
City of Gibraltar, Michigan

**Financial Report
with Supplemental Information
June 30, 2021**

| | |
|---|-------|
| Independent Auditor's Report | 1-2 |
| Management's Discussion and Analysis | 3-5 |
| Basic Financial Statements | |
| Government-wide Financial Statements: | |
| Statement of Net Position | 6 |
| Statement of Activities | 7-8 |
| Fund Financial Statements: | |
| Governmental Funds: | |
| Balance Sheet | 9 |
| Reconciliation of the Balance Sheet to the Statement of Net Position | 10 |
| Statement of Revenue, Expenditures, and Changes in Fund Balances | 11 |
| Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities | 12 |
| Proprietary Fund: | |
| Statement of Net Position | 13 |
| Statement of Revenue, Expenses, and Changes in Net Position | 14 |
| Statement of Cash Flows | 15 |
| Fiduciary Funds: | |
| Statement of Fiduciary Net Position | 16 |
| Statement of Changes in Fiduciary Net Position | 17 |
| Notes to Financial Statements | 18-47 |
| Required Supplemental Information | 48 |
| Budgetary Comparison Schedule - General Fund | 49 |
| Schedule of Changes in the Net Pension Asset and Related Ratios - General Employees' Retirement System | 50 |
| Schedule of City Contributions - General Employees' Retirement System | 51 |
| Schedule of Investment Returns - General Employees' Retirement System | 52 |
| Schedule of Changes in the Net Pension Asset and Related Ratios - Public Safety Officers' Retirement System | 53 |
| Schedule of City Contributions - Public Safety Officers' Retirement System | 54 |
| Schedule of Investment Returns - Public Safety Officers' Retirement System | 55 |
| Schedule of Changes in the Net OPEB Liability and Related Ratios | 56 |
| Schedule of OPEB Contributions | 57 |
| Schedule of OPEB Investment Returns | 58 |
| Notes to Required Supplemental Information | 59-60 |
| Other Supplemental Information | 61 |
| Nonmajor Governmental Funds: | |
| Combining Balance Sheet | 62 |
| Combining Statement of Revenue, Expenditures, and Changes in Fund Balances | 63 |
| Fiduciary Funds: | |
| Statement of Fiduciary Net Position | 64 |
| Statement of Changes in Fiduciary Net Position | 65 |

Independent Auditor's Report

To the City Council
City of Gibraltar, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2021, the City adopted the new accounting pronouncement called Governmental Accounting Standards Board No. 84, *Fiduciary Activities*, which provides guidance on the identification and reporting of fiduciary activities. Our opinion is not modified with respect to this matter.

To the City Council
City of Gibraltar, Michigan

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental 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, which 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 supplemental 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 Supplemental Information

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

The other supplemental 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

October 12, 2021

The following discussion and analysis of the City of Gibraltar, Michigan's (the "City") 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 basic 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:

- Property taxes are the City's single largest source of revenue. The City's taxable value for fiscal year 2020-2021 increased modestly from approximately \$140 million to approximately \$145 million. The City's operating millage decreased to 14.6488 due to a Headlee millage reduction. The operating property tax revenue increased by approximately \$39,000.

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 the reader 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. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City's Net Position

| | Governmental Activities | | Business-type Activities | | Total | |
|---------------------------------------|-------------------------|-------------------|--------------------------|---------------------|----------------------|---------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Assets | | | | | | |
| Current and other assets | \$ 7,549,651 | \$ 4,716,585 | \$ 5,369,611 | \$ 5,872,060 | \$ 12,919,262 | \$ 10,588,645 |
| Capital assets | 7,386,787 | 7,120,476 | 9,085,698 | 8,779,262 | 16,472,485 | 15,899,738 |
| Total assets | 14,936,438 | 11,837,061 | 14,455,309 | 14,651,322 | 29,391,747 | 26,488,383 |
| Deferred Outflows of Resources | 240,327 | 464,672 | - | - | 240,327 | 464,672 |
| Liabilities | | | | | | |
| Current liabilities | 122,884 | 234,459 | 423,597 | 93,895 | 546,481 | 328,354 |
| Noncurrent liabilities | 9,109,608 | 10,255,483 | 4,900,620 | 5,210,517 | 14,010,228 | 15,466,000 |
| Total liabilities | 9,232,492 | 10,489,942 | 5,324,217 | 5,304,412 | 14,556,709 | 15,794,354 |
| Deferred Inflows of Resources | 3,423,232 | 1,382,148 | - | - | 3,423,232 | 1,382,148 |
| Net Position | | | | | | |
| Net investment in capital assets | 4,045,108 | 3,507,209 | 7,884,591 | 7,538,870 | 11,929,699 | 11,046,079 |
| Restricted | 927,174 | 726,869 | - | - | 927,174 | 726,869 |
| Unrestricted | (2,517,807) | (3,804,435) | 1,211,843 | 1,808,040 | (1,305,964) | (1,996,395) |
| Total net position | \$ 2,454,475 | \$ 429,643 | \$ 9,096,434 | \$ 9,346,910 | \$ 11,550,909 | \$ 9,776,553 |

The City has a combined net position of \$11,550,909, increasing roughly \$1.8 million from 2020. Business-type activities comprise \$9,096,434 of total net position, which is a decrease of approximately \$250,000. Governmental activities net position increased approximately \$2 million to \$2,454,475.

City of Gibraltar, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net position during the current and prior year:

The City's Changes in Net Position

| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------------|-------------------------|-------------------|--------------------------|---------------------|---------------------|------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Revenue | | | | | | |
| Program revenue: | | | | | | |
| Charges for services | \$ 393,226 | \$ 274,249 | \$ 2,143,599 | \$ 2,170,687 | \$ 2,536,825 | \$ 2,444,936 |
| Operating grants | 673,401 | 495,163 | - | - | 673,401 | 495,163 |
| Capital contributions | - | 81,935 | - | - | - | 81,935 |
| General revenue: | | | | | | |
| Property taxes | 2,536,726 | 2,489,117 | - | - | 2,536,726 | 2,489,117 |
| State-shared revenue | 879,143 | 798,251 | - | - | 879,143 | 798,251 |
| Investment earnings | 20,214 | 62,192 | 3,548 | 17,738 | 23,762 | 79,930 |
| Other revenue (expenses) | 8,772 | 8,614 | - | - | 8,772 | 8,614 |
| Total revenue | 4,511,482 | 4,209,521 | 2,147,147 | 2,188,425 | 6,658,629 | 6,397,946 |
| Expenses | | | | | | |
| General government | 844,299 | 854,321 | - | - | 844,299 | 854,321 |
| Public safety | 574,247 | 1,496,765 | - | - | 574,247 | 1,496,765 |
| Public works | 845,083 | 1,220,505 | - | - | 845,083 | 1,220,505 |
| Community and economic development | 47,354 | 76,066 | - | - | 47,354 | 76,066 |
| Parks and recreation | 73,683 | 79,334 | - | - | 73,683 | 79,334 |
| Debt service | 101,984 | 107,750 | - | - | 101,984 | 107,750 |
| Water and Sewer Fund | - | - | 2,397,623 | 2,533,450 | 2,397,623 | 2,533,450 |
| Total expenses | 2,486,650 | 3,834,741 | 2,397,623 | 2,533,450 | 4,884,273 | 6,368,191 |
| Change in Net Position | \$ 2,024,832 | \$ 374,780 | \$ (250,476) | \$ (345,025) | \$ 1,774,356 | \$ 29,755 |

Governmental Activities

During the current year, the City's total governmental revenue increased by approximately \$302,000. The increase is primarily due to increases in operating grants and charges for services.

Governmental expenses decreased by approximately \$1.3 million primarily due to reductions in public safety and public works expenses related to pension and OPEB. In the current year, the City had a total pension recovery of \$(527,562) and a total OPEB recovery of \$(521,130) compared to prior year total pension expense of \$267,004 and a total OPEB recovery of \$(192,015). The net impact was an expense reduction of \$1,123,681 in the current year. See Notes 8 and 9 for additional information.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. The City provides water to residents from the Great Lakes Water Authority water system. The City provides sewage treatment through the South Huron Valley Utility Authority. The Water and Sewer Fund's revenue decreased by approximately \$41,000, primarily due to reductions in water and sewer usage. The Water and Sewer Fund's expenses decreased by approximately \$136,000, primarily due to lower operating expenses.

The City's Funds

The analysis of the City's major fund begins with the governmental funds balance sheet, following 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. The City's only major fund in 2021 was the General Fund.

The General Fund pays for most of the City's governmental services. The most significant services relate to general government, public safety, and the public works department, which incurred expenses of approximately \$894,000, \$2,400,000, and \$477,000, respectively, in the current year.

Within these governmental funds, the General Fund is the most significant to understanding the City's financial activities. In addition, the Water and Sewer Fund is a significant enterprise activity for the City. A brief analysis of the General Fund is presented below:

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. Overall General Fund expenses were under budget by approximately 7 percent, and revenue was approximately 1 percent over budget.

Capital Assets and Debt Administration

The City continues to collect and dedicate the millage revenue approved by the voters in November 2013 and 2002 for bond payments related to improvements to streets and the construction of the new municipal complex, respectively.

At the end of 2021, the City had approximately \$16,500,000 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, roads, and water and sewer lines. In the current year, the City had approximately \$1,500,000 of assets additions, which included a new fire truck and various infrastructure improvements.

At the end of 2021, the City approximately \$8,300,000 of outstanding debt (\$3,400,000 governmental activities and \$4,900,000 business type activities). No new debt was issued during the year.

Economic Factors and Next Year's Budgets and Rates

Because of the impact of Proposal A on the taxable value of properties located within the City, the City needs to continue to watch its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow by less than inflation before considering new property additions. The City has taken numerous actions to contain expenditures and will continue to look for cost-saving opportunities while continuing to provide high-quality service to residents.

Requests for Further Information

This financial report is intended to provide a general overview of the City's finances and demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, please contact the administration offices at city hall. This report, city budgets, and other financial information are available on the City's website at www.cityofgibraltar.net.

June 30, 2021

| | Primary Government | | | Component Unit |
|--|-------------------------|--------------------------|----------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Assets | | | | |
| Cash and cash equivalents (Note 2) | \$ 3,401,885 | \$ 959,538 | \$ 4,361,423 | \$ 188,961 |
| Receivables (Note 3) | 298,411 | 506,907 | 805,318 | - |
| Internal balances | 37,156 | (37,156) | - | - |
| Prepaid expenses | 126,549 | 78,155 | 204,704 | - |
| Restricted assets (Note 1) | - | 3,699,513 | 3,699,513 | - |
| Investment in joint ventures (Note 10) | 105,800 | 162,654 | 268,454 | - |
| Net pension asset (Note 8) | 3,579,850 | - | 3,579,850 | - |
| Capital assets (Note 4): | | | | |
| Assets not subject to depreciation | 346,859 | 296,619 | 643,478 | 834,731 |
| Assets subject to depreciation - Net | 7,039,928 | 8,789,079 | 15,829,007 | 1,995,786 |
| Total assets | 14,936,438 | 14,455,309 | 29,391,747 | 3,019,478 |
| Deferred Outflows of Resources | | | | |
| Deferred charges on bond refunding | 93,321 | - | 93,321 | 31,421 |
| Deferred pension costs (Note 8) | 30,191 | - | 30,191 | - |
| Deferred OPEB costs (Note 9) | 116,815 | - | 116,815 | - |
| Total deferred outflows of resources | 240,327 | - | 240,327 | 31,421 |
| Total assets and deferred outflows of resources | 15,176,765 | 14,455,309 | 29,632,074 | 3,050,899 |
| Liabilities | | | | |
| Accounts payable | 122,884 | 423,597 | 546,481 | 2,620 |
| Accrued liabilities and other | 66,566 | 34,658 | 101,224 | 3,549 |
| Noncurrent liabilities (Note 6): | | | | |
| Due within one year: | | | | |
| Compensated absences | 39,132 | - | 39,132 | - |
| Current portion of long-term debt | 270,000 | 201,796 | 471,796 | 250,000 |
| Due in more than one year: | | | | |
| Compensated absences | 265,449 | - | 265,449 | - |
| Net OPEB obligation (Note 9) | 5,370,027 | - | 5,370,027 | - |
| Long-term debt - Net of current portion | 3,165,000 | 4,698,824 | 7,863,824 | 525,000 |
| Total liabilities | 9,299,058 | 5,358,875 | 14,657,933 | 781,169 |
| Deferred Inflows of Resources | | | | |
| Deferred pension cost reductions (Note 8) | 2,401,550 | - | 2,401,550 | - |
| Deferred OPEB cost reductions (Note 9) | 1,021,682 | - | 1,021,682 | - |
| Total deferred inflows of resources | 3,423,232 | - | 3,423,232 | - |
| Total liabilities and deferred inflows of resources | 12,722,290 | 5,358,875 | 18,081,165 | 781,169 |
| Net Position | | | | |
| Net investment in capital assets | 4,045,108 | 7,884,591 | 11,929,699 | 2,086,938 |
| Restricted: | | | | |
| Streets and highways | 797,696 | - | 797,696 | - |
| Debt service | 107,716 | - | 107,716 | - |
| Police | 15,379 | - | 15,379 | - |
| Cable TV | 6,383 | - | 6,383 | - |
| Unrestricted | (2,517,807) | 1,211,843 | (1,305,964) | 182,792 |
| Total net position | \$ 2,454,475 | \$ 9,096,434 | \$ 11,550,909 | \$ 2,269,730 |

City of Gibraltar, Michigan

| Functions/Programs | Program Revenue | | | |
|--|---------------------|----------------------|------------------------------------|----------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 844,299 | \$ 207,474 | \$ 61,743 | \$ - |
| Public safety | 574,247 | 173,896 | 92,004 | - |
| Public works | 845,083 | 4,840 | 512,184 | - |
| Community and economic development | 47,354 | 276 | 7,470 | - |
| Parks and recreation | 73,683 | 6,740 | - | - |
| Interest on long-term debt | 101,984 | - | - | - |
| Total governmental activities | 2,486,650 | 393,226 | 673,401 | - |
| Business-type activities - Water and sewer | 2,397,623 | 2,143,599 | - | - |
| Total primary government | <u>\$ 4,884,273</u> | <u>\$ 2,536,825</u> | <u>\$ 673,401</u> | <u>\$ -</u> |
| Component units - Downtown Development Authority | <u>\$ 311,317</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| General revenue: | | | | |
| Property taxes | | | | |
| State-shared revenue | | | | |
| Investment income | | | | |
| Cable franchise fees | | | | |
| Other miscellaneous income | | | | |
| Total general revenue | | | | |
| Change in Net Position | | | | |
| Net Position - Beginning of year | | | | |
| Net Position - End of year | | | | |

Statement of Activities

Year Ended June 30, 2021

| Net (Expense) Revenue and Changes in Net Position | | | |
|---|-----------------------------|----------------------|---------------------|
| Primary Government | | | |
| Governmental Activities | Business-type Activities | Total | Component Unit |
| \$ (575,082) | \$ - | \$ (575,082) | \$ - |
| (308,347) | - | (308,347) | - |
| (328,059) | - | (328,059) | - |
| (39,608) | - | (39,608) | - |
| (66,943) | - | (66,943) | - |
| (101,984) | - | (101,984) | - |
| (1,420,023) | - | (1,420,023) | - |
| - | (254,024) | (254,024) | - |
| (1,420,023) | (254,024) | (1,674,047) | - |
| - | - | - | (311,317) |
| 2,536,726 | - | 2,536,726 | 509,546 |
| 879,143 | - | 879,143 | - |
| 20,214 | 3,548 | 23,762 | 1,013 |
| 8,182 | - | 8,182 | - |
| 590 | - | 590 | 1,676 |
| 3,444,855 | 3,548 | 3,448,403 | 512,235 |
| 2,024,832 | (250,476) | 1,774,356 | 200,918 |
| 429,643 | 9,346,910 | 9,776,553 | 2,068,812 |
| \$ 2,454,475 | \$ 9,096,434 | \$ 11,550,909 | \$ 2,269,730 |

Governmental Funds
Balance Sheet

June 30, 2021

| | General Fund | Nonmajor Funds | Total Governmental Funds |
|--|---------------------|---------------------|--------------------------------|
| Assets | | | |
| Cash and cash equivalents (Note 2) | \$ 2,520,910 | \$ 880,975 | \$ 3,401,885 |
| Receivables (Note 3) | 212,787 | 85,624 | 298,411 |
| Due from other funds (Note 5) | 80,874 | 64,842 | 145,716 |
| Prepaid expenses | 126,549 | - | 126,549 |
| | <u>\$ 2,941,120</u> | <u>\$ 1,031,441</u> | <u>\$ 3,972,561</u> |
| Total assets | | | |
| Liabilities | | | |
| Accounts payable | \$ 66,570 | \$ 56,314 | \$ 122,884 |
| Due to other funds | 60,607 | 47,953 | 108,560 |
| Accrued liabilities and other | 41,065 | - | 41,065 |
| | <u>168,242</u> | <u>104,267</u> | <u>272,509</u> |
| Total liabilities | | | |
| Deferred Inflows of Resources - Unavailable revenue | 103,242 | - | 103,242 |
| Fund Balances | | | |
| Nonspendable - Prepaids | 126,549 | - | 126,549 |
| Restricted: | | | |
| Roads | - | 797,696 | 797,696 |
| Police | - | 15,379 | 15,379 |
| Debt service | - | 107,716 | 107,716 |
| Cable TV | - | 6,383 | 6,383 |
| Assigned: | | | |
| Capital projects | 883,614 | - | 883,614 |
| Compensated absences | 56,556 | - | 56,556 |
| Unassigned | 1,602,917 | - | 1,602,917 |
| | <u>2,669,636</u> | <u>927,174</u> | <u>3,596,810</u> |
| Total fund balances | | | |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 2,941,120</u> | <u>\$ 1,031,441</u> | <u>\$ 3,972,561</u> |

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position

June 30, 2021

| | |
|--|-----------------------------------|
| Fund Balances Reported in Governmental Funds | \$ 3,596,810 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | 7,386,787 |
| Receivables that are not collected soon after year end are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds | 103,242 |
| Investments in joint ventures are not financial resources and are not reported in the funds | 105,800 |
| Long-term debt obligations are not due and payable in the current period and are not reported in the funds | (3,341,679) |
| Accrued interest is not due and payable in the current period and is not reported in the funds | (25,501) |
| Some employee fringe benefits are payable (benefits) over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities/assets: | |
| Employee compensated absences | (304,581) |
| Pension benefits | 1,208,491 |
| Retiree health care benefits | (6,274,894) |
| Net Position of Governmental Activities | <u><u>\$ 2,454,475</u></u> |

Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2021

| | <u>General Fund</u> | <u>Nonmajor Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------------|--------------------------|---|
| Revenue | | | |
| Taxes | \$ 2,159,696 | \$ 377,030 | \$ 2,536,726 |
| Intergovernmental: | | | |
| Federal grants | 149,274 | - | 149,274 |
| State sources | 916,888 | 536,102 | 1,452,990 |
| Charges for services | 80,491 | - | 80,491 |
| Fines and forfeitures | 6,960 | 110 | 7,070 |
| Licenses and permits | 4,445 | - | 4,445 |
| Interest | 15,947 | 4,267 | 20,214 |
| Other revenue | 207,694 | 8,182 | 215,876 |
| | <u>3,541,395</u> | <u>925,691</u> | <u>4,467,086</u> |
| Total revenue | | | |
| Expenditures | | | |
| Current services: | | | |
| General government | 894,004 | 998 | 895,002 |
| Public safety | 2,409,511 | - | 2,409,511 |
| Public works | 477,351 | 319,915 | 797,266 |
| Community and economic development | - | 29,494 | 29,494 |
| Parks and recreation | 44,412 | - | 44,412 |
| Debt service | - | 374,979 | 374,979 |
| | <u>3,825,278</u> | <u>725,386</u> | <u>4,550,664</u> |
| Total expenditures | | | |
| Net Change in Fund Balances | (283,883) | 200,305 | (83,578) |
| Fund Balances - Beginning of year | 2,953,519 | 726,869 | 3,680,388 |
| Fund Balances - End of year | <u><u>\$ 2,669,636</u></u> | <u><u>\$ 927,174</u></u> | <u><u>\$ 3,596,810</u></u> |

Governmental Funds

**Reconciliation of the Statement of Revenue, Expenditures, and Changes in
Fund Balances to the Statement of Activities**

Year Ended June 30, 2021

| | |
|--|-----------------------------------|
| Net Change in Fund Balances Reported in Governmental Funds | \$ (83,578) |
| 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, these costs are allocated over their estimated useful lives as depreciation: | |
| Capital outlay and capital contribution | 757,069 |
| Depreciation expense | (490,758) |
| Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available | 44,396 |
| Repayment of bond principal is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt) | 271,588 |
| Interest expense and bond refunding loss is recognized in the government-wide statements as it accrues or amortizes | 1,407 |
| Some employee costs (pension, OPEB, and compensated absences) do not require the use of current financial resources and, therefore, are not reported in the governmental funds | 1,529,956 |
| Net change in investment in joint venture reported in the statement of activities | <u>(5,248)</u> |
| Change in Net Position of Governmental Activities | <u><u>\$ 2,024,832</u></u> |

**Proprietary Fund
Statement of Net Position**

June 30, 2021

Water and
Sewer Fund

Assets

Current assets:

| | |
|------------------------------------|---------------|
| Cash and cash equivalents (Note 2) | \$ 959,538 |
| Receivables (Note 3) | 506,907 |
| Prepaid expenses | <u>78,155</u> |

Total current assets 1,544,600

Noncurrent assets:

| | |
|--|------------------|
| Restricted assets | 3,699,513 |
| Investment in joint ventures (Note 10) | 162,654 |
| Capital assets (Note 4): | |
| Assets not subject to depreciation | 296,619 |
| Assets subject to depreciation - Net | <u>8,789,079</u> |

Total noncurrent assets 12,947,865

Total assets 14,492,465

Liabilities

Current liabilities:

| | |
|--|----------------|
| Accounts payable | 423,597 |
| Due to other funds | 37,156 |
| Accrued liabilities and other | 34,658 |
| Current portion of long-term debt (Note 6) | <u>201,796</u> |

Total current liabilities 697,207

Noncurrent liabilities - Long-term debt - Net of current portion (Note 6) 4,698,824

Total liabilities 5,396,031

Net Position

| | |
|----------------------------------|------------------|
| Net investment in capital assets | 7,884,591 |
| Unrestricted | <u>1,211,843</u> |

Total net position \$ 9,096,434

Proprietary Fund
Statement of Revenue, Expenses, and Changes in Net Position

Year Ended June 30, 2021

| | <u>Water and Sewer Fund</u> |
|---|---------------------------------|
| Operating Revenue | |
| Sale of water | \$ 880,617 |
| Sewage disposal charges | <u>1,262,982</u> |
| Total operating revenue | 2,143,599 |
| Operating Expenses | |
| Cost of water | 372,250 |
| Cost of sewage treatment | 1,038,868 |
| Other operating and maintenance costs | 451,423 |
| Depreciation | <u>422,957</u> |
| Total operating expenses | <u>2,285,498</u> |
| Operating Loss | (141,899) |
| Nonoperating Revenue (Expense) | |
| Investment income | 3,548 |
| Income from joint venture | (44,827) |
| Interest expense | <u>(67,298)</u> |
| Total nonoperating expense | <u>(108,577)</u> |
| Change in Net Position | (250,476) |
| Net Position - Beginning of year | <u>9,346,910</u> |
| Net Position - End of year | <u><u>\$ 9,096,434</u></u> |

Proprietary Fund
Statement of Cash Flows

Year Ended June 30, 2021

| | <u>Water and Sewer Fund</u> |
|--|---------------------------------|
| Cash Flows from Operating Activities | |
| Receipts from customers | \$ 2,176,306 |
| Payments to suppliers | (1,302,301) |
| Payments to other funds | <u>(305,466)</u> |
| Net cash and cash equivalents provided by operating activities | 568,539 |
| Cash Flows from Capital and Related Financing Activities | |
| Purchase of capital assets | (458,781) |
| Principal and interest paid on capital debt | <u>(374,073)</u> |
| Net cash and cash equivalents used in capital and related financing activities | (832,854) |
| Cash Flows Provided by Investing Activities - Interest received on investments | <u>3,548</u> |
| Net Decrease in Cash and Cash Equivalents | (260,767) |
| Cash and Cash Equivalents - Beginning of year | <u>1,220,305</u> |
| Cash and Cash Equivalents - End of year | <u>\$ 959,538</u> |
| Classification of Cash and Cash Equivalents - Cash and cash equivalents | <u>\$ 959,538</u> |
| Reconciliation of Operating Loss to Net Cash from Operating Activities | |
| Operating loss | \$ (141,899) |
| Adjustments to reconcile operating loss to net cash from operating activities: | |
| Depreciation | 422,957 |
| Changes in assets and liabilities: | |
| Receivables | 32,707 |
| Due to and from other funds | (28,309) |
| Prepaid and other assets | (78,155) |
| Accounts payable | <u>361,238</u> |
| Total adjustments | <u>710,438</u> |
| Net cash and cash equivalents provided by operating activities | <u>\$ 568,539</u> |
| Significant Noncash Transactions | |
| Loss from equity interest in a joint venture in the South Huron Valley Utility Authority (SHVUA) | \$ (44,827) |
| Capital assets purchased with restricted assets held by SHVUA | 270,612 |

Fiduciary Funds
Statement of Fiduciary Net Position

June 30, 2021

| | Pension and Other Employee Benefit Funds | Custodial Fund - Property Tax Collection Fund | Total Fiduciary Funds |
|--|--|---|--------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 454,114 | \$ 50,473 | \$ 504,587 |
| Investments: | | | |
| Pooled funds - Fixed income | 876,122 | - | 876,122 |
| Pooled funds - Equity | 1,416,711 | - | 1,416,711 |
| ETF - Equity | 6,531,630 | - | 6,531,630 |
| Mutual funds - Equity | 1,965,217 | - | 1,965,217 |
| Mutual funds - Fixed income | 3,436,951 | - | 3,436,951 |
| Receivables - Accrued interest | 2,045 | - | 2,045 |
| Total assets | 14,682,790 | 50,473 | 14,733,263 |
| Liabilities - Due to other governmental units | - | 50,473 | 50,473 |
| Net Position - Restricted | | | |
| Pension | 13,924,215 | - | 13,924,215 |
| Postemployment benefits other than pension | 758,575 | - | 758,575 |
| Total net position | \$ 14,682,790 | \$ - | \$ 14,682,790 |

Fiduciary Funds
Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2021

| | Pension and Other Employee Benefit Funds | Custodial Fund - Property Tax Collection Fund | Total Fiduciary Funds |
|---|--|---|--------------------------|
| Additions | | | |
| Investment income (loss): | | | |
| Interest and dividends | \$ 379,044 | \$ - | \$ 379,044 |
| Net increase in fair value of investments | 3,108,109 | - | 3,108,109 |
| Investment costs | (28,211) | - | (28,211) |
| Net investment income | 3,458,942 | - | 3,458,942 |
| Contributions: | | | |
| Employer contributions | 418,462 | - | 418,462 |
| Employee contributions | 55,109 | - | 55,109 |
| Total contributions | 473,571 | - | 473,571 |
| Property tax collections | - | 4,850,888 | 4,850,888 |
| Total additions | 3,932,513 | 4,850,888 | 8,783,401 |
| Deductions | | | |
| Benefit payments | 876,733 | - | 876,733 |
| Administrative expenses | 63,640 | - | 63,640 |
| Tax distributions to other governments | - | 4,850,888 | 4,850,888 |
| Total deductions | 940,373 | 4,850,888 | 5,791,261 |
| Net Increase in Fiduciary Net Position | 2,992,140 | - | 2,992,140 |
| Net Position - Beginning of year | 11,690,650 | - | 11,690,650 |
| Net Position - End of year | \$ 14,682,790 | \$ - | \$ 14,682,790 |

Note 1 - Significant Accounting Policies

Accounting and Reporting Principles

The City of Gibraltar, Michigan (the "City") follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies used by the City.

Reporting Entity

The City of Gibraltar, Michigan is governed by an elected six-member council and mayor. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Discretely Presented Component Unit - Downtown Development Authority

The Downtown Development Authority (the "DDA") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The DDA's governing body, which consists of nine individuals, is approved by the City Council. In addition, the DDA's budget is subject to approval by the City Council. The DDA does not issue separate financial statements.

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue 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 statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenue are reported instead as general revenue.

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Note 1 - Significant Accounting Policies (Continued)

Fund Accounting

The City accounts for its various activities in several different funds in order to demonstrate accountability for how we have spent certain resources; separate funds allow us to show the particular expenditures for which specific revenue was used. The various funds are aggregated into three broad fund types:

Governmental Funds

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, and capital project funds. The City reports the following fund as a major governmental fund:

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.

Proprietary Funds

Proprietary funds include the enterprise fund (which provides goods or services to users in exchange for charges or fees). The City reports the following fund as a major enterprise fund:

- The Water and Sewer Fund provides water to customers and disposes of sanitary sewage in exchange for quarterly user charges.

Fiduciary Funds

Fiduciary funds include amounts held in a fiduciary capacity for others. The amounts will not be used to operate our government's programs. Activities that are reported as fiduciary funds include the following:

- The Pension Trust Fund accounts for resources set aside by the City to provide retirement benefits for its employees in accordance with resolutions, ordinances, employee agreements, and union contracts.
- The Retiree Health Care Fund, which was established in compliance with Public Act 149 of 1999, accounts for the accumulated resources that have been set aside to fund postretirement health care costs.
- The custodial fund collects tax on behalf of all the taxing authorities (state, county, school district, and various other smaller authorities) and remits the taxes to each authority.

Interfund Activity

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

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

Note 1 - Significant Accounting Policies (Continued)

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree health care-related costs or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenue is not recognized until it is collected or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the City considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a deferred inflow.

Proprietary funds and fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Specific Balances and Transactions

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Investments

Investments are reported at fair value or estimated fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Restricted assets consist of cash held by the South Huron Valley Utility Authority totaling \$3,699,513. These assets are unspent bond proceeds restricted for capital improvements of the sewer system.

Capital Assets

Capital assets, which include property, plant, equipment, intangible assets, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Note 1 - Significant Accounting Policies (Continued)

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Infrastructure, intangibles, buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | Depreciable Life - Years |
|----------------------------|-----------------------------|
| Roads and sidewalks | 10-25 |
| Water and sewer lines | 50-75 |
| Buildings and improvements | 40 |
| Vehicles | 3-10 |
| Furniture and equipment | 5-15 |

Long-term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method; bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as other financing sources, as well as bond premiums and discounts. The General Fund, Water and Sewer Fund, and debt service funds are generally used to liquidate long-term debt.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The City has three items that qualify for reporting in this category. First is the deferred charge on refunding that results from the differences in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The City's governmental activities report deferred outflows of resources related to pensions and OPEB, as discussed in Notes 8 and 9.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category. Unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from two sources: grants and state-shared revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City's governmental activities report deferred inflows of resources related to pensions and OPEB, as discussed in Notes 8 and 9.

Net Position

Net position of the City is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position represents resources legally restricted by legislation to be spent for its intended purpose. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

June 30, 2021

Note 1 - Significant Accounting Policies (Continued)

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

Fund Balance Flow Assumptions

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

Fund Balance Policies

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

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

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council has by resolution authorized the finance director to assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally exist only 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.

Property Tax Revenue

Property taxes are levied on each December 31 and become an enforceable lien on July 1 of the following year; these taxes are due without penalty during the period from July 1 through August 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed. They are then added to the county rolls. The tax is based on the taxable valuation of property as of the preceding December 31.

The City's 2020 property tax revenue was levied and collectible on July 1, 2020 and is recognized as revenue in the year ended June 30, 2021 when the proceeds of the levy are budgeted and available for the financing of operations.

Note 1 - Significant Accounting Policies (Continued)

The 2020 taxable valuation of the City totaled \$145.1 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 14.6488 mills for operating purposes, 1.72 mills for solid waste services, and 2.6040 mills for debt service. This resulted in approximately \$1,848,000 for operating purposes, \$217,000 for solid waste services, and \$377,000 for debt service. These amounts are recognized in the respective General Fund and debt service fund financial statements as tax revenue.

The City does not have any significant tax abatements.

Pension

The City offers a defined benefit pension plan to its employees. The City records a net pension asset for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose 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 pension trust funds and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. 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.

Other Postemployment Benefit Costs

The City offers retiree health care benefits to retirees. The City records a net OPEB liability for the difference between the total OPEB liability calculated by the actuary and the OPEB plan's fiduciary net position. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City of Gibraltar Retiree Medical Plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Sick and vacation pay is accrued when earned. All sick and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. Generally, the General Fund is used to liquidate the obligations.

Proprietary Funds Operating Classification

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue 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 revenue of the Water and Sewer Fund and internal service funds is charges to customers for sales and services. The Water and Sewer Fund also recognizes 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 include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Note 1 - Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Upcoming Accounting Pronouncements

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the City's financial statements for the year ended June 30, 2020 but were extended to June 30, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that, in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement were originally effective for the City's financial statements for the year ended June 30, 2021 but were extended to June 30, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. This statement addresses eight unrelated practice issues and technical inconsistencies in authoritative literature. The standard addresses leases, intraentity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The standard has various effective dates. The City does not believe this pronouncement will have a significant impact on its financial statements but is still making a full evaluation.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. While this standard had certain aspects impacting defined contribution pension and OPEB plans and other employee benefit plans that were effective immediately, it also clarifies when a 457 should be considered a pension plan or an other employee benefit plan to assist in the application of GASB Statement No. 84 to these types of plans. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement related to 457 plans are effective for the City's financial statements for the year ending June 30, 2022.

June 30, 2021

Note 1 - Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncement

During the current year, the City adopted GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying and reporting fiduciary activities. As a result of implementing this standard, the custodial fund now reports additions and deductions within the fiduciary statement of changes in net position, which were not previously reported. In addition, the City's fire escrow funds that were previously reported in an agency fund have been reported as part of the City's General Fund. Beginning balances were not modified as a result of adoption of this standard.

Note 2 - Deposits and Investments

Deposits and investments are reported in the financial statements as follows:

| | Governmental Activities | Business-type Activities | Total | Fiduciary | Component Unit |
|--------------------------------|----------------------------|-----------------------------|---------------------|----------------------|-------------------|
| Cash and cash equivalents | \$ 3,401,885 | \$ 959,538 | \$ 4,361,423 | \$ 504,587 | \$ 188,961 |
| Investments | - | - | - | 14,226,631 | - |
| Restricted cash | - | 3,699,513 | 3,699,513 | - | - |
| Total deposits and investments | <u>\$ 3,401,885</u> | <u>\$ 4,659,051</u> | <u>\$ 8,060,936</u> | <u>\$ 14,731,218</u> | <u>\$ 188,961</u> |

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the State of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications that matures no more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Pension Trust Fund and Retiree Health Care Fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated deposits and investment policies are in accordance with statutory authority banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in those investment vehicles listed above under the state statutory authority.

June 30, 2021

Note 2 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$4,266,165 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. At year end, the Downtown Development Authority had \$188,961 of bank deposits that were uninsured and uncollateralized. The City believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity.

At year end, the City had the following investments:

| Investment | Fair Value | Weighted- average Maturity (Years) |
|-----------------------------|---------------------|--|
| Fiduciary Funds | | |
| Pooled funds - Fixed income | \$ 876,122 | 8.35 |
| Mutual funds - Fixed income | 2,701,024 | 4.50 |
| Mutual funds - Fixed income | 395,927 | 6.40 |
| Mutual funds - Fixed income | <u>340,000</u> | 4.75 |
| Total | <u>\$ 4,313,073</u> | |

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

| Investment | Fair Value | Rating | Rating Organization |
|-----------------------------|---------------------|-----------|------------------------|
| Fiduciary Funds | | | |
| Pooled funds - Fixed income | \$ 876,122 | Not rated | Not rated |
| Mutual funds - Fixed income | 2,701,024 | Not rated | Not rated |
| Mutual funds - Fixed income | 395,927 | Not rated | Not rated |
| Mutual funds - Fixed income | <u>340,000</u> | Not rated | Not rated |
| Total | <u>\$ 4,313,073</u> | | |

June 30, 2021

Note 2 - Deposits and Investments (Continued)

Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The City has the following recurring fair value measurements as of June 30, 2021:

| | Assets Measured at Fair Value on a Recurring Basis at June 30, 2021 | | | |
|-----------------------------|--|--|--|-----------------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at June 30, 2021 |
| Debt securities: | | | | |
| Pooled funds - Fixed income | \$ - | \$ 876,122 | \$ - | \$ 876,122 |
| Mutual funds - Fixed income | 3,436,951 | - | - | 3,436,951 |
| Total debt securities | 3,436,951 | 876,122 | - | 4,313,073 |
| Equity securities: | | | | |
| ETF - Equity | 6,531,630 | - | - | 6,531,630 |
| Mutual funds - Equity | 1,965,217 | - | - | 1,965,217 |
| Pooled funds - Equity | - | 1,416,711 | - | 1,416,711 |
| Total equity securities | 8,496,847 | 1,416,711 | - | 9,913,558 |
| Total assets | \$ 11,933,798 | \$ 2,292,833 | \$ - | \$ 14,226,631 |

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of the pooled funds (fixed income and equity) investment at June 30, 2021 was determined based on Level 2 inputs. The City estimates the fair value of these investments using model-based valuation techniques, for which all significant assumptions are observable in the market.

June 30, 2021

Note 3 - Receivables

Receivables as of June 30, 2021 for the City's individual major funds and the nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | Primary Government | | | |
|----------------------------|-------------------------|------------------|-------------------|--------------------------|
| | Governmental Activities | | | Business-type Activities |
| | General Fund | Nonmajor Funds | Total | Water and Sewer Fund |
| Receivables: | | | | |
| Customer receivables | \$ - | \$ - | \$ - | \$ 506,907 |
| Other receivables | 42,601 | 1,759 | 44,360 | - |
| Due from other governments | 170,186 | 83,865 | 254,051 | - |
| Net receivables | <u>\$ 212,787</u> | <u>\$ 85,624</u> | <u>\$ 298,411</u> | <u>\$ 506,907</u> |

Note 4 - Capital Assets

Capital asset activity of the City's governmental, business-type, and component unit activities was as follows:

Governmental Activities

| | Balance July 1, 2020 | Reclassifications | Additions | Disposals and Adjustments | Balance June 30, 2021 |
|--|-------------------------|-------------------|-------------------|------------------------------|--------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 253,337 | \$ - | \$ - | \$ - | \$ 253,337 |
| Construction in progress | 117,204 | (117,204) | 93,522 | - | 93,522 |
| Subtotal | 370,541 | (117,204) | 93,522 | - | 346,859 |
| Capital assets being depreciated: | | | | | |
| Roads and sidewalks | 9,264,468 | - | - | - | 9,264,468 |
| Buildings and improvements | 3,968,060 | 117,204 | - | - | 4,085,264 |
| Furniture and equipment | 1,166,052 | - | 74,583 | - | 1,240,635 |
| Vehicles | 2,401,408 | - | 588,964 | - | 2,990,372 |
| Subtotal | 16,799,988 | 117,204 | 663,547 | - | 17,580,739 |
| Accumulated depreciation: | | | | | |
| Roads and sidewalks | 5,421,589 | - | 287,385 | - | 5,708,974 |
| Buildings and improvements | 1,653,574 | - | 93,985 | - | 1,747,559 |
| Machinery and equipment | 952,072 | - | 34,461 | - | 986,533 |
| Vehicles | 2,022,818 | - | 74,927 | - | 2,097,745 |
| Subtotal | 10,050,053 | - | 490,758 | - | 10,540,811 |
| Net capital assets being depreciated | 6,749,935 | 117,204 | 172,789 | - | 7,039,928 |
| Net governmental activities capital assets | <u>\$ 7,120,476</u> | <u>\$ -</u> | <u>\$ 266,311</u> | <u>\$ -</u> | <u>\$ 7,386,787</u> |

June 30, 2021

Note 4 - Capital Assets (Continued)

Business-type Activities

| | Balance July 1, 2020 | Reclassifications | Additions | Disposals and Adjustments | Balance June 30, 2021 |
|---|-------------------------|-------------------|-------------------|------------------------------|--------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 26,007 | \$ - | \$ - | \$ - | \$ 26,007 |
| Construction in progress | - | - | 270,612 | - | 270,612 |
| Subtotal | 26,007 | - | 270,612 | - | 296,619 |
| Capital assets being depreciated: | | | | | |
| Water and sewer distribution system | 16,995,112 | - | 458,781 | - | 17,453,893 |
| Vehicles | 687,238 | - | - | - | 687,238 |
| Subtotal | 17,682,350 | - | 458,781 | - | 18,141,131 |
| Accumulated depreciation | 8,929,095 | - | 422,957 | - | 9,352,052 |
| Net capital assets being depreciated | 8,753,255 | - | 35,824 | - | 8,789,079 |
| Net business-type activities capital assets | <u>\$ 8,779,262</u> | <u>\$ -</u> | <u>\$ 306,436</u> | <u>\$ -</u> | <u>\$ 9,085,698</u> |

Component Unit

| | Balance July 1, 2020 | Reclassifications | Additions | Disposals and Adjustments | Balance June 30, 2021 |
|---|-------------------------|-------------------|--------------------|------------------------------|--------------------------|
| Capital assets not being depreciated - Land | \$ 834,731 | \$ - | \$ - | \$ - | \$ 834,731 |
| Capital assets being depreciated: | | | | | |
| Roads and sidewalks | 114,154 | - | - | - | 114,154 |
| Buildings and improvements | 2,996,915 | - | - | 2 | 2,996,917 |
| Vehicles | 336,160 | - | - | - | 336,160 |
| Subtotal | 3,447,229 | - | - | 2 | 3,447,231 |
| Accumulated depreciation: | | | | | |
| Roads and sidewalks | 44,890 | - | 4,566 | - | 49,456 |
| Buildings and improvements | 1,074,158 | - | 67,810 | - | 1,141,968 |
| Vehicles | 252,106 | - | 7,913 | 2 | 260,021 |
| Subtotal | 1,371,154 | - | 80,289 | 2 | 1,451,445 |
| Net capital assets being depreciated | 2,076,075 | - | (80,289) | - | 1,995,786 |
| Net component unit capital assets | <u>\$ 2,910,806</u> | <u>\$ -</u> | <u>\$ (80,289)</u> | <u>\$ -</u> | <u>\$ 2,830,517</u> |

June 30, 2021

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

| | | |
|-------------------------------|--|----------------|
| Governmental activities: | | |
| General government | | \$ 67,778 |
| Public safety | | 45,749 |
| Public works | | 347,960 |
| Economic development | | 29,271 |
| | | <u>490,758</u> |
| Total governmental activities | | \$ 490,758 |
| Business-type activities | | \$ 422,957 |
| Component unit activities | | \$ 80,289 |

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| Receivable Fund | Payable Fund | Amount |
|-----------------|----------------------|------------|
| General Fund | Water and Sewer Fund | \$ 37,156 |
| | Nonmajor funds | 43,718 |
| | Total General Fund | 80,874 |
| Nonmajor funds | General Fund | 60,607 |
| | Nonmajor funds | 4,235 |
| | Total nonmajor funds | 64,842 |
| | Total | \$ 145,716 |

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

| Paying Fund (Transfer Out) | Receiving Fund (Transfer In) | Amount |
|----------------------------|------------------------------|------------|
| Nonmajor funds | Nonmajor funds | \$ 100,000 |

June 30, 2021

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

The transfers from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenue in accordance with Act 51.

Note 6 - Long-term Debt

Long-term debt activity for the year ended June 30, 2021 can be summarized as follows:

Governmental Activities

| | Interest Rate Ranges | Principal Maturity Ranges | Beginning Balance | Additions | Reductions | Ending Balance | Due within One Year |
|---|----------------------------|---------------------------------|----------------------|------------------|---------------------|---------------------|------------------------|
| Bonds and contracts payable: | | | | | | | |
| Direct borrowings - | | | | | | | |
| Installment purchase agreement - Caterpillar Backhoe \$65,056 | | | | | | | |
| | | | \$ 13,766 | \$ - | \$ (13,766) | \$ - | \$ - |
| Other debt: | | | | | | | |
| General Obligation Unlimited Tax Refunding Bonds - \$2,720,000 through 2034 | | | | | | | |
| | 2.00 - 3.50% | \$115,000 - \$195,000 | 2,050,000 | - | (115,000) | 1,935,000 | 115,000 |
| General Obligation Unlimited Tax Bonds - \$2,400,000 through 2029 | | | | | | | |
| | 2.00 - 3.50% | \$155,000 - \$220,000 | 1,650,000 | - | (150,000) | 1,500,000 | 155,000 |
| Total other debt principal outstanding | | | 3,700,000 | - | (265,000) | 3,435,000 | 270,000 |
| Total bonds and contracts payable | | | 3,713,766 | - | (278,766) | 3,435,000 | 270,000 |
| Compensated absences | | | 321,210 | 73,321 | (89,950) | 304,581 | 39,132 |
| Total governmental activities long-term debt | | | <u>\$ 4,034,976</u> | <u>\$ 73,321</u> | <u>\$ (368,716)</u> | <u>\$ 3,739,581</u> | <u>\$ 309,132</u> |

June 30, 2021

Note 6 - Long-term Debt (Continued)

Business-type Activities

| | Interest Rate Ranges | Principal Maturity Ranges | Beginning Balance | Additions | Reductions | Ending Balance | Due within One Year |
|---|----------------------------|---------------------------------|----------------------|-------------|---------------------|---------------------|------------------------|
| Bonds and contracts payable | | | | | | | |
| Direct borrowings and direct placements: | | | | | | | |
| 1998 SHVUA Sewer System Plant Expansion: | | | | | | | |
| Amount of issue: \$1,137,791 | | | | | | | |
| Matured in 2021 | | | \$ 72,674 | \$ - | \$ (72,674) | \$ - | \$ - |
| 2004 SHVUA Sewer System Plant Expansion: | | | | | | | |
| Amount of issue: \$1,523,882 | | | | | | | |
| Maturing through 2026 | 2.125% | \$85,119 - \$92,557 | 527,243 | - | (83,466) | 443,777 | 85,119 |
| 2011 SHVUA Sewer System - Trenton Arm Bonds: | | | | | | | |
| Amount of issue: \$330,801 | | | | | | | |
| Maturing through 2031 | 2.50% | \$18,489 - \$34,497 | 215,891 | - | (15,990) | 199,901 | 18,489 |
| 2016 SHVUA Sewer System Biodeck Conversion Project Bonds: | | | | | | | |
| Amount of issue: \$372,240 | | | | | | | |
| Maturing through 2026 | 2.95% | \$37,224 | 223,344 | - | (37,224) | 186,120 | 37,224 |
| 2020 SHVUA Sewage Improvement and Refunding Bonds: | | | | | | | |
| Amount of Issue: \$3,481,509 | | | | | | | |
| Maturing through 2042 | 3.00 - 5.00% | \$60,964 - \$259,297 | 3,481,509 | - | (59,663) | 3,421,846 | 60,964 |
| Installment purchase agreement - Caterpillar Backhoe | | | 9,976 | - | (9,976) | - | - |
| Total direct borrowings and direct placements principal outstanding | | | 4,530,637 | - | (278,993) | 4,251,644 | 201,796 |
| Unamortized bond premiums | | | 679,880 | - | (30,904) | 648,976 | - |
| Total business-type activities long-term debt | | | <u>\$ 5,210,517</u> | <u>\$ -</u> | <u>\$ (309,897)</u> | <u>\$ 4,900,620</u> | <u>\$ 201,796</u> |

Component Unit - Downtown Development Authority

| | Interest Rate Ranges | Principal Maturity Ranges | Beginning Balance | Additions | Reductions | Ending Balance | Due within One Year |
|--|----------------------------|---------------------------------|----------------------|-----------|--------------|-------------------|------------------------|
| Bonds and contracts payable | | | | | | | |
| Other debt - General Obligation Limited Tax Bonds: | | | | | | | |
| Amount of issue: \$2,350,000 | | | | | | | |
| Maturing through 2024 | 2.00 - 2.75% | \$250,000 - \$265,000 | \$ 1,015,000 | \$ - | \$ (240,000) | \$ 775,000 | \$ 250,000 |

June 30, 2021

Note 6 - Long-term Debt (Continued)

The City's governmental activities had deferred outflows of \$93,321 related to deferred charges on bond refundings at June 30, 2021. The component unit had deferred outflows of \$31,421 related to deferred charges on bond refundings at June 30, 2021.

Debt Service Requirements to Maturity

Total interest expense for the year was approximately \$216,000. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

| Years Ending June 30 | Governmental Activities | | | Component Unit Activities | | |
|-------------------------|-------------------------|-------------------|---------------------|---------------------------|------------------|-------------------|
| | Other Debt | | | Other Debt | | |
| | Principal | Interest | Total | Principal | Interest | Total |
| 2022 | \$ 270,000 | \$ 103,494 | \$ 373,494 | \$ 250,000 | \$ 17,875 | \$ 267,875 |
| 2023 | 285,000 | 95,756 | 380,756 | 260,000 | 10,863 | 270,863 |
| 2024 | 295,000 | 87,356 | 382,356 | 265,000 | 3,644 | 268,644 |
| 2025 | 315,000 | 78,206 | 393,206 | - | - | - |
| 2026 | 325,000 | 68,606 | 393,606 | - | - | - |
| 2027-2031 | 1,395,000 | 192,388 | 1,587,388 | - | - | - |
| Thereafter | 550,000 | 29,575 | 579,575 | - | - | - |
| Total | \$ 3,435,000 | \$ 655,381 | \$ 4,090,381 | \$ 775,000 | \$ 32,382 | \$ 807,382 |

The above contractual obligations of South Huron Valley Utility Authority (SHVUA) are the result of the authority's issuance of bonds on the City's behalf. The City has pledged substantially all revenue of the Water and Sewer Fund, net of operating expenses, to repay the obligations. Proceeds from the authority bonds provide financing for the improvement of the utility system. During the current year, net revenue of the system was \$281,058 compared to annual debt requirements of \$336,315.

Assets Pledged as Collateral

Direct Borrowings and Direct Placements

The City's outstanding installment purchase agreement related to the governmental activities and business-type activities is secured with collateral of the Caterpillar Backhoe that was purchased with the proceeds from the installment purchase agreement. This installment purchase agreement was fully paid off in 2021.

Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation and participates in the Michigan Municipal Risk Management Authority (the "Authority") risk pool for general and property claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

Note 8 - Pension Plans

Plan Description

The City of Gibraltar, Michigan provides a monthly retirement benefit (with alternative lump-sum payment options) to employees who meet the eligibility requirements established by contractual agreements between the City and the various employee union representation. The benefits are provided through the General Employees' Retirement System (the "GE Retirement System"), a single-employer defined benefit pension plan administered by the General Employees' Retirement Pension Board, and the Public Safety Officers' Retirement System (the "P&F Retirement System"), a single-employer defined benefit pension plan administered by the Public Safety Officers' Retirement System Retirement Board.

The financial statements of the plans are included in these financial statements as pension and other employee benefit trust funds (fiduciary funds).

Management of the GE Retirement System is vested in the General Employees' Retirement Pension Board (the "GE Pension Board"), which consists of five members: the city treasurer, two union members (elected by members of the union), one citizen of the City (appointed by the City Council), and legal counsel (appointed by the City Council). Management of the P&F Retirement System is vested in the Public Safety Officers' Retirement System Retirement Board (the "P&F Pension Board"), which consists of five members: the city treasurer; a police member (elected by members of the police department); a fire member (elected by the fire department); and two citizens of the City of Gibraltar, Michigan (appointed by the mayor).

The City of Gibraltar, Michigan also contributes to the 401(k) plan, a defined contribution pension plan administered by the City for employees hired after January 1, 2012. The benefits are administered by a third party retained by the City.

Benefits Provided

General Employees' Retirement System

The GE Retirement System provides retirement, disability, and death benefits. Benefit terms are established by contractual agreements between the City and the various employee union representation; amendments are subject to the same process. The benefits are defined as follows:

June 30, 2021

Note 8 - Pension Plans (Continued)

Normal Retirement

Teamsters Union: 0.5 percent of average monthly compensation multiplied by years of participation prior to July 1, 1991 plus 1.0 percent of average monthly compensation in excess of \$350 multiplied by years of participation prior to July 1, 1991 plus 2.5 percent of average monthly compensation multiplied by years of participation after June 30, 1991 to date of termination or retirement.

Office Workers' Union: first 25 years of participation: 0.5 percent of average monthly compensation multiplied by years of participation prior to July 1, 1987 plus 1.0 percent of average monthly compensation in excess of \$350 multiplied by years of participation prior to July 1, 1987 plus 2.25 percent of average monthly compensation multiplied by years of participation from July 1, 1987 to June 30, 1998 plus 2.5 percent of average monthly compensation multiplied by years of participation after June 30, 1998 to date of termination or retirement, plus, if applicable, for years of participation greater than 25 but less than 30 years: 1 percent of average monthly compensation for each year of participation in excess of 25 but less than 30 years. As of the valuation date, all active employees are members of the Teamsters Union.

Early Retirement

Accrued benefit payable at normal retirement date or a benefit reduced by 6 percent for each year early retirement precedes normal retirement.

Disability

A total of 100 percent of the accrued benefit at date of disability. Actuarial equivalent reduction for payment prior to normal retirement.

Preretirement Death Benefit

Lump sum payable upon death of participant. Option for qualified preretirement survivor annuity is payable to the surviving spouse unless it is waived with spousal consent.

Vested Retirement Benefit

Teamsters Union: 10 percent per year of service commencing in the 5th year; 100 percent vesting in the 14th year.

Office Workers' Union: 10 percent per year of service; 100 percent in the 10th year.

Public Safety Officers' Retirement System

The P&F Retirement System provides retirement, disability, and death benefits. Benefit terms are established by contractual agreements between the City and the various employee union representation; amendments are subject to the same process. The benefits are defined as follows:

Service Retirement

Annual amount: Straight-life pension equals 2.7 percent of three-year average final compensation (AFC) multiplied by first 25 years of service plus 1 percent of AFC multiplied by years of service in excess of 25 years with a maximum benefit payable of 70 percent of AFC.

Deferred Retirement

Annual amount: Service retirement but based on service, AFC, and benefit in effect at termination. Benefit begins at the date retirement would have occurred had the member remained in employment.

Death after Retirement Survivor's Pension

Annual amount: Spouse's pension equals 60 percent of the straight-life pension the deceased retiree was receiving.

June 30, 2021

Note 8 - Pension Plans (Continued)

Nonduty Death-in-service Survivor's Pension

Annual amount: Accrued straight-life pension actuarially reduced in accordance with an Option I election.

Duty Death-in-service Survivor's Pension

Annual amount: Same amount that was paid by workers' compensation.

Nonduty Disability

Annual amount: To age 55, 1.5 percent of AFC times years of service. At age 55, same as service retirement pension.

Duty Disability

Annual amount: To age 55, 50 percent of AFC. At age 55, same as service retirement pension with service credit from date of disability to age 55.

Benefit terms have been established by contractual agreements between the City and the various employee union representation; amendments are subject to the same process.

Benefit terms, including contribution requirements, for the 401(k) plan are established and may be amended by the City Council. The City is required to contribute 1.5 percent of base salary for every 1 percent contributed by the employee, to a maximum of 8 percent, to an individual employee account. Employees are permitted to make contributions to the pension plan up to applicable Internal Revenue Code limits. Employees are immediately vested in their own contributions and in city contributions and earnings on those contributions.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

| | General Employees' Retirement System | Public Safety Officers' Retirement System |
|---|---|--|
| Date of member count | June 30, 2021 | June 30, 2020 |
| Inactive plan members or beneficiaries currently receiving benefits | 1 | 13 |
| Inactive plan members entitled to but not yet receiving benefits | 1 | - |
| Active plan members | 3 | 9 |
| Total employees covered by the plan | <u>5</u> | <u>22</u> |

The General Employees' Retirement System is currently closed to employees hired after January 1, 2012. The Public Safety Officers' Retirement System is currently open to new hires.

June 30, 2021

Note 8 - Pension Plans (Continued)

Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the GE Pension Board and P&F Pension Board retain an independent actuary to determine the annual contribution. The actuarially determined rate is 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. Contribution requirements of plan members are established and may be amended by the GE Pension Board and the P&F Pension Board for their respective retirement systems, union contracts, and plan provisions. For the year ended June 30, 2021, the active member contribution rate was 5 percent and 7 percent of covered compensation for the GE Retirement System and the P&F Retirement System, respectively. The City contributed the actuarial required contribution of \$5,385 and \$110,073 for the GE Retirement System and the P&F Retirement System, respectively.

Net Pension Asset

The City chooses a date for each pension plan to measure its net pension asset. This is based on the measurement date of each pension plan, which may be based on a comprehensive valuation as of that date or based on an earlier valuation that has used procedures to roll the information forward to the measurement date.

| | General Employees' Retirement System | Public Safety Officers' Retirement System |
|--|---|--|
| Measurement date used for the City's net pension asset | June 30, 2021 | June 30, 2021 |
| Based on a comprehensive actuarial valuation as of | June 30, 2021 | June 30, 2020 |

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

General Employees' Retirement System

| Changes in Net Pension Asset | Increase (Decrease) | | |
|--|----------------------------|----------------------|----------------------|
| | Total Pension Liability | Plan Net Position | Net Pension Asset |
| Balance at July 1, 2020 | \$ 1,660,530 | \$ 1,946,318 | \$ (285,788) |
| Changes for the year: | | | |
| Service cost | 31,053 | - | 31,053 |
| Interest | 94,672 | - | 94,672 |
| Differences between expected and actual experience | (17,095) | - | (17,095) |
| Changes in assumptions | 12,186 | - | 12,186 |
| Contributions - Employer | - | 5,385 | (5,385) |
| Contributions - Employee | - | 6,332 | (6,332) |
| Net investment income | - | 463,133 | (463,133) |
| Benefit payments, including refunds | (49,639) | (49,639) | - |
| Administrative expenses | - | (5,976) | 5,976 |
| Net changes | 71,177 | 419,235 | (348,058) |
| Balance at June 30, 2021 | \$ 1,731,707 | \$ 2,365,553 | \$ (633,846) |

The plan's fiduciary net position represents 136.6 percent of the total pension liability.

June 30, 2021

Note 8 - Pension Plans (Continued)

Public Safety Officers' Retirement System

| Changes in Net Pension Asset | Increase (Decrease) | | |
|--|-------------------------|----------------------|-----------------------|
| | Total Pension Liability | Plan Net Position | Net Pension Asset |
| Balance at July 1, 2020 | \$ 8,804,760 | \$ 9,177,723 | \$ (372,963) |
| Changes for the year: | | | |
| Service cost | 163,935 | - | 163,935 |
| Interest | 559,629 | - | 559,629 |
| Differences between expected and actual experience | (361,576) | - | (361,576) |
| Contributions - Employer | - | 110,078 | (110,078) |
| Contributions - Employee | - | 48,777 | (48,777) |
| Net investment income | - | 2,836,231 | (2,836,231) |
| Benefit payments, including refunds | (554,090) | (554,090) | - |
| Administrative expenses | - | (43,421) | 43,421 |
| Miscellaneous other charges | - | (16,636) | 16,636 |
| Net changes | (192,102) | 2,380,939 | (2,573,041) |
| Balance at June 30, 2021 | \$ 8,612,658 | \$ 11,558,662 | \$ (2,946,004) |

The plan's fiduciary net position represents 134.2 percent of the total pension liability.

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

For the year ended June 30, 2021, the City recognized total net pension recovery of \$(527,562). Details of pension (recovery) expense are as follows: \$(111,001), \$(439,835), and \$23,274 for the GE Retirement System, the P&F Retirement System, and the 401(k) system, respectively.

At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------|-------------------------------|
| Difference between expected and actual experience | \$ 16,256 | \$ (410,363) |
| Changes in assumptions | 13,935 | (15,880) |
| Net difference between projected and actual earnings on pension plan investments | - | (1,975,307) |
| Total | \$ 30,191 | \$ (2,401,550) |

June 30, 2021

Note 8 - Pension Plans (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (note that employer contributions subsequent to the measurement date will reduce the net pension asset and, therefore, will not be included in future pension expense):

| Years Ending June 30 | Amount |
|-------------------------|-----------------------|
| 2022 | \$ (640,970) |
| 2023 | (547,947) |
| 2024 | (547,216) |
| 2025 | (589,348) |
| 2026 | (45,878) |
| Total | <u>\$ (2,371,359)</u> |

Actuarial Assumptions

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

| | General Employees' Retirement System | Public Safety Officers' Retirement System |
|--|---|---|
| Inflation | 2.00 percent | 2.50 percent |
| Salary increases (including inflation) | 3.50 percent | 3.50 percent |
| Investment rate of return (net of investment expenses) | 5.35 percent | 6.50 percent |
| Mortality rates | 2010 Public General Employee and Healthy Retiree with MP-2019 | RP-2014 Blue Collar Healthy Annuitants Mortality table projected to 2021 with Scale MP- 2016 for males and females |

The actuarial assumptions used in the Public Safety Officers' Retirement System June 30, 2020 actuarial valuation date valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2016.

Discount Rate

As shown below, the discount rate used to measure the total pension liability was determined after considering a projection of the cash flows to determine whether the future contributions (made at the current contribution rates) will be sufficient to allow the pension plans' fiduciary net position to make all projected future benefit payments of current active and inactive employees:

| | General Employees' Retirement System | Public Safety Officers' Retirement System |
|---|---|--|
| Assumed investment rate of return | 5.35 | 6.50 |
| Are contributions expected to be sufficient to allow fiduciary net position to pay future benefits? | Yes | Yes |
| Discount rate used to measure total pension liability | 5.35 | 6.50 |

June 30, 2021

Note 8 - Pension Plans (Continued)

Investment Rate of Return

The long-term expected rate of return on pension 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 pension 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 as of the June 30, 2021 measurement date for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following tables:

General Employees' Retirement System

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|--------------------------|-------------------|--|
| Domestic equity | 45.00 % | 5.10 % |
| International equity | 15.00 | 4.40 |
| Fixed income | 37.00 | 1.10 |
| Cash or cash equivalents | 3.00 | - |

Public Safety Officers' Retirement System

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|--------------------------|-------------------|--|
| Domestic large cap | 29.00 % | 5.25 % |
| Domestic mid cap | 13.00 | 5.50 |
| Domestic small cap | 8.00 | 5.50 |
| International equity | 12.00 | 4.50 |
| Emerging markets | 4.00 | 6.00 |
| Real estate | 4.00 | 6.00 |
| Fixed income | 28.00 | 2.20 |
| Cash or cash equivalents | 3.00 | - |

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

The following presents the net pension asset of the City, calculated using the discount rate for each plan, as well as what the City's net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | 1 Percentage Point Decrease (GE: 4.35%, P&F: 5.5%) | Current Discount Rate (GE: 5.35%, P&F: 6.5%) | 1 Percentage Point Increase (GE: 6.35%, P&F: 7.5%) |
|--|---|---|---|
| Net pension asset of the General Employees' Retirement System | \$ (467,555) | \$ (633,846) | \$ (778,299) |
| Net pension asset of the Public Safety Officers' Retirement System | <u>(1,948,191)</u> | <u>(2,946,004)</u> | <u>(3,780,238)</u> |
| Total | <u>\$ (2,415,746)</u> | <u>\$ (3,579,850)</u> | <u>\$ (4,558,537)</u> |

June 30, 2021

Note 8 - Pension Plans (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is not available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the plan's fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Assumption Changes

General Employees' Retirement System

The inflation rate increased from 1.75 to 2.00 percent, and the long-term investment rate of return was reduced from 5.68 to 5.35 percent.

Investment Policy

General Employees' Retirement System

The GE Retirement System's policy in regard to the allocation of invested assets is established and may be amended by the GE Pension Board by a majority vote of its members. It is the policy of the GE Pension Board to pursue an investment strategy that emphasizes total return, including both capital appreciation and current income, in a long-term inflation-protected context. Fixed-income investments are restricted to investment-grade issues rated by Standard & Poor's as BBB or better. Individual equity commitment is not to exceed 10 percent of equity exposure or 5 percent of the GE Retirement System's assets. Fixed-income and equity holdings may be in mutual funds.

Public Safety Officers' Retirement System

The P&F Retirement System's policy in regard to the allocation of invested assets is established and may be amended by the P&F Retirement Board by a majority vote of its members. It is the policy of the P&F Retirement Board to pursue an investment strategy that meets or exceeds the assumed actuarial rate of return and to maximize the long-term total return of financial assets consistent with the fiduciary standards of a prudent investor.

Each respective board's adopted asset allocation policy as of June 30, 2021 is included in the *Investment Rate of Return* section above.

Concentrations

General Employees' Retirement System

At June 30, 2021, the GE Retirement System held approximately 37 percent, 15 percent, 13 percent, 10 percent, 9 percent, 8 percent, and 5 percent of its investment portfolio in the Wells Fargo/BlackRock U.S. Aggregate Bond Index CIT, Wells Fargo/BlackRock International Equity Index CIT, Wells Fargo/BlackRock S&P 500 Index CIT, Wells Fargo/BlackRock Large Cap Growth Index CIT, Wells Fargo/BlackRock Large Cap Value Index CIT, Wells Fargo/BlackRock MidCap Index CIT, and Wells Fargo/BlackRock Russell 2000 Index CIT, respectively.

June 30, 2021

Note 8 - Pension Plans (Continued)

Public Safety Officers' Retirement System

At June 30, 2021, the P&F Retirement System held approximately 29 percent, 21 percent, 13 percent, 12 percent, and 8 percent of its investment portfolio in the iShares Core S&P 500 Fund, Baird Intermediate Bond Fund, iShares Core S&P Mid-Cap ETF Fund, the Federated Hermes International Equity Fund, and iShares Core S&P Small-Cap ETF, respectively.

Rate of Return

For the year ended June 30, 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 23.72 and 32.22 percent for the GE Retirement System and the P&F Retirement System, respectively.

Pension Plan Reserves

In accordance with the GE Retirement System and the P&F Retirement System, the following reserves are required to be set aside within the pension plan:

The retiree reserve is to be computed annually by the actuary as the present value of estimated benefit payments for all current retirees. The amounts reserved may be used solely to pay monthly retiree benefit payments.

The employee reserve is credited as employee contributions are received throughout the year; the plan maintains a record of the amount contributed by each employee and credits interest annually at a rate of 1.0 and 2.0 percent for the GE Retirement System and P&F Retirement System, respectively. For any employee who terminates before vesting in the pension plan, the employee's balance is returned to him or her; for those who stay until retirement, the balance is transferred into the retiree reserve.

The employer reserve account is used to account for the residual net position balance in the pension plan after funding the above two reserves.

The balances of the reserve accounts at June 30, 2021 are as follows:

General Employees' Retirement System

| | <u>Required Reserve</u> | <u>Amount Funded</u> |
|------------------|-------------------------|----------------------|
| Retiree reserve | \$ 1,965,717 | \$ 1,965,717 |
| Employee reserve | 399,836 | 399,836 |
| Total | <u>\$ 2,365,553</u> | <u>\$ 2,365,553</u> |

Public Safety Officers' Retirement System

| | <u>Required Reserve</u> | <u>Amount Funded</u> |
|------------------------------|-------------------------|----------------------|
| Retiree and employer reserve | \$ 10,373,074 | \$ 10,373,074 |
| Employee reserve | 1,185,588 | 1,185,588 |
| Total | <u>\$ 11,558,662</u> | <u>\$ 11,558,662</u> |

June 30, 2021

Note 9 - Other Postemployment Benefit Plan

Plan Description

The City provides OPEB for former public safety and general government employees and their spouses. The benefits are provided through the City of Gibraltar Retiree Medical Plan (the "Plan"), a single-employer defined benefit OPEB plan administered by the City.

The financial statements of the OPEB plan are included in these financial statements as a pension and other employee benefit trust fund (a fiduciary fund).

Management of the Plan is vested with the City Council.

Benefits Provided

The City of Gibraltar Retiree Medical Plan provides medical, dental, and vision coverage for retirees and spouses who meet the eligibility requirements. The Plan provides support for 4 percent per year of service up to a maximum of 100 percent for 25 years of service at retirement.

The Plan was closed to general employees and police employees hired after January 1, 2012 and January 1, 2014, respectively. The City established a defined contribution OPEB retirement health savings account, to which employees may elect to contribute a percentage of their base income. The City is the administrator of the Plan and matches employees' contributions, up to a maximum of 2 percent of the employees' base salary. There are no vesting requirements for the Plan.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

| | City of Gibraltar Retiree Medical Plan |
|---|--|
| Date of member count | June 30, 2021 |
| Inactive plan members or beneficiaries currently receiving or entitled to future benefits | 20 |
| Active plan members | <u>7</u> |
| Total plan members | <u><u>27</u></u> |

Contributions

The Plan was established and is being funded under the authority of the City Council. Retiree health care costs are paid by the City on a pay-as-you-go basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. In the current year, the City paid postemployment health care premiums of \$294,078 and made a \$30,000 advanced funding contribution into the Plan.

June 30, 2021

Note 9 - Other Postemployment Benefit Plan (Continued)

Net OPEB Liability

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

| Changes in Net OPEB Liability | Increase (Decrease) | | |
|--|----------------------|-------------------|---------------------|
| | Total OPEB Liability | Plan Net Position | Net OPEB Liability |
| Balance at July 1, 2020 | \$ 6,786,112 | \$ 565,605 | \$ 6,220,507 |
| Changes for the year: | | | |
| Service cost | 63,468 | - | 63,468 |
| Interest | 424,942 | - | 424,942 |
| Differences between expected and actual experience | (929,337) | - | (929,337) |
| Changes in assumptions | 76,493 | - | 76,493 |
| Contributions - Employer | - | 324,078 | (324,078) |
| Net investment income | - | 171,571 | (171,571) |
| Benefit payments, including refunds | (294,078) | (294,078) | - |
| Administrative expenses | - | (8,303) | 8,303 |
| Miscellaneous other charges | - | (1,300) | 1,300 |
| Net changes | (658,512) | 191,968 | (850,480) |
| Balance at June 30, 2021 | <u>\$ 6,127,600</u> | <u>\$ 757,573</u> | <u>\$ 5,370,027</u> |

The Plan's fiduciary net position represents 12.4 percent of the total OPEB liability.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2021, the City recognized OPEB recovery of \$521,130.

At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------|-------------------------------|
| Difference between expected and actual experience | \$ - | \$ (659,406) |
| Changes in assumptions | 116,815 | (266,526) |
| Net difference between projected and actual earnings on OPEB plan investments | - | (95,750) |
| Total | <u>\$ 116,815</u> | <u>\$ (1,021,682)</u> |

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

| Years Ending June 30 | Amount |
|----------------------|---------------------|
| 2022 | \$ (569,353) |
| 2023 | (284,734) |
| 2024 | (23,767) |
| 2025 | (27,013) |
| Total | <u>\$ (904,867)</u> |

June 30, 2021

Note 9 - Other Postemployment Benefit Plan (Continued)

Actuarial Assumptions

The total OPEB liability in the June 30, 2021 actuarial valuation was determined using an inflation assumption of 2.25 percent; assumed salary increases (including inflation) of 3.00 percent; an investment rate of return (net of investment expenses) of 6.07 percent; a health care cost trend initial rate of 7.50 percent, decreasing 0.25 percent per year to a long-term rate of 4.50 percent; and the 2010 Public General and Public Safety, Headcount-weighted, with 2020 Mortality Improvement Scale mortality tables.

Discount Rate

The discount rate used to measure the total OPEB liability was 6.07 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that city contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Investment Rate of Return

The long-term expected rate of return on OPEB 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 OPEB 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 adding expected inflation. Best estimates of arithmetic real rates of return as of the June 30, 2021 measurement date for each major asset class included in the OPEB plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following tables:

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|----------------------------|-------------------|--|
| Large-cap core equity | 28.00 % | 6.75 % |
| Mid-cap equity | 12.00 | 7.75 |
| Small-cap equity | 8.00 | 8.25 |
| Developed large-cap growth | 6.00 | 7.95 |
| Developed large-cap value | 6.00 | 8.65 |
| Emerging markets | 4.00 | 11.15 |
| Domestic fixed income | 25.00 | 2.20 |
| Domestic high yield | 5.00 | 5.20 |
| Real estate | 4.00 | 8.00 |
| Cash or cash equivalents | 2.00 | 1.00 |

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

The following presents the net OPEB liability of the City, calculated using the discount rate of 6.07 percent, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | 1 Percentage Point Decrease (5.07%) | Current Discount Rate (6.07%) | 1 Percentage Point Increase (7.07%) |
|--|--|----------------------------------|--|
| Net OPEB liability of the City of Gibraltar Retiree Medical Plan | \$ 6,152,746 | \$ 5,370,027 | \$ 4,724,430 |

June 30, 2021

Note 9 - Other Postemployment Benefit Plan (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

The following presents the net OPEB liability of the City, calculated using the health care cost trend rate, as well as what the City's net OPEB liability would be if it were calculated using a health care cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | 1 Percentage Point Decrease | Current Health Care Cost Trend Rate | 1 Percentage Point Increase |
|--|--------------------------------|---|--------------------------------|
| Net OPEB liability of the City of Gibraltar Retiree Medical Plan | \$ 4,662,230 | \$ 5,370,027 | \$ 6,238,827 |

Assumption Changes

The investment rate of return and discount rate decreased from 6.34 percent to 6.07 percent. The inflation rate decreased from 2.50 percent to 2.25 percent. The assumed salary increases (including inflation) decreased from 3.50 to 3.00 percent. The 2010 Pub Tables Mortality Improvement Scale was updated from MP-2019 to MP-2020.

Investment Policy

The OPEB plan's policy in regard to the allocation of invested assets is established and may be amended by the City Council. It is the policy of the City Council to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The OPEB plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

Concentrations

At June 30, 2021, the Plan held approximately 33 percent, 30 percent, 12 percent, and 8 percent of its investment portfolio in iShares Core S&P 500, Baird Intermediate Bond, iShares Core S&P Mid-Cap, and iShares Core S&P Small-Cap, respectively.

Rate of Return

For the year ended June 30, 2021, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 28.64 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 10 - Joint Venture

33rd District Court

The City is a member of the 33rd District Court System (the "District Court"). The City appoints one member to the joint venture's governing board, which then approves the annual budget. The District Court receives its operating revenue principally through contributions from the member communities. During the year ended June 30, 2021, the City received net fines and forfeitures of \$6,960.

Complete financial statements for the District Court can be obtained from the administrative offices at 19000 Van Horn Rd., Woodhaven, MI 48183. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. The City's equity interest at June 30, 2021 is \$105,800.

June 30, 2021

Note 10 - Joint Venture (Continued)

South Huron Valley Utility Authority

The City is a member of the South Huron Valley Utility Authority (SHVUA), which provides sanitary sewage disposal services. Each of the eight member communities appoints one member to the board. SHVUA receives its operating revenue through charges to the communities. The City's share of the debt of the joint venture, which is recorded in the Water and Sewer Fund, is being financed by the City through debt service charges.

During the year ended June 30, 2021, the City paid operating costs of \$1,038,868. In addition, the City paid \$336,315 in principal payments and \$67,298 in interest expense. Complete financial statements for SHVUA can be obtained from the administrative offices at 46425 Tyler Road, Belleville, MI 48111. The City's equity interest at June 30, 2021 is \$162,654.

Note 11 - Pension and Other Employee Benefit Trust Funds

The following are condensed financial statements for the individual pension plans and postemployment health care plans at June 30, 2021:

| | General Employees' Retirement System | Public Safety Officers' Retirement System | Retiree Health Care Fund | Total |
|---|---|--|-----------------------------|---------------|
| Statement of Net Position - | | | | |
| Investments | \$ 2,365,553 | \$ 11,558,662 | \$ 758,575 | \$ 14,682,790 |
| Statement of Changes in Net Position | | | | |
| Investment income | \$ 457,157 | \$ 2,839,818 | \$ 161,967 | \$ 3,458,942 |
| Contributions | 11,717 | 158,850 | 303,004 | 473,571 |
| Benefit payments | 49,639 | 554,090 | 273,003 | 876,733 |
| Other deductions | - | 63,639 | - | 63,640 |
| Net change in net position | \$ 419,235 | \$ 2,380,939 | \$ 191,968 | \$ 2,992,140 |

Required Supplemental Information

Required Supplemental Information
Budgetary Comparison Schedule
General Fund

Year Ended June 30, 2021

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|---|---------------------|---------------------|---------------------|------------------------------------|
| Revenue | | | | |
| Property taxes | \$ 2,233,978 | \$ 2,114,385 | \$ 2,159,696 | \$ 45,311 |
| Intergovernmental: | | | | |
| Federal grants | 28,000 | 154,437 | 149,274 | (5,163) |
| State sources | 506,200 | 919,976 | 916,888 | (3,088) |
| Charges for services | 444,245 | 423,242 | 436,065 | 12,823 |
| Fines and forfeitures | 10,000 | 6,960 | 6,960 | - |
| Licenses and permits | 3,000 | 4,115 | 4,445 | 330 |
| Interest | 15,600 | 10,368 | 11,056 | 688 |
| Other revenue | 146,000 | 200,100 | 202,854 | 2,754 |
| Total revenue | 3,387,023 | 3,833,583 | 3,887,238 | 53,655 |
| Expenditures | | | | |
| Current services: | | | | |
| General government: | | | | |
| General government | 332,650 | 432,333 | 376,762 | 55,571 |
| Treasurer | 130,338 | 119,242 | 109,992 | 9,250 |
| Assessing | 17,650 | 18,668 | 15,129 | 3,539 |
| Clerk | 75,510 | 79,586 | 76,155 | 3,431 |
| Grants | 29,800 | 26,700 | 22,170 | 4,530 |
| Attorney | 55,000 | 69,474 | 65,442 | 4,032 |
| Elections | 12,500 | 21,746 | 21,746 | - |
| Solid waste | 223,200 | 223,200 | 206,608 | 16,592 |
| Public safety | 1,805,128 | 2,540,367 | 2,409,511 | 130,856 |
| Public works | 873,280 | 903,074 | 831,926 | 71,148 |
| Parks and recreation | 56,667 | 53,958 | 44,412 | 9,546 |
| Total expenditures | 3,611,723 | 4,488,348 | 4,179,853 | 308,495 |
| Other Financing Sources - Transfers in | - | 65,948 | - | (65,948) |
| Net Change in Fund Balance | (224,700) | (588,817) | (292,615) | 296,202 |
| Fund Balance - Beginning of year | 2,022,080 | 2,022,080 | 2,022,080 | - |
| Fund Balance - End of year | \$ 1,797,380 | \$ 1,433,263 | \$ 1,729,465 | \$ 296,202 |

Required Supplemental Information
Schedule of Changes in the Net Pension Asset and Related Ratios
General Employees' Retirement System

| | Last Eight Fiscal Years | | | | | | | |
|---|-------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| Total Pension Liability | | | | | | | | |
| Service cost | \$ 31,053 | \$ 33,821 | \$ 25,153 | \$ 27,010 | \$ 32,622 | \$ 30,470 | \$ 17,636 | \$ 16,352 |
| Interest | 94,672 | 92,199 | 94,131 | 96,241 | 87,142 | 85,852 | 84,303 | 77,244 |
| Differences between expected and actual experience | (17,095) | 38,909 | (109,574) | 20,853 | (28,953) | (71,739) | (106,164) | - |
| Changes in assumptions | 12,186 | 17,585 | (7,147) | (158,788) | 98,300 | 49,774 | 234,560 | - |
| Benefit payments, including refunds | (49,639) | (49,639) | (37,229) | (1,531) | (3,675) | (3,675) | (3,675) | (3,675) |
| Net Change in Total Pension Liability | 71,177 | 132,875 | (34,666) | (16,215) | 185,436 | 90,682 | 226,660 | 89,921 |
| Total Pension Liability - Beginning of year | 1,660,530 | 1,527,655 | 1,562,321 | 1,578,536 | 1,393,100 | 1,302,418 | 1,075,758 | 985,837 |
| Total Pension Liability - End of year | \$ 1,731,707 | \$ 1,660,530 | \$ 1,527,655 | \$ 1,562,321 | \$ 1,578,536 | \$ 1,393,100 | \$ 1,302,418 | \$ 1,075,758 |
| Plan Fiduciary Net Position | | | | | | | | |
| Contributions - Employer | \$ 5,385 | \$ 9,311 | \$ 20,000 | \$ 22,966 | \$ 27,285 | \$ 22,893 | \$ 11,148 | \$ 25,000 |
| Contributions - Member | 6,332 | 6,149 | 5,972 | 6,190 | 9,250 | 9,286 | 10,621 | 11,261 |
| Net investment income | 463,133 | 87,591 | 102,705 | 124,616 | 168,882 | 4,963 | 42,276 | 185,665 |
| Administrative expenses | (5,976) | (5,230) | (9,044) | (7,414) | (7,515) | (9,116) | - | (10,830) |
| Benefit payments, including refunds | (49,639) | (49,639) | (37,229) | (1,531) | (3,675) | (3,675) | (3,675) | (3,675) |
| Other | - | - | - | - | - | - | - | (2,500) |
| Net Change in Plan Fiduciary Net Position | 419,235 | 48,182 | 82,404 | 144,827 | 194,227 | 24,351 | 60,370 | 204,921 |
| Plan Fiduciary Net Position - Beginning of year | 1,946,318 | 1,898,136 | 1,815,732 | 1,670,905 | 1,476,678 | 1,452,327 | 1,391,957 | 1,187,036 |
| Plan Fiduciary Net Position - End of year | \$ 2,365,553 | \$ 1,946,318 | \$ 1,898,136 | \$ 1,815,732 | \$ 1,670,905 | \$ 1,476,678 | \$ 1,452,327 | \$ 1,391,957 |
| City's Net Pension Asset - Ending | \$ (633,846) | \$ (285,788) | \$ (370,481) | \$ (253,411) | \$ (92,369) | \$ (83,578) | \$ (149,909) | \$ (316,199) |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 136.60 % | 117.21 % | 124.25 % | 116.22 % | 105.85 % | 106.00 % | 111.51 % | 129.39 % |
| Covered Payroll | \$ 214,040 | \$ 218,356 | \$ 205,914 | \$ 277,858 | \$ 263,303 | \$ 248,810 | \$ 244,126 | \$ 246,419 |
| City's Net Pension Liability as a Percentage of Covered Payroll | (296.13)% | (130.88)% | (179.92)% | (91.20)% | (35.08)% | (33.59)% | (61.41)% | (128.32)% |

City of Gibraltar, Michigan

Required Supplemental Information
Schedule of Investment Returns
General Employees' Retirement System

| | Last Eight Fiscal Years Years Ended June 30 | | | | | | | |
|--|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| Annual money-weighted rate of return - Net of investment expense | 23.72 % | 4.38 % | 5.17 % | 6.95 % | 10.85 % | (0.30)% | 3.00 % | 15.50 % |

Required Supplemental Information
Schedule of Changes in the Net Pension Asset and Related Ratios
Public Safety Officers' Retirement System

Last Eight Fiscal Years

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total Pension Liability | | | | | | | | |
| Service cost | \$ 163,935 | \$ 160,846 | \$ 150,072 | \$ 156,286 | \$ 188,933 | \$ 161,134 | \$ 158,240 | \$ 148,002 |
| Interest | 559,629 | 551,816 | 548,748 | 549,076 | 518,610 | 530,812 | 534,204 | 517,468 |
| Differences between expected and actual experience | (361,576) | (32,341) | (82,701) | (132,745) | 284,100 | (214,771) | (334,749) | - |
| Changes in assumptions | - | - | - | - | 328,122 | - | - | - |
| Benefit payments, including refunds | (554,090) | (569,229) | (579,374) | (569,747) | (443,486) | (403,735) | (411,445) | (451,580) |
| Net Change in Total Pension Liability | (192,102) | 111,092 | 36,745 | 2,870 | 876,279 | 73,440 | (53,750) | 213,890 |
| Total Pension Liability - Beginning of year | 8,804,760 | 8,693,668 | 8,656,923 | 8,654,053 | 7,777,774 | 7,704,334 | 7,758,084 | 7,544,194 |
| Total Pension Liability - End of year | \$ 8,612,658 | \$ 8,804,760 | \$ 8,693,668 | \$ 8,656,923 | \$ 8,654,053 | \$ 7,777,774 | \$ 7,704,334 | \$ 7,758,084 |
| Plan Fiduciary Net Position | | | | | | | | |
| Contributions - Employer | \$ 110,078 | \$ 97,726 | \$ 97,155 | \$ 99,969 | \$ 147,065 | \$ 117,800 | \$ 89,650 | \$ 140,766 |
| Contributions - Member | 48,777 | 45,025 | 47,859 | 45,341 | 51,835 | 46,719 | 45,449 | 43,810 |
| Net investment income | 2,836,231 | 379,600 | 543,436 | 779,190 | 805,974 | 74,057 | 448,465 | 1,254,828 |
| Administrative expenses | (43,421) | (16,369) | (19,325) | (16,753) | (10,325) | - | (14,310) | (13,751) |
| Benefit payments, including refunds | (554,090) | (569,229) | (579,374) | (569,747) | (443,486) | (403,735) | (411,445) | (451,580) |
| Other | (16,636) | (20,188) | - | - | - | - | - | - |
| Net Change in Plan Fiduciary Net Position | 2,380,939 | (83,435) | 89,751 | 338,000 | 551,063 | (165,159) | 157,809 | 974,073 |
| Plan Fiduciary Net Position - Beginning of year | 9,177,723 | 9,261,158 | 9,171,407 | 8,833,407 | 8,282,344 | 8,447,503 | 8,289,694 | 7,315,621 |
| Plan Fiduciary Net Position - End of year | \$ 11,558,662 | \$ 9,177,723 | \$ 9,261,158 | \$ 9,171,407 | \$ 8,833,407 | \$ 8,282,344 | \$ 8,447,503 | \$ 8,289,694 |
| City's Net Pension Liability - Ending | \$ (2,946,004) | \$ (372,963) | \$ (567,490) | \$ (514,484) | \$ (179,354) | \$ (504,570) | \$ (743,169) | \$ (531,610) |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 134.21 % | 104.24 % | 106.53 % | 105.94 % | 102.07 % | 106.49 % | 109.65 % | 106.85 % |
| Covered Payroll | \$ 674,828 | \$ 709,005 | \$ 691,928 | \$ 658,734 | \$ 677,819 | \$ 731,291 | \$ 693,949 | \$ 680,871 |
| City's Net Pension Liability as a Percentage of Covered Payroll | (436.56)% | (52.60)% | (82.02)% | (78.10)% | (26.46)% | (69.00)% | (107.09)% | (78.08)% |

City of Gibraltar, Michigan

Required Supplemental Information
Schedule of Investment Returns
Public Safety Officers' Retirement System

**Last Eight Fiscal Years
Years Ended June 30**

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Annual money-weighted rate of return - Net of investment expense | 32.2 % | 3.8 % | 5.9 % | 8.8 % | 9.8 % | 0.9 % | 5.0 % | 17.4 % |

Required Supplemental Information
Schedule of Changes in the Net OPEB Liability and Related Ratios

| | Last Five Fiscal Years | | | | |
|--|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| Total OPEB Liability | | | | | |
| Service cost | \$ 63,468 | \$ 59,864 | \$ 67,615 | \$ 176,824 | \$ 171,507 |
| Interest | 424,942 | 432,223 | 389,487 | 284,706 | 279,455 |
| Differences between expected and actual experience | (929,337) | (111,325) | (135,981) | (45,842) | - |
| Changes in assumptions | 76,493 | 111,218 | 413,674 | (3,227,924) | - |
| Benefit payments, including refunds | (294,078) | (232,816) | (264,674) | (276,338) | (297,448) |
| Net Change in Total OPEB Liability | (658,512) | 259,164 | 470,121 | (3,088,574) | 153,514 |
| Total OPEB Liability - Beginning of year | 6,786,112 | 6,526,948 | 6,056,827 | 9,145,401 | 8,991,887 |
| Total OPEB Liability - End of year | <u><u>\$ 6,127,600</u></u> | <u><u>\$ 6,786,112</u></u> | <u><u>\$ 6,526,948</u></u> | <u><u>\$ 6,056,827</u></u> | <u><u>\$ 9,145,401</u></u> |
| Plan Fiduciary Net Position | | | | | |
| Contributions - Employer | \$ 324,078 | \$ 262,816 | \$ 264,674 | \$ 376,338 | \$ 297,448 |
| Net investment income | 171,571 | 19,645 | 24,622 | 6,660 | 2,394 |
| Administrative expenses | (8,303) | (7,991) | (7,995) | - | - |
| Benefit payments, including refunds | (294,078) | (232,816) | (264,674) | (276,338) | - |
| Other | (1,300) | (4,308) | - | - | (297,448) |
| Net Change in Plan Fiduciary Net Position | 191,968 | 37,346 | 16,627 | 106,660 | 2,394 |
| Plan Fiduciary Net Position - Beginning of year | 565,605 | 528,259 | 511,632 | 404,972 | 402,578 |
| Plan Fiduciary Net Position - End of year | <u><u>\$ 757,573</u></u> | <u><u>\$ 565,605</u></u> | <u><u>\$ 528,259</u></u> | <u><u>\$ 511,632</u></u> | <u><u>\$ 404,972</u></u> |
| Net OPEB Liability - Ending | <u><u>\$ 5,370,027</u></u> | <u><u>\$ 6,220,507</u></u> | <u><u>\$ 5,998,689</u></u> | <u><u>\$ 5,545,195</u></u> | <u><u>\$ 8,740,429</u></u> |
| Plan Fiduciary Net Position as a Percentage of Total OPEB Liability | 12.36 % | 8.33 % | 8.09 % | 8.45 % | 4.43 % |
| Covered-employee Payroll | \$ 762,026 | \$ 691,651 | \$ 657,733 | \$ 915,969 | \$ 1,033,963 |
| Net OPEB Liability as a Percentage of Covered-employee Payroll | 704.70 % | 899.37 % | 912.02 % | 605.39 % | 845.33 % |

Required Supplemental Information
Schedule of OPEB Contributions

| | Last Ten Fiscal Years | | | | | | | | | |
|--|------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Years Ended June 30 | | | | | | | | | |
| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
| Actuarially determined contribution | \$ 823,348 | \$ 806,281 | \$ 843,372 | \$ 1,025,638 | \$ 647,051 | \$ 614,245 | \$ 537,103 | \$ 576,630 | \$ 649,103 | \$ 641,793 |
| Contributions in relation to the actuarially determined contribution | 324,078 | 262,816 | 264,674 | 376,338 | 262,492 | 334,889 | 340,021 | 351,676 | 336,406 | 327,882 |
| Contribution Deficiency | \$ (499,270) | \$ (543,465) | \$ (578,698) | \$ (649,300) | \$ (384,559) | \$ (279,356) | \$ (197,082) | \$ (224,954) | \$ (312,697) | \$ (313,911) |

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of June 30 at the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry age normal - Level percentage of payroll |
| Remaining amortization period | 12 years |
| Asset valuation method | Market value |
| Inflation | 2.25 percent |
| Salary increase | 3.00 percent |
| Investment rate of return | 6.07 percent |
| Mortality | 2010 Public Safety & General Employees and Healthy Retirees, Headcount weighted, MP-2019 |

City of Gibraltar, Michigan

Required Supplemental Information
Schedule of OPEB Investment Returns

**Last Four Fiscal Years
Years Ended June 30**

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|-------------|-------------|-------------|-------------|
| Annual money-weighted rate of return - Net of investment expense | 28.64 % | 1.38 % | 3.45 % | 2.61 % |

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all special revenue funds, except that operating transfers and debt proceeds have been included in the revenue and expenditures categories rather than as other financing sources (uses). All annual appropriations lapse at fiscal year end.

The budget process begins in March, with the finance director's budgeting of the personnel and fringe benefits expense for all the city employees and providing each department with a budget form to be completed by the department head. When these forms are returned, the finance director then analyzes these amounts and calculates the total budget. After a final review, the finance director organizes the final proposed budget to deliver to the City Council. The City Council requires that the City Council adopt a budget by the second meeting in May. City Council meetings, held in early May, provide all interested citizens an open forum where their concerns can be heard. Upon review and a subsequent public hearing, the City Council adopts the proposed budget resolution. After the budget has been adopted, all budget amendments must be approved by the City Council.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

A reconciliation of the budgetary comparison schedule to the fund-based statement of revenue, expenses, and changes in fund balances is as follows:

| | Total Revenue | Total Expenditures | Excess of Expenditures Over Revenue |
|--|---------------------|-----------------------|---|
| Amounts per operating statement | \$ 3,541,395 | \$ 3,825,278 | \$ (283,883) |
| Land Revolving Fund | (7,964) | (999) | (6,965) |
| Public Safety Severance Reserve | (20) | - | (20) |
| Public Works Severance Reserve | (277) | - | (277) |
| Revenue-sharing Stabilization | (1,470) | - | (1,470) |
| Reimbursement of expenses from other funds | 355,574 | 355,574 | - |
| Amounts per budget statement | <u>\$ 3,887,238</u> | <u>\$ 4,179,853</u> | <u>\$ (292,615)</u> |

Pension Information

Changes in Assumptions

General Employees' Retirement System

2021 - The inflation rate increased from 1.75 percent to 2.00 percent, and the discount rate changed from 5.68 percent to 5.35 percent.

2020 - The discount rate changed from 6.0 percent to 5.68 percent.

2018 - The mortality tables were updated to be as set forth in IRS Regulations for 2018 (4.430(h)(3)) for Non-annuitants.

2017 - The discount rate changed from 6.12 percent to 6.00 percent.

2016 - The discount rate changed from 6.45 percent to 6.12 percent.

2015 - The discount rate changed from 7.85 percent to 6.45 percent. In addition, mortality tables changed from 1983 Group Annuity Mortality for Males to RP-2000 Tables with Scale AA with no pre-retirement mortality.

Public Safety Officers' Retirement System

2017 - The discount rate changed from 7.0 percent to 6.5 percent. The mortality tables were updated to RP-2014 tables from the RP-2000 tables. The inflation rate changed from 4.0 percent to 2.5 percent.

OPEB Information

Changes in Assumptions

2021 - The investment rate of return and discount rate decreased from 6.34 percent to 6.07 percent. The inflation rate decreased from 2.50 percent to 2.25 percent. The assumed salary increases (including inflation) decreased from 3.50 to 3.00 percent. The mortality table, specifically the improvement scale was updated from MP-2019 to MP-2020.

2020 - The investment rate of return and discount rate decreased from 6.68 percent to 6.34 percent.

2019 - The investment rate of return and discount rate increased from 6.50 to 6.68 percent, and the mortality table was updated.

2018 - The City changed its investment policy from being invested solely in certificates of deposit (3.10 percent rate of return) to investing in a broad range of assets (6.50 percent rate of return), resulting in a discount rate of 6.50 percent.

Other Supplemental Information

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2021

| | Special Revenue Funds | | | | Debt Service Funds | | Total |
|--|-----------------------|-------------------|------------------|-----------------|--------------------|-------------------|---------------------|
| | Major Streets | Local Streets | Drug Forfeiture | Cable TV | City Hall Bonds | Road Construction | |
| Assets | | | | | | | |
| Cash and investments | \$ 603,216 | \$ 207,679 | \$ 15,379 | \$ 6,592 | \$ 21,056 | \$ 27,053 | \$ 880,975 |
| Receivables: | | | | | | | |
| Other receivables | - | - | - | 1,759 | - | - | 1,759 |
| Due from other governments | 63,280 | 20,585 | - | - | - | - | 83,865 |
| Due from other funds | 4,235 | - | - | - | 37,448 | 23,159 | 64,842 |
| Total assets | \$ 670,731 | \$ 228,264 | \$ 15,379 | \$ 8,351 | \$ 58,504 | \$ 50,212 | \$ 1,031,441 |
| Liabilities | | | | | | | |
| Accounts payable | \$ 35,750 | \$ 17,596 | \$ - | \$ 1,968 | \$ 500 | \$ 500 | \$ 56,314 |
| Due to other funds | 21,859 | 26,094 | - | - | - | - | 47,953 |
| Total liabilities | 57,609 | 43,690 | - | 1,968 | 500 | 500 | 104,267 |
| Fund Balances | | | | | | | |
| Restricted: | | | | | | | |
| Roads | 613,122 | 184,574 | - | - | - | - | 797,696 |
| Police | - | - | 15,379 | - | - | - | 15,379 |
| Debt service | - | - | - | - | 58,004 | 49,712 | 107,716 |
| Cable TV | - | - | - | 6,383 | - | - | 6,383 |
| Total fund balances | 613,122 | 184,574 | 15,379 | 6,383 | 58,004 | 49,712 | 927,174 |
| Total liabilities and fund balances | \$ 670,731 | \$ 228,264 | \$ 15,379 | \$ 8,351 | \$ 58,504 | \$ 50,212 | \$ 1,031,441 |

City of Gibraltar, Michigan

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in Fund
Balances
Nonmajor Governmental Funds

Year Ended June 30, 2021

| | Special Revenue Funds | | | | Debt Service Funds | | Total |
|--|-----------------------|-------------------|------------------|-----------------|--------------------|-------------------|-------------------|
| | Major Streets | Local Streets | Drug Forfeiture | Cable TV | City Hall Bonds | Road Construction | |
| Revenue | | | | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - | \$ 178,678 | \$ 198,352 | \$ 377,030 |
| Intergovernmental - State sources | 386,467 | 125,717 | - | - | 11,459 | 12,459 | 536,102 |
| Fines and forfeitures | - | - | 110 | - | - | - | 110 |
| Interest | 3,031 | 616 | 81 | 41 | 283 | 215 | 4,267 |
| Other revenue | - | - | - | 8,182 | - | - | 8,182 |
| Total revenue | 389,498 | 126,333 | 191 | 8,223 | 190,420 | 211,026 | 925,691 |
| Expenditures | | | | | | | |
| Current services: | | | | | | | |
| General government | - | - | - | - | 998 | - | 998 |
| Public works | 186,102 | 132,540 | - | - | - | 1,273 | 319,915 |
| Community and economic development | - | - | - | 29,494 | - | - | 29,494 |
| Debt service | - | - | - | - | 177,666 | 197,313 | 374,979 |
| Total expenditures | 186,102 | 132,540 | - | 29,494 | 178,664 | 198,586 | 725,386 |
| Other Financing (Uses) Sources - | | | | | | | |
| Transfers (out) in | (100,000) | 100,000 | - | - | - | - | - |
| Net Change in Fund Balances | 103,396 | 93,793 | 191 | (21,271) | 11,756 | 12,440 | 200,305 |
| Fund Balances - Beginning of year | 509,726 | 90,781 | 15,188 | 27,654 | 46,248 | 37,272 | 726,869 |
| Fund Balances - End of year | \$ 613,122 | \$ 184,574 | \$ 15,379 | \$ 6,383 | \$ 58,004 | \$ 49,712 | \$ 927,174 |

Other Supplemental Information
Statement of Fiduciary Net Position
Fiduciary Funds

June 30, 2021

| | Pension and Other Employee Benefit Funds | | | Total Pension and Other Employee Benefit Trust Funds |
|---|---|--|-----------------------------|--|
| | General Employees' Retirement System | Public Safety Officers' Retirement System | Retiree Health Care Fund | |
| Assets | | | | |
| Cash and cash equivalents | \$ 72,715 | \$ 336,043 | \$ 45,356 | \$ 454,114 |
| Investments: | | | | |
| Pooled funds - Fixed income | 876,122 | - | - | 876,122 |
| Pooled funds - Equity | 1,416,711 | - | - | 1,416,711 |
| ETF - Equity | - | 6,133,760 | 397,870 | 6,531,630 |
| Mutual funds - Equity | - | 1,878,345 | 86,872 | 1,965,217 |
| Mutual funds - Fixed income | - | 3,208,474 | 228,477 | 3,436,951 |
| Receivables - Accrued interest receivable | 5 | 2,040 | - | 2,045 |
| Total assets | <u>2,365,553</u> | <u>11,558,662</u> | <u>758,575</u> | <u>14,682,790</u> |
| Net Position | | | | |
| Restricted: | | | | |
| Pension | 2,365,553 | 11,558,662 | - | 13,924,215 |
| Postemployment benefits other than pension | - | - | 758,575 | 758,575 |
| Total net position | <u>\$ 2,365,553</u> | <u>\$ 11,558,662</u> | <u>\$ 758,575</u> | <u>\$ 14,682,790</u> |

**Other Supplemental Information
Statement of Changes in Fiduciary Net Position
Fiduciary Funds**

Year Ended June 30, 2021

| | Pension and Other Employee Benefit Funds | | | Total Pension and Other Employee Benefit Trust Funds |
|---|---|--|-----------------------------|--|
| | General Employees' Retirement System | Public Safety Officers' Retirement System | Retiree Health Care Fund | |
| Additions | | | | |
| Investment income (loss): | | | | |
| Interest and dividends | \$ 97 | \$ 207,377 | \$ 171,570 | \$ 379,044 |
| Net increase in fair value of investments | 475,668 | 2,632,441 | - | 3,108,109 |
| Investment costs | (18,608) | - | (9,603) | (28,211) |
| Net investment income | 457,157 | 2,839,818 | 161,967 | 3,458,942 |
| Contributions: | | | | |
| Employer contributions | 5,385 | 110,073 | 303,004 | 418,462 |
| Employee contributions | 6,332 | 48,777 | - | 55,109 |
| Total contributions | 11,717 | 158,850 | 303,004 | 473,571 |
| Total additions | 468,874 | 2,998,668 | 464,971 | 3,932,513 |
| Deductions | | | | |
| Benefit payments | 49,639 | 554,090 | 273,004 | 876,733 |
| Administrative expenses | - | 63,640 | - | 63,640 |
| Total deductions | 49,639 | 617,730 | 273,004 | 940,373 |
| Net Increase in Fiduciary Net Position | 419,235 | 2,380,938 | 191,967 | 2,992,140 |
| Net Position - Beginning of year | 1,946,318 | 9,177,724 | 566,608 | 11,690,650 |
| Net Position - End of year | \$ 2,365,553 | \$ 11,558,662 | \$ 758,575 | \$ 14,682,790 |