

City of
Frankenmuth,
Michigan



Year Ended
June 30, 2023

Financial
Statements

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CITY OF FRANKENMUTH, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

December 27, 2023

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

Report on the Audit of the Financial Statements

Opinions

We have audited the 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 Frankenmuth, Michigan*** (the "City"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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 as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof, and the budgetary comparisons for the general fund and the major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Restatement of Beginning Fund Balance and Net Position

As described in Note 18 to the financial statements, the beginning net position of governmental activities, business-type activities, discretely presented component unit, Waste Resource Facility Fund, Water Fund, Refuse Fund, and custodial funds and the fund balance of the General Fund and Park and Recreation Fund were restated. Our opinion is not modified with respect to this matter.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Independent Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Independent Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rehmann Lobson LLC". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF FRANKENMUTH, MICHIGAN

Management's Discussion and Analysis

As management of the City of Frankenmuth, Michigan (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2023. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$22,349,928 (net position). Of this amount, unrestricted net position was \$3,121,817.
- The government's total net position decreased by \$129,446 comprised of a \$422,297 decrease in governmental activities and an increase of \$292,851 in business-type activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,829,989 a decrease of \$27,626 from the prior year. Approximately 45.4% of this total amount or \$1,284,052 is unassigned fund balance.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference being net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, economic development and recreation and culture. The business-type activities of the City include waste recovery facility, water, and refuse collection.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Downtown Development Authority for which the City is financially accountable. Financial information for the component unit is reported separately from the financial information presented for the primary government itself.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

CITY OF FRANKENMUTH, MICHIGAN

Management's Discussion and Analysis

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and Parks and Recreation Fund, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund and special revenue funds. Budgetary comparison statements have been provided to demonstrate compliance with this budget.

Proprietary Funds. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for waste recovery facility, water and refuse collection. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City has one internal service fund. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Waste Recovery Facility, Water, and Refuse Collection funds, all of which are considered to be major funds. The City's internal service fund is presented in the proprietary fund financial statements in the Governmental Activities - Internal Service Fund column.

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain information concerning the City's progress in funding its obligation to provide pension and other postemployment benefits to its employees.

CITY OF FRANKENMUTH, MICHIGAN

Management's Discussion and Analysis

Government-wide Financial Analysis

As previously stated, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$23,249,928 at the close of the most recent fiscal year.

| | Net Position | | | | | |
|---|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Assets | | | | | | |
| Current and other assets | \$ 6,149,933 | \$ 7,634,479 | \$ 6,235,755 | \$ 5,297,814 | \$ 12,385,688 | \$ 12,932,293 |
| Capital assets, net | 20,404,540 | 20,509,382 | 10,864,914 | 11,669,913 | 31,269,454 | 32,179,295 |
| | <u>26,554,473</u> | <u>28,143,861</u> | <u>17,100,669</u> | <u>16,967,727</u> | <u>43,655,142</u> | <u>45,111,588</u> |
| Total deferred outflows of resources | <u>1,608,012</u> | <u>1,237,579</u> | <u>418,100</u> | <u>383,050</u> | <u>2,026,112</u> | <u>1,620,629</u> |
| Liabilities | | | | | | |
| Other liabilities | 896,865 | 2,987,903 | 310,565 | 490,291 | 1,207,430 | 3,478,194 |
| Long-term liabilities | 15,991,001 | 15,707,368 | 5,836,484 | 5,976,789 | 21,827,485 | 21,684,157 |
| | <u>16,887,866</u> | <u>18,695,271</u> | <u>6,147,049</u> | <u>6,467,080</u> | <u>23,034,915</u> | <u>25,162,351</u> |
| Total deferred inflows of resources | <u>284,036</u> | <u>732,402</u> | <u>12,375</u> | <u>226,002</u> | <u>296,411</u> | <u>958,404</u> |
| Net position | | | | | | |
| Net investment in capital assets | 10,948,350 | 10,740,341 | 6,751,104 | 7,135,954 | 17,699,454 | 17,876,295 |
| Restricted | 1,528,657 | - | - | - | 1,528,657 | - |
| Unrestricted (deficit) | <u>(1,486,424)</u> | <u>(786,574)</u> | <u>4,608,241</u> | <u>3,521,741</u> | <u>3,121,817</u> | <u>2,735,167</u> |
| Total net position | <u>\$ 10,990,583</u> | <u>\$ 9,953,767</u> | <u>\$ 11,359,345</u> | <u>\$ 10,657,695</u> | <u>\$ 22,349,928</u> | <u>\$ 20,611,462</u> |

A substantial portion of the City's net position, \$17,699,454, reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position of \$1,528,657 represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net position of \$3,121,817.

CITY OF FRANKENMUTH, MICHIGAN

Management's Discussion and Analysis

| | Change in Net position | | | | | |
|--|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Program revenues | | | | | | |
| Charges for services | \$ 1,076,925 | \$ 1,738,699 | \$ 5,158,938 | \$ 4,210,290 | \$ 6,235,863 | \$ 5,948,989 |
| Operating grants | 1,280,043 | 1,079,176 | 140,831 | 46,994 | 1,420,874 | 1,126,170 |
| Capital grants | 566 | 81,608 | 42,448 | 15,058 | 43,014 | 96,666 |
| General revenues | | | | | | |
| Property taxes | 2,746,398 | 4,103,246 | - | - | 2,746,398 | 4,103,246 |
| State revenue sharing | 549,404 | 594,677 | - | - | 549,404 | 594,677 |
| Unrestricted interest earnings | 114,864 | 117,434 | - | - | 114,864 | 117,434 |
| Gain on sale of capital assets | - | 47,812 | - | - | - | 47,812 |
| Other | 512,050 | 183,517 | - | - | 512,050 | 183,517 |
| Total revenues | 6,280,250 | 7,946,169 | 5,342,217 | 4,272,342 | 11,622,467 | 12,218,511 |
| Expenses | | | | | | |
| General government | 2,114,673 | 2,324,933 | - | - | 2,114,673 | 2,324,933 |
| Public safety | 1,886,307 | 2,058,682 | - | - | 1,886,307 | 2,058,682 |
| Public works | 1,267,591 | 986,886 | - | - | 1,267,591 | 986,886 |
| Sanitation and public works | - | 541,354 | - | - | - | 541,354 |
| Economic development | 16,979 | 666,248 | - | - | 16,979 | 666,248 |
| Recreation and culture | 1,164,096 | 990,422 | - | - | 1,164,096 | 990,422 |
| Interest on bonds payable | 252,901 | 298,924 | - | - | 252,901 | 298,924 |
| Waste recovery | - | - | 1,835,295 | 2,171,810 | 1,835,295 | 2,171,810 |
| Water | - | - | 2,633,142 | 2,547,820 | 2,633,142 | 2,547,820 |
| Refuse collection | - | - | 580,929 | - | 580,929 | - |
| Total expenses | 6,702,547 | 7,867,449 | 5,049,366 | 4,719,630 | 11,751,913 | 12,587,079 |
| Change in net position, before transfers | (422,297) | 78,720 | 292,851 | (447,288) | (129,446) | (368,568) |
| Transfers | - | 109,204 | - | (109,204) | - | - |
| Change in net position | (422,297) | 187,924 | 292,851 | (556,492) | (129,446) | (368,568) |
| Net position: | | | | | | |
| Beginning of year | 9,953,767 | 9,765,843 | 10,657,695 | 11,214,187 | 20,611,462 | 20,980,030 |
| Restatements (Note 18) | 1,459,113 | - | 408,799 | - | 1,867,912 | - |
| End of year | \$ 10,990,583 | \$ 9,953,767 | \$ 11,359,345 | \$ 10,657,695 | \$ 22,349,928 | \$ 20,611,462 |

Governmental Activities. The City's governmental activities indicates an increase in net position of \$1,036,816 for fiscal year 2022-2023 as compared to an increase in net position of \$187,924 for the prior fiscal year. A significant amount of this was related to a restatement (Note 18) of \$1,459,113 in the current year that increased net position. Revenue decreased \$1,665,919 from the prior year with most of that decrease in property tax as a result of the DDA being reclassified as a component unit of the City and not part of the primary government for 2023 or going forward.

Expenses decreased \$1,164,902 from the prior year. The most significant decrease was due to changes in sanitation and public works and economic development. These expenses were related to (1) the refuse fund that is presented as an enterprise fund this year and a special revenue fund in the prior year (2) DDA was a special revenue fund in the prior year but was reclassified to a component unit in the current year.

CITY OF FRANKENMUTH, MICHIGAN

Management's Discussion and Analysis

Business-type Activities. Net position of the business-type activities increased by \$701,650 as compared to a decrease of \$556,492 in the prior year. A significant amount of this was related to a restatement of \$408,799 (Note 18) in the current year that increased net position. Most of the increases were a result of the restatement in the current year which resulted in the Refuse Collection Fund being classified as an enterprise fund.

Financial Analysis of the City's Funds

Governmental Funds. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,829,989 a decrease of \$27,626 from the prior year. Of this amount, \$1,284,052 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is not available for new spending because it is classified as one of the following: A) Nonspendable for inventories and prepaids (\$137,583); B) restricted for use per external/third party mandates (\$285,986); or C) has been committed for other specific uses (\$1,122,368).

The General Fund had a fund balance decrease in the amount of \$52,960, resulting in an ending fund balance of \$1,988,075. The change is a result of additional support in the means of transfers out to the parks and recreation fund for a new parking lot.

The Parks and Recreation Fund had a fund balance increase in the amount of \$46,814, resulting in an ending fund balance of \$166,933. The change is a result of a result of higher than expected rental revenue of the park's facilities and pavilions, and a decrease in administration costs for the department.

Proprietary Funds. The City's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budget Highlights

During the annual budget process, the City completes an extensive review of the current year budget, culminating in a budget amendment to appropriate the revised expenditure estimates. During the year, the final amended budget resulted in a decrease in fund balance by \$460,987 compared to the original budgeted increase in fund balance.

During the year, there was a \$399,593 decrease in expected revenues between the original and final amended budget. The main component of this change was a higher projected increase in both property taxes and special assessments, and intergovernmental charges that had been reduced throughout the year.

During the year, there was a \$101,323 decrease in expected appropriations between the original and final amended budget. The main component of this change was the removal of appropriations related to Sister City and City Beatification, which were moved to custodial funds.

The General Fund final budget expected a decrease in fund balance of \$457,699 however, the actual change in fund balance was a decrease of \$52,960. Significant budgetary variances are as follows:

- Local contribution revenue was overbudget by \$462,182 as a result of the component unit contributing capital and other funds for debt service payments that were previously recorded in the DDA special revenue fund.
- Department of public works expenditures were underbudget by \$180,356 as a result of wages and benefits for staff being directly charged to the benefitting departments of the City.
- Debt service expenditures were overbudget by \$460,841 as a result of the general fund recording debt service payments for bonds previously paid out of the DDA special revenue fund.

CITY OF FRANKENMUTH, MICHIGAN

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets. The City's capital assets for its governmental and business-type activities as of June 30, 2023 amounted to \$31,269,454 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, furniture, machinery and equipment, and infrastructure. The table below was not restated for the prior period restatement.

| | Capital Assets (Net of Depreciation) | | | | | |
|----------------------------------|--------------------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Land | \$ 1,270,325 | \$ 1,270,325 | \$ 20,199 | \$ 22,963 | \$ 1,290,524 | \$ 1,293,288 |
| Construction in progress | 274,314 | 9,591,014 | 24,873 | - | 299,187 | 9,591,014 |
| Infrastructure | 16,419,679 | 7,349,052 | - | - | 16,419,679 | 7,349,052 |
| Furniture and equipment | 439,336 | 470,391 | 702,423 | 714,028 | 1,141,759 | 1,184,419 |
| Building | 1,423,579 | 1,305,800 | 1,036,018 | 1,327,046 | 2,459,597 | 2,632,846 |
| Vehicles | 577,307 | 522,800 | - | - | 577,307 | 522,800 |
| Water and sewer systems | - | - | 9,081,401 | 9,605,876 | 9,081,401 | 9,605,876 |
| Total capital assets, net | \$ 20,404,540 | \$ 20,509,382 | \$ 10,864,914 | \$ 11,669,913 | \$ 31,269,454 | \$ 32,179,295 |

Additional information on the City's capital assets is found in the notes to the financial statements.

Long-term Debt. At the end of the current fiscal year, the City had total installment debt outstanding of \$13,570,000 and compensated absences of \$160,041.

| | Long-term Debt | | | | | |
|-----------------------------|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Installment debt | \$ 9,456,190 | \$ 10,008,600 | \$ 4,113,810 | \$ 4,294,400 | \$ 13,570,000 | \$ 14,303,000 |
| Compensated absences | 109,041 | 184,543 | 51,000 | 48,789 | 160,041 | 233,332 |
| Total long-term debt | \$ 9,565,231 | \$ 10,193,143 | \$ 4,164,810 | \$ 4,343,189 | \$ 13,730,041 | \$ 14,536,332 |

Additional information on the City's long-term debt is found in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The City's tax levy rate for fiscal year 2022-2023 was set at 9.25. We are anticipating an increase in tax revenues in the next fiscal year due to City Council approval of a 0.5 increase (9.75) for fiscal year 2023-2024 and continual growth in the market. The limiting factor on tax revenue growth in the general fund results from the capture of commercial tax values in the DDA District.

Request for Information

This financial report is designed to provide accountability of our stewardship of the resources provided by our citizens, taxpayers, and customers and to provide financial information to the City's investors and creditors. If you have any questions about this report or need additional financial information, please do not hesitate to contact the City Manager or City Treasurer at Frankenmuth City & Township Government Center, 240 West Genesee Street, Frankenmuth, MI 48734-1398.

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BASIC FINANCIAL STATEMENTS

CITY OF FRANKENMUTH, MICHIGAN

Statement of Net Position

June 30, 2023

| | Primary Government | | | Component Unit |
|---|-------------------------|--------------------------|----------------------|------------------|
| | Governmental Activities | Business-type Activities | Totals | |
| Assets | | | | |
| Cash and investments | \$ 3,701,632 | \$ 4,335,237 | \$ 8,036,869 | \$ 1,352,148 |
| Restricted cash and cash equivalents | 481,036 | - | 481,036 | - |
| Receivables | 1,820,290 | 1,873,084 | 3,693,374 | 88,439 |
| Other assets | 146,975 | 27,434 | 174,409 | 3,036 |
| Capital assets not being depreciated | 1,544,639 | 45,072 | 1,589,711 | - |
| Capital assets being depreciated, net | 18,859,901 | 10,819,842 | 29,679,743 | - |
| Total assets | 26,554,473 | 17,100,669 | 43,655,142 | 1,443,623 |
| Deferred outflows of resources | | | | |
| Deferred pension amounts | 1,607,909 | 418,072 | 2,025,981 | 64,383 |
| Deferred OPEB amounts | 103 | 28 | 131 | - |
| Total deferred outflows of resources | 1,608,012 | 418,100 | 2,026,112 | 64,383 |
| Liabilities | | | | |
| Accounts payable and accrued liabilities | 241,913 | 310,565 | 552,478 | 36,984 |
| Unearned revenue | 654,952 | - | 654,952 | - |
| Bonds payable and other long-term liabilities: | | | | |
| Due within one year | 484,017 | 236,590 | 720,607 | 147,956 |
| Due in more than one year | 9,081,214 | 3,928,220 | 13,009,434 | 973,407 |
| Net pension liability (due in more than one year) | 6,289,604 | 1,635,362 | 7,924,966 | 251,846 |
| Total OPEB liability (due in more than one year) | 136,166 | 36,312 | 172,478 | - |
| Total liabilities | 16,887,866 | 6,147,049 | 23,034,915 | 1,410,193 |
| Deferred inflows of resources | | | | |
| Deferred leases | 236,782 | - | 236,782 | - |
| Deferred pension amounts | 33,915 | 8,819 | 42,734 | 1,358 |
| Deferred OPEB amounts | 13,339 | 3,556 | 16,895 | - |
| Total deferred inflows of resources | 284,036 | 12,375 | 296,411 | 1,358 |
| Net position | | | | |
| Net investment in capital assets | 10,948,350 | 6,751,104 | 17,699,454 | - |
| Restricted for: | | | | |
| Capital projects | 65,230 | - | 65,230 | - |
| Streets and highways | 233,393 | - | 233,393 | - |
| Debt service | 1,230,034 | - | 1,230,034 | - |
| Unrestricted (deficit) | (1,486,424) | 4,608,241 | 3,121,817 | 96,455 |
| Total net position | \$ 10,990,583 | \$ 11,359,345 | \$ 22,349,928 | \$ 96,455 |

The accompanying notes are an integral part of these basic financial statements.

CITY OF FRANKENMUTH, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2023

| Functions / Programs | Expenses | Program Revenues | | | Net (Expense) Revenues |
|---------------------------------|----------------------|-------------------------|--|--|------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary government | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 2,114,673 | \$ 773,114 | \$ 212,799 | \$ 566 | \$ (1,128,194) |
| Public safety | 1,886,307 | 11,954 | 54,518 | - | (1,819,835) |
| Public works | 1,267,591 | - | 764,029 | - | (503,562) |
| Economic development | 16,979 | - | - | - | (16,979) |
| Recreation and culture | 1,164,096 | 291,857 | 248,697 | - | (623,542) |
| Interest on bonds payable | 252,901 | - | - | - | (252,901) |
| Total governmental activities | 6,702,547 | 1,076,925 | 1,280,043 | 566 | (4,345,013) |
| Business-type activities: | | | | | |
| Waste recovery | 1,835,295 | 1,962,306 | 91,416 | 16,098 | 234,525 |
| Water | 2,633,142 | 2,565,532 | 49,040 | 26,350 | 7,780 |
| Refuse collection | 580,929 | 631,100 | 375 | - | 50,546 |
| Total business-type activities | 5,049,366 | 5,158,938 | 140,831 | 42,448 | 292,851 |
| Total primary government | \$ 11,751,913 | \$ 6,235,863 | \$ 1,420,874 | \$ 43,014 | \$ (4,052,162) |
| Component unit | | | | | |
| Downtown Development Authority | \$ 1,540,447 | \$ 36,600 | \$ 5,706 | \$ - | \$ (1,498,141) |

continued...

CITY OF FRANKENMUTH, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2023

| | Primary Government | | | Component Unit |
|--|-------------------------|--------------------------|----------------------|------------------|
| | Governmental Activities | Business-type Activities | Totals | |
| Changes in net position | | | | |
| Net (expense) revenues | \$ (4,345,013) | \$ 292,851 | \$ (4,052,162) | \$ (1,498,141) |
| General revenues: | | | | |
| Property taxes | 2,746,398 | - | 2,746,398 | 1,783,732 |
| Grants and contributions not restricted to specific programs | 549,404 | - | 549,404 | - |
| Unrestricted interest earnings | 114,864 | - | 114,864 | 14,227 |
| Other | 512,050 | - | 512,050 | 48,765 |
| Total general revenues | 3,922,716 | - | 3,922,716 | 1,846,724 |
| Change in net position | (422,297) | 292,851 | (129,446) | 348,583 |
| Net position, beginning of year, as restated | 11,412,880 | 11,066,494 | 22,479,374 | (252,128) |
| Net position, end of year | <u>\$ 10,990,583</u> | <u>\$ 11,359,345</u> | <u>\$ 22,349,928</u> | <u>\$ 96,455</u> |

concluded

The accompanying notes are an integral part of these basic financial statements.

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CITY OF FRANKENMUTH, MICHIGAN

Balance Sheet

Governmental Funds

June 30, 2023

| | General | Parks and Recreation | Nonmajor Governmental Funds | Totals |
|---|---------------------|----------------------|-----------------------------|---------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 1,414,015 | \$ 215,846 | \$ 544,059 | \$ 2,173,920 |
| Restricted cash and cash equivalents | 481,036 | - | - | 481,036 |
| Investments | 579,098 | - | - | 579,098 |
| Receivables: | | | | |
| Accounts | 76,367 | 15,285 | 318 | 91,970 |
| Special assessment | 1,270,131 | - | 2,085 | 1,272,216 |
| Leases | 236,782 | - | - | 236,782 |
| Due from other governmental units | 88,657 | - | 126,020 | 214,677 |
| Inventory | 23,914 | - | - | 23,914 |
| Prepays | 86,906 | 16,211 | 10,552 | 113,669 |
| Total assets | <u>\$ 4,256,906</u> | <u>\$ 247,342</u> | <u>\$ 683,034</u> | <u>\$ 5,187,282</u> |
| Liabilities | | | | |
| Accounts payable | \$ 35,745 | \$ 32,539 | \$ 2,321 | \$ 70,605 |
| Accrued liabilities | 99,682 | 15,060 | 3,647 | 118,389 |
| Due to other governmental units | 4,349 | - | - | 4,349 |
| Unearned revenue | 622,142 | 32,810 | - | 654,952 |
| Total liabilities | <u>761,918</u> | <u>80,409</u> | <u>5,968</u> | <u>848,295</u> |
| Deferred inflows of resources | | | | |
| Deferred leases | 236,782 | - | - | 236,782 |
| Unavailable revenue - long term receivable | 1,270,131 | - | 2,085 | 1,272,216 |
| Total deferred inflows of resources | <u>1,506,913</u> | <u>-</u> | <u>2,085</u> | <u>1,508,998</u> |
| Fund balances | | | | |
| Nonspendable | 110,820 | 16,211 | 10,552 | 137,583 |
| Restricted for: | | | | |
| Capital projects | 21,302 | 43,928 | - | 65,230 |
| Streets and highways | - | - | 220,756 | 220,756 |
| Committed for: | | | | |
| Capital projects | 571,901 | - | 443,673 | 1,015,574 |
| Parks and recreation | - | 106,794 | - | 106,794 |
| Unassigned | 1,284,052 | - | - | 1,284,052 |
| Total fund balances | <u>1,988,075</u> | <u>166,933</u> | <u>674,981</u> | <u>2,829,989</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 4,256,906</u> | <u>\$ 247,342</u> | <u>\$ 683,034</u> | <u>\$ 5,187,282</u> |

The accompanying notes are an integral part of these basic financial statements.

CITY OF FRANKENMUTH, MICHIGAN

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2023

| | |
|---|----------------------|
| Fund balances for governmental funds | \$ 2,829,989 |
| Amounts reported for <i>governmental activities</i> in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statement. | |
| Capital assets not being depreciated | 1,544,639 |
| Capital assets being depreciated, net | 18,093,061 |
| The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows of resources in the governmental funds, and thus are not included in fund balance. | |
| Deferred inflow for long-term receivables | 1,272,216 |
| Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities. | |
| Net position of internal service funds | 1,532,197 |
| Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds. | |
| Bonds payable | (9,456,190) |
| Compensated absences | (109,041) |
| Accrued interest on bonds payable | (40,097) |
| Certain pension and other postemployment benefit-related amounts, such as the net pension and other postemployment benefit liabilities and deferred amounts, are not due and payable in the current period or do not represent current financial resources, and therefore are not reported in the funds. | |
| Net pension liability | (6,037,758) |
| Deferred outflows related to the net pension liability | 1,543,526 |
| Deferred inflows related to the net pension liability | (32,557) |
| Net OPEB liability | (136,166) |
| Deferred outflows related to the net OPEB liability | 103 |
| Deferred inflows related to the net OPEB liability | (13,339) |
| Net position of governmental activities | <u>\$ 10,990,583</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF FRANKENMUTH, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2023

| | General | Parks and Recreation | Nonmajor Governmental Funds | Totals |
|---|---------------------|----------------------|-----------------------------|---------------------|
| Revenues | | | | |
| Property taxes | \$ 2,746,398 | \$ - | \$ - | \$ 2,746,398 |
| Special assessments | 61,726 | - | - | 61,726 |
| Intergovernmental | 602,382 | 29,000 | 740,618 | 1,372,000 |
| Charges for services | 848,663 | 75,214 | - | 923,877 |
| Fines and forfeitures | 7,310 | - | - | 7,310 |
| Licenses and permits | 15,210 | - | - | 15,210 |
| Rentals | 3,975 | 216,643 | - | 220,618 |
| Interest | 105,327 | 953 | 3,143 | 109,423 |
| Local contribution | 462,182 | 100,000 | - | 562,182 |
| Other | 148,601 | 135,141 | 2,616 | 286,358 |
| Total revenues | 5,001,774 | 556,951 | 746,377 | 6,305,102 |
| Expenditures | | | | |
| Current: | | | | |
| General government | 1,500,820 | - | - | 1,500,820 |
| Public safety | 1,499,374 | - | - | 1,499,374 |
| Public works | 569,100 | - | 587,204 | 1,156,304 |
| Economic development | 16,804 | - | - | 16,804 |
| Recreation and culture | - | 656,729 | - | 656,729 |
| Capital outlay | 116,603 | 403,408 | 180,653 | 700,664 |
| Debt service: | | | | |
| Principal | 552,410 | - | - | 552,410 |
| Interest | 252,906 | - | - | 252,906 |
| Total expenditures | 4,508,017 | 1,060,137 | 767,857 | 6,336,011 |
| Revenues over (under) expenditures | 493,757 | (503,186) | (21,480) | (30,909) |
| Other financing sources (uses) | | | | |
| Proceeds from sale of capital assets | 3,283 | - | - | 3,283 |
| Transfers in | 35,000 | 585,000 | 100,000 | 720,000 |
| Transfers out | (585,000) | (35,000) | (100,000) | (720,000) |
| Total other financing sources (uses) | (546,717) | 550,000 | - | 3,283 |
| Net change in fund balances | (52,960) | 46,814 | (21,480) | (27,626) |
| Fund balances, beginning of year, as restated | 2,041,035 | 120,119 | 696,461 | 2,857,615 |
| Fund balances, end of year | \$ 1,988,075 | \$ 166,933 | \$ 674,981 | \$ 2,829,989 |

The accompanying notes are an integral part of these basic financial statements.

CITY OF FRANKENMUTH, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2023

Net change in fund balances - total governmental funds \$ (27,626)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | |
|--------------------------------------|-----------|
| Capital assets purchased/constructed | 700,664 |
| Depreciation | (931,635) |
| Loss on sale of capital assets | (31,195) |
| Proceeds from sale of capital assets | (3,283) |

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term debt in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net position.

| | |
|-------------------------------------|---------|
| Principal payments on bonds payable | 552,410 |
|-------------------------------------|---------|

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

| | |
|--|-----------|
| Change in accrued interest payable on bonds payable | 2,893 |
| Change in the net pension liability and related deferred amounts | (862,204) |
| Change in the total OPEB liability and related deferred amounts | 8,562 |
| Change in compensated absences | 75,502 |

An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

| | |
|--|----------------|
| Total change in net position of the internal service funds | <u>151,555</u> |
|--|----------------|

Change in net position of governmental activities \$ (422,297)

The accompanying notes are an integral part of these financial statements.

CITY OF FRANKENMUTH, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended June 30, 2023

| | Original Budget | Final Budget | Actual | Actual Over (Under) Final Budget |
|---|------------------------|---------------------|------------------|---|
| Revenues | | | | |
| Property taxes | \$ 2,981,000 | \$ 2,746,391 | \$ 2,746,398 | \$ 7 |
| Special assessments | 119,000 | 62,663 | 61,726 | (937) |
| Intergovernmental | 857,717 | 603,938 | 602,382 | (1,556) |
| Charges for services | 719,821 | 814,796 | 848,663 | 33,867 |
| Fines and forfeitures | 6,500 | 4,639 | 7,310 | 2,671 |
| Licenses and permits | 19,000 | 14,095 | 15,210 | 1,115 |
| Rental income | 4,400 | 3,659 | 3,975 | 316 |
| Interest | 17,000 | 90,676 | 105,327 | 14,651 |
| Local contribution | - | - | 462,182 | 462,182 |
| Other | 143,550 | 127,538 | 148,601 | 21,063 |
| Total revenues | 4,867,988 | 4,468,395 | 5,001,774 | 533,379 |
| Expenditures | | | | |
| Current: | | | | |
| General government: | | | | |
| City council | - | 550 | 441 | (109) |
| Clerk | 874,931 | 934,750 | 896,847 | (37,903) |
| Treasurer | 18,600 | 18,500 | 18,060 | (440) |
| Assessor | 51,750 | 52,500 | 49,204 | (3,296) |
| Elections | 27,500 | 21,900 | 21,522 | (378) |
| City hall | 161,009 | 243,710 | 240,180 | (3,530) |
| City property | 533,464 | 239,015 | 213,006 | (26,009) |
| Flood protection | 18,265 | 63,300 | 61,560 | (1,740) |
| Total general government | 1,685,519 | 1,574,225 | 1,500,820 | (73,405) |
| Public safety: | | | | |
| Police | 1,385,731 | 1,430,850 | 1,356,961 | (73,889) |
| Fire | 222,213 | 142,500 | 142,413 | (87) |
| Total public safety | 1,607,944 | 1,573,350 | 1,499,374 | (73,976) |
| Public works: | | | | |
| Department of public works | 576,435 | 667,350 | 486,994 | (180,356) |
| Street lighting | 78,000 | 81,050 | 78,179 | (2,871) |
| Cemetery | 3,927 | 3,927 | 3,927 | - |
| Total public works | 658,362 | 752,327 | 569,100 | (183,227) |
| Community and economic development: | | | | |
| Economic development | 9,625 | 11,500 | 11,529 | 29 |
| Community promotion | 120,100 | 20,100 | 5,275 | (14,825) |
| Total community and economic development | 129,725 | 31,600 | 16,804 | (14,796) |
| Capital outlay | 60,000 | 103,400 | 116,603 | 13,203 |

continued...

CITY OF FRANKENMUTH, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended June 30, 2023

| | Original Budget | Final Budget | Actual | Actual Over (Under) Final Budget |
|--|---------------------|---------------------|---------------------|--|
| Expenditures (Concluded) | | | | |
| Debt service: | | | | |
| Principal | \$ 224,000 | \$ 214,000 | \$ 552,410 | \$ 338,410 |
| Interest | 115,150 | 130,475 | 252,906 | 122,431 |
| Total debt service | <u>339,150</u> | <u>344,475</u> | <u>805,316</u> | <u>460,841</u> |
| Total expenditures | <u>4,480,700</u> | <u>4,379,377</u> | <u>4,508,017</u> | <u>128,640</u> |
| Revenues over (under) expenditures | <u>387,288</u> | <u>89,018</u> | <u>493,757</u> | <u>404,739</u> |
| Other financing sources (uses) | | | | |
| Proceeds on sale of capital assets | 1,000 | 3,283 | 3,283 | - |
| Transfers in | - | 35,000 | 35,000 | - |
| Transfers out | <u>(385,000)</u> | <u>(585,000)</u> | <u>(585,000)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>(384,000)</u> | <u>(546,717)</u> | <u>(546,717)</u> | <u>-</u> |
| Net change in fund balance | 3,288 | (457,699) | (52,960) | 404,739 |
| Fund balance, beginning of year, as restated | <u>2,041,035</u> | <u>2,041,035</u> | <u>2,041,035</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 2,044,323</u> | <u>\$ 1,583,336</u> | <u>\$ 1,988,075</u> | <u>\$ 404,739</u> |

concluded

The accompanying notes are an integral part of these basic financial statements.

CITY OF FRANKENMUTH, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Parks and Recreation Special Revenue Fund
For the Year Ended June 30, 2023

| | Original Budget | Final Budget | Actual | Actual Over (Under) Final Budget |
|--|--------------------|------------------|-------------------|--|
| Revenues | | | | |
| Intergovernmental | \$ 13,000 | \$ 29,000 | \$ 29,000 | \$ - |
| Charges for services | 75,022 | 74,460 | 75,214 | 754 |
| Rentals | 187,500 | 166,134 | 216,643 | 50,509 |
| Interest | 1,000 | 855 | 953 | 98 |
| Local contribution | - | - | 100,000 | 100,000 |
| Other | 208,000 | 224,122 | 135,141 | (88,981) |
| Total revenues | <u>484,522</u> | <u>494,571</u> | <u>556,951</u> | <u>62,380</u> |
| Expenditures | | | | |
| Current: | | | | |
| Recreation and culture: | | | | |
| Administration | 252,477 | 298,770 | 277,358 | (21,412) |
| Splash pad | 40,000 | 55,700 | 50,525 | (5,175) |
| Ball diamonds | 27,000 | 22,000 | 21,534 | (466) |
| Band shell | 12,000 | 18,700 | 8,139 | (10,561) |
| Parks | 229,000 | 274,260 | 262,564 | (11,696) |
| Tennis | - | 490 | 461 | (29) |
| Other programs | 47,000 | 41,250 | 36,148 | (5,102) |
| Total recreation and culture | <u>607,477</u> | <u>711,170</u> | <u>656,729</u> | <u>(54,441)</u> |
| Capital outlay | <u>190,000</u> | <u>415,300</u> | <u>403,408</u> | <u>(11,892)</u> |
| Total expenditures | <u>797,477</u> | <u>1,126,470</u> | <u>1,060,137</u> | <u>(66,333)</u> |
| Revenues over (under) expenditures | <u>(312,955)</u> | <u>(631,899)</u> | <u>(503,186)</u> | <u>128,713</u> |
| Other financing sources (uses) | | | | |
| Transfers in | 385,000 | 585,000 | 585,000 | - |
| Transfers out | <u>(35,000)</u> | <u>(35,000)</u> | <u>(35,000)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>350,000</u> | <u>550,000</u> | <u>550,000</u> | <u>-</u> |
| Net change in fund balance | 37,045 | (81,899) | 46,814 | 128,713 |
| Fund balance, beginning of year, as restated | <u>120,119</u> | <u>120,119</u> | <u>120,119</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 157,164</u> | <u>\$ 38,220</u> | <u>\$ 166,933</u> | <u>\$ 128,713</u> |

The accompanying notes are an integral part of these basic financial statements.

CITY OF FRANKENMUTH, MICHIGAN

Statement of Net Position

Proprietary Funds
June 30, 2023

| | Business-type Activities - Enterprise Funds | | | | Governmental Activities |
|--|---|---------------------|-------------------|----------------------|-------------------------|
| | Waste Recovery Facility | Water | Refuse Collection | Totals | Internal Service Fund |
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 2,210,772 | \$ 1,593,476 | \$ 94,329 | \$ 3,898,577 | \$ 948,614 |
| Investments | 263,796 | 172,864 | - | 436,660 | - |
| Receivables: | | | | | |
| Accounts | 181,451 | 297,424 | 57,214 | 536,089 | 2,645 |
| Special assessments, current portion | 11,533 | 7,614 | - | 19,147 | - |
| Due from other governmental units | - | - | - | - | 2,000 |
| Loans receivable, current portion | - | 147,956 | - | 147,956 | - |
| Prepays | 14,751 | 12,683 | - | 27,434 | 9,392 |
| Total current assets | 2,682,303 | 2,232,017 | 151,543 | 5,065,863 | 962,651 |
| Noncurrent assets: | | | | | |
| Special assessments receivable, net of current portion | 111,101 | 94,888 | - | 205,989 | - |
| Loans receivable, net of current portion | - | 963,903 | - | 963,903 | - |
| Capital assets not being depreciated | 8,326 | 36,746 | - | 45,072 | - |
| Capital assets being depreciated, net | 4,685,601 | 6,134,241 | - | 10,819,842 | 766,840 |
| Total noncurrent assets | 4,805,028 | 7,229,778 | - | 12,034,806 | 766,840 |
| Total assets | 7,487,331 | 9,461,795 | 151,543 | 17,100,669 | 1,729,491 |
| Deferred outflows of resources | | | | | |
| Deferred pension amounts | 289,516 | 128,556 | - | 418,072 | 64,383 |
| Deferred OPEB amounts | 14 | 14 | - | 28 | - |
| Total deferred outflows of resources | 289,530 | 128,570 | - | 418,100 | 64,383 |
| Liabilities | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 24,198 | 159,887 | 77,619 | 261,704 | 8,299 |
| Accrued liabilities | 15,936 | 8,754 | 520 | 25,210 | 174 |
| Accrued interest | 4,048 | 19,603 | - | 23,651 | - |
| Compensated absences, current portion | 24,986 | 26,014 | - | 51,000 | - |
| Bonds payable, current portion | 47,430 | 138,160 | - | 185,590 | - |
| Total current liabilities | 116,598 | 352,418 | 78,139 | 547,155 | 8,473 |
| Noncurrent liabilities: | | | | | |
| Bonds payable, net of current portion | 518,940 | 3,409,280 | - | 3,928,220 | - |
| Net pension liability | 1,132,488 | 502,874 | - | 1,635,362 | 251,846 |
| Total OPEB liability | 18,156 | 18,156 | - | 36,312 | - |
| Total noncurrent liabilities | 1,669,584 | 3,930,310 | - | 5,599,894 | 251,846 |
| Total liabilities | 1,786,182 | 4,282,728 | 78,139 | 6,147,049 | 260,319 |
| Deferred inflows of resources | | | | | |
| Deferred pension amounts | 6,107 | 2,712 | - | 8,819 | 1,358 |
| Deferred OPEB amounts | 1,778 | 1,778 | - | 3,556 | - |
| Total deferred inflows of resources | 7,885 | 4,490 | - | 12,375 | 1,358 |
| Net position | | | | | |
| Net investment in capital assets | 4,127,557 | 2,623,547 | - | 6,751,104 | 766,840 |
| Unrestricted | 1,855,237 | 2,679,600 | 73,404 | 4,608,241 | 765,357 |
| Total net position | \$ 5,982,794 | \$ 5,303,147 | \$ 73,404 | \$ 11,359,345 | \$ 1,532,197 |

The accompanying notes are an integral part of these basic financial statements.

CITY OF FRANKENMUTH, MICHIGAN

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2023

| | Business-type Activities - Enterprise Funds | | | Governmental | |
|---|---|---------------------|-------------------|----------------------|-----------------------|
| | Waste Recovery Facility | Water | Refuse Collection | Totals | Internal Service Fund |
| Operating revenues | | | | | |
| Charges for services | \$ 1,960,697 | \$ 2,563,998 | \$ 631,100 | \$ 5,155,795 | \$ 576,538 |
| Special assessments | 1,609 | 1,534 | - | 3,143 | - |
| Other revenues | 65,908 | 177 | - | 66,085 | 19,807 |
| Total operating revenues | <u>2,028,214</u> | <u>2,565,709</u> | <u>631,100</u> | <u>5,225,023</u> | <u>596,345</u> |
| Operating expenses | | | | | |
| Personnel services | 638,634 | 461,361 | 25,304 | 1,125,299 | 140,294 |
| Contracted services | 175,855 | 42,385 | 554,473 | 772,713 | 2,931 |
| Operations | 241,655 | 1,620,955 | 1,152 | 1,863,762 | 169,279 |
| Maintenance | 13,208 | 6 | - | 13,214 | 48,964 |
| Utilities | 167,042 | 8,975 | - | 176,017 | - |
| Depreciation | 568,954 | 378,113 | - | 947,067 | 113,127 |
| Total operating expenses | <u>1,805,348</u> | <u>2,511,795</u> | <u>580,929</u> | <u>4,898,072</u> | <u>474,595</u> |
| Operating income (loss) | <u>222,866</u> | <u>53,914</u> | <u>50,171</u> | <u>326,951</u> | <u>121,750</u> |
| Nonoperating revenues (expenses) | | | | | |
| Interest revenue | 25,508 | 48,863 | 375 | 74,746 | 6,831 |
| Gain on sale of capital assets | - | - | - | - | 22,974 |
| Interest expense | (29,947) | (121,347) | - | (151,294) | - |
| Total nonoperating revenues (expenses) | <u>(4,439)</u> | <u>(72,484)</u> | <u>375</u> | <u>(76,548)</u> | <u>29,805</u> |
| Income (loss) before capital contributions | <u>218,427</u> | <u>(18,570)</u> | <u>50,546</u> | <u>250,403</u> | <u>151,555</u> |
| Capital contributions | <u>16,098</u> | <u>26,350</u> | <u>-</u> | <u>42,448</u> | <u>-</u> |
| Change in net position | <u>234,525</u> | <u>7,780</u> | <u>50,546</u> | <u>292,851</u> | <u>151,555</u> |
| Net position, beginning of year, as restated | <u>5,748,269</u> | <u>5,295,367</u> | <u>22,858</u> | <u>11,066,494</u> | <u>1,380,642</u> |
| Net position, end of year | <u>\$ 5,982,794</u> | <u>\$ 5,303,147</u> | <u>\$ 73,404</u> | <u>\$ 11,359,345</u> | <u>\$ 1,532,197</u> |

The accompanying notes are an integral part of these basic financial statements.

CITY OF FRANKENMUTH, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2023

| | Business-type Activities - Enterprise Funds | | | | Governmental Activities |
|--|---|---------------------|-------------------|---------------------|-------------------------|
| | Waste Recovery Facility | Water | Refuse Collection | Totals | Internal Service Fund |
| Cash flows from operating activities | | | | | |
| Cash received from customers | \$ 2,037,218 | \$ 2,550,938 | \$ 626,497 | \$ 5,214,653 | \$ - |
| Cash received from interfund services | - | - | - | - | 593,655 |
| Cash payments for goods and services | (598,153) | (1,740,409) | (556,816) | (2,895,378) | (241,926) |
| Cash payments to employees | (646,431) | (467,146) | (24,784) | (1,138,361) | (142,632) |
| Net cash provided by (used in) operating activities | <u>792,634</u> | <u>343,383</u> | <u>44,897</u> | <u>1,180,914</u> | <u>209,097</u> |
| Cash flows from capital and related financing activities | | | | | |
| Acquisition/construction of capital assets | (81,618) | (99,478) | - | (181,096) | (90,673) |
| Capital contributions | 16,098 | 26,350 | - | 42,448 | - |
| Proceeds from the sale of capital assets | 26,697 | 12,331 | - | 39,028 | 25,478 |
| Principal paid on bonds payable | (47,430) | (133,160) | - | (180,590) | - |
| Interest paid on bonds payable | (25,899) | (122,018) | - | (147,917) | - |
| Net cash provided by (used in) capital and related financing activities | <u>(112,152)</u> | <u>(315,975)</u> | <u>-</u> | <u>(428,127)</u> | <u>(65,195)</u> |
| Cash flows from investing activities | | | | | |
| Interest earnings | 25,508 | 48,863 | 375 | 74,746 | 6,831 |
| Purchase of investments | (263,796) | (172,864) | - | (436,660) | - |
| Payments received on loan receivable | - | 145,347 | - | 145,347 | - |
| Net cash flows provided by (used in) investing activities | <u>(238,288)</u> | <u>21,346</u> | <u>375</u> | <u>(216,567)</u> | <u>6,831</u> |
| Net change in cash and cash equivalents | <u>442,194</u> | <u>48,754</u> | <u>45,272</u> | <u>536,220</u> | <u>150,733</u> |
| Cash and cash equivalents, beginning of year | <u>1,768,578</u> | <u>1,544,722</u> | <u>49,057</u> | <u>3,362,357</u> | <u>797,881</u> |
| Cash and cash equivalents, end of year | <u>\$ 2,210,772</u> | <u>\$ 1,593,476</u> | <u>\$ 94,329</u> | <u>\$ 3,898,577</u> | <u>\$ 948,614</u> |

continued...

CITY OF FRANKENMUTH, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2023

| | Business-type Activities - Enterprise Funds | | | | Governmental Activities |
|--|---|-------------------|-------------------|---------------------|-------------------------|
| | Waste Recovery Facility | Water | Refuse Collection | Totals | Internal Service Fund |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities | | | | | |
| Operating income (loss) | \$ 222,866 | \$ 53,914 | \$ 50,171 | \$ 326,951 | \$ 121,750 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Depreciation | 568,954 | 378,113 | - | 947,067 | 113,127 |
| Change in operating assets and liabilities that provided (used) cash: | | | | | |
| Accounts receivable | (2,527) | (5,368) | (4,603) | (12,498) | (690) |
| Special assessments receivable | 11,531 | 6,881 | - | 18,412 | - |
| Due from other governmental units | - | - | - | - | (2,000) |
| Prepays | (4,918) | (9,736) | - | (14,654) | 5,081 |
| Accounts payable | 4,525 | (58,352) | (1,191) | (55,018) | (25,833) |
| Accrued liabilities | 2,985 | 1,055 | 520 | 4,560 | 174 |
| Due to other governmental units | - | (16,284) | - | (16,284) | - |
| Compensated absences | 2,277 | (66) | - | 2,211 | - |
| Change in net pension liability | 159,829 | 70,581 | - | 230,410 | 35,700 |
| Change in deferred outflows - pension | (24,376) | (10,715) | - | (35,091) | (5,464) |
| Change in deferred inflows - pension | (147,370) | (65,499) | - | (212,869) | (32,748) |
| Change in net OPEB liability | (783) | (783) | - | (1,566) | - |
| Change in deferred outflows - OPEB | 20 | 21 | - | 41 | - |
| Change in deferred inflows - OPEB | (379) | (379) | - | (758) | - |
| Net cash provided by (used in) operating activities | <u>\$ 792,634</u> | <u>\$ 343,383</u> | <u>\$ 44,897</u> | <u>\$ 1,180,914</u> | <u>\$ 209,097</u> |

concluded

The accompanying notes are an integral part of these basic financial statements.

CITY OF FRANKENMUTH, MICHIGAN

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2023

| | Custodial Funds |
|--|----------------------------|
| Assets | |
| Cash and cash equivalents | \$ 687,077 |
| Receivables | 40 |
| | <hr/> |
| Total assets | 687,117 |
| | <hr/> |
| Liabilities | |
| Accounts payable | 65,746 |
| Due to other governmental units | 146 |
| | <hr/> |
| Total liabilities | 65,892 |
| | <hr/> |
| Net position | |
| Restricted for - Individuals, organizations, and other governments | \$ 621,225 |
| | <hr/> <hr/> |

The accompanying notes are an integral part of these basic financial statements.

CITY OF FRANKENMUTH, MICHIGAN

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended June 30, 2023

| | Custodial Funds |
|--|----------------------------|
| Additions | |
| Property tax collections | \$ 12,061,617 |
| Other collections | 521,317 |
| | <hr/> |
| Total additions | 12,582,934 |
| | <hr/> |
| Deductions | |
| Property tax distributions | 12,061,617 |
| Other distributions | 321,162 |
| | <hr/> |
| Total deductions | 12,382,779 |
| | <hr/> |
| Change in net position | 200,155 |
| Net position, beginning of year, as restated | 421,070 |
| | <hr/> |
| Net position, end of year | <u>\$ 621,225</u> |

The accompanying notes are an integral part of these basic financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Frankenmuth is organized under Michigan's Comprehensive Home Rule City Act. City government is directed by a seven-member City Council, including the Mayor, who is elected by the community at large. This legislative body appoints a City Manager to administer the affairs of the City. The City provides the following services as authorized by its charter: public safety, highways and streets, sanitation, cultural and recreation, public improvements, and general administrative services.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to city governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The accompanying financial statements present the City (the primary government) and one component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its financial relationship to the City.

Discretely Presented Component Unit

The Downtown Development Authority ("DDA") was created to correct and prevent deterioration in the downtown district, to encourage historical preservation, and to promote economic growth within the downtown district. The members of the governing board of the Downtown Development Authority are appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority. Separate financial statements are not prepared for this entity.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

The City does not allocate indirect costs. An administrative fee is charged by the general fund to the other operating funds that is eliminated like a reimbursement to recover the direct costs of the general fund services provided.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Proprietary funds and fiduciary funds, as applicable, 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.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources, except those accounted for and reported in another fund.

The *Parks and Recreation Fund* accounts for the maintenance and upgrades of the City's 18 parks. It also is responsible for the coordination of the City's festivals, concerts, park rentals, and youth to adult league sports and special events.

The City reports the following major enterprise funds:

The *Waste Recovery Facility Fund* accounts for the provision of wastewater services to the residences and businesses of the City and surrounding area. Activities necessary to provide such services include, but are not limited to, sales, administration, operations, maintenance, and construction.

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

The *Water Fund* accounts for the provision of water services to the residences and businesses of the City and surrounding area. Activities necessary to provide such services include, but are not limited to, sales, administration, operations, maintenance, and construction.

The *Refuse Collection Fund* accounts for the provision of refuse collection services to the residences and businesses of the City and surrounding area. Activities necessary to provide such services include, but are not limited to, sales, administration and operations.

Additionally, the City reports the following fund types:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects that comprise, or are expected to comprise a substantial portion of the fund's total reported inflows.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The *internal service fund* is used to record the financing of goods or services by the City to other departments and funds, or to other governmental units, on a cost reimbursement basis.

Custodial funds are used to accounts for assets held by the City in a custodial capacity for other governments and entities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and waste water function. Eliminations of these charges would distort the direct costs and program revenues.

Amounts reported as program revenues include 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. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenue and expenses from *nonoperating* items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of source of supply, transmission and distribution maintenance, and administrative and general expenses, including depreciation and capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Restricted net position are assets that are subject to restrictions beyond the City's control. The restrictions may be externally imposed or imposed by law. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with maturities of three months or less from date of acquisition.

State statutes authorize the City to invest in:

Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

Bankers' acceptances of United States banks.

Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.

Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Restricted Cash and Cash Equivalents

The general fund has restricted pool cash and cash equivalents that are restricted to be used on allowable grant specific expenditures.

Leases

Lessor. The City is a lessor for noncancellable leases on a water tower to cellular companies. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for prepaid lease payments received at lease inception. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts. The City uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease receivable if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Receivables

Receivables consist of all revenues earned at year-end but not yet received.

Inventory

Inventory consists of expendable supplies held for the City's use and are carried at cost using the first-in, first-out method.

Prepays

Prepaid amounts consist of payments for which the City will have a future benefit and will be used up at a date beyond the current year-end.

Capital Assets

Capital assets purchased or acquired with an original cost of \$2,500 or more are reported at historical cost or estimated historical cost. Donated capital assets are valued at their estimated acquisition cost as of the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation on the capital assets (including infrastructure) is computed using the straight-line method over the following estimated useful lives:

| | Years |
|------------------------------------|--------------|
| Infrastructure | 5-50 |
| Furniture, machinery and equipment | 3-10 |
| Buildings | 50 |
| Water and sewer systems | 10-50 |

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

Deferred Outflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflows related to its pension and other postemployment benefits plans. A portion of these costs represent contributions to the pension plan subsequent to the plan measurement date.

Compensated Absences

Eligible employees are permitted to accumulate earned but unused vacation and sick pay benefits in varying amounts based on length of service and certain other established criteria. Vacation/sick pay is accrued when incurred in the government-wide, and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Unearned Revenue

Unearned revenue represents amounts for which the City has received or is due to receive but has not yet earned. The revenues are considered unearned until the proceeds have been fully expensed/expended.

Long-term Obligations

In the government-wide financial statements, and in the proprietary fund financial statements, long-term debt is 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 in the year of issuance.

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

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting, from long-term receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The statements of net position and governmental funds balance sheet report deferred inflows related to leases. The amounts are deferred and amortized over the remaining life of the lease. In addition, the City reports deferred inflows related to its pension and other postemployment benefit plans.

Property Taxes

City property taxes are an enforceable lien on property, when levied on July 1. They are due without penalty on or before July 31. These summer tax bills include the City's own property taxes, state education tax and a portion of Saginaw County taxes billed on behalf of the Intermediate School District and Delta College. Real property taxes not collected as of March 1 are returned to Saginaw County for collection. The County settles with the City for 100% of the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer. Property taxes levied in July of each year are recognized as revenue in that year.

The City acts as a collection agent for a portion of Saginaw County, Saginaw ISD, Delta College, the Frankenmuth James Wickson District Library and the Frankenmuth School District for winter property taxes. Taxes collected on behalf of these entities are turned over immediately following collection, and are accounted for in a designated custodial fund. At December 31, 2022, the taxable value of real and personal property located in the City totaled \$351,369,469, excluding industrial and property tax abatement values.

The levy for the year was based on the following rate:

| | Millage Rate Used | Authorized Millage Rate by Either State Law or City Charter |
|-------------------|-------------------|---|
| General operating | 9.25 | 20* General |

*Limited by Headlee amendment to 18.7860 mills

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

Fund Equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council (the government's highest level of decision-making authority). A formal resolution of the City Council is required to establish, modify, or rescind a fund balance commitment. The City reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The City currently has no assigned fund balance, as the City Council has not yet given the Authority for the making of such assignments. Unassigned fund balance is the residual classification for the general fund. In other funds, the unassigned classification should be only used to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

When the City incurs an expenditure for purposes for which various fund balance classifications can be used, it is the City's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

Pensions and Other Postemployment Benefits

For purposes of measuring the net pension and net other postemployment benefits liabilities, deferred outflows of resources and deferred inflows of resources related to pension and other postemployment benefits, and pension and other postemployment benefit expense, information about the fiduciary net position of the plans and additions to/deductions from the plans fiduciary net position have been determined on the same basis as they are reported by the plans. 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.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect operating subsidies as transfers.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

2. BUDGETARY INFORMATION

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

1. The City Manager submits to the City Council a proposed operating budget, adopted by activity, for the following fiscal year.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution at the May City Council meeting.
4. Formal budgetary integration is employed as a measurement control device during the year for all funds.
5. Budgets for all funds are adopted and have been prepared in accordance with generally accepted accounting principles.
6. The legal level of budgetary control adopted is the activity level.
7. Adoption and amendments of all budgets are governed by Public Act 621. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Amendment to the original budget must meet the requirements of Public Act 621. The City did amend its budget for the fiscal year. Any revisions that alter the total expenditures of any fund must be approved by the City Council.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Expenditures in Excess of Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. Excess of expenditures or transfers out over appropriated amounts in individual funds are as follows:

| | Final Budget | Actual | Over Budget |
|-------------------------------------|-----------------|-----------|----------------|
| General Fund | | | |
| Community and economic development: | | | |
| Economic development | \$ 11,500 | \$ 11,529 | \$ 29 |
| Capital outlay | 103,400 | 116,603 | 13,203 |
| Debt service: | | | |
| Principal | 214,000 | 552,410 | 338,410 |
| Interest | 130,475 | 252,906 | 122,431 |
| Major Streets Fund | | | |
| Public works: | | | |
| Routine maintenance | 51,000 | 52,165 | 1,165 |
| State highway | 27,600 | 27,765 | 165 |
| Capital outlay | 27,500 | 84,561 | 57,061 |

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

4. DEPOSITS

The City's deposits as of June 30, 2023 are included in the financial statements under the following classifications:

| | Primary Government | Component Units | Totals |
|---|-----------------------|---------------------|----------------------|
| Statement of Net Position | | | |
| Cash and investments | \$ 8,036,869 | \$ 1,352,148 | \$ 9,389,017 |
| Restricted cash and cash equivalents | 481,036 | - | 481,036 |
| Statement of Fiduciary Net Position | | | |
| Custodial funds: | | | |
| Cash and cash equivalents | 687,077 | - | 687,077 |
| Total | <u>\$ 9,204,982</u> | <u>\$ 1,352,148</u> | <u>\$ 10,557,130</u> |
| Deposits | | | |
| Bank deposits (checking and savings accounts) | | | \$ 9,540,847 |
| Certificates of deposit with maturities greater than one year | | | 1,015,758 |
| Cash on hand | | | <u>525</u> |
| Total | | | <u>\$ 10,557,130</u> |

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2023, \$4,275,747 of the City's bank balance of \$10,834,129 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The investment policy of the City is to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow needs of the City and comply with all state statutes governing the investment of public funds.

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

5. RECEIVABLES

Receivables as of year end are as follows:

| | Governmental Activities | Business-type Activities | Component Units |
|----------------------------|----------------------------|-----------------------------|--------------------|
| Accounts | \$ 94,615 | \$ 536,089 | \$ 4,041 |
| Special assessments | 1,272,216 | 225,136 | 84,398 |
| Leases | 236,782 | - | - |
| Due from other governments | 216,677 | - | - |
| Loans | - | 1,111,859 | - |
| | <u>\$ 1,820,290</u> | <u>\$ 1,873,084</u> | <u>\$ 88,439</u> |

Amounts not expected to be collected within one year are:

| | Governmental Activities | Business-type Activities | Component Units |
|---------------------|----------------------------|-----------------------------|--------------------|
| Special assessments | \$ 1,213,708 | \$ 205,989 | \$ 48,943 |
| Leases | 228,529 | - | - |
| Loans | - | 963,903 | - |
| | <u>\$ 1,442,237</u> | <u>\$ 1,169,892</u> | <u>\$ 48,943</u> |

6. OTHER ASSETS

Other assets as of year end are as follows:

| | Governmental Activities | Business-type Activities | Component Units |
|-----------|----------------------------|-----------------------------|--------------------|
| Inventory | \$ 23,914 | \$ - | \$ - |
| Prepays | 123,061 | 27,434 | 3,036 |
| | <u>\$ 146,975</u> | <u>\$ 27,434</u> | <u>\$ 3,036</u> |

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of year end are as follows:

| | Governmental Activities | Business-type Activities | Component Units |
|--------------------------|----------------------------|-----------------------------|--------------------|
| Accounts payable | \$ 78,904 | \$ 261,704 | \$ 15,492 |
| Accrued liabilities | 118,563 | 25,210 | 11,312 |
| Due to other governments | 4,349 | - | - |
| Interest payable | 40,097 | 23,651 | 10,180 |
| | <u>\$ 241,913</u> | <u>\$ 310,565</u> | <u>\$ 36,984</u> |

8. INTERFUND TRANSFERS

Interfund transfers between the funds within the primary government were as follows:

| Transfers out | Transfers In | | | Totals |
|-----------------------------|------------------|-------------------------|-----------------------------------|-------------------|
| | General Fund | Parks and Recreation | Nonmajor Governmental Funds | |
| General Fund | \$ - | \$ 585,000 | \$ - | \$ 585,000 |
| Park and Recreation Fund | 35,000 | - | - | 35,000 |
| Nonmajor Governmental Funds | - | - | 100,000 | 100,000 |
| | <u>\$ 35,000</u> | <u>\$ 585,000</u> | <u>\$ 100,000</u> | <u>\$ 720,000</u> |

The majority of interfund transfers consisted of payments to/from funds to subsidize operations.

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

9. CAPITAL ASSETS

Capital asset activity for the current year was as follows:

Primary Government

| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
|--|----------------------|---------------------|--------------------|--------------------|----------------------|
| Governmental activities | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 1,270,325 | \$ - | \$ - | \$ - | \$ 1,270,325 |
| Construction in progress | 9,776,579 | 127,872 | (2,170) | (9,627,967) | 274,314 |
| | <u>11,046,904</u> | <u>127,872</u> | <u>(2,170)</u> | <u>(9,627,967)</u> | <u>1,544,639</u> |
| Capital assets, being depreciated: | | | | | |
| Infrastructure | 15,305,372 | 193,315 | (33,901) | 9,627,967 | 25,092,753 |
| Furniture and equipment | 1,830,206 | 55,794 | (256,251) | - | 1,629,749 |
| Buildings | 4,385,125 | 268,970 | (9,126) | - | 4,644,969 |
| Vehicles | 1,895,146 | 145,386 | (9,546) | - | 2,030,986 |
| | <u>23,415,849</u> | <u>663,465</u> | <u>(308,824)</u> | <u>9,627,967</u> | <u>33,398,457</u> |
| Less accumulated depreciation for: | | | | | |
| Infrastructure | (7,956,320) | (744,439) | 27,685 | - | (8,673,074) |
| Furniture and equipment | (1,359,815) | (61,445) | 230,847 | - | (1,190,413) |
| Buildings | (3,079,325) | (149,635) | 7,570 | - | (3,221,390) |
| Vehicles | (1,372,346) | (89,243) | 7,910 | - | (1,453,679) |
| | <u>(13,767,806)</u> | <u>(1,044,762)</u> | <u>274,012</u> | <u>-</u> | <u>(14,538,556)</u> |
| Total capital assets being depreciated, net | <u>9,648,043</u> | <u>(381,297)</u> | <u>(34,812)</u> | <u>9,627,967</u> | <u>18,859,901</u> |
| Governmental activities capital assets, net | <u>\$ 20,694,947</u> | <u>\$ (253,425)</u> | <u>\$ (36,982)</u> | <u>\$ -</u> | <u>\$ 20,404,540</u> |

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
|---|----------------------|---------------------|--------------------|-------------|----------------------|
| Business-type activities | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 22,963 | \$ - | \$ (2,764) | \$ - | \$ 20,199 |
| Construction in progress | - | 24,873 | - | - | 24,873 |
| | <u>22,963</u> | <u>24,873</u> | <u>(2,764)</u> | <u>-</u> | <u>45,072</u> |
| Capital assets, being depreciated: | | | | | |
| Buildings | 18,986,507 | - | (19,057) | - | 18,967,450 |
| Furniture, machinery and equipment | 2,644,351 | 111,893 | (187,172) | - | 2,569,072 |
| Water and sewer systems | 20,883,490 | 44,330 | (91,087) | - | 20,836,733 |
| | <u>42,514,348</u> | <u>156,223</u> | <u>(297,316)</u> | <u>-</u> | <u>42,373,255</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings | (17,659,461) | (289,888) | 17,917 | - | (17,931,432) |
| Furniture, machinery and equipment | (1,930,323) | (99,615) | 163,289 | - | (1,866,649) |
| Water and sewer systems | (11,277,614) | (557,564) | 79,846 | - | (11,755,332) |
| | <u>(30,867,398)</u> | <u>(947,067)</u> | <u>261,052</u> | <u>-</u> | <u>(31,553,413)</u> |
| Total capital assets being depreciated, net | <u>11,646,950</u> | <u>(790,844)</u> | <u>(36,264)</u> | <u>-</u> | <u>10,819,842</u> |
| Business-type activities capital assets, net | <u>\$ 11,669,913</u> | <u>\$ (765,971)</u> | <u>\$ (39,028)</u> | <u>\$ -</u> | <u>\$ 10,864,914</u> |

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

Depreciation of governmental activities by function

| | |
|------------------------|------------------|
| General government | \$ 316,741 |
| Public safety | 24,041 |
| Public works | 147,965 |
| Recreation and culture | 442,888 |
| Internal service | 113,127 |
| | <u>1,044,762</u> |

Total depreciation expense - governmental activities

\$ 1,044,762

Depreciation of business-type activities by function

| | |
|----------------|----------------|
| Waste recovery | \$ 568,954 |
| Water | 378,113 |
| | <u>947,067</u> |

Total depreciation expense - business-type activities

\$ 947,067

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

The City has active construction commitments of \$255,035 as of June 30, 2023.

10. BONDS PAYABLE AND OTHER LONG-TERM LIABILITIES

Long-term debt activity for the year ended June 30, 2023 was as follows:

| | Beginning Balance | Additions | Deductions | Ending Balance | Due Within One Year |
|---------------------------------------|----------------------|-------------------|---------------------|---------------------|------------------------|
| Governmental Activities | | | | | |
| 2012 Capital Improvement | \$ 83,000 | \$ - | \$ (83,000) | \$ - | \$ - |
| 2013 Capital Improvement | 380,600 | - | (29,410) | 351,190 | 29,410 |
| 2015 DDA Refunding | 270,000 | - | (135,000) | 135,000 | 135,000 |
| 2019 Capital Improvement | 9,210,000 | - | (285,000) | 8,925,000 | 290,000 |
| 2010 DDA Refunding | 65,000 | - | (20,000) | 45,000 | 25,000 |
| Total installment debt | 10,008,600 | - | (552,410) | 9,456,190 | 479,410 |
| Compensated absences | 184,543 | 243,897 | (319,399) | 109,041 | 4,607 |
| Total governmental activities | \$ 10,193,143 | \$ 243,897 | \$ (871,809) | \$ 9,565,231 | \$ 484,017 |
| Business-type Activities | | | | | |
| 2013 Capital Improvement | \$ 719,400 | \$ - | \$ (55,590) | \$ 663,810 | \$ 55,590 |
| 2018 Water Capital Improvement | 3,575,000 | - | (125,000) | 3,450,000 | 130,000 |
| Total installment debt | 4,294,400 | - | (180,590) | 4,113,810 | 185,590 |
| Compensated absences | 48,789 | 48,021 | (45,810) | 51,000 | 51,000 |
| Total business-type activities | \$ 4,343,189 | \$ 48,021 | \$ (226,400) | \$ 4,164,810 | \$ 236,590 |
| Component Unit - DDA | | | | | |
| Water Fund Loans: | | | | | |
| 2015 Loan | \$ 120,000 | \$ - | \$ (30,000) | \$ 90,000 | \$ 30,000 |
| 2021 Loan | 1,137,206 | - | (115,347) | 1,021,859 | 117,956 |
| Total installment debt | 1,257,206 | - | (145,347) | 1,111,859 | 147,956 |
| Compensated absences | 8,122 | 6,566 | (5,184) | 9,504 | - |
| Total component unit - DDA | \$ 1,265,328 | \$ 6,566 | \$ (150,531) | \$ 1,121,363 | \$ 147,956 |

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

| | Interest Rate | Year of Maturity | Original Amount | Principal Payments (in thousands) |
|--|---------------|------------------|-----------------|-----------------------------------|
| Governmental Activities | | | | |
| 2013 Capital Improvement Bonds (split 34.6% governmental activities) | 3.000-4.625% | 2033 | \$ 1,750,000 | \$65-\$120 |
| 2015 DDA Refunding Bonds | 0.750-2.750% | 2024 | 2,415,000 | 135 -460 |
| 2019 Capital Improvements | 2.250-2.750% | 2045 | 9,750,000 | 265-545 |
| 2010 DDA special assessment refunding bonds | 4.000-5.000% | 2025 | 855,000 | 20 -75 |
| Business-type Activities | | | | |
| 2013 Capital Improvement Bonds (split 65.4% business-type activities) | 3.000-4.625% | 2033 | 1,750,000 | 65-120 |
| 2018 Water Capital Improvement | 3.000-3.625% | 2042 | 4,000,000 | 80-250 |

During the year ended June 30, 2015, the Water Fund advanced the DDA \$300,000 to fund project overruns for the south side sanitary sewer project. The advance is to be paid off March 2026. Interest is set at 2%. The first two years of the advance pay off included interest only. Principal payments began fiscal year 2017.

During the year ended June 30, 2021, the Water Fund advanced the DDA \$1,250,000 to fund the construction of the Riverwalk project. The advance is to be paid off in January of 2031. Interest rate is set at 2.25%. Bi-annual payments of principal; and interest began July 1, 2021.

Annual debt service requirements to maturity are as follows:

| Year Ended June 30, | Governmental Activities | | |
|------------------------|-------------------------|---------------------|----------------------|
| | Principal | Interest | Total |
| 2024 | \$ 479,410 | \$ 238,944 | \$ 718,354 |
| 2025 | 351,140 | 226,461 | 577,601 |
| 2026 | 341,140 | 217,965 | 559,105 |
| 2027 | 352,870 | 209,745 | 562,615 |
| 2028 | 364,600 | 201,230 | 565,830 |
| 2029-2033 | 1,992,030 | 866,711 | 2,858,741 |
| 2034-2038 | 2,085,000 | 620,790 | 2,705,790 |
| 2039-2043 | 2,415,000 | 343,995 | 2,758,995 |
| 2044-2045 | 1,075,000 | 44,550 | 1,119,550 |
| | <u>\$ 9,456,190</u> | <u>\$ 2,970,391</u> | <u>\$ 12,426,581</u> |

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

| Year Ended June 30, | Business-type Activities | | |
|------------------------|--------------------------|---------------------|---------------------|
| | Principal | Interest | Total |
| 2024 | \$ 185,590 | \$ 141,903 | \$ 327,493 |
| 2025 | 188,860 | 135,779 | 324,639 |
| 2026 | 193,860 | 129,525 | 323,385 |
| 2027 | 202,130 | 123,120 | 325,250 |
| 2028 | 215,400 | 116,435 | 331,835 |
| 2029-2033 | 1,192,970 | 466,514 | 1,659,484 |
| 2034-2038 | 995,000 | 272,600 | 1,267,600 |
| 2039-2042 | 940,000 | 86,490 | 1,026,490 |
| | <u>\$ 4,113,810</u> | <u>\$ 1,472,366</u> | <u>\$ 5,586,176</u> |

| Year Ended June 30, | Component Unit - DDA | | |
|------------------------|----------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| 2024 | \$ 147,956 | \$ 24,132 | \$ 172,088 |
| 2025 | 150,625 | 20,863 | 171,488 |
| 2026 | 153,355 | 17,534 | 170,889 |
| 2027 | 126,146 | 14,143 | 140,289 |
| 2028 | 129,000 | 11,288 | 140,288 |
| 2029-2031 | 404,777 | 16,087 | 420,864 |
| | <u>\$ 1,111,859</u> | <u>\$ 104,047</u> | <u>\$ 1,215,906</u> |

Compensated absences liability in governmental activities will be liquidated by the General Fund.

11. LEASES

Lessor - The City is involved in two agreements as a lessor that qualify as long-term lease agreements. Below is a summary of these agreements. These agreements qualify as long-term lease agreements as the City will not surrender control of the asset at the end of the term and the noncancelable term of the agreement surpasses one year. Total lease revenue for the year ended June 30, 2023 was \$7,879.

Remaining Term of Agreements

Asset Type

Water tower

7-21 years

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

12. RISK MANAGEMENT

The City of Frankenmuth is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participated in the Michigan Municipal League Liability and Property Pool, a public entity risk pool currently operating as a common risk management program for municipalities in the State of Michigan. The City Council pays an annual premium to the pool for its general insurance coverage. The pool is self-sustaining through member premiums.

The City participates in the Michigan Municipal League Worker's Compensation Self-Insurer's Fund (SIF) for its workers' compensation benefits. The SIF is a common risk management program for municipalities in the State of Michigan and is self-sustaining through premiums. In the event of unusually high claims, the SIF has the authority to bill the members retroactively. The City continues to carry commercial insurance for other risks of loss, including employee health and property insurance. The City's amount of settlements did not exceed insured coverage for the last three fiscal years.

13. PENSION PLAN

Michigan Municipal Employees' Retirement System

General Information about the Pension Plan

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

Benefits Provided. Benefits provided include plans with multipliers ranging from 1.00% to 2.50%. Vesting periods range from 6 to 10 years. Normal retirement age is 60 years with early retirement ranging from 50 to 55 with 15 to 25 years of service. Final average compensation is calculated based on 3 years. Member contributions range from 0% to 8.00%.

Employees Covered by Benefit Terms. At the December 31, 2022 valuation date, plan membership consisted of the following:

| | |
|--|------------------|
| Inactive employees or beneficiaries currently receiving benefits | 30 |
| Inactive employees entitled to but not yet receiving benefits | 5 |
| Active employees | <u>33</u> |
| Total membership | <u><u>68</u></u> |

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

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

| Division/Bargaining Unit | Employer Contribution | Employee Contribution | Status |
|---------------------------------|-----------------------|-----------------------|--------|
| 01 - General | \$29,169/month | 8.00% | Closed |
| 02 - Police | \$17,549/month | 8.00% | Closed |
| HA- New hires of General (01) | 4.96% | 0.00% | Open |
| HB - New Hires from Police (02) | 5.28% | 0.00% | Open |

Net Pension Liability. The City's net pension liability was measured as of December 31, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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

| | |
|---------------------------|--|
| Inflation | 2.50% |
| Salary increases | 3.00% in the long-term |
| Investment rate of return | 7.00%, net of investment and administrative expenses and inflation |

The base mortality tables used are constructed as described below and are based on are amount weighted sex distinct rates:

- Pre-retirement mortality based on 100% of Pub-2010 Juvenile Mortality Tables for ages 0-17, 100% of PubG-2010 Employee Mortality Tables for Ages 18-80, and 100% of PubG-2010 Healthy Retiree Tables for ages 81-120
- Non-disabled retired plan members and beneficiaries mortality based on 106% of Pub-2010 Juvenile Mortality Tables for ages 0-17, 106% of PubG-2010 Employee Mortality Tables for Ages 18-49, and 106% of PubG-2010 Healthy Retiree Tables for ages 50-120
- Disabled retired plan members mortality based on 100% of Pub-2010 Juvenile Mortality Tables for ages 0-17, and 100% of PubNS-2010 Disabled Retiree Tables for ages 18-120

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2014-2018.

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

Long-term Expected Rate of Return. The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return | Expected Money-Weighted Rate of Return |
|--------------------------------------|-------------------|--|--|
| Global equity | 60.0% | 4.50% | 2.70% |
| Global fixed income | 20.0% | 2.00% | 0.40% |
| Private investments | 20.0% | 7.00% | 1.40% |
| | <u>100.0%</u> | | |
| Inflation | | | 2.50% |
| Administrative expenses netted above | | | <u>0.25%</u> |
| Investment rate of return | | | <u><u>7.25%</u></u> |

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2022 was 7.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

Changes in Net Pension Liability

The components of the change in the net pension liability are summarized as follows:

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
|--|--|--|--|
| Balances at December 31, 2021 | \$ 18,940,193 | \$ 12,996,168 | \$ 5,944,025 |
| Changes for the year: | | | |
| Service cost | 181,105 | - | 181,105 |
| Interest | 1,337,842 | - | 1,337,842 |
| Differences between expected and actual experience | (18,182) | - | (18,182) |
| Changes in assumptions | - | - | - |
| Employer contributions | - | 563,616 | (563,616) |
| Employee contributions | - | 76,128 | (76,128) |
| Net investment loss | - | (1,348,071) | 1,348,071 |
| Benefit payments, including refunds of employee contributions | (1,155,515) | (1,155,515) | - |
| Administrative expense | - | (23,695) | 23,695 |
| Net changes | <u>345,250</u> | <u>(1,887,537)</u> | <u>2,232,787</u> |
| Balances at December 31, 2022 | <u>\$ 19,285,443</u> | <u>\$ 11,108,631</u> | <u>\$ 8,176,812</u> |

Net pension liability as presented on the Statement of Net Position:

| | Net Pension Liability |
|----------------------|----------------------------------|
| Primary Government | \$ 7,924,966 |
| Component Unit - DDA | <u>251,846</u> |
| Total | <u>\$ 8,176,812</u> |

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the City, calculated using the discount rate of 7.25%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate:

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|-----------------------|------------------------|-------------------------------------|------------------------|
| Net pension liability | \$ 10,295,477 | \$ 8,176,812 | \$ 6,381,177 |

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

For the year ended June 30, 2023, the City recognized pension expense of \$1,449,547. The City reported deferred outflows/inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources | Net Deferred Outflows (Inflows) of Resources |
|--|--------------------------------------|-------------------------------------|---|
| Difference between expected and actual experience | \$ 269,616 | \$ 44,092 | \$ 225,524 |
| Changes in assumptions | 520,901 | - | 520,901 |
| Net difference between projected and actual earnings on pension plan investments | 1,005,355 | - | 1,005,355 |
| | <u>1,795,872</u> | <u>44,092</u> | <u>1,751,780</u> |
| Contributions subsequent to the measurement date | 294,492 | - | 294,492 |
| Total | <u>\$ 2,090,364</u> | <u>\$ 44,092</u> | <u>\$ 2,046,272</u> |

Deferred outflows/inflows of resources as presented on the Statement of Net Position:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|----------------------|--------------------------------------|-------------------------------------|
| Primary Government | \$ 2,025,981 | \$ 42,734 |
| Component Unit - DDA | 64,383 | 1,358 |
| Total | <u>\$ 2,090,364</u> | <u>\$ 44,092</u> |

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2024. Other amounts reported as deferred outflows/inflows of resources related to the pension will be recognized in pension expense as follows:

| Year Ended June 30, | Amount |
|------------------------|----------------------------|
| 2024 | \$ 551,279 |
| 2025 | 460,687 |
| 2026 | 289,302 |
| 2027 | <u>450,512</u> |
| Total | <u>\$ 1,751,780</u> |

Payable to the Pension Plan. At June 30, 2023, the City had no amounts payable for contributions to the pension plan.

For the governmental activities, the net pension liability is generally liquidated by the General Fund.

14. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The City of Frankenmuth Retiree Medical Plan (the "OPEB Plan"), is a single-employer defined benefit healthcare plan administered by the City. Stand-alone financial statements are not issued for the OPEB Plan.

Benefits Provided

Eligibility. Non-union – hired prior to January 1, 2007, age 60 with 10 years of service or age 55 with 30 years of service. Union - age 55 with 10 years of service.

Employer Benefits. Employer pays single or double retiree premium up to \$450 per month until age 65. Spouse covered while retiree is still alive and covered.

Employee Contribution. Balance of premium not paid by the City.

The OPEB Plan is closed to new hires.

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

Summary of Plan Participants

As of June 30, 2022, OPEB plan membership consisted of the following:

| | Non-Union | Union | Total |
|----------------------------|-----------|----------|-----------|
| Active plan members | 10 | 6 | 16 |
| Retirees and beneficiaries | 1 | 2 | 3 |
| Total participants | 11 | 8 | 19 |

Contributions

The OPEB Plan was established and is being funded under the authority of the City and under agreements with unions representing various classes of employees. The plan's funding policy is that the City will pay benefits from general operating funds – pay-as-you-go. There are no long-term contracts for contributions to the plan.

Total OPEB Liability

The City's total OPEB liability was measured as of June 30, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022, rolled forward to the measurement date of June 30, 2023.

Actuarial Assumptions

| | |
|--------------------------------|--|
| Inflation | Not applicable |
| Salary increases | 3.50% (for purpose of allocating liability) |
| Investment rate of return | N/A; plan is not prefunded |
| 20-year Aa Municipal bond rate | 4.13% (S&P Municipal Bond 20-Year High Grade Rate Index) |
| Mortality | Public general and police 2010 employee and healthy retire, headcount weighted |
| Improvement scale | MP-2021 |

As this plan is not pre-funded, no long-term expected rate of return on plan investments was determined.

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

Discount rate. The discount rate used to measure the total OPEB liability for the portion of the net OPEB liability allocated to funds of the City as of June 30, 2023 was 4.13%. Because this portion of the net OPEB liability does not have a dedicated trust, there are no assets projected to be sufficient to make projected future benefit payments of current plan members. Projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the total OPEB liability.

Changes in the total OPEB liability during the year were as follows:

| | Total OPEB Liability |
|----------------------------------|---------------------------------|
| Balances at June 30, 2022 | <u>\$ 179,926</u> |
| Changes for the year: | |
| Service cost | 3,765 |
| Interest | 7,188 |
| Experience (gains)/losses | (2,198) |
| Changes in assumptions | (290) |
| Benefit payments | <u>(15,913)</u> |
| Net changes | <u>(7,448)</u> |
| Balances at June 30, 2023 | <u><u>\$ 172,478</u></u> |

Changes in Assumptions. Amounts reported as changes in assumptions resulted from an increase in the discount rate from 4.09% to 4.13%.

Total OPEB Liability – Discount and Trend Rate Sensitivities

The following presents the total OPEB liability of the City, calculated using the discount rate of 4.13%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (3.13%) or 1% higher (5.13%) than the current rate:

| | 1% Decrease (3.13%) | Current Discount Rate (4.13%) | 1% Increase (5.13%) |
|----------------------|--------------------------------|--|--------------------------------|
| Total OPEB liability | \$ 179,833 | \$ 172,478 | \$ 165,381 |

Because the benefit under this plan is capped, trend sensitivity is not applicable.

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

OPEB Expense Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2023, the City recognized OPEB expense of \$5,067. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources | Net Deferred Outflows (Inflows) of Resources |
|---|--------------------------------------|-------------------------------------|---|
| Difference between expected and actual experience | \$ - | \$ 3,826 | \$ (3,826) |
| Changes in assumptions | 131 | 13,069 | (12,938) |
| Total | <u>\$ 131</u> | <u>\$ 16,895</u> | <u>\$ (16,764)</u> |

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

| Year Ended June 30, | Amount |
|------------------------|--------------------|
| 2024 | \$ (5,441) |
| 2025 | (4,476) |
| 2026 | (4,476) |
| 2027 | <u>(2,371)</u> |
| Total | <u>\$ (16,764)</u> |

Payable to the OPEB Plan. At June 30, 2023, the City had no amount payable for contributions to the OPEB plan.

For the governmental activities, the total OPEB liability is generally liquidated by the General Fund.

15. CONTINGENCIES AND COMMITMENTS

The City is a third party guarantor of a loan between the Frankenmuth Chamber of Commerce and Frankenmuth Credit Union in the amount of \$162,758 for remodeling of the Chamber building which the Chamber leases from the City. The lease is excluded from the calculation of leases receivable as the terms include a \$1 rent payment per year and is not considered an exchange or exchange like transaction under GASB 87.

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

16. JOINT VENTURE

In 1960, the City entered into a Joint Venture with the Township of Frankenmuth to form the Frankenmuth City-Township Commission. The Commission manages jointly owned property and equipment. The City contributes to the Frankenmuth City-Township Commission based upon the adopted budget of the Commission. Contributions to the Commission for the year ended June 30, 2023 were \$321,148.

In 2004, the City entered into a Joint Venture with Frankenmuth Township and Blumfield Township to form the Construction Code Group Authority. Tuscola Township joined this Authority in 2018. This Authority provides for inspection services on a part time basis for member communities. The City made no contributions to the Authority during the year ended June 30, 2023.

17. TAX ABATEMENT

The City may enter into property tax abatements agreements with local businesses under the Plant Rehabilitation and Industrial Development Act (Industrial Facilities Exemption), (P.A. 198 of 1974 as amended). Under the Act, the City may grant property tax abatements of up to 50% of the business' property tax bill for the purpose of attracting or retaining business within their jurisdictions. The abatement may be granted to any local business located within or promising to relocate to the City. The property taxes abated under this program for the year ended June 30, 2023 was \$9,455.

A State veterans exemption for property taxes allows all disabled veterans the ability to become tax exempt. Over this past year, there were multiple approvals of this exemption, reducing the amount of property taxes collected with no plan for the State to supplement that revenue stream. The property taxes abated under this program for the year ended June 30, 2023 was \$13,957.

18. PRIOR PERIOD ADJUSTMENTS

Beginning equity was restated by the following amounts:

| | Beginning Equity As Restated | 2022 Change in Net Position/ Fund Balance Understated (Overstated) |
|--|------------------------------------|--|
| Governmental funds | | |
| General fund: | | |
| Fund balance, beginning of year, as previously reported | \$ 1,935,532 | \$ - |
| Unrecorded accrued wages | (68,882) | (24,185) |
| Certain amounts were reported as unearned revenue that should have been reported as revenue | 60,377 | - |
| Certain amounts were reported as revenue that should have been deferred inflows of resources | (57,940) | 7,179 |
| Unrecorded state shared revenue, receivable as of June 30, 2022 | 97,631 | 5,185 |
| Compensated absences liability recorded in error | 74,317 | 5,000 |
| Fund balance, end of year, as restated | <u>\$ 2,041,035</u> | <u>\$ (6,821)</u> |

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

| | Beginning Equity As Restated | 2022 Change in Net Position/ Fund Balance Understated (Overstated) |
|---|------------------------------------|--|
| Governmental funds (concluded) | | |
| Parks and recreation special revenue fund: | | |
| Fund balance, beginning of year, as previously reported | \$ 103,583 | \$ - |
| Certain amounts were reported as unearned revenue that should have been reported as revenue | 42,944 | 815 |
| Unrecorded retainage payable | (14,861) | (14,861) |
| Unrecorded accrued wages | (11,547) | (2,127) |
| Fund balance, end of year, as restated | <u>\$ 120,119</u> | <u>\$ (16,173)</u> |
| Downtown Development Authority special revenue fund: | | |
| Fund balance, beginning of year, as previously reported | \$ 1,107,965 | \$ - |
| Ending fund balance was restated as DDA component unit, as the DDA meets the criteria for component unit reporting | (1,107,965) | (152,999) |
| Fund balance, end of year, as restated | <u>\$ -</u> | <u>\$ (152,999)</u> |
| Refuse special revenue fund: | | |
| Fund balance, beginning of year, as previously reported | \$ 22,858 | \$ - |
| Ending fund balance was restated as refuse collection proprietary fund | (22,858) | (22,858) |
| Fund balance, end of year, as restated | <u>\$ -</u> | <u>\$ (22,858)</u> |
| Governmental funds, total fund balance, beginning of year, as previously reported | | |
| | \$ 3,866,399 | \$ (690,122) |
| Governmental funds, total fund balance, beginning of year, as restated | 2,857,615 | (198,851) |
| Change in fund balance from restatements | <u>\$ (1,008,784)</u> | <u>\$ (888,973)</u> |
| Governmental activities | | |
| Net position, beginning of year, as previously reported | \$ 9,953,767 | \$ - |
| Net restatements from governmental funds | (1,008,784) | (888,973) |
| Unrecorded accrued interest payable | (42,985) | 3,239 |
| Certain amounts were reported as revenue that should have been reported as deferred inflows of resources in the general fund therefore, correctly reported as revenue in governmental activities | 57,940 | (7,179) |
| Certain amounts were reported as unearned revenue that should have been reported as deferred inflows of resources in the general fund and therefore, reported as revenue in governmental activities | 1,272,215 | (55,854) |
| Certain amounts of compensated absences were unrecorded | (110,226) | (7,322) |
| Certain amounts were allocated incorrectly for the 2013 Capital Improvement bonds | (239,559) | - |

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

| | Beginning Equity As Restated | 2022 Change in Net Position/ Fund Balance Understated (Overstated) |
|---|------------------------------------|--|
| Governmental activities (concluded) | | |
| Certain amounts were expensed that should have been capitalized as capital assets | \$ 185,565 | \$ 185,565 |
| Compensated absences recorded incorrectly in the general fund but reported correctly in governmental activities | (74,317) | (5,000) |
| Due to reclassification of DDA to a component unit: | | |
| Certain amounts were advanced from the water fund that represent a long-term liability for the DDA | 1,257,206 | (142,794) |
| The net pension liability and related deferrals allocated to the DDA | 162,058 | 40,300 |
| | <u>162,058</u> | <u>40,300</u> |
| Governmental activities net position, as restated | <u>\$ 11,412,880</u> | <u>\$ (878,018)</u> |
| Business-type activities | | |
| Waste Resource Recovery Facility fund: | | |
| Net position, beginning of year, as previously reported | \$ 5,514,490 | \$ - |
| Unrecorded accrued wages | (12,951) | (1,875) |
| Certain amounts of compensated absences were unrecorded | (18,295) | 566 |
| Certain amounts were allocated incorrectly for the 2013 Capital Improvement bonds | 140,859 | - |
| Certain amounts were reported as unearned revenue that should have been reported as special assessment revenue | 124,166 | (9,999) |
| Net position, beginning of year, as restated | <u>\$ 5,748,269</u> | <u>\$ (11,308)</u> |
| Water fund: | | |
| Net position, beginning of year, as previously reported | \$ 5,143,205 | \$ - |
| Unrecorded accrued wages | (7,699) | 940 |
| Certain amounts of compensated absences were unrecorded | (21,196) | 475 |
| Certain amounts were allocated incorrectly for the 2013 Capital Improvement bonds | 98,700 | - |
| Certain amounts were reported as unearned revenue that should have been reported as special assessment revenue | 102,631 | (6,200) |
| Unrecorded accrued interest payable | (20,274) | 643 |
| Net position, beginning of year, as restated | <u>\$ 5,295,367</u> | <u>\$ (4,142)</u> |
| Refuse Collection fund: | | |
| Net position, beginning of year, as previously reported | \$ - | \$ - |
| Refuse fund governmental special revenue fund balance | 22,858 | - |
| Net position, beginning of year, as restated | <u>22,858</u> | <u>-</u> |
| Business-type activities net position, as restated | <u>\$ 11,066,494</u> | <u>\$ (15,450)</u> |

CITY OF FRANKENMUTH, MICHIGAN

Notes to Financial Statements

| | Beginning Equity As Restated | 2022 Change in Net Position/ Fund Balance Understated (Overstated) |
|--|------------------------------------|--|
| Joint Venture Pooled Cash Custodial Fund | | |
| Net position, beginning of year, as previously reported | \$ - | \$ - |
| Pooled cash balance of Construction Code Group | | |
| Authority that did not meet the criteria for component unit reporting | 421,070 | (14,427) |
| Net position, beginning of year, as previously reported | <u>\$ 421,070</u> | <u>\$ (14,427)</u> |
| Downtown Development Authority Component Unit (governmental fund) | | |
| Fund balance, beginning of year, as previously reported | \$ - | \$ - |
| Downtown Development Authority special revenue fund balance | 1,107,965 | |
| Unrecorded accrued wages | (11,399) | 10,535 |
| Certain amounts were reported as revenue that should have been deferred inflows of resources | (38,657) | (26,432) |
| Fund balance, end of year, as restated | <u>\$ 1,057,909</u> | <u>\$ (15,897)</u> |
| Downtown Development Authority Component Unit (government activities) | | |
| Net position, beginning of year, as previously reported | \$ - | \$ - |
| Net restatements from DDA (governmental fund) | 1,057,909 | (15,897) |
| Certain amounts were reported as revenue that should have been reported as deferred inflows of resources in the general fund and therefore, correctly reported as revenue in governmental activities | 38,657 | 26,432 |
| Certain amounts of compensated absences were unrecorded | (8,122) | 16,581 |
| Due to reclassification of the net pension liability and related deferrals allocated to the DDA | (162,058) | (40,300) |
| Certain amounts were reported as unearned revenue that should have been reported as deferred inflows of resources in the general fund and therefore, reported as revenue in governmental activities | 78,692 | (11,129) |
| Certain amounts were advanced from the water fund that represent a long-term liability for the DDA | (1,257,206) | 142,794 |
| Net deficit, beginning of year, as previously reported | <u>\$ (252,128)</u> | <u>\$ 118,481</u> |
| Construction Code Group Authority Component Unit* | | |
| Net position, beginning of year, as previously reported | \$ 423,069 | \$ - |
| Ending net position was restated as Construction Codes Group | | |
| Authority did not meet the criteria for component unit reporting | (423,069) | 15,387 |
| Net position, beginning of year, as previously reported | <u>\$ -</u> | <u>\$ 15,387</u> |

*As the Construction Code Group Authority does not meet the criteria for component unit reporting, it will not be included as part of the City's financial reporting entity going forward.



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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FRANKENMUTH, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Changes in the City's Net Pension Liability and Related Ratios

| | Year Ended June 30, | | | | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| Total Pension liability | | | | | |
| Service cost | \$ 181,105 | \$ 169,665 | \$ 170,652 | \$ 194,846 | \$ 181,443 |
| Interest | 1,337,842 | 1,230,363 | 1,250,637 | 1,225,259 | 1,174,159 |
| Changes in benefit terms | - | - | - | - | - |
| Difference in expected and actual experience | (18,182) | 455,172 | (118,118) | 86,363 | 181,617 |
| Changes in assumptions | - | 661,745 | 280,159 | 599,941 | - |
| Benefit payments, including refunds of member contributions | (1,155,515) | (1,043,677) | (966,459) | (942,143) | (868,206) |
| Other changes | - | 59,398 | (63,000) | - | - |
| Net change in total pension liability | <u>345,250</u> | <u>1,532,666</u> | <u>553,871</u> | <u>1,164,266</u> | <u>669,013</u> |
| Total pension liability, beginning of year | <u>18,940,193</u> | <u>17,407,527</u> | <u>16,853,656</u> | <u>15,689,390</u> | <u>15,020,377</u> |
| Total pension liability, ending of year | <u>19,285,443</u> | <u>18,940,193</u> | <u>17,407,527</u> | <u>16,853,656</u> | <u>15,689,390</u> |
| Change in plan fiduciary net position | | | | | |
| Employer contributions | 563,616 | 522,669 | 422,211 | 371,862 | 317,255 |
| Employee contributions | 76,128 | 99,944 | 95,871 | 101,133 | 148,699 |
| Net investment income (loss) | (1,348,071) | 1,644,950 | 1,350,586 | 1,344,549 | (416,544) |
| Benefit payments, including refunds of member contributions | (1,155,515) | (1,043,677) | (966,459) | (942,143) | (868,206) |
| Administrative expense | (23,695) | (18,879) | (21,645) | (23,159) | (20,857) |
| Net change in plan fiduciary net position | <u>(1,887,537)</u> | <u>1,205,007</u> | <u>880,564</u> | <u>852,242</u> | <u>(839,653)</u> |
| Plan fiduciary net position, beginning of year | <u>12,996,168</u> | <u>11,791,161</u> | <u>10,910,597</u> | <u>10,058,355</u> | <u>10,898,008</u> |
| Plan fiduciary net position, ending of year | <u>11,108,631</u> | <u>12,996,168</u> | <u>11,791,161</u> | <u>10,910,597</u> | <u>10,058,355</u> |
| City's net pension liability | <u>\$ 8,176,812</u> | <u>\$ 5,944,025</u> | <u>\$ 5,616,366</u> | <u>\$ 5,943,059</u> | <u>\$ 5,631,035</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 57.60% | 68.62% | 67.74% | 64.74% | 64.11% |
| Covered payroll | \$ 2,348,360 | \$ 2,122,450 | \$ 1,805,429 | \$ 1,943,226 | \$ 1,827,170 |
| City's net pension liability as a percentage of covered payroll | 348.19% | 280.05% | 311.08% | 305.83% | 308.18% |

See notes to required supplementary information.

| Year Ended June 30, | | | |
|---------------------|--------------|--------------|--------------|
| 2018 | 2017 | 2016 | 2015 |
| \$ 187,157 | \$ 192,720 | \$ 202,010 | \$ 199,208 |
| 1,151,904 | 1,098,373 | 1,132,200 | 1,083,535 |
| (4,469) | (5,153) | (1,172,668) | - |
| (192,657) | 198,043 | (212,462) | - |
| - | - | 797,525 | - |
| (853,553) | (770,592) | (701,261) | (687,278) |
| - | - | - | - |
| 288,382 | 713,391 | 45,344 | 595,465 |
| 14,731,995 | 14,018,604 | 13,973,260 | 13,377,795 |
| 15,020,377 | 14,731,995 | 14,018,604 | 13,973,260 |
| 300,884 | 310,347 | 327,896 | 309,579 |
| 103,666 | 107,803 | 76,431 | 76,692 |
| 1,309,656 | 1,055,559 | (145,884) | 599,460 |
| (853,553) | (770,592) | (701,261) | (687,278) |
| (20,766) | (20,838) | (21,375) | (21,986) |
| 839,887 | 682,279 | (464,193) | 276,467 |
| 10,058,121 | 9,375,842 | 9,840,035 | 9,563,568 |
| 10,898,008 | 10,058,121 | 9,375,842 | 9,840,035 |
| \$ 4,122,369 | \$ 4,673,874 | \$ 4,642,762 | \$ 4,133,225 |
| 72.55% | 68.27% | 66.88% | 70.42% |
| \$ 1,690,065 | \$ 1,752,319 | \$ 1,617,983 | \$ 1,553,178 |
| 243.92% | 266.73% | 286.95% | 266.11% |

CITY OF FRANKENMUTH, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan
Schedule of Contributions

| Fiscal Year Ended June 30, | Actuarially Determined Contribution | Contributions in Relation to the Actuarially Determined Contribution | Contribution Deficiency (Excess) | Covered Payroll | Contributions as Percentage of Covered Payroll |
|-------------------------------|---|--|-------------------------------------|-----------------|--|
| 2023 | \$ 582,603 | \$ 582,603 | \$ - | \$ 2,470,922 | 23.6% |
| 2022 | 522,669 | 522,669 | - | 1,805,429 | 28.9% |
| 2021 | 422,211 | 422,211 | - | 1,805,429 | 23.4% |
| 2020 | 371,862 | 371,862 | - | 1,943,226 | 19.1% |
| 2019 | 317,255 | 317,255 | - | 1,827,170 | 17.4% |
| 2018 | 300,884 | 300,884 | - | 1,690,065 | 17.8% |
| 2017 | 310,131 | 310,131 | - | 1,752,319 | 17.7% |
| 2016 | 327,897 | 327,897 | - | 1,617,983 | 20.3% |
| 2015 | 309,579 | 309,579 | - | 1,553,178 | 19.9% |
| 2014 | 281,955 | 281,955 | - | 1,613,444 | 17.5% |

See notes to required supplementary information.

CITY OF FRANKENMUTH, MICHIGAN

Notes to Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Notes to Schedule of Changes in the City's Net Pension Liability and Related Ratios

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Changes in Assumptions. In 2016, amounts reported as changes of assumptions resulted primarily from adjustments to the mortality table to reflect longer lifetimes, decreases in the assumed rate of return, and changes in asset smoothing.

In 2020, amounts reported as changes of assumptions resulted primarily from a decrease in the assumed rate of return from 7.75% to 7.35%, and a decrease in the assumed rate of wage inflation from 3.75% to 3.00%.

In 2021, amounts reported as changes in assumptions related to updated demographic assumptions, including adjustments to the following actuarial assumptions: mortality, retirement, disability, and termination rates.

In 2022, amounts reported as changes of assumptions resulted from a decrease in the assumed rate of return from 7.35% to 7.00%.

Changes in Benefits. In 2016, amounts reported as changes of benefits resulted primarily from the rate for employee contributions increasing from 5.25% to 7.00%.

In 2017, amounts reported as changes of benefits resulted primarily from the rate for employee contributions increasing from 7.00% to 7.50%.

In 2018, amounts reported as changes of benefits resulted primarily from the rate for employee contributions increasing from 7.500% to 8.00%.

CITY OF FRANKENMUTH, MICHIGAN

Notes to Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Notes to Schedule of Contributions

GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Valuation Date Actuarially determined contribution rates are calculated as of the December 31 that is 18 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates (2023, based on the 12/31/2020 actuarial valuation):

| | |
|-------------------------------|--|
| Actuarial cost method | Entry-age normal |
| Amortization method | Level percent of payroll, open |
| Remaining amortization period | 18 years |
| Asset valuation method | 5-year smooth fair value |
| Inflation | 2.50% |
| Salary increases | 3.00% in the long-term |
| Investment rate of return | 7.35%, net of investment and administrative expense including inflation |
| Normal retirement age | Age 60 |
| Mortality | <ul style="list-style-type: none">• Pre-retirement mortality based on 100% of Pub-2010 Juvenile Mortality Tables for ages 0-17, 100% of PubG-2010 Employee Mortality Tables for Ages 18-80, and 100% of PubG-2010 Healthy Retiree Tables for ages 81-120• Non-disabled retired plan members and beneficiaries mortality based on 106% of Pub-2010 Juvenile Mortality Tables for ages 0-17, 106% of PubG-2010 Employee Mortality Tables for Ages 18-49, and 106% of PubG-2010 Healthy Retiree Tables for ages 50-120• Disabled retired plan members mortality based on 100% of Pub-2010 Juvenile Mortality Tables for ages 0-17, and 100% of PubNS-2010 Disabled Retiree Tables for ages 18-120 |

CITY OF FRANKENMUTH, MICHIGAN

Required Supplementary Information

Other Postemployment Benefits Plan

Schedule of Changes in the City's Total OPEB Liability and Related Ratios

| | Year Ended June 30, | | | | | |
|---|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 |
| Total OPEB liability | | | | | | |
| Service cost | \$ 3,765 | \$ 4,429 | \$ 4,332 | \$ 4,037 | \$ 4,270 | \$ 4,372 |
| Interest | 7,188 | 4,515 | 5,672 | 6,372 | 6,771 | 7,564 |
| Difference in expected and actual experience | (2,198) | (1,593) | (6,679) | (349) | (1,760) | (8,682) |
| Changes in assumptions | (290) | (20,121) | 5,141 | 4,867 | - | 1,319 |
| Benefit payments, including refunds of member contributions | (15,913) | (19,963) | (9,438) | (19,377) | (25,227) | (20,343) |
| Net change in total OPEB liability | (7,448) | (32,733) | (972) | (4,450) | (15,946) | (15,770) |
| Total OPEB liability, beginning of year | 179,926 | 212,659 | 213,631 | 218,081 | 234,027 | 249,797 |
| Total OPEB liability, ending of year | \$ 172,478 | \$ 179,926 | \$ 212,659 | \$ 213,631 | \$ 218,081 | \$ 234,027 |
| Covered-employee payroll | \$ 985,662 | \$ 1,143,607 | \$ 1,138,966 | \$ 1,392,089 | \$ 1,894,953 | Not available |
| City's total OPEB liability as a percentage of covered-employee payroll | 17.50% | 15.73% | 18.67% | 15.35% | 11.51% | Not available |

Notes to the Schedule of Changes in the City's Net OPEB Liability and Related Ratios

The City funds this plan on a pay-as-you-go basis and therefore there are no assets accumulated in a trust to pay the future benefits.

GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Changes in assumptions resulted from changes to the discount rates to reflect the current municipal bond rates.

CITY OF FRANKENMUTH, MICHIGAN

Required Supplementary Information

Other Postemployment Benefits Plan
 Schedule of Contributions

| Fiscal Year Ended June 30, | Actuarially Determined Contribution | Contributions in Relation to the Actuarially Determined Contribution | Contribution Deficiency (Excess) | Covered-employee Payroll | Contributions as Percentage of Covered-employee Payroll |
|----------------------------|-------------------------------------|--|----------------------------------|--------------------------|---|
| 2023 | \$ 27,798 | \$ 15,913 | \$ 11,885 | \$ 985,662 | 1.6% |
| 2022 | 35,504 | 19,963 | 15,541 | 1,143,607 | 1.7% |
| 2021 | 32,246 | 9,438 | 22,808 | 1,138,966 | 0.8% |
| 2020 | 36,481 | 19,377 | 17,104 | 1,392,089 | 1.4% |
| 2019 | 34,786 | 25,227 | 9,559 | 1,894,953 | 1.3% |
| 2018 | 33,514 | 20,343 | 13,171 | Not available | Not available |

Notes to Schedule of Contributions

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Valuation Date June 30, 2022

Methods and assumptions used to determine contribution rates

| | |
|-------------------------------|---|
| Actuarial cost method | Entry-age normal |
| Amortization method | Level percent of payroll, open |
| Remaining amortization period | 8 years |
| Asset valuation method | Not applicable; plan is not pre-funded |
| Discount rate | 4.09% |
| Inflation | Not applicable; plan is not pre-funded |
| Salary increases | 3.50% |
| Retirement age | Participants are assumed to retire in accordance with annual rates varying by service. Rates are based the Retirement rates used in the most recent MERS pension valuation. |
| Healthcare cost trend rate | Not applicable as benefits are capped |
| Mortality | Public General and Public Safety 2010 Employee and Healthy Retiree, Headcount weighted, MP-2021 improvement. |

**COMBINING AND INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES**

CITY OF FRANKENMUTH, MICHIGAN

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2023

| | Special Revenue Funds | | | Totals |
|---|-----------------------|-------------------|-------------------|-------------------|
| | Local Streets | Major Streets | Capital Projects | |
| Assets | | | | |
| Cash and cash equivalents | \$ 35,499 | \$ 62,943 | \$ 445,617 | \$ 544,059 |
| Receivables: | | | | |
| Accounts | 8 | 75 | 235 | 318 |
| Special assessment | - | 2,085 | - | 2,085 |
| Due from other governmental units | 34,439 | 91,581 | - | 126,020 |
| Prepays | 5,276 | 5,276 | - | 10,552 |
| Total assets | <u>\$ 75,222</u> | <u>\$ 161,960</u> | <u>\$ 445,852</u> | <u>\$ 683,034</u> |
| Liabilities | | | | |
| Accounts payable | \$ 137 | \$ 5 | \$ 2,179 | \$ 2,321 |
| Accrued liabilities | 2,199 | 1,448 | - | 3,647 |
| Total liabilities | <u>2,336</u> | <u>1,453</u> | <u>2,179</u> | <u>5,968</u> |
| Deferred inflows of resources | | | | |
| Unavailable revenue - long term receivable | - | 2,085 | - | 2,085 |
| Fund balances | | | | |
| Nonspendable | 5,276 | 5,276 | - | 10,552 |
| Restricted | 67,610 | 153,146 | - | 220,756 |
| Committed | - | - | 443,673 | 443,673 |
| Total fund balances | <u>72,886</u> | <u>158,422</u> | <u>443,673</u> | <u>674,981</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 75,222</u> | <u>\$ 161,960</u> | <u>\$ 445,852</u> | <u>\$ 683,034</u> |

CITY OF FRANKENMUTH, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2023

| | Special Revenue Funds | | | Totals |
|---|-------------------------|--------------------------|--------------------------|--------------------------|
| | Local Streets | Major Streets | Capital Projects | |
| Revenues | | | | |
| Intergovernmental | \$ 198,016 | \$ 542,602 | \$ - | \$ 740,618 |
| Interest | 14 | 423 | 2,706 | 3,143 |
| Other | 2,261 | 355 | - | 2,616 |
| Total revenues | <u>200,291</u> | <u>543,380</u> | <u>2,706</u> | <u>746,377</u> |
| Expenditures | | | | |
| Current: | | | | |
| Public works | 325,912 | 213,248 | 48,044 | 587,204 |
| Capital outlay | - | 84,561 | 96,092 | 180,653 |
| Total expenditures | <u>325,912</u> | <u>297,809</u> | <u>144,136</u> | <u>767,857</u> |
| Revenues over (under) expenditures | <u>(125,621)</u> | <u>245,571</u> | <u>(141,430)</u> | <u>(21,480)</u> |
| Other financing sources (uses) | | | | |
| Transfers in | 100,000 | - | - | 100,000 |
| Transfers out | - | (100,000) | - | (100,000) |
| Total other financing sources (uses) | <u>100,000</u> | <u>(100,000)</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | <u>(25,621)</u> | <u>145,571</u> | <u>(141,430)</u> | <u>(21,480)</u> |
| Fund balances, beginning of year | <u>98,507</u> | <u>12,851</u> | <u>585,103</u> | <u>696,461</u> |
| Fund balances, end of year | <u><u>\$ 72,886</u></u> | <u><u>\$ 158,422</u></u> | <u><u>\$ 443,673</u></u> | <u><u>\$ 674,981</u></u> |

CITY OF FRANKENMUTH, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Local Streets Special Revenue Fund

For the Year Ended June 30, 2023

| | Original Budget | Final Budget | Actual | Actual Over (Under) Final Budget |
|------------------------------------|--------------------|------------------|------------------|--|
| Revenues | | | | |
| Intergovernmental | \$ 213,800 | \$ 194,131 | \$ 198,016 | \$ 3,885 |
| Interest | 1,000 | 5 | 14 | 9 |
| Other | 6,430 | 1,975 | 2,261 | 286 |
| Total revenues | <u>221,230</u> | <u>196,111</u> | <u>200,291</u> | <u>4,180</u> |
| Expenditures | | | | |
| Current: | | | | |
| Public works: | | | | |
| Sidewalks | 45,100 | 42,900 | 42,716 | (184) |
| Construction | 125,534 | 650 | 277 | (373) |
| Routine maintenance | 82,800 | 103,900 | 99,667 | (4,233) |
| Storm sewer | 26,460 | 18,900 | 17,931 | (969) |
| Trees | 36,765 | 104,100 | 100,535 | (3,565) |
| Traffic services | 4,760 | 2,900 | 2,841 | (59) |
| Winter maintenance | 48,914 | 39,750 | 39,510 | (240) |
| Administration | - | 22,471 | 22,435 | (36) |
| Total expenditures | <u>370,333</u> | <u>335,571</u> | <u>325,912</u> | <u>(9,659)</u> |
| Revenues over (under) expenditures | (149,103) | (139,460) | (125,621) | 13,839 |
| Other financing sources | | | | |
| Transfers in | <u>100,000</u> | <u>100,000</u> | <u>100,000</u> | <u>-</u> |
| Net change in fund balance | (49,103) | (39,460) | (25,621) | 13,839 |
| Fund balance, beginning of year | <u>98,507</u> | <u>98,507</u> | <u>98,507</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 49,404</u> | <u>\$ 59,047</u> | <u>\$ 72,886</u> | <u>\$ 13,839</u> |

CITY OF FRANKENMUTH, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Major Streets Special Revenue Fund

For the Year Ended June 30, 2023

| | Original Budget | Final Budget | Actual | Actual Over (Under) Final Budget |
|------------------------------------|--------------------|-------------------|-------------------|--|
| Revenues | | | | |
| Special assessments | \$ 600 | \$ 680 | \$ - | \$ (680) |
| Intergovernmental | 470,500 | 527,339 | 542,602 | 15,263 |
| Interest | 300 | 156 | 423 | 267 |
| Other | 507,000 | 280 | 355 | 75 |
| Total revenues | 978,400 | 528,455 | 543,380 | 14,925 |
| Expenditures | | | | |
| Current: | | | | |
| Public works: | | | | |
| Sidewalks | 6,520 | 22,805 | 20,793 | (2,012) |
| Construction | 711,200 | 69,440 | 11,900 | (57,540) |
| Routine maintenance | 35,750 | 51,000 | 52,165 | 1,165 |
| Storm sewer | 26,895 | 18,325 | 17,746 | (579) |
| Trees | 12,805 | 13,450 | 11,676 | (1,774) |
| Traffic services | 7,800 | 13,000 | 10,204 | (2,796) |
| Winter maintenance | 33,225 | 36,900 | 36,489 | (411) |
| Administration | 20,000 | 24,546 | 24,510 | (36) |
| State highway | 24,000 | 27,600 | 27,765 | 165 |
| Capital outlay | - | 27,500 | 84,561 | 57,061 |
| Total expenditures | 878,195 | 304,566 | 297,809 | (6,757) |
| Revenues over (under) expenditures | 100,205 | 223,889 | 245,571 | 21,682 |
| Other financing uses | | | | |
| Transfers out | (100,000) | (100,000) | (100,000) | - |
| Net change in fund balance | 205 | 123,889 | 145,571 | 21,682 |
| Fund balance, beginning of year | 12,851 | 12,851 | 12,851 | - |
| Fund balance, end of year | \$ 13,056 | \$ 136,740 | \$ 158,422 | \$ 21,682 |

CITY OF FRANKENMUTH, MICHIGAN

Combining Statement of Fiduciary Net Position

Custodial Funds

June 30, 2023

| | Current Tax Collection | Joint Venture Pooled Cash | Beautification | Sister City | Totals |
|--|---------------------------|------------------------------|----------------|--------------|----------------|
| Assets | | | | | |
| Cash and cash equivalents | \$ 146 | \$ 621,225 | \$ 62,301 | \$ 3,405 | \$ 687,077 |
| Receivables | - | - | 40 | - | 40 |
| Total assets | 146 | 621,225 | 62,341 | 3,405 | 687,117 |
| Liabilities | | | | | |
| Accounts payable | - | - | 62,341 | 3,405 | 65,746 |
| Due to other governments | 146 | - | - | - | 146 |
| Total liabilities | 146 | - | 62,341 | 3,405 | 65,892 |
| Net position | | | | | |
| Restricted for: | | | | | |
| Individuals, organizations, and other governments | \$ - | \$ 621,225 | \$ - | \$ - | \$ 621,225 |

CITY OF FRANKENMUTH, MICHIGAN

Combining Statement of Changes in Fiduciary Net Position

Custodial Funds

For the Year Ended June 30, 2023

| | Current Tax Collection | Joint Venture Pooled Cash | Beautification | Sister City | Totals |
|---|-----------------------------------|--------------------------------------|-----------------------|--------------------|-------------------|
| Additions | | | | | |
| Property tax collections | \$ 12,061,617 | \$ - | \$ - | \$ - | 12,061,617 |
| Other collections | - | 397,774 | 106,574 | 16,969 | 521,317 |
| Total additions | <u>12,061,617</u> | <u>397,774</u> | <u>106,574</u> | <u>16,969</u> | <u>12,582,934</u> |
| Deductions | | | | | |
| Property tax distributions | 12,061,617 | - | - | - | 12,061,617 |
| Other distributions | - | 197,619 | 106,574 | 16,969 | 321,162 |
| Total deductions | <u>12,061,617</u> | <u>197,619</u> | <u>106,574</u> | <u>16,969</u> | <u>12,382,779</u> |
| Change in net position | - | 200,155 | - | - | 200,155 |
| Net position, beginning of year, as restated | - | 421,070 | - | - | 421,070 |
| Net position, end of year | <u>\$ -</u> | <u>\$ 621,225</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 621,225</u> |

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**DOWNTOWN DEVELOPMENT AUTHORITY
COMPONENT UNIT**

CITY OF FRANKENMUTH, MICHIGAN

Balance Sheet

Downtown Development Authority Component Unit

June 30, 2023

Assets

| | |
|---------------------------|--------------|
| Cash and cash equivalents | \$ 1,352,148 |
| Receivables: | |
| Accounts | 4,041 |
| Special assessments | 84,398 |
| Prepays | <u>3,036</u> |

Total assets

\$ 1,443,623

Liabilities

| | |
|---------------------|---------------|
| Accounts payable | \$ 15,492 |
| Accrued liabilities | <u>11,312</u> |

Total liabilities

26,804

Deferred inflows of resources

| | |
|---|---------------|
| Unavailable revenues - long-term receivable | <u>84,398</u> |
|---|---------------|

Fund balance

| | |
|--------------|------------------|
| Nonspendable | 3,036 |
| Unassigned | <u>1,329,385</u> |

Total fund balance

1,332,421

Total liabilities, deferred inflows of resources and fund balance

\$ 1,443,623

CITY OF FRANKENMUTH, MICHIGAN

Reconciliation

Fund Balance for the Governmental Fund
to Net Position of Component Unit
Downtown Development Authority Component Unit
June 30, 2023

| | |
|---|------------------|
| Fund balance | \$ 1,332,421 |
| Amounts reported for <i>governmental activities</i> in the statement of net position are different because: | |
| Certain pension, such as the net pension and deferred amounts, are not due and payable in the current period or do not represent current financial resources, and therefore are not reported in the funds. | |
| Net pension liability | (251,846) |
| Deferred outflows related to the net pension liability | 64,383 |
| Deferred inflows related to the net pension liability | (1,358) |
| The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows of resources in the governmental funds, and thus are not included in fund balance. | |
| Deferred inflow for long-term receivables | 84,398 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | |
| Loans payable from primary government | (1,111,859) |
| Compensated absences | (9,504) |
| Accrued interest | (10,180) |
| Net position of governmental activities | <u>\$ 96,455</u> |

CITY OF FRANKENMUTH, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Downtown Development Authority Component Unit

For the Year Ended June 30, 2023

| Revenue | |
|--|----------------------------|
| Property taxes | \$ 1,783,732 |
| Special assessments | 38,657 |
| Rental income | 36,600 |
| Interest | 14,227 |
| Other revenues | <u>48,765</u> |
| Total revenue | <u>1,921,981</u> |
| Expenditures | |
| Current: | |
| Community and economic development | 1,474,780 |
| Debt service: | |
| Principal | 145,347 |
| Interest | <u>27,342</u> |
| Total expenditures | <u>1,647,469</u> |
| Net change in fund balance | 274,512 |
| Fund balance, beginning of year, as restated | <u>1,057,909</u> |
| Fund balance, end of year | <u><u>\$ 1,332,421</u></u> |

CITY OF FRANKENMUTH, MICHIGAN

Reconciliation

Net Changes in Fund Balance of Governmental Fund
to Change in Net Position of Component Unit
Downtown Development Authority Component Unit
For the Year Ended June 30, 2023

| | |
|---|---------------------------------|
| Net change in fund balance | \$ 274,512 |
| Amounts reported for <i>governmental activities</i> in the statement of activities are different because: | |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year. | |
| Change in long-term receivable | (32,951) |
| Loan proceeds provide current financial resources to governmental funds in the period issued, but issuing loans increases long-term liabilities in the statement of net position. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | |
| Principal payments on loans payable from primary government | 145,347 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds. | |
| Change in the net pension liability and related deferred amounts | (26,763) |
| Change in compensated absences | (1,382) |
| Change in accrued interest payable | (10,180) |
| | <hr/> |
| Change in net position of governmental activities | <u><u>\$ 348,583</u></u> |

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

December 27, 2023

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of Frankenmuth** (the "City"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 27, 2023.

Report on Internal Control Over Financial Reporting

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

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



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2023-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

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

City of Frankenmuth’s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City’s responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



CITY OF FRANKENMUTH, MICHIGAN

Schedule of Findings and Responses

For the Year Ended June 30, 2023

2023-001 – Audit Adjustments

Finding Type. Significant Deficiency in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. During our audit, we identified and proposed certain adjustments in order to reach proper year-end balances on the City's general ledger.

Cause. This condition was the result of internal controls not detecting all adjustments necessary to properly record year-end balances.

Effect. As a result of this condition, the City's accounting records were initially misstated by amounts significant to the financial statements. Specifically, the following areas were misstated:

- Beginning fund balance in the general fund was understated by \$97,631, revenue was overstated \$10,888, and the current year receivable was understated by \$86,743 due to the City not appropriately recording the state shared revenue receivable in the prior year and current year.
- Beginning fund balance in the parks and recreation fund was understated by \$42,944, revenue was understated by \$984, and the unearned revenue was overstated by \$43,928 due to the City not recording donations revenue when received. Additionally, beginning fund balance in the general fund was understated by \$60,377, revenue was overstated by \$39,075, and the unearned revenue was overstated by \$21,302 due to the City not recording donations revenue when received.
- Lease receivable and the related deferred inflow of resources were understated by \$236,782 due to the City not calculating and recording a lease receivable under GASB 87.
- Due to a calculation error, compensated absences and salaries and wages were overstated in governmental activities, waste recovery facility fund, water fund, and Downtown Development Authority Component unit by \$56,063, \$12,915, \$6,738, \$6,078, respectively.

Recommendation. We recommend that the City prepare, review, and reconcile all year-end schedules that are used in financial reporting prior to audit fieldwork.

View of Responsible Officials. Management has been working diligently to improve the City's financial process throughout the year and at year-end. Adjustments required in fiscal year 2023 have been made to correct past and current year. All discrepancies have been understood by management and City staff. The City will continue to monitor and advance the financial and non-financial processes to comply with all requirements set forth to ensure the highest quality of City reporting.