &amp; TRUNKLINE</u>	<u>LOCAL STREET</u>
EXPENDITURES:		
Construction - roads, streets & storm sewers:		
Labor	\$ 759	\$ -
Benefits	249	-
Equipment rent	874	-
Contracted services	299,958	-
Miscellaneous	16,000	-
	<hr/>	<hr/>
Total Construction - road, streets & storm sewers	317,840	-
	<hr/>	<hr/>
Routine Maintenance - streets & storm sewers		
Labor	12,708	41,319
Benefits	4,326	13,717
Equipment rent	33,244	63,176
Materials	11,052	15,422
Contracted services	10,750	285,386
	<hr/>	<hr/>
Total Routine Maintenance - streets & storm sewers	72,080	419,020
	<hr/>	<hr/>
Trees & Shrubs:		
Labor	174	-
Benefits	50	-
Equipment rent	100	-
	<hr/>	<hr/>
Total Trees & Shrubs	324	-
	<hr/>	<hr/>
Snow & Ice Control:		
Labor	1,754	-
Benefits	617	-
Equipment rent	2,920	-
	<hr/>	<hr/>
Total Snow & Ice Control	5,291	-
	<hr/>	<hr/>
Sweeping & Flushing:		
Labor	899	-
Benefits	303	-
Equipment rent	5,461	-
	<hr/>	<hr/>
Total Sweeping & Flushing	6,663	-
	<hr/>	<hr/>
Administration:		
General fund administration	34,308	26,983
Contracted services	853	853
Insurance	1,902	1,084
	<hr/>	<hr/>
Total Administration	37,063	28,920
	<hr/>	<hr/>
TOTAL EXPENDITURES	<u>\$ 439,261</u>	<u>\$ 447,940</u>



# ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

Thomas B. Doran, CPA      David A. Ondrajka, CPA  
Valerie J. Hartel, CPA      Angela M. Burnette, CPA  
Jamie L. Peasley, CPA      Chelsie M. Peruski, CPA  
.....  
Jerry J. Bernhardt

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

To the Members of the Council  
City of Caro

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Caro, State of Michigan, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 21, 2020.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the City of Caro's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described as 2020-001 in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting.

**COMPLIANCE AND OTHER MATTERS**

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

**CITY OF CARO'S RESPONSE TO FINDINGS**

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

**PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
CARO, MICHIGAN

December 21, 2020

December 21, 2020

To the Members of the Council  
City of Caro

## Schedule of Findings and Responses

### Findings considered significant deficiency

#### **Finding 2020-001**

##### Criteria:

Statement on Auditing Standards #115 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued October 2008), requires us to communicate in writing when a client has a small staff that limits the segregation of duties.

##### Condition:

Due to the limited number of staff, many critical duties are combined and given to the available staff and/or council members.

##### Context:

Internal controls are weakened due to the lack of segregation of duties.

##### Effect:

As a result of this condition, the government is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented, or detected and corrected by management on a timely basis. Other staff members and/or council members must be utilized in order to achieve good internal controls.

##### Cause:

The City doesn't have enough staff in the office to have a proper segregation of duties.

##### Recommendation:

At this time, we recommend the City segregate the duties whenever possible and communicate this as required by professional standards. This meets the definition of a significant deficiency as defined in Statement on Auditing Standards #115.

##### Client Response:

We are aware of this deficiency and believe it is not cost beneficial in our situation to hire additional staff. We will continue to segregate duties based on available staff. We would expect this situation to be ongoing in future years.



# ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

To the Members of the Council  
City of Caro

Thomas B. Doran, CPA	David A. Ondrajka, CPA
Valerie J. Hartel, CPA	Angela M. Burnette, CPA
Jamie L. Peasley, CPA	Chelsie M. Peruski, CPA
.....	
Jerry J. Bernhardt	

We have audited the financial statements of the City of Caro for the year ended June 30, 2020, and have issued our report thereon dated December 21, 2020. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of Caro. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we performed tests of the City of Caro's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Caro are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2020. We noted no transactions entered into by the City of Caro during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Estimates have been used to calculate the net pension asset.

Management's estimate of the payout of employee compensated absences upon their retirement is based on an expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management estimates the lives of capital assets. We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We proposed adjustments that we consider to be significant and have communicated this to management.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 21, 2020.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

A separate management letter was not issued.

Restriction on Use

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

Very truly yours,



Anderson, Tuckey, Bernhardt, & Doran, P.C.  
Certified Public Accountants  
Caro, Michigan

December 21, 2020