

CITY OF CARO

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

YEAR ENDED JUNE 30, 2021

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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 unit, 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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 unit, each major fund, and the aggregate remaining fund information of the City of Caro, State of Michigan, as of June 30, 2021, 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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Emphasis of Matter – Change in Accounting Principle

As discussed in Note 15 to the financial statements, the City of Caro implemented Governmental Accounting Standards Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

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 identified in the table of contents, including the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 additional supplementary 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 28, 2021, 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 effectiveness of the City of Caro's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering 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 28, 2021

CITY OF CARO, MICHIGAN

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, 2021. 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, 2021:

- The fund balance in the General Fund decreased from \$3,546,176 to \$3,244,070.
- State-shared revenue, the City's second largest General Fund revenue source, increased by \$411 from the prior fiscal year. The \$459,488 received from the State of Michigan was above the budgeted projection of \$379,345.
- The government's total net position for the Governmental Activities increased by \$1,226,926.

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, 2021:

	Governmental Activities	Business-Type Activities	Component Unit	Total
Current assets	\$ 7,076,153	\$ 4,808,083	\$ 240,725	\$ 12,124,961
Noncurrent assets	15,569,811	13,349,859	2,429,419	31,349,089
Total assets	22,645,964	18,157,942	2,670,144	43,474,050
Current liabilities	182,648	693,231	404	876,283
Long-term liabilities	392,624	3,340,329	-	3,732,953
Total liabilities	575,272	4,033,560	404	4,609,236
Deferred inflows of resources	21,044	-	-	21,044
Net position:				
Net investment in capital assets	15,226,837	9,995,319	2,429,419	27,651,575
Restricted	2,650,397	701,657	-	3,352,054
Unrestricted	4,172,414	3,427,406	240,321	7,840,141
Total net position	\$ 22,049,648	\$ 14,124,382	\$ 2,669,740	\$ 38,843,770

The City's combined net position increased from \$36,220,749 a year ago to \$38,843,770.

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 \$4,172,414 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, 2020 were:

	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

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, 2021:

	Governmental Activities	Business-Type Activities	Component Unit	Total
Revenues				
Program revenues:				
Charges for services	\$ 913,203	\$ 2,536,254	\$ -	\$ 3,449,457
Operating grants and contributions	115,677	-	766,200	881,877
Capital grants and contributions	237,586	-	-	237,586
General revenue:				
Property taxes	1,647,764	-	132,127	1,779,891
Intergovernmental revenue	1,031,795	630,537	-	1,662,332
Investment earnings	61,084	49,640	-	110,724
Sale of assets	20,700	-	-	20,700
Miscellaneous	160,145	14,809	5,541	180,495
Total revenues	4,187,954	3,231,240	903,868	8,323,062
Program Expenses				
General government	248,245			248,245
Road maintenance and repair	351,224			351,224
Health and sanitation	460,582			460,582
Public safety	399,870			399,870
Public works	481,515	2,534,995		3,016,510
Culture and recreation	450,683			450,683
Community development	44,019		204,018	248,037
Unallocated depreciation	511,740			511,740
Interest on long-term debt	13,150			13,150
Total expenses	2,961,028	2,534,995	204,018	5,700,041
Changes in Net Position	1,226,926	696,245	699,850	2,623,021
Net Position - Beginning of Year	20,822,722	13,428,137	1,969,890	36,220,749
Net Position - End of Year	\$ 22,049,648	\$ 14,124,382	\$ 2,669,740	\$ 38,843,770

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
Total revenues	3,834,814	2,754,035	311,318	6,900,167
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
	13,920			
Total expenses	3,022,442	2,325,129	246,593	5,594,164
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	\$ 20,822,722	\$ 13,428,137	\$ 1,969,890	\$ 36,220,749

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 \$761,178, and its cash balance decreased by \$175,367. Operating revenues for the fund increased from last year, due to receiving \$630,537 of reimbursement from the State for the water extension project.

The Sewer Fund had a decrease in net position of \$64,933 on operating revenues of \$1,575,188. Revenues were down about 4.7%. Cash flow for the Sewer Fund increased by \$92,271.

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 \$1,000,000 in the current fiscal year. These costs and approximately \$1,000,000 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 \$2,063,709 and an amended budget of \$2,218,098. The actual General Fund revenues amounted to \$2,320,974. 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 \$2,536,550 and an amended budget of \$2,801,972. The actual General Fund expenditures were \$2,464,262. The main difference between the budgeted and actual expenditures was less than expected public safety and community promotion expenditures.

The Major Street & Trunkline Fund revenue reported an original budget of \$814,300 and an amended budget of \$1,186,153. The actual Major Street & Trunkline revenues amounted to \$745,403. The main difference between the budgeted and actual revenues was due to lower than anticipated intergovernmental revenue.

The Major Street & Trunkline Fund expenditures reported an original budget of \$1,363,980 and an amended budget of \$1,067,430. The actual Major Street & Trunkline Fund expenditures were \$1,125,383. 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 \$425,900 and an amended budget of \$440,263. The actual Local Street revenues amounted to \$215,496. The main difference between the budgeted and actual revenues was due to lower than anticipated intergovernmental revenue.

The Local Street Fund expenditures reported an original budget of \$675,806 and an amended budget of \$1,149,132. The actual Local Street Fund expenditures were \$166,585. The main difference between the budgeted and actual expenditures was less than expected road maintenance expenditures.

The Refuse/Sanitation Fund revenue reported an original budget of \$405,000 and an amended budget of \$421,435. The actual Refuse/Sanitation revenues amounted to \$425,385.

The Refuse/Sanitation Fund expenditures reported an original budget of \$439,434 and an amended budget of \$464,457. The actual Refuse/Sanitation Fund expenditures were \$460,582.

The Fire Fund revenue reported an original budget of \$109,365 and an amended budget of \$135,300. The actual Fire revenues amounted to \$137,159.

The Fire Fund expenditures reported an original budget of \$206,519 and an amended budget of \$253,344. The actual Fire Fund expenditures were \$221,336. The main difference between the budgeted and actual expenditures was less than expected capital outlay and miscellaneous expenditures.

Capital Asset and Debt Administration

As of June 30, 2021, the City had a total of approximately \$31 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 \$513,762 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 unpredictable 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 or will be impacted by the economic conditions caused by the COVID-19 global pandemic and will be monitored closely over the next two-to-three fiscal years. While economic conditions appear to be stabilizing, the impacts of the COVID-19 pandemic are still yet to be fully known. The City will project revenue conservatively at lower levels to account for this uncertainty. We have seen some stability in federal and state funding through pandemic relief grants and revenue enhancements while expenditures have increased due to inflation and other additional pandemic related expenses. Even though there have been short-term offsets through one-time legislative actions, the long-term impact is still unclear. There may also be other unknown economic impacts as well, such as loss of property tax revenue from failed enterprises and 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, keeping a close eye on our overall net position.

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 2021-2022 fiscal year budget will continue to reflect steady levels of real property tax revenue throughout the city. 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 2021-2022 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, 2021

	<u>Primary Government</u>			<u>Component Unit</u>	<u>Reporting Entity</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>		<u>Totals</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 6,074,160	\$ 3,248,951	\$ 9,323,111	\$ 239,425	\$ 9,562,536
Receivables (net)	250,918	892,325	1,143,243	-	1,143,243
Inventories		91,000	91,000		91,000
Prepaid expenses	61,453	8,150	69,603	1,300	70,903
Restricted cash		701,657	701,657		701,657
Interfund advances	134,000	(134,000)	-		-
Net pension asset	555,622		555,622		555,622
Capital assets, not being depreciated	582,286	899,215	1,481,501	558,431	2,039,932
Capital assets, net of depreciation	<u>14,987,525</u>	<u>12,450,644</u>	<u>27,438,169</u>	<u>1,870,988</u>	<u>29,309,157</u>
TOTAL ASSETS	<u>22,645,964</u>	<u>18,157,942</u>	<u>40,803,906</u>	<u>2,670,144</u>	<u>43,474,050</u>
<u>LIABILITIES</u>					
Accounts payable, accrued & other liabilities	12,662	679,020	691,682	-	691,682
Accrued interest payable	-	14,211	14,211		14,211
Unearned revenue	169,986		169,986	404	170,390
Noncurrent liabilities:					
Due within one year	38,000	480,000	518,000		518,000
Due in more than one year	304,974	2,860,329	3,165,303		3,165,303
Accumulated compensated absences	<u>49,650</u>		<u>49,650</u>		<u>49,650</u>
TOTAL LIABILITIES	<u>575,272</u>	<u>4,033,560</u>	<u>4,608,832</u>	<u>404</u>	<u>4,609,236</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>					
Related to pensions	<u>21,044</u>	<u>-</u>	<u>21,044</u>	<u>-</u>	<u>21,044</u>
<u>NET POSITION</u>					
Net investment in capital assets	15,226,837	9,995,319	25,222,156	2,429,419	27,651,575
Restricted for:					
Streets	2,285,393		2,285,393		2,285,393
Refuse	276,016		276,016		276,016
Fire	88,630		88,630		88,630
Drug forfeiture	358		358		358
Water & sewer		701,657	701,657		701,657
Unrestricted	<u>4,172,414</u>	<u>3,427,406</u>	<u>7,599,820</u>	<u>240,321</u>	<u>7,840,141</u>
TOTAL NET POSITION	<u>\$ 22,049,648</u>	<u>\$ 14,124,382</u>	<u>\$ 36,174,030</u>	<u>\$ 2,669,740</u>	<u>\$ 38,843,770</u>

See notes to financial statements.

CITY OF CARO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021

	<u>GENERAL</u>	<u>MAJOR STREET & TRUNKLINE</u>	<u>LOCAL STREET</u>	<u>REFUSE/ SANITATION</u>	<u>FIRE</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>							
Cash and cash equivalents	\$ 2,904,558	\$ 1,269,484	\$ 467,693	\$ 233,425	\$ 212,406	\$ 459,299	\$ 5,546,865
Accounts receivable, net	64,410	60,912	24,564	41,952	-	27,526	219,364
Taxes receivable	27,116	-	-	639	-	3,799	31,554
Prepaid expenditures	52,052	500	-	700	4,200	500	57,952
Interfund advances	227,280	-	-	-	-	-	227,280
TOTAL ASSETS	<u>\$ 3,275,416</u>	<u>\$ 1,330,896</u>	<u>\$ 492,257</u>	<u>\$ 276,716</u>	<u>\$ 216,606</u>	<u>\$ 491,124</u>	<u>\$ 6,083,015</u>
<u>LIABILITIES & FUND BALANCES</u>							
Liabilities:							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 8,431	\$ -	\$ 8,431
Accrued salaries & wages	4,231	-	-	-	-	-	4,231
Unearned revenue	27,115	-	-	-	115,345	27,526	169,986
Total Liabilities	31,346	-	-	-	123,776	27,526	182,648
Fund Balances:							
Nonspendable for:							
Prepaid	52,052	500	-	700	4,200	500	57,952
Advances	227,280	-	-	-	-	-	227,280
Restricted for:							
Streets	-	1,330,396	492,257	-	-	462,740	2,285,393
Refuse	-	-	-	276,016	-	-	276,016
Fire	-	-	-	-	88,630	-	88,630
Drug Forfeiture	-	-	-	-	-	358	358
Assigned for:							
Subsequent year expenditures	902,040	-	-	-	-	-	902,040
Unassigned	2,062,698	-	-	-	-	-	2,062,698
Total Fund Balances	3,244,070	1,330,896	492,257	276,716	92,830	463,598	5,900,367
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,275,416</u>	<u>\$ 1,330,896</u>	<u>\$ 492,257</u>	<u>\$ 276,716</u>	<u>\$ 216,606</u>	<u>\$ 491,124</u>	<u>\$ 6,083,015</u>

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, 2021

Total fund balances for governmental funds	\$ 5,900,367
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	20,300,735
Accumulated depreciation	(5,306,422)
Net pension asset	555,622
Deferred inflows of resources - related to pensions	(21,044)
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Compensated absences	(49,650)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
	(342,974)
Internal service funds are included as part of governmental activities.	1,013,014
Net position of governmental activities	\$ 22,049,648

See notes to financial statements.

CITY OF CARO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021

	<u>GENERAL</u>	<u>MAJOR STREET & TRUNKLINE</u>	<u>LOCAL STREET</u>	<u>REFUSE/ SANITATION</u>
REVENUES:				
Taxes	\$ 1,516,286	\$ 87,782	\$ 43,696	\$ -
Licenses & permits	5,554			
Intergovernmental revenue:				
Federal	90,677	237,586		
State	459,488	404,827	167,480	
Charges for services	121,886	-	-	413,804
Fines & forfeitures	15,307			
Miscellaneous	111,776	15,208	4,320	11,581
TOTAL REVENUES	<u>2,320,974</u>	<u>745,403</u>	<u>215,496</u>	<u>425,385</u>
EXPENDITURES:				
Legislative	33,681			
Elections	16,495			
Board of review	2,993			
Assessor	31,567			
Executive	98,533			
Clerk/Treasurer	97,375			
Industrial park	355			
Buildings & grounds	647,225			
Historical center	8,123			
Police department	724,630			
Planning & zoning	59,376			
Fire department				
Public works department	249,207			
Refuse department				460,582
Recreation department	450,683			
Community promotion	44,019			
Streets		1,125,383	166,585	
Miscellaneous				
Debt Service:				
Principal				
Interest				
TOTAL EXPENDITURES	<u>2,464,262</u>	<u>1,125,383</u>	<u>166,585</u>	<u>460,582</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(143,288)</u>	<u>(379,980)</u>	<u>48,911</u>	<u>(35,197)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	23,320	-	89,573	-
Transfers out	(182,138)	(89,573)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(158,818)</u>	<u>(89,573)</u>	<u>89,573</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(302,106)	(469,553)	138,484	(35,197)
FUND BALANCES - JULY 1	<u>3,546,176</u>	<u>1,800,449</u>	<u>353,773</u>	<u>311,913</u>
FUND BALANCES - JUNE 30	<u>\$ 3,244,070</u>	<u>\$ 1,330,896</u>	<u>\$ 492,257</u>	<u>\$ 276,716</u>

See notes to financial statements.

CITY OF CARO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021

	<u>FIRE</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL PRIMARY GOVERNMENT</u>	<u>COMPONENT UNITS</u>	<u>JUNE 30, 2021</u>
REVENUES:					
Taxes	\$ -	\$ -	\$ 1,647,764	\$ 132,127	\$ 1,779,891
Licenses & permits			5,554		5,554
Intergovernmental revenue:					
Federal	25,000		353,263	766,200	1,119,463
State			1,031,795	-	1,031,795
Charges for services	108,467		644,157		644,157
Fines & forfeitures			15,307		15,307
Miscellaneous	3,692	49,612	196,189	5,541	201,730
TOTAL REVENUES	<u>137,159</u>	<u>49,612</u>	<u>3,894,029</u>	<u>903,868</u>	<u>4,797,897</u>
EXPENDITURES:					
Legislative			33,681		33,681
Elections			16,495		16,495
Board of review			2,993		2,993
Assessor			31,567		31,567
Executive			98,533		98,533
Clerk/Treasurer			97,375		97,375
Industrial park			355		355
Buildings & grounds			647,225		647,225
Historical center			8,123		8,123
Police department			724,630		724,630
Planning & zoning			59,376		59,376
Fire department	221,336		221,336		221,336
Public works department			249,207		249,207
Refuse department			460,582		460,582
Recreation department			450,683		450,683
Community promotion			44,019		44,019
Streets		328,628	1,620,596		1,620,596
Miscellaneous		-	-	947,810	947,810
Debt Service:					
Principal		36,000	36,000	-	36,000
Interest		13,150	13,150	-	13,150
TOTAL EXPENDITURES	<u>221,336</u>	<u>377,778</u>	<u>4,815,926</u>	<u>947,810</u>	<u>5,763,736</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(84,177)</u>	<u>(328,166)</u>	<u>(921,897)</u>	<u>(43,942)</u>	<u>(965,839)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	65,538	49,150	227,581	-	227,581
Transfers out	(49,150)	-	(320,861)	-	(320,861)
TOTAL OTHER FINANCING SOURCES (USES)	<u>16,388</u>	<u>49,150</u>	<u>(93,280)</u>	<u>-</u>	<u>(93,280)</u>
NET CHANGE IN FUND BALANCES	<u>(67,789)</u>	<u>(279,016)</u>	<u>(1,015,177)</u>	<u>(43,942)</u>	<u>(1,059,119)</u>
FUND BALANCES - JULY 1	<u>160,619</u>	<u>742,614</u>	<u>6,915,544</u>	<u>284,263</u>	<u>7,199,807</u>
FUND BALANCES - JUNE 30	<u>\$ 92,830</u>	<u>\$ 463,598</u>	<u>\$ 5,900,367</u>	<u>\$ 240,321</u>	<u>\$ 6,140,688</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, 2021

Net change in fund balances - total governmental funds \$(1,015,177)

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 estimated useful lives as depreciation expense.

Depreciation expense	(511,740)
Capital outlay	2,276,240

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	57,412
Accrued absences at the end of the year	(49,650)

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.

112,188

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	321,653
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Change in net position of governmental activities

\$ 1,226,926

See notes to financial statements.

CITY OF CARO
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2021

	<u>BUSINESS-TYPE ACTIVITIES</u>			<u>GOVERNMENTAL</u>
	<u>WATER</u>	<u>SEWAGE DISPOSAL</u>	<u>TOTAL ENTERPRISE FUNDS</u>	<u>INTERNAL SERVICE FUNDS</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,900,816	\$ 1,348,135	\$ 3,248,951	\$ 527,295
Accounts receivable - net	716,431	175,894	892,325	-
Inventories	53,000	38,000	91,000	-
Prepaid expenses	2,800	5,350	8,150	3,501
Restricted cash	162,882	538,775	701,657	-
Capital assets	9,344,483	21,822,206	31,166,689	1,723,820
Less accumulated depreciation & amortization	(4,886,733)	(12,930,097)	(17,816,830)	(1,148,322)
TOTAL ASSETS	<u>\$ 7,293,679</u>	<u>\$ 10,998,263</u>	<u>\$ 18,291,942</u>	<u>\$ 1,106,294</u>
<u>LIABILITIES & NET POSITION</u>				
Liabilities:				
Accounts payable	\$ 668,731	\$ -	\$ 668,731	\$ -
Customer deposits payable	10,289	-	10,289	-
Current maturities of long-term debt	100,000	380,000	480,000	-
Accrued interest payable	2,726	11,485	14,211	-
Interfund advances	-	134,000	134,000	93,280
Revenue bonds payable - long-term	413,215	2,447,114	2,860,329	-
Total Liabilities	<u>1,194,961</u>	<u>2,972,599</u>	<u>4,167,560</u>	<u>93,280</u>
Net Position:				
Net investment in capital assets	3,941,809	6,053,510	9,995,319	575,498
Restricted	162,882	538,775	701,657	-
Unrestricted	1,994,027	1,433,379	3,427,406	437,516
Total Net Position	<u>6,098,718</u>	<u>8,025,664</u>	<u>14,124,382</u>	<u>1,013,014</u>
TOTAL LIABILITIES & NET POSITION	<u>\$ 7,293,679</u>	<u>\$ 10,998,263</u>	<u>\$ 18,291,942</u>	<u>\$ 1,106,294</u>

See notes to financial statements.

CITY OF CARO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2021

	BUSINESS-TYPE ACTIVITIES			GOVERNMENTAL
	WATER	SEWAGE DISPOSAL	TOTAL ENTERPRISE FUNDS	ACTIVITIES INTERNAL SERVICE FUNDS
OPERATING REVENUES:				
Water & sewer system sales	\$ 963,932	\$ 1,539,677	\$ 2,503,609	\$ -
Equipment rent	-	-	-	268,319
Other services, charges & sales	7,048	25,597	32,645	-
Intergovernmental revenue	630,537	-	630,537	-
Interest & penalties	11,296	-	11,296	-
Miscellaneous	4,895	9,914	14,809	727
TOTAL OPERATING REVENUES	1,617,708	1,575,188	3,192,896	269,046
OPERATING EXPENSES:				
Salaries & wages	146,359	313,496	459,855	35,890
Payroll taxes	10,598	22,381	32,979	2,543
Fringe benefits	46,147	95,467	141,614	10,682
Operating supplies	100,025	110,330	210,355	28,433
General fund administrative	10,000	-	10,000	40,000
Contracted services	133,732	215,902	349,634	13,499
Telephone	823	3,256	4,079	155
Insurance	10,130	24,701	34,831	8,027
Heat, light & power	114,295	127,693	241,988	17,083
Depreciation & amortization	233,491	649,252	882,743	73,891
Capital outlay	-	-	-	1,000
Equipment rental	42,968	37,313	80,281	-
Other	16,770	7,945	24,715	1,105
TOTAL OPERATING EXPENSES	865,338	1,607,736	2,473,074	232,308
OPERATING INCOME (LOSS)	752,370	(32,548)	719,822	36,738
NON-OPERATING REVENUES (EXPENSES)				
Gain (loss) on sale of fixed assets	-	-	-	20,700
Interest earned	20,218	18,126	38,344	4,179
Interest expense	(11,410)	(50,511)	(61,921)	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	8,808	(32,385)	(23,577)	24,879
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	761,178	(64,933)	696,245	61,617
OPERATING TRANSFERS IN (OUT)				
Transfers in	-	-	-	116,600
Transfers out	-	-	-	(23,320)
TOTAL OPERATING TRANSFERS IN (OUT)	-	-	-	93,280
CHANGES IN NET POSITION	761,178	(64,933)	696,245	154,897
TOTAL NET POSITION - JULY 1	5,337,540	8,090,597	13,428,137	858,117
TOTAL NET POSITION - JUNE 30	\$ 6,098,718	\$ 8,025,664	\$ 14,124,382	\$ 1,013,014

See notes to financial statements.

CITY OF CARO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2021

	BUSINESS-TYPE ACTIVITIES			GOVERNMENTAL
	WATER	SEWAGE DISPOSAL	TOTAL ENTERPRISE FUNDS	INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users	\$ 990,215	\$ 1,617,872	\$ 2,608,087	\$ -
Receipts from interfund services provided	-	-	-	362,326
Payments to suppliers	214,839	(527,140)	(312,301)	(109,302)
Payments to employees	(203,104)	(431,344)	(634,448)	(49,115)
Net cash provided by operating activities	<u>1,001,950</u>	<u>659,388</u>	<u>1,661,338</u>	<u>203,909</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfer from other funds	-	-	-	93,280
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,280</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchases/construction of capital assets	(1,090,619)	(158,208)	(1,248,827)	(116,600)
Gain on sale of asset	-	-	-	20,700
Principal paid on debt	(95,000)	(375,000)	(470,000)	-
Interest paid on debt	(11,916)	(52,035)	(63,951)	-
Net cash provided (used) by capital and related financing activities	<u>(1,197,535)</u>	<u>(585,243)</u>	<u>(1,782,778)</u>	<u>(95,900)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	20,218	18,126	38,344	4,179
Net cash provided by investing activities	<u>20,218</u>	<u>18,126</u>	<u>38,344</u>	<u>4,179</u>
Net increase in cash and cash equivalents	(175,367)	92,271	(83,096)	205,468
CASH & CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,239,065</u>	<u>1,794,639</u>	<u>4,033,704</u>	<u>321,827</u>
CASH & CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,063,698</u>	<u>\$ 1,886,910</u>	<u>\$ 3,950,608</u>	<u>\$ 527,295</u>
Reconciliation of operating income to net cash provided used by operating activities:				
Operating income (loss)	\$ 752,370	\$ (32,548)	\$ 719,822	\$ 36,738
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation and amortization	233,491	649,252	882,743	73,891
(Increase) decrease in accounts receivable	(627,493)	42,684	(584,809)	-
Increase (decrease) in accounts payable	643,582	-	643,582	-
Increase (decrease) in interfund advances	-	-	-	93,280
Total adjustments	<u>249,580</u>	<u>691,936</u>	<u>941,516</u>	<u>167,171</u>
Net cash provided by operating activities	<u>\$ 1,001,950</u>	<u>\$ 659,388</u>	<u>\$ 1,661,338</u>	<u>\$ 203,909</u>

See notes to financial statements.

CITY OF CARO
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2021

	<u>Custodial Tax Collection Fund</u>
<u>ASSETS</u>	
Cash	\$ -
<u>LIABILITIES</u>	
Due to other governmental units	-
<u>NET POSITION</u>	
Restricted	\$ -

See notes to financial statements.

CITY OF CARO
FIDUCIARY FUND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2021

	Custodial Tax Collection Fund
<u>ADDITIONS</u>	
Collection of taxes for other governments	\$ 3,209,124
<u>DEDUCTIONS</u>	
Payment of taxes collected for other governments	3,209,124
Net change in fiduciary net position	-
<u>NET POSITION</u>	
Beginning of year	-
End of year	\$ -

See notes to financial statements.

CITY OF CARO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

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:

The statement of net position and the statement of activities (the government-wide financial statements) present information for the primary government and its component unit as a whole. All nonfiduciary activities of the primary government are included (i.e. fiduciary fund activities are not included in the government-wide financial statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component unit and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operation or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues.

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, proprietary funds, and fiduciary funds, even though the latter are excluded 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.

CITY OF CARO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

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 & trunkline 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/sanitation 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.

The government reports the following major proprietary funds:

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

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

The City reports the following 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.

Also, the government reports as a fiduciary fund, the *tax collection fund* (custodial fund).

The *fiduciary fund* accounts for assets held by the City in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements. The *custodial tax collection fund* consists of assets for the benefit of other governmental units and the City does not have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are not derived from the City's provision of goods or services to those other governmental units. These funds are used to account for assets that the City holds for others in an agency capacity (primarily the collection of taxes).

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.

CITY OF CARO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

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 fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, except for the recognition of certain liabilities to the beneficiaries of a fiduciary activity. Liabilities to beneficiaries are recognized when an event has occurred that compels the City to disburse fiduciary resources.

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.

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.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

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.

CITY OF CARO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

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:

	Appropriation	Expenditure	Excess
General Fund			
Planning & zoning	\$ 58,519	\$ 59,376	\$ 857
Major Street Fund			
Construction	905,530	1,000,063	94,533
Trees and shrubs	-	48	48
Transfers out	82,500	89,573	7,073
Fire Fund			
Wages & benefits	116,337	116,618	281

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 30th.

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

1. Cash and Investments

The City's cash includes amounts in petty cash and demand deposits with original maturities of three months or less from the date of acquisition. Investments include certificates of deposit which are allowed by state statute, as subsequently described. Certificates of deposit are carried at amortized cost which approximates fair value.

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.

CITY OF CARO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

- 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.

2. 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.

3. 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.

4. 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

CITY OF CARO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

5. 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.

6. 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.

7. 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.

8. 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.

9. 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.

CITY OF CARO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

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.

10. 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.

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 2020 taxable valuation of the City totaled \$90,815,827, on which ad valorem taxes consisted of 16.1643 mills for operating purposes. This resulted in \$1,465,935 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.

CITY OF CARO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

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, 2021, \$4,863,848 of the City's bank balance of \$10,350,723 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount of the City's deposits was \$10,264,193.

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.

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.

CITY OF CARO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

The following summarizes the categorization of these amounts as of June 30, 2021:

Cash - Governmental Activities	\$	6,074,160
Cash - Business-Type Activities		3,248,951
Restricted Cash - Business-Type Activities		701,657
Cash - Component Unit		239,425
Cash - Fiduciary Fund		-
		-
	\$	10,264,193

NOTE 3 – RECEIVABLES – PRIMARY GOVERNMENT:

Receivables at June 30, 2021 consist of the following:

	GENERAL	SPECIAL REVENUE	ENTERPRISE	TOTAL
Receivables:				
Accounts	\$ 69,410	\$ 154,954	\$ 919,785	\$ 1,144,149
Taxes	27,116	4,438		31,554
Allowance for Uncollectibles	(5,000)		(27,460)	(32,460)
TOTAL RECEIVABLES	\$ 91,526	\$ 159,392	\$ 892,325	\$ 1,143,243

NOTE 4 – INTERFUND RECEIVABLES AND PAYABLES:

Interfund receivable and payable balances for the year ended June 30, 2021 consisted of the following amounts:

		RECEIVABLE	
		General Fund	TOTAL
PAYABLE	Sewage Disposal Fund	\$ 134,000	\$ 134,000
	Internal Service Fund	93,280	93,280
	Total	\$ 227,280	\$ 227,280

The amount owed from the sewage disposal fund and internal service fund to the general fund is considered noncurrent and is reported as interfund advances.

CITY OF CARO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE 5 – CAPITAL ASSETS:

A summary of property, plant, and equipment at June 30, 2021 is as follows:

Governmental activities	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 501,869	\$ 80,417	\$ -	\$ 582,286
Construction-in-progress	292,760		292,760	-
Total capital assets not being depreciated	<u>794,629</u>	<u>80,417</u>	<u>292,760</u>	<u>582,286</u>
Capital assets being depreciated				
Land improvements	5,163,912	333,196		5,497,108
Infrastructure	8,873,098	1,562,132		10,435,230
Buildings, additions and improvements	1,360,536	465,205		1,825,741
Machinery and equipment	1,948,920	11,450		1,960,370
Motor vehicles and related equipment	1,676,402	116,600	69,182	1,723,820
Total capital assets being depreciated	<u>19,022,868</u>	<u>2,488,583</u>	<u>69,182</u>	<u>21,442,269</u>
Less accumulated depreciation for				
Land improvements	8,379	10,895		19,274
Infrastructure	3,375,171	292,376		3,667,547
Buildings, additions and improvements	359,655	38,864		398,519
Machinery and equipment	1,125,368	95,714		1,221,082
Motor vehicles and related equipment	1,143,613	73,891	69,182	1,148,322
Total accumulated depreciation	<u>6,012,186</u>	<u>511,740</u>	<u>69,182</u>	<u>6,454,744</u>
Net capital assets being depreciated	<u>13,010,682</u>	<u>1,976,843</u>	<u>-</u>	<u>14,987,525</u>
Governmental activities capital assets, net	<u>\$ 13,805,311</u>	<u>\$ 2,057,260</u>	<u>\$ 292,760</u>	<u>\$ 15,569,811</u>
Business-type activities	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 118,436	\$ -	\$ -	\$ 118,436
Construction-in-progress	-	780,779	-	780,779
Total capital assets not being depreciated	<u>118,436</u>	<u>780,779</u>	<u>-</u>	<u>899,215</u>
Capital assets being depreciated				
Buildings, additions and improvements	14,472,198			14,472,198
Machinery and equipment	6,156,159	128,845		6,285,004
Motor vehicles and related equipment	983,599			983,599
Water system	4,282,376	274,496		4,556,872
Sewer system	3,905,093	64,708		3,969,801
Total capital assets being depreciated	<u>29,799,425</u>	<u>468,049</u>	<u>-</u>	<u>30,267,474</u>
Less accumulated depreciation for				
Buildings, additions and improvements	7,569,499	293,780		7,863,279
Machinery and equipment	4,113,373	381,348		4,494,721
Motor vehicles and related equipment	705,767	24,065		729,832
Water system	2,072,730	98,801		2,171,531
Sewer system	2,472,718	84,749		2,557,467
Total accumulated depreciation	<u>16,934,087</u>	<u>882,743</u>	<u>-</u>	<u>17,816,830</u>
Net capital assets being depreciated	<u>12,865,338</u>	<u>(414,694)</u>	<u>-</u>	<u>12,450,644</u>
Business-type activities capital assets, net	<u>\$ 12,983,774</u>	<u>\$ 366,085</u>	<u>\$ -</u>	<u>\$ 13,349,859</u>

CITY OF CARO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

Component unit	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 558,431	\$ -	\$ -	\$ 558,431
Construction-in-progress	65,857		65,857	-
Total capital assets not being depreciated	<u>558,431</u>	<u>-</u>	<u>65,857</u>	<u>558,431</u>
Capital assets being depreciated				
Land improvements	681,793			681,793
Infrastructure	1,895,409	923,183		2,818,592
Machinery and equipment	41,544			41,544
Total capital assets being depreciated	<u>2,618,746</u>	<u>923,183</u>	<u>-</u>	<u>3,541,929</u>
Less accumulated depreciation for				
Land improvements	163,708	13,307		177,015
Infrastructure	1,366,441	98,696		1,465,137
Machinery and equipment	27,258	1,531		28,789
Total accumulated depreciation	<u>1,557,407</u>	<u>113,534</u>	<u>-</u>	<u>1,670,941</u>
Net capital assets being depreciated	<u>1,061,339</u>	<u>809,649</u>	<u>-</u>	<u>1,870,988</u>
Component unit capital assets, net	<u>\$ 1,619,770</u>	<u>\$ 809,649</u>	<u>\$ 65,857</u>	<u>\$ 2,429,419</u>

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	\$ 511,740
Business-type activities	882,743
Component unit	<u>113,534</u>
Total depreciation expense	<u>\$ 1,508,017</u>

Depreciation expense for the year ended June 30, 2021 amounted to \$1,508,017. The City determined that it was impractical to allocate governmental activities depreciation to the various governmental activities as the assets serve multiple functions.

CITY OF CARO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

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, 2021:

	General obligation bonds	Notes from direct borrowings and direct placements	Compensated absences	Total
<u>GOVERNMENTAL ACTIVITIES:</u>				
Balance July 1, 2020	\$ -	\$ 378,974	\$ 57,412	\$ 436,386
Additions				-
Deletions		(36,000)	(7,762)	(43,762)
Balance June 30, 2021	-	342,974	49,650	392,624
Due within one year		38,000		38,000
Due in more than one year	\$ -	\$ 304,974	\$ 49,650	\$ 354,624
<u>BUSINESS-TYPE ACTIVITIES:</u>				
Balance July 1, 2020	\$ 3,810,329	\$ -	\$ -	\$ 3,810,329
Additions				-
Deletions	(470,000)			(470,000)
Balance June 30, 2021	3,340,329	-	-	3,340,329
Due within one year	480,000			480,000
Due in more than one year	\$ 2,860,329	\$ -	\$ -	\$ 2,860,329

Long-term obligations at June 30, 2021 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.

\$ 342,974

Total notes from direct borrowings and direct placements

342,974

Compensated absences

49,650

Total governmental activities long-term obligations

\$ 392,624

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%.

\$ 513,215

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

2,827,114

Total business-type activities long-term obligations

\$ 3,340,329

CITY OF CARO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

The annual requirements to amortize long-term obligations outstanding exclusive of compensated absences payments as of June 30, 2021 are as follows:

<u>YEAR ENDING JUNE 30,</u>	<u>GOVERNMENTAL ACTIVITIES</u>		<u>BUSINESS-TYPE ACTIVITIES</u>		
	<u>NOTES FROM DIRECT</u>		<u>GENERAL OBLIGATION</u>		
	<u>BORROWINGS AND DIRECT</u>		<u>BONDS</u>		
	<u>PLACEMENTS</u>				
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	43,000	6,349	513,215	21,525	584,089
2027-2029	139,974	9,817	847,114	20,706	1,017,611
	342,974	55,686	3,340,329	214,785	3,953,774
Compensated absences	49,650				49,650
	<u>\$ 392,624</u>	<u>\$ 55,686</u>	<u>\$ 3,340,329</u>	<u>\$ 214,785</u>	<u>\$ 4,003,424</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.

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

Inactive plan members receiving benefits	5
Inactive members entitled to, not yet receiving benefits	5
Active plan members	<u>0</u>
Total participants	<u><u>10</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. The City is required to contribute the actuarially determined amount.

Assumptions and Methods

The City's pension liability was measured as of July 31, 2020.

CITY OF CARO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of July 31, 2020 and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.00% (included in long term real rate of return)
Salary increases	0.00%, there are no active participants
Investment rate of return	6.71% net of investment expense, including inflation,
Mortality Table	As set forth in IRS Regulations for 2020 (1.430(h)(3)) for Non-annuitants, separately for males and females as well as annuitants and non-annuitants. Based on RP-2014 Tables with improvement scale MP-2018.

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, 2020 are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
Domestic equity	41.25%	6.60%
International equity	13.75%	6.80%
Fixed income	36.00%	1.75%
Real assets	8.00%	5.20%
Cash	1.00%	1.00%
	100.0%	

The sum of target allocations times long term expected real rate is 4.71%. The long-term expected rate of return is 6.71%.

Discount Rate - The discount rate used to measure the total pension liability was 6.71%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the most recent recommended contribution expressed as a percentage of covered payroll. Based on those assumptions, the retirement plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by projected assets (the "depletion date"), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the Total Pension Liability. The discount rate used in last year's reporting was 5.80%.

CITY OF CARO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

Net Pension Liability

Changes in the Net Pension Liability (Asset) -

	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (asset) (a) - (b)
Balance at July 31, 2019	\$ 1,399,869	\$ 1,626,713	\$ (226,844)
Changes during the year			
Service cost			-
Interest	78,595		78,595
Experience (gains)/losses	(227,751)		(227,751)
Change of assumptions	(88,405)		(88,405)
Contributions - employer			-
Contributions - employee			-
Net investment income		105,705	(105,705)
Benefit payments;			-
Including refunds of employee contributions	(89,538)	(89,538)	-
Administrative expenses		(14,488)	14,488
Other changes			-
Total changes	(327,099)	1,679	(328,778)
Balance at July 31, 2020	<u>\$ 1,072,770</u>	<u>\$ 1,628,392</u>	<u>\$ (555,622)</u>

Discount Rate Sensitivities - The following presents the net pension liability (NPL) of the City, calculated using the discount rate of 6.71%, 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 (5.71%) or 1 percentage point higher (7.71%) than the current rate:

	<u>1% Lower</u>	<u>Discount Rate</u>	<u>1% Higher</u>
Total Pension Liability	\$ 1,169,967	\$ 1,072,770	\$ 988,658
Plan Fiduciary Net Position	(1,628,392)	(1,628,392)	(1,628,392)
Net Pension Liability (Asset)	<u>\$ (458,425)</u>	<u>\$ (555,622)</u>	<u>\$ (639,734)</u>

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

Deferred Inflows and Outflows of Resources Related to Pension Plan -For the year ended June 30, 2021, the City recognized pension benefit of approximately \$321,655. 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	\$ -	\$ (21,044)
	<u>\$ -</u>	<u>\$ (21,044)</u>

CITY OF CARO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

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

<u>Year ended July 31,</u>	<u>Amount</u>
2022	\$ (20,224)
2023	(2,938)
2024	4,990
2025	(2,872)

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, 2021, there were 20 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 \$3,396 and the total employer contributions were \$93,281 for the year ended June 30, 2021. 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 \$1,428,135 were held at June 30, 2021.

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
\$701,657

CITY OF CARO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE 9 – INTERFUND TRANSFERS:

Transfers were made between funds to subsidize operations. Interfund transfers for the year ended June 30, 2021 consisted of the following amounts:

		Transfers Out				
		General Fund	Major Street Fund	Fire Fund	Internal Service Fund	TOTAL
Transfers In	General Fund				\$ 23,320	\$ 23,320
	Local Street Fund		\$ 89,573			89,573
	Fire Fund	\$ 65,538				65,538
	Nonmajor Governmental			\$ 49,150		49,150
	Internal Service Fund	116,600				116,600
	Total	\$ 182,138	\$ 89,573	\$ 49,150	\$ 23,320	\$ 344,181

NOTE 10 - SEGMENT INFORMATION:

The City maintains two enterprise funds that provide water and sewer services. Segment information for the year ended June 30, 2021, is as follows:

	WATER	SEWAGE DISPOSAL	TOTAL ENTERPRISE FUNDS
Operating revenue	\$ 1,617,708	\$ 1,575,188	\$ 3,192,896
Depreciation & amortization expense	233,491	649,252	882,743
Operating income (loss)	752,370	(32,548)	719,822
Change in net position	761,178	(64,933)	696,245
Property, plant & equipment:			
Additions	309,841	158,208	468,049
Dispositions	-	-	-
Net working capital (deficit)	1,891,300	1,041,894	2,933,194
Total identifiable assets	7,293,679	10,998,263	18,291,942
Total net position	6,098,718	8,025,664	14,124,382

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, 2021, future lease payments under this lease are as follows:

June 30, 2022	\$ 3,588
June 30, 2023	3,588
June 30, 2024	2,691
	\$ 9,867

CITY OF CARO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

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, 2021, the City's property tax revenue for general operations were reduced by \$683 under this program. There were no significant abatements entered into by other governmental units.

NOTE 14 – FEDERAL FUNDING:

The City is an indirect beneficiary of federal funds that are expended directly by the Michigan Department of Transportation. These expenditures are included in the single audit for the State of Michigan. Therefore, these funds are not subject to single audit by the City.

NOTE 15 – NEW ACCOUNTING STANDARD:

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, establishes criteria for identify 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. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. The City of Caro has one fund that meets this criteria, the *custodial tax collection fund*, which is presented in the statement of fiduciary net position and a statement of changes in fiduciary net position.

NOTE 16 – UPCOMING ACCOUNTING PRONOUNCEMENTS:

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017. 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. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2021-2022 fiscal year.

In May 2020, the GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2022-2023 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CARO
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2021

	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
REVENUES:				
Taxes	\$ 1,619,129	\$ 1,516,850	\$ 1,516,286	\$ (564)
Licenses & permits	3,870	5,527	5,554	27
Intergovernmental revenue:				
Federal	-	90,678	90,677	(1)
State	350,000	379,345	459,488	80,143
Charges for services	56,110	125,513	121,886	(3,627)
Fines & forfeitures	3,000	14,527	15,307	780
Miscellaneous	31,600	85,658	111,776	26,118
TOTAL REVENUES	2,063,709	2,218,098	2,320,974	102,876
EXPENDITURES:				
Legislative	38,113	42,663	33,681	8,982
Elections	18,770	19,606	16,495	3,111
Board of review	2,779	3,400	2,993	407
Assessor	32,075	32,120	31,567	553
Executive	115,947	121,942	98,533	23,409
Clerk/Treasurer	98,905	108,755	97,375	11,380
Industrial park	370	370	355	15
Buildings & grounds	598,875	670,655	647,225	23,430
Historical center	16,170	16,748	8,123	8,625
Police department	713,520	809,333	724,630	84,703
Planning & zoning	49,993	58,519	59,376	(857)
Public works department	198,596	257,739	249,207	8,532
Recreation department	510,736	514,910	450,683	64,227
Community promotion	141,701	145,212	44,019	101,193
TOTAL EXPENDITURES	2,536,550	2,801,972	2,464,262	337,710
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(472,841)	(583,874)	(143,288)	440,586
OTHER FINANCING SOURCES (USES):				
Transfers in	10,000	33,320	23,320	(10,000)
Transfers out	(65,538)	(182,138)	(182,138)	-
TOTAL OTHER FINANCING SOURCES (USES):	(55,538)	(148,818)	(158,818)	(10,000)
NET CHANGE IN FUND BALANCE	\$ (528,379)	\$ (732,692)	(302,106)	\$ 430,586
FUND BALANCE - JULY 1			3,546,176	
FUND BALANCE - JUNE 30			\$ 3,244,070	

CITY OF CARO
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET & TRUNKLINE FUND
YEAR ENDED JUNE 30, 2021

	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
REVENUES:				
Taxes	\$ 87,700	\$ 87,783	\$ 87,782	\$ (1)
Intergovernmental revenue	725,000	1,096,110	642,413	(453,697)
Miscellaneous	1,600	2,260	15,208	12,948
TOTAL REVENUES	814,300	1,186,153	745,403	(440,750)
EXPENDITURES:				
Construction	1,219,035	905,530	1,000,063	(94,533)
Routine maintenance - street & storm sewers	75,486	77,320	58,041	19,279
Trees & shrubs	-	-	48	(48)
Snow & ice controls	22,491	29,625	20,742	8,883
Sweeping & flushing	9,443	11,520	7,882	3,638
Draining, signs & signals	-	69	29	40
Administrative	37,525	43,366	38,578	4,788
TOTAL EXPENDITURES	1,363,980	1,067,430	1,125,383	(57,953)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(549,680)	118,723	(379,980)	(498,703)
OTHER FINANCING SOURCES (USES):				
Transfers out	(82,500)	(82,500)	(89,573)	(7,073)
NET CHANGE IN FUND BALANCE	\$ (632,180)	\$ 36,223	(469,553)	\$ (505,776)
FUND BALANCE - JULY 1			1,800,449	
FUND BALANCE - JUNE 30			\$ 1,330,896	

CITY OF CARO
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET FUND
YEAR ENDED JUNE 30, 2021

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUES:				
Taxes	\$ 43,650	\$ 43,696	\$ 43,696	\$ -
Intergovernmental revenue	382,000	395,949	167,480	(228,469)
Miscellaneous	250	618	4,320	3,702
TOTAL REVENUES	<u>425,900</u>	<u>440,263</u>	<u>215,496</u>	<u>(224,767)</u>
EXPENDITURES:				
Construction - street & storm sewers	1,500	1,500	-	1,500
Routine maintenance - street & storm sewers	637,394	1,110,193	135,781	974,412
Administrative	36,912	37,439	30,804	6,635
TOTAL EXPENDITURES	<u>675,806</u>	<u>1,149,132</u>	<u>166,585</u>	<u>982,547</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(249,906)</u>	<u>(708,869)</u>	<u>48,911</u>	<u>757,780</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	<u>82,500</u>	<u>82,500</u>	<u>89,573</u>	<u>7,073</u>
NET CHANGE IN FUND BALANCE	<u><u>\$(167,406)</u></u>	<u><u>\$(626,369)</u></u>	<u>138,484</u>	<u><u>\$ 764,853</u></u>
FUND BALANCE - JULY 1			<u>353,773</u>	
FUND BALANCE - JUNE 30			<u><u>\$ 492,257</u></u>	

CITY OF CARO
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
REFUSE/SANITATION FUND
YEAR ENDED JUNE 30, 2021

	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
REVENUES:				
Charges for services	\$ 400,000	\$ 411,842	\$ 413,804	\$ 1,962
Miscellaneous	<u>5,000</u>	<u>9,593</u>	<u>11,581</u>	<u>1,988</u>
TOTAL REVENUES	<u>405,000</u>	<u>421,435</u>	<u>425,385</u>	<u>3,950</u>
EXPENDITURES:				
Sanitation:				
Wages and benefits	34,295	40,797	38,499	2,298
Contracted services	390,758	409,279	409,278	1
Miscellaneous	<u>14,381</u>	<u>14,381</u>	<u>12,805</u>	<u>1,576</u>
TOTAL EXPENDITURES	<u>439,434</u>	<u>464,457</u>	<u>460,582</u>	<u>3,875</u>
NET CHANGE IN FUND BALANCE	<u>\$ (34,434)</u>	<u>\$ (43,022)</u>	(35,197)	<u>\$ 7,825</u>
FUND BALANCE - JULY 1			<u>311,913</u>	
FUND BALANCE - JUNE 30			<u>\$ 276,716</u>	

CITY OF CARO
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FIRE FUND
YEAR ENDED JUNE 30, 2021

	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
REVENUES:				
Charges for services	\$108,465	\$ 108,470	\$ 108,467	\$ (3)
Intergovernmental revenue	-	25,000	25,000	-
Miscellaneous	900	1,830	3,692	1,862
TOTAL REVENUES	109,365	135,300	137,159	1,859
EXPENDITURES:				
Fire:				
Wages and benefits	75,450	116,337	116,618	(281)
Contracted services	33,540	33,579	27,688	5,891
Capital outlay	28,300	28,300	15,431	12,869
Insurance	21,685	21,685	20,794	891
Administrative expense	10,000	10,000	10,000	-
Miscellaneous	37,544	43,443	30,805	12,638
TOTAL EXPENDITURES	206,519	253,344	221,336	32,008
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(97,154)	(118,044)	(84,177)	33,867
OTHER FINANCING SOURCES (USES):				
Transfers in	65,538	66,538	65,538	(1,000)
Transfers out	(49,150)	(49,151)	(49,150)	1
NET CHANGE IN FUND BALANCE	\$ (80,766)	\$ (100,657)	(67,789)	\$ 32,868
FUND BALANCE - JULY 1			160,619	
FUND BALANCE - JUNE 30			<u>\$ 92,830</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>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY:							
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,752
Interest	78,595	76,981	74,917	71,285	76,234	75,657	85,869
Changes of benefit terms	-	-	-	-	-	-	-
Difference between expected and actual experience	(227,751)	2,929	5,859	8,605	7,223	3,626	(722)
Change of assumptions	(88,405)	(51,854)	43,216	(83,957)	112,409	(24,713)	27,164
Benefit payments (including refunds of employee contributions)	<u>(89,538)</u>	<u>(86,552)</u>	<u>(85,557)</u>	<u>(85,557)</u>	<u>(85,557)</u>	<u>(87,043)</u>	<u>(74,581)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	(327,099)	(58,496)	38,435	(89,624)	110,309	(32,473)	46,482
TOTAL PENSION LIABILITY - BEGINNING OF YEAR	<u>1,399,869</u>	<u>1,458,365</u>	<u>1,419,930</u>	<u>1,509,554</u>	<u>1,399,245</u>	<u>1,431,718</u>	<u>1,385,236</u>
TOTAL PENSION LIABILITY - END OF YEAR (a)	1,072,770	1,399,869	1,458,365	1,419,930	1,509,554	1,399,245	1,431,718
PLAN FIDUCIARY NET POSITION:							
Contributions - employer	-	-	-	-	-	-	-
Contributions - employee	-	-	-	-	-	-	836
Net investment income	105,705	54,778	126,051	169,541	25,203	78,375	177,393
Benefit payments (including refunds of employee contributions)	(89,538)	(86,552)	(85,557)	(85,557)	(85,557)	(87,043)	(74,581)
Administrative expenses	(14,488)	(14,548)	(14,955)	(14,370)	(14,214)	(15,015)	(14,833)
Other	-	-	-	-	-	-	-
NET CHANGE IN FIDUCIARY NET POSITION	1,679	(46,322)	25,539	69,614	(74,568)	(23,683)	88,815
PLAN FIDUCIARY NET POSITION - BEGINNING OF YEAR	<u>1,626,713</u>	<u>1,673,035</u>	<u>1,647,496</u>	<u>1,577,882</u>	<u>1,652,450</u>	<u>1,676,133</u>	<u>1,587,318</u>
PLAN FIDUCIARY NET POSITION - END OF YEAR (b)	<u>1,628,392</u>	<u>1,626,713</u>	<u>1,673,035</u>	<u>1,647,496</u>	<u>1,577,882</u>	<u>1,652,450</u>	<u>1,676,133</u>
NET PENSION LIABILITY - ENDING (a)-(b)	<u><u>\$(555,622)</u></u>	<u><u>\$(226,844)</u></u>	<u><u>\$(214,670)</u></u>	<u><u>\$(227,566)</u></u>	<u><u>\$(68,328)</u></u>	<u><u>\$(253,205)</u></u>	<u><u>\$(244,415)</u></u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	151.79%	116.20%	114.72%	116.03%	104.53%	118.10%	117.07%
COVERED EMPLOYEE PAYROLL	-	-	-	-	-	-	-
NET PENSION LIABILITY AS PERCENTAGE OF PAYROLL	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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>2021</u>	<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%	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, 2021

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

Changes of assumptions: Mortality table changed for post-retirement as in IRS regulations 1.430(h)(3). Mortality improvements will be reflected annually.

ADDITIONAL SUPPLEMENTARY INFORMATION

CITY OF CARO
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2021

	<u>SPECIAL REVENUE</u>			<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
	<u>DEBT SERVICE</u>	<u>MUNICIPAL STREET</u>	<u>DRUG FORFEITURE</u>	
<u>ASSETS</u>				
Cash and cash equivalents	\$ -	\$ 458,941	\$ 358	\$ 459,299
Accounts receivable	-	27,526	-	27,526
Taxes receivable	-	3,799	-	3,799
Prepaid expenditures	-	500	-	500
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 490,766</u>	<u>\$ 358</u>	<u>\$ 491,124</u>
<u>LIABILITIES & FUND BALANCES</u>				
Liabilities:				
Unearned revenue	\$ -	\$ 27,526	\$ -	\$ 27,526
Total Liabilities	-	27,526	-	27,526
Fund Balances:				
Nonspendable for prepaid	-	500	-	500
Restricted for:				
Streets		462,740		462,740
Drug forfeiture			358	358
Total Fund Balances	-	463,240	358	463,598
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 490,766</u>	<u>\$ 358</u>	<u>\$ 491,124</u>

CITY OF CARO
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2021

	<u>SPECIAL REVENUE</u>			<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
	<u>DEBT SERVICE</u>	<u>MUNICIPAL STREET</u>	<u>DRUG FORFEITURE</u>	
REVENUES:				
Miscellaneous	\$ -	\$ 49,608	\$ 4	\$ 49,612
TOTAL REVENUES	<u>-</u>	<u>49,608</u>	<u>4</u>	<u>49,612</u>
EXPENDITURES:				
Streets		328,628		328,628
Debt Service:				
Principal	36,000			36,000
Interest	13,150			13,150
TOTAL EXPENDITURES	<u>49,150</u>	<u>328,628</u>	<u>-</u>	<u>377,778</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(49,150)</u>	<u>(279,020)</u>	<u>4</u>	<u>(328,166)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	49,150	-	-	49,150
TOTAL OTHER FINANCING SOURCES (USES)	<u>49,150</u>	<u>-</u>	<u>-</u>	<u>49,150</u>
NET CHANGE IN FUND BALANCES	-	(279,020)	4	(279,016)
FUND BALANCES - JULY 1	<u>-</u>	<u>742,260</u>	<u>354</u>	<u>742,614</u>
FUND BALANCES - JUNE 30	<u>\$ -</u>	<u>\$ 463,240</u>	<u>\$ 358</u>	<u>\$ 463,598</u>

CITY OF CARO
GOVERNMENTAL COMPONENT UNITS
BALANCE SHEET
JUNE 30, 2021

**DOWNTOWN
DEVELOPMENT
AUTHORITY**

ASSETS

Cash and cash equivalents	\$	239,425
Prepaid expenditures		1,300
		<hr/>
TOTAL ASSETS	\$	<u>240,725</u>

LIABILITIES & FUND BALANCE

Liabilities:		
Unearned revenue	\$	404
		<hr/>
Total Liabilities		<hr/> 404
Fund Balance:		
Nonspendable for prepaid		1,300
Restricted		158,239
Assigned for subsequent year expenditures		80,782
		<hr/>
Total Fund Balance		<hr/> 240,321
TOTAL LIABILITIES & FUND BALANCE	\$	<u>240,725</u>

CITY OF CARO
GOVERNMENTAL COMPONENT UNITS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2021

DOWNTOWN DEVELOPMENT AUTHORITY

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES:			
Taxes	\$ 132,131	\$ 132,127	\$ (4)
Federal grants	920,000	766,200	(153,800)
Miscellaneous	<u>1,605</u>	<u>5,541</u>	<u>3,936</u>
TOTAL REVENUES	<u>1,053,736</u>	<u>903,868</u>	<u>(149,868)</u>
EXPENDITURES:			
Contract services	950,705	858,028	92,677
Miscellaneous	185,150	85,310	99,840
Future projects	<u>80,000</u>	<u>4,472</u>	<u>75,528</u>
TOTAL EXPENDITURES	<u>1,215,855</u>	<u>947,810</u>	<u>268,045</u>
NET CHANGE IN FUND BALANCE	<u><u>\$(162,119)</u></u>	(43,942)	<u><u>\$ 118,177</u></u>
FUND BALANCE - JULY 1		<u>284,263</u>	
FUND BALANCE - JUNE 30		<u><u>\$ 240,321</u></u>	

CITY OF CARO
MAJOR STREET AND TRUNKLINE AND LOCAL STREET FUNDS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2021

	<u>MAJOR STREET & TRUNKLINE</u>	<u>LOCAL STREET</u>
EXPENDITURES:		
Construction - roads, streets & storm sewers:		
Labor	\$ 59	\$ -
Benefits	25	-
Contracted services	<u>999,979</u>	<u>-</u>
Total Construction - road, streets & storm sewers	<u>1,000,063</u>	<u>-</u>
Routine Maintenance - streets & storm sewers		
Labor	9,108	33,270
Benefits	3,275	12,908
Equipment rent	25,012	52,500
Materials	10,425	13,299
Contracted services	<u>10,221</u>	<u>23,804</u>
Total Routine Maintenance - streets & storm sewers	<u>58,041</u>	<u>135,781</u>
Trees & Shrubs:		
Benefits	<u>48</u>	<u>-</u>
Total Trees & Shrubs	<u>48</u>	<u>-</u>
Snow & Ice Control:		
Labor	4,556	-
Benefits	1,506	-
Contracted services	2,806	-
Equipment rent	<u>11,874</u>	<u>-</u>
Total Snow & Ice Control	<u>20,742</u>	<u>-</u>
Sweeping & Flushing:		
Labor	1,516	-
Benefits	531	-
Equipment rent	<u>5,835</u>	<u>-</u>
Total Sweeping & Flushing	<u>7,882</u>	<u>-</u>
Drainage, Signs & Signals:		
Labor	22	-
Benefits	<u>7</u>	<u>-</u>
Total Drainage, Signs & Signals	<u>29</u>	<u>-</u>
Administration:		
General fund administration	35,947	28,578
Contracted services	757	757
Insurance	<u>1,874</u>	<u>1,469</u>
Total Administration	<u>38,578</u>	<u>30,804</u>
TOTAL EXPENDITURES	<u><u>\$ 1,125,383</u></u>	<u><u>\$ 166,585</u></u>

CITY OF CARO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2021

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Grantor's Number	Federal Expenditures
U.S. Department of Housing and Urban Development Passed through Michigan Economic Development Corporation Community Development Block Grant	14.228	MSC 218033-CDI	\$ 766,200
U.S. Department of Treasury Passed through Michigan Department of Treasury Coronavirus Relief Fund COVID-19 Public Safety and Public Health Payroll Reimbursement	21.019	N/A	60,991
COVID-19 Coronavirus Relief Local Government Grants	21.019	N/A	22,686
COVID-19 First Responder Hazard Pay Premiums Program	21.019	N/A	<u>32,000</u>
Total U.S. Department of Treasury			<u>115,677</u>
Total Expenditures of Federal Awards			<u>\$ 881,877</u>

Note: There were no funds that were provided to subrecipients from the above programs.

The accompanying notes are an integral part of this schedule.

CITY OF CARO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2021

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the City of Caro under programs of the federal government for the year ended June 30, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City of Caro, it is not intended to and does not present the financial position or changes in net position of the City of Caro.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. The City of Caro has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 - Reconciliation With Audited Financial Statements

Federal expenditures are reported as revenue in the following funds in the basic financial statements at June 30, 2021:

Governmental Activities:	
General Fund	\$ 90,677
Major Street Fund	237,586
Fire Fund	25,000
Component Unit:	
DDA	<u>766,200</u>
Total federal revenue in fund financial statements	\$ 1,119,463
Less: Federal funding not subject to the single audit act	<u>(237,586)</u>
Expenditures per schedule of federal awards	<u>\$ 881,877</u>



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**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
Caro, MI 48723

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 unit, 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, 2021, 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 28, 2021.

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 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 did identify a certain deficiency in internal control, described as 2021-001 in the accompanying schedule of findings and questioned costs, that we consider to be a significant deficiency.

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* which are described in the accompanying schedule of findings and questioned costs as item 2021-001.

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 questioned costs. The 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 28, 2021



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Members of the Council
City of Caro
Caro, MI 48723

Report on Compliance for Each Major Federal Program

We have audited the City of Caro's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Caro's major federal programs for the year ended June 30, 2021. City of Caro's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, contracts, and the terms and conditions of its federal awards to each of its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Caro's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Caro's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our unmodified opinion on compliance for major federal programs. However, our audit does not provide a legal determination of City of Caro's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Caro complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of the City of Caro is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Caro's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Caro's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing on the requirements of the Uniform Guidance. Accordingly, this report 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 28, 2021

CITY OF CARO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued based on financial statements prepared in accordance with generally accepted accounting principles:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes _____None reported
- Noncompliance material to financial statements noted? _____Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____Yes X No
- Significant deficiency(ies) identified that are not Considered to be material weaknesses? _____Yes X None reported

Type of auditor’s report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with Title 2 CFR 200.516(a)? _____Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.228

Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B Programs: \$750,000

Auditee qualified as low-risk auditee? _____Yes X No

CITY OF CARO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021

Section II – Financial Statement Findings

Finding 2021-001 – Considered a significant deficiency

Criteria:

At the close of the year, the City had some unfavorable variances in their budget to actual revenue and expenditures.

Condition:

Some expenditures were in excess of the amounts that the council had approved in its budget. PA 2 of 1968 requires that a deviation from the original general appropriations act shall not be made without amending the budget. Additionally, some revenues were not amended to reflect actual.

Cause:

The budget was not amended to reflect reduced revenues and additional expenditures incurred during the year.

Effect:

This condition can reduce the effectiveness of budget controls by the council. If the budget as approved by the council is not followed, then it can no longer function to control expenditures of the government.

Recommendation:

We recommend that the City closely monitor revenues and expenditures throughout the year and amend the budget when necessary to avoid unfavorable variances.

Client Response:

We will closely monitor the budget to actual comparison throughout the year to identify variances and take appropriate action when necessary.

Section III – Federal Award Findings and Questioned Costs

None

CITY OF CARO

MANAGER
MATTHEW LANE
CLERK
RITA PAPP
TREASURER
MICHELE PERRY
ATTORNEY
LAURA GENOVICH

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MAYOR
JOE GREENE
CITY COUNCIL
BOB ESCHENBACHER
DON HALL
TISHA JONES-HOLUBEC
JILL WHITE
EMILY CAMPBELL
KORY BATSCHKE

CITY OF CARO CORRECTIVE ACTION PLAN YEAR ENDED JUNE 30, 2021

City of Caro respectfully submits the following corrective action plan for the year ended June 30, 2021.

Auditor: Anderson, Tuckey, Bernhardt & Doran, PC
715 E Frank St
Caro, MI 48723

Audit Period: Year ended June 30, 2021

Responsible individual to implement this plan: Matthew Lane, City Manager

The finding from the June 30, 2021 schedule of findings and questioned costs are discussed below. The finding is numbered consistently with the number assigned in the schedule.

Finding – Financial statement audit

Finding 2021-001 – Significant Deficiency

Recommendation: The City should closely monitor revenues and expenditures throughout the year and amend the budget when necessary to avoid unfavorable variances.

Action to be taken: Management agrees with the finding and is implementing procedures to prevent this in the future.

CITY OF CARO
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2021

There was no single audit in either of the prior two years.



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

Certified Public Accountants

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Bryan M. McShane, CPA

To the Members of the Council
City of Caro

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Caro for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

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. During the year, the City implemented Governmental Accounting Standard Board Statement No. 84, *Fiduciary Activities*. The application of existing policies was not changed during 2021. 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 estimates affecting the financial statements were:

Estimates have been used to calculate the net pension asset. It is based on an actuarial study which utilized certain actuarial assumptions.

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 clearly 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 28, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City 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 and 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.

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

December 28, 2021