

City of Houghton, Michigan

BASIC FINANCIAL STATEMENTS

June 30, 2022

CITY OF HOUGHTON, MICHIGAN

ORGANIZATION

MEMBERS OF THE CITY COUNCIL

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MAYOR PRO-TEM

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JOAN SUITS

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APPOINTED OFFICERS

CITY MANAGER

ERIC WAARA

TREASURER/CHIEF FINANCIAL OFFICER

JODI REYNOLDS

CLERK/ ASSISTANT CITY MANAGER

ANN VOLLRATH

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Houghton
Houghton, MI 49931

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, of the City of Houghton, Michigan, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Houghton, Michigan's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Houghton, Michigan, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Houghton, Michigan 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 these 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 of Houghton, Michigan'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.

To the City Council
City of Houghton

Auditor's 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 auditor's 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 generally accepted auditing standards 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 generally accepted auditing standards 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 of Houghton, Michigan'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 of Houghton, Michigan'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, schedule of employee retirement and benefit systems and budgetary comparison information on pages 4–13, 52–55 and 56–59 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.

To the City Council
City of Houghton

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Houghton, Michigan's basic financial statements. The accompanying combining nonmajor funds, component unit financial statements, Michigan Bureau of Passenger Transportation Schedules (excluding the schedules of Vehicle Miles and Hours), and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 was derived from and relates 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 nonmajor funds, component unit financial statements, Michigan Bureau of Passenger Transportation Schedules (excluding the schedules of Vehicle Miles and Hours), and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Michigan Bureau of Passenger Transportation Schedules of Vehicle Miles and Hours, on page 76, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applies in the audit of the basic financial statements, and accordingly we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2022 on our consideration of the City of Houghton, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Houghton, Michigan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Houghton, Michigan's internal control over financial reporting and compliance.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

December 2, 2022

Management's Discussion and Analysis

As management of the City of Houghton, 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, 2022. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the fiscal year 2022 by \$19,436,905 (*net position*). Of this, \$3,080,772 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$1,493,024 or 8%.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,081,194, a decrease of \$540,219.
- At the end of the current fiscal year, the total fund balance of the General Fund was \$1,708,967, a decrease of \$168,870. Unassigned fund balance was \$1,703,413 or 39% of total General Fund expenditures and transfers out.
- The City's total long-term debt (including vested employee benefits and excluding pensions, OPEB and leases,) increased by \$8,353.

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 five components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, 4) required supplementary information, and 5) other information.

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, liabilities, and deferred inflows with the difference between them reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the 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 result in cash flows in future fiscal periods (for example, 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 the legislative, general government, public safety, public works, community and economic development, recreation and culture, and other. The business-type activities of the City include water and sewer operations, parking, and transit.

The government-wide financial statements include not only the City (known as the *primary government*), but also two legally separate authorities – the Downtown Development Authority and the Tax Increment Finance Authority for which the City is financially accountable. Financial information for these *component units* is reported in the other information to these financial statements.

The government-wide financial statements can be found on pages 14-15 of this report.

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

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. 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 five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major and Local Streets Fund, each 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.

By May 15th of each year the City adopts an annual appropriated budget for general and special revenue funds for the coming fiscal year, which begins July 1st. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets for the major funds.

The basic governmental fund financial statements can be found on pages 16-18 of this report.

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 its water, sewer, parking and transit operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its motor pool. Because the service benefits the General, Major and Local Streets, Water and Sewer Fund functions, the services have been allocated between the governmental and business-type 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 information for the Water and Sewer Fund, Parking and Transit which is considered to be major fund of the City. Data from the other proprietary funds are combined into a single, aggregated presentation.

The basic proprietary fund financial statements can be found on pages 19-21 of this report.

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.

The basic fiduciary fund financial statement can be found on page 22-23 of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-51 of this report.

Required supplementary information. Required supplementary information related to the City's employee retirement and benefit systems and budgetary comparison information related to the City's major governmental funds can be found on pages 52-59 of this report.

Supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information including the combining statements referred to earlier in connection with nonmajor governmental funds and component units individual financial statements. These statements can be found on pages 60-65 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain other information including the Transit schedules required by the Michigan Department of Transportation. The Transit schedules can be found on pages 66-77 of this report.

Government-wide Financial Statements

A condensed version of the Statement of Net Position at June 30, 2022 follows:

City of Houghton
Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Assets						
Current Assets	\$ 4,675,414	\$ 4,422,352	\$ 3,959,676	\$ 3,832,464	\$ 8,635,090	\$ 8,254,816
Capital Assets	10,096,072	9,824,931	20,251,604	18,932,818	30,347,676	28,757,749
Total Assets	14,771,486	14,247,283	24,211,280	22,765,282	38,982,766	37,012,565
Deferred Outflows of Resources	644,355	494,612	263,119	200,805	907,474	695,417
Liabilities						
Current Liabilities	1,461,352	720,172	845,356	1,202,701	2,306,708	1,922,873
Noncurrent Liabilities	4,443,142	4,350,474	12,954,816	12,106,347	17,397,958	16,456,821
Total Liabilities	5,904,494	5,070,646	13,800,172	13,309,048	19,704,666	18,379,694
Deferred Inflows of Resources	531,594	258,291	217,075	447,472	748,669	705,763
Net Position						
Net Investment in Capital Assets	6,700,252	6,715,502	7,556,072	7,167,976	14,256,324	13,883,478
Restricted	1,298,237	1,672,394	801,572	1,077,307	2,099,809	2,749,701
Unrestricted	981,264	1,025,062	2,099,508	964,284	3,080,772	1,989,346
Total Net Position	\$ 8,979,753	\$ 9,412,958	\$ 10,457,152	\$ 9,209,567	\$ 19,436,905	\$ 18,622,525

The largest portion of the City’s net position \$14,256,324 (73%) reflects its net investment in capital assets (for example land, buildings, vehicles, equipment, and infrastructure); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City’s net 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 cannot themselves be used to liquidate these liabilities.

A portion of the City’s net position of \$2,099,809 (11%) represents resources that are subject to external restrictions on how they may be used both for the City as a whole, as well as for its separate governmental and business-type activities. The balance in restricted net position reflects the City’s Bond Debt reserve. The remaining balance of unrestricted net position of \$3,080,772 (16%) may be used to meet the City’s ongoing obligations to citizens and creditors.

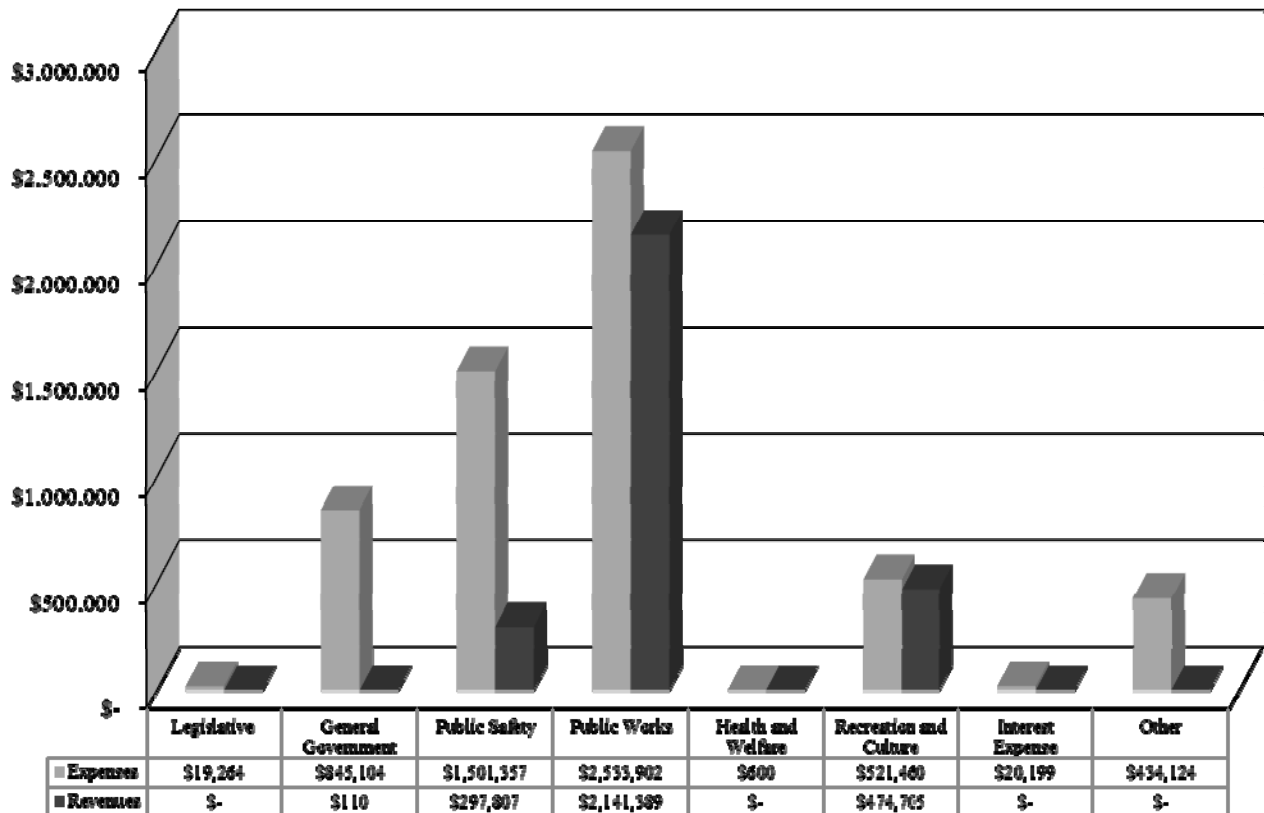
A condensed version of the Statement of Activities follows:

City of Houghton
Condensed Statement of Changes in Net Position

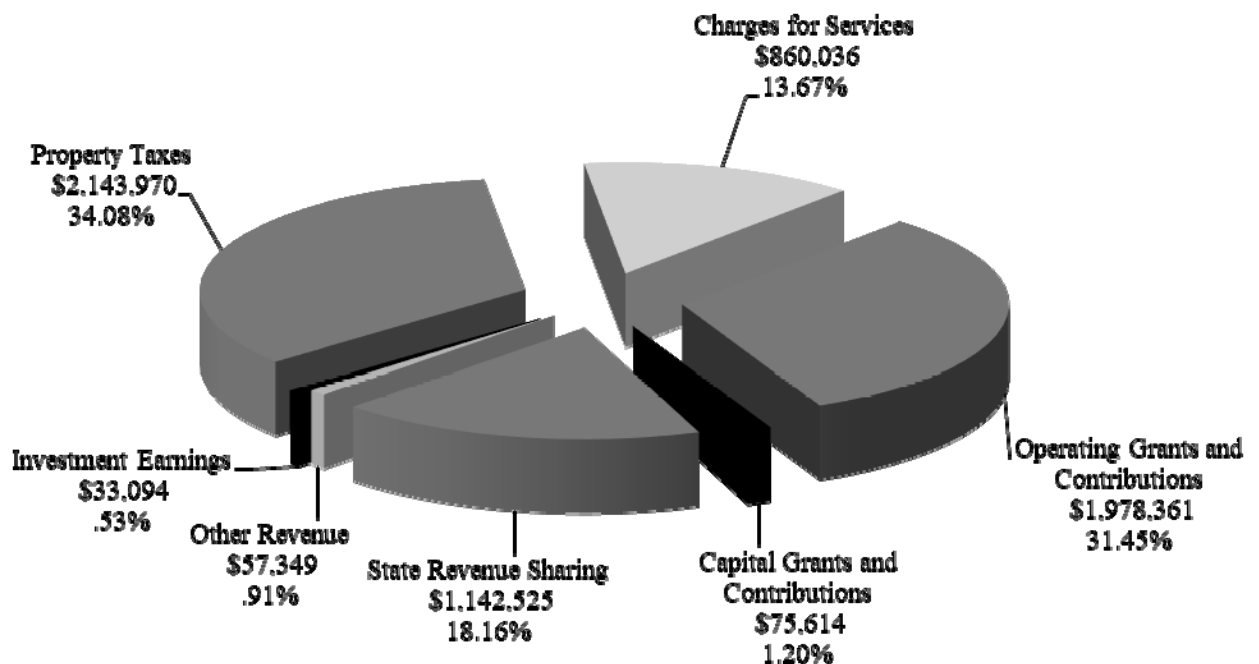
	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues						
Program Revenues						
Charges for Services	\$ 860,036	\$ 1,254,602	\$ 3,545,235	\$ 3,262,317	\$ 4,405,271	\$ 4,516,919
Operating Grants and Contributions	1,978,361	2,869,008	430,572	329,540	2,408,933	3,198,548
Capital Grants and Contributions	75,614	39,938	1,071,852	1,647,340	1,147,466	1,687,278
General Revenues						
Property Taxes	2,143,970	1,849,641	-	-	2,143,970	1,849,641
State Revenue Sharing	1,142,525	954,575	-	-	1,142,525	954,575
Other Revenue	57,349	56,743	7,560	2,290	64,909	59,033
Investment Earnings	33,094	46,863	1,564	11,612	34,658	58,475
Total Revenues	6,290,949	7,071,370	5,056,783	5,253,099	11,347,732	12,324,469
Expenses						
Legislative	19,264	22,761	-	-	19,264	22,761
General Government	845,104	849,299	-	-	845,104	849,299
Public Safety	1,501,357	1,333,781	-	-	1,501,357	1,333,781
Public Works	2,533,902	2,091,194	-	-	2,533,902	2,091,194
Health and Welfare	600	1,445,047	-	-	600	1,445,047
Recreation and Culture	521,460	512,954	-	-	521,460	512,954
Other Expenses	434,124	2,053,848	-	-	434,124	2,053,848
Interest Expense	20,199	99,418	-	-	20,199	99,418
Water	-	-	1,175,966	1,219,880	1,175,966	1,219,880
Sewer	-	-	1,792,837	1,996,317	1,792,837	1,996,317
Parking	-	-	369,178	257,972	369,178	257,972
Transit	-	-	640,717	620,052	640,717	620,052
Total Expenses	5,876,010	8,408,302	3,978,698	4,094,221	9,854,708	12,502,523
Changes in Net Position before Transfers	414,939	(1,336,932)	1,078,085	1,158,878	1,493,024	(178,054)
Transfers	(169,500)	(120,000)	169,500	120,000	-	-
Changes in Net Position	245,439	(1,456,932)	1,247,585	1,278,878	1,493,024	(178,054)
Net Position - Beginning, as Restated (See Note 11)	8,734,314	10,869,890	9,209,567	7,930,689	17,943,881	18,800,579
Net Position - Ending	\$ 8,979,753	\$ 9,412,958	\$ 10,457,152	\$ 9,209,567	\$ 19,436,905	\$ 18,622,525

Governmental activities. Governmental activities increased the City’s ending net position by \$245,439.

Expenses and Revenues – Governmental Activities

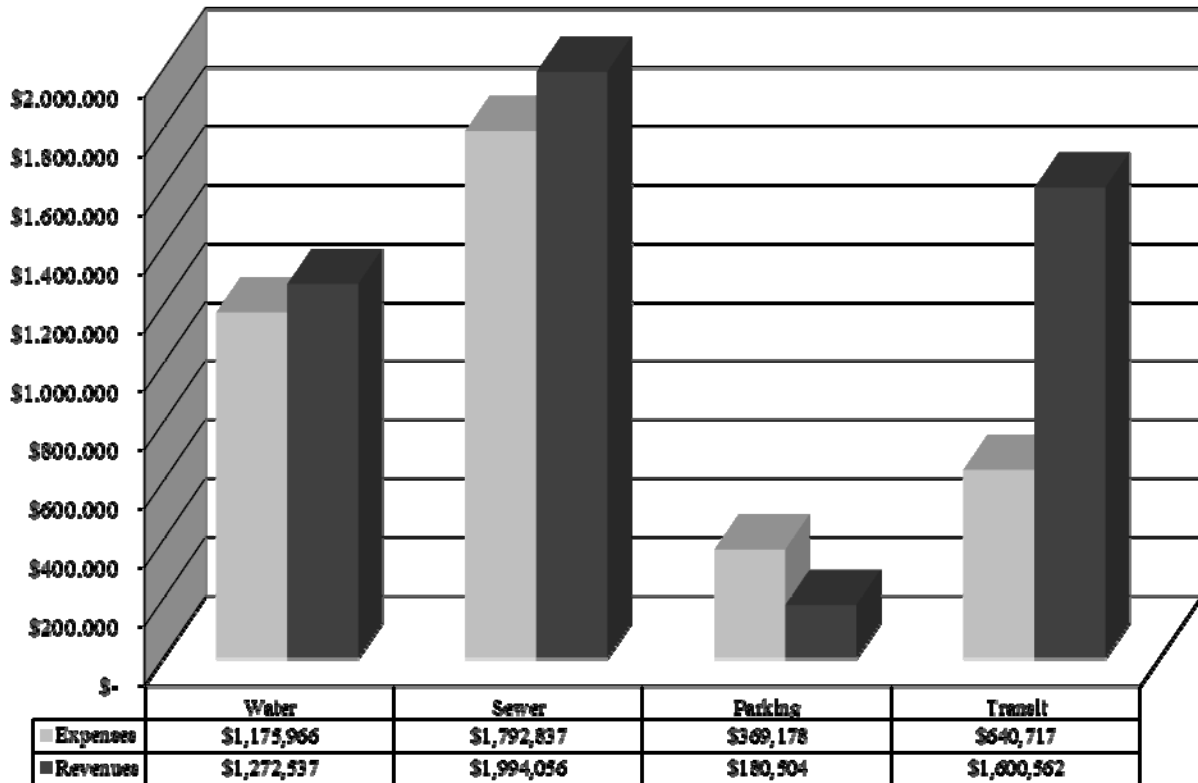


Revenues by Source – Governmental Activities



Business-type activities. Business-type activities increased the ending City’s net position by \$1,247,585.

Expenses and Revenues – Business-type Activities



Financial Analysis of the Government’s Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City’s financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

The General Fund is the main operating fund of the City. At the end of the current fiscal year, the total fund balance of the General Fund was \$1,708,967 of which \$1,703,413 was unassigned. As a measure of the General Fund’s liquidity, it may be useful to compare unassigned fund balance to total fund expenditures, including transfers out.

Proprietary funds. The City’s proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the Water, Sewer, Parking and Transit Funds at the end of the year amounted to \$1,888,539 and net investment in capital assets, net of related debt amounted to \$7,556,072. The Water and Sewer Funds had a combined increase of \$1,027,110, while the Parking and Transit have a combined increase of \$220,475.

General Fund Budgetary Highlights

During the year, General Fund budget variance of the total expenditures were underspent by \$368,262 when comparing final budget to actual. This was primarily due to less actual expenditures than anticipated for legislative, general government, public safety, public works, recreation and culture, debt service, and other expenditures. General Fund revenues were less than anticipated by \$397,806. Further detail on budgetary highlights is found in the required supplementary information section of the audit report.

Capital Asset and Debt Administration

Capital Assets

The City’s net investment in capital assets as of June 30, 2022, amounted to \$30,347,676. This investment in capital assets includes land, land improvements, infrastructure, buildings and improvements, furniture and equipment, vehicles, and construction in progress. The total net increase in the City’s investment in capital assets after depreciation for the current fiscal year was \$1,589,927. The following table summarizes the capital assets of the City as of year end:

**City of Houghton
Capital Assets
(net of depreciation, where applicable)**

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 691,259	\$ 691,259	\$ 77,211	\$ 77,211	\$ 768,470	\$ 768,470
Construction in Progress	115,825	-	6,267,407	4,684,105	6,383,232	4,684,105
Buildings	2,145,930	2,217,199	71,710	78,546	2,217,640	2,295,745
Improvements	1,114,017	1,222,494	43,865	45,723	1,157,882	1,268,217
Equipment	1,757,783	2,040,320	585,392	297,745	2,343,175	2,338,065
Infrastructure	4,271,258	3,653,659	13,206,019	13,749,488	17,477,277	17,403,147
Total Capital Assets, Net	<u>\$ 10,096,072</u>	<u>\$ 9,824,931</u>	<u>\$ 20,251,604</u>	<u>\$ 18,932,818</u>	<u>\$ 30,347,676</u>	<u>\$ 28,757,749</u>

Additional information on the City’s capital assets can be found in Note 4 to the financial statements section of this report.

Long-Term Debt

At the end of the current fiscal year, the City had total long-term debt of \$16,044,900. Of this amount, \$6,219,000 comprises debt backed by the full faith and credit of the government. The remainder of the City’s debt represents loans and bonds secured solely by specified revenue sources (i.e., revenue bonds). The City’s total long-term debt (excluding bond premiums, vested employee benefits, net pension and OPEB obligations) increased by \$1,400.

The following table summarizes the City’s outstanding debt as of the end of the year:

**City of Houghton
Outstanding Long-Term Debt**

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
General Obligation Bonds	\$ 2,431,420	\$ 2,538,000	\$ 2,837,580	\$ 2,990,000	\$ 5,269,000	\$ 5,528,000
USDA Revenue Bonds	-	-	9,825,900	9,194,500	9,825,900	9,194,500
General Loan Contracts	650,000	975,000	-	-	650,000	975,000
USDA Installment Notes	300,000	346,000	-	-	300,000	346,000
Total Long-Term Debt	\$ 3,381,420	\$ 3,859,000	\$ 12,663,480	\$ 12,184,500	\$ 16,044,900	\$ 16,043,500

Economic Factors and Next Year’s Budgets and Rates

Next year’s budget for existing services will be limited to the maintenance of those services, though that maintenance of infrastructure-dependent services may require capital investment into infrastructure as it does in many years. Property values, based on sales and new construction data within the City, show that both residential and commercial taxable values have increased between 4% and 6% over last year. This continued growth of the tax base is a positive trend, but we must be mindful that the tax base-generated revenue comprises only a portion of the overall budget with state-shared revenue and other service revenues making up the larger part of the overall budget. Inflation may effectively negate some of those gains in value. We must be diligent in seeking new sources of revenue, reinvesting revenues to promote sustained growth, and leveraging those resources to take advantage of opportunities for funding assistance. The City has past success in obtaining grants and will continue to seek grant funds to further improve its community infrastructure and amenities as these have been key in long-term growth.

The 2020 decennial census data showed Houghton’s population grew by over 8% in the last decade. That growth will bring additional shared revenue to the General, Major Street, and Local Street funds when the State recognizes the new data.

In order to increase accountability and arm ourselves with the tools necessary to adequately project when changes are needed in funding levels, we are monitoring new budget and cost procedures to better analyze our revenues and costs.

Component Unit

A complete financial statement and management's discussion and analysis may be obtained from the Houghton Housing Commission.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City of Houghton
Attn: City Clerk
616 Shelden Avenue
Houghton, Michigan 49931

Basic Financial Statements

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Totals	
ASSETS:				
Cash and Equivalents - Unrestricted	\$ 3,348,612	\$ 1,624,315	\$ 4,972,927	\$ 1,262,246
Cash and Equivalents - Restricted	-	801,572	801,572	-
Accounts Receivable	597,898	603,685	1,201,583	149,746
Taxes Receivable	17,153	-	17,153	-
Internal Loans	11,209	(11,209)	-	-
Loans Receivable	195,535	-	195,535	-
Due from Governmental Units	499,453	-	499,453	812,435
Inventories	5,554	-	5,554	-
Prepaid Items	-	-	-	23,383
Investment in Joint Venture	-	941,313	941,313	-
Capital Assets Not Depreciated	807,084	6,344,618	7,151,702	4,318,355
Capital Assets (Net of Accumulated Depreciation)	9,288,988	13,906,986	23,195,974	9,333,325
TOTAL ASSETS	14,771,486	24,211,280	38,982,766	15,899,490
DEFERRED OUTFLOWS OF RESOURCES:				
OPEB Items	38,024	15,527	53,551	3,304
Pension Items	606,331	247,592	853,923	52,673
TOTAL DEFERRED OUTFLOW OF RESOURCES	644,355	263,119	907,474	55,977
LIABILITIES:				
Accounts Payable	95,662	280,006	375,668	1,000,377
Accrued Liabilities	379,318	31,391	410,709	104,856
Accrued Interest Payable	16,398	97,673	114,071	737
Due to Other Governmental Units	-	78,112	78,112	12,021
Unearned Revenues	469,858	-	469,858	-
Installment Loans - due within one year	355,000	-	355,000	-
Installment Loans - due in more than one year	595,000	-	595,000	-
Bonds Payable - due within one year	145,116	358,174	503,290	-
Bonds Payable - due in more than one year	2,300,704	12,337,358	14,638,062	-
Net Pension Liability - due in more than one year	537,881	219,640	757,521	46,727
Net OPEB Liability - due in more than one year	573,856	234,330	808,186	49,852
Compensated Absences - due in one year	-	-	-	20,626
Compensated Absences - due in more than one year	435,701	163,488	599,189	18,620
TOTAL LIABILITIES	5,904,494	13,800,172	19,704,666	1,253,816
DEFERRED INFLOWS OF RESOURCES:				
OPEB Items	116,184	47,443	163,627	10,093
Pension Items	415,410	169,632	585,042	36,087
TOTAL DEFERRED INFLOWS OF RESOURCES	531,594	217,075	748,669	46,180
NET POSITION:				
Net Investment in Capital Assets	6,700,252	7,556,072	14,256,324	13,477,944
Restricted	1,298,237	801,572	2,099,809	1,177,527
Unrestricted	981,264	2,099,508	3,080,772	-
TOTAL NET POSITION	\$ 8,979,753	\$ 10,457,152	\$ 19,436,905	\$ 14,655,471

Statement of Activities
For the Year Ended June 30, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 19,264	\$ -	\$ -	\$ -	\$ (19,264)	\$ -	\$ (19,264)	\$ -
General Government	845,104	110	-	-	(844,994)	-	(844,994)	-
Public Safety	1,501,357	58,870	238,937	-	(1,203,550)	-	(1,203,550)	-
Public Works	2,533,902	326,351	1,739,424	75,614	(392,513)	-	(392,513)	-
Health and Welfare	600	-	-	-	(600)	-	(600)	-
Recreation and Culture	521,460	474,705	-	-	(46,755)	-	(46,755)	-
Other Expenses	434,124	-	-	-	(434,124)	-	(434,124)	-
Interest Expense	20,199	-	-	-	(20,199)	-	(20,199)	-
Total Governmental Activities	5,876,010	860,036	1,978,361	75,614	(2,961,999)	-	(2,961,999)	-
Business-type activities:								
Water	1,175,966	1,272,537	-	-	-	96,571	96,571	-
Sewer	1,792,837	1,994,056	-	-	-	201,219	201,219	-
Parking	369,178	180,504	-	-	-	(188,674)	(188,674)	-
Transit	640,717	98,138	430,572	1,071,852	-	959,845	959,845	-
Total Business-type Activities	3,978,698	3,545,235	430,572	1,071,852	-	1,068,961	1,068,961	-
Total Primary Government	\$ 9,854,708	\$ 4,405,271	\$ 2,408,933	\$ 1,147,466	(2,961,999)	1,068,961	(1,893,038)	-
Component Units:								
Public Works:								
Houghton Housing Commission	\$ 1,033,456	330,170	140,194	141,709				(421,383)
Community & Economic Development:								
TIFA	940,094	-	-	111,364				(828,730)
Community & Economic Development:								
Downtown Development Authority	219,132	73,938	11,206	3,585,346				3,451,358
Total Component Units	2,192,682	404,108	151,400	3,838,419				2,201,245
Total	\$ 12,047,390	\$ 4,809,379	\$ 2,560,333	\$ 4,985,885				
General Revenues and Transfers:								
Taxes					2,143,970	-	2,143,970	917,604
State Revenue Sharing					1,142,525	-	1,142,525	-
Investment Earnings					33,094	1,564	34,658	2,197
Other Revenue					57,349	7,560	64,909	409,905
Transfers					(169,500)	169,500	-	-
Total General Revenues and Transfers					3,207,438	178,624	3,386,062	1,329,706
Change in Net Position					245,439	1,247,585	1,493,024	3,530,951
Net Position - Beginning (As Restated See Note 10)					8,734,314	9,209,567	17,943,881	11,124,520
Net Position - Ending					\$ 8,979,753	\$ 10,457,152	\$ 19,436,905	\$ 14,655,471

City of Houghton, Michigan

Balance Sheet Governmental Funds June 30, 2022

	General	Major Streets	Local Streets	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and Equivalents - Unrestricted	\$ 1,245,387	\$ 825,605	\$ 190,265	\$ 823,498	\$ 3,084,755
Accounts Receivable	567,750	-	-	-	567,750
Taxes Receivable	5,342	-	11,811	-	17,153
Loans Receivable	-	-	-	195,535	195,535
Due from Other Funds	471,329	-	10,358	-	481,687
Due from Governmental Units	27,683	109,626	122,883	187,573	447,765
Inventories	5,554	-	-	-	5,554
TOTAL ASSETS	\$ 2,323,045	\$ 935,231	\$ 335,317	\$ 1,206,606	\$ 4,800,199
LIABILITIES:					
Accounts Payable	\$ 49,005	\$ 4,961	\$ 5,182	\$ 5,028	\$ 64,176
Accrued Liabilities	74,929	6,674	3,970	290,246	375,819
Unearned Revenue	469,858	-	-	-	469,858
Due to Other Funds	20,286	44,047	95,406	453,878	613,617
TOTAL LIABILITIES	614,078	55,682	104,558	749,152	1,523,470
DEFERRED INFLOWS OF RESOURCES:					
Loan Sources	-	-	-	195,535	195,535
FUND BALANCES:					
Nonspendable	5,554	-	-	-	5,554
Restricted	-	879,549	230,759	187,929	1,298,237
Unassigned	1,703,413	-	-	73,990	1,777,403
TOTAL FUND BALANCES	1,708,967	879,549	230,759	261,919	3,081,194
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 2,323,045	\$ 935,231	\$ 335,317	\$ 1,206,606	
Reconciliation to amounts reported for governmental activities in the statement of net position:					
Capital assets used by governmental activities					8,440,407
Loans					195,535
Long-term notes and leases payable for governmental activities					(3,095,820)
Compensated absences					(435,701)
Pension items					(330,514)
OPEB					(621,111)
Internal service funds included in governmental activities					1,758,723
Accrued interest expense payable					(12,960)
Net position of governmental activities					\$ 8,979,753

City of Houghton, Michigan

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended June 30, 2022

	General	Major Streets	Local Streets	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES:					
Taxes	\$ 1,962,480	\$ -	\$ 181,490	\$ -	\$ 2,143,970
Licenses and Permits	110	-	-	-	110
Federal Sources	19,843	-	-	75,614	95,457
State Sources	1,361,619	1,255,443	374,543	109,438	3,101,043
Charges for Services	551,738	-	-	-	551,738
Rentals	278,708	-	-	-	278,708
Interest	2,810	634	306	29,344	33,094
Other Revenue	57,349	-	4,203	50,000	111,552
TOTAL REVENUES	4,234,657	1,256,077	560,542	264,396	6,315,672
EXPENDITURES:					
Legislative	19,264	-	-	-	19,264
General Government	757,798	-	-	-	757,798
Public Safety	1,478,538	-	-	-	1,478,538
Public Works	535,581	1,113,422	1,192,083	196,433	3,037,519
Health and Welfare	-	-	-	600	600
Recreation and Cultural	499,730	-	-	-	499,730
Debt Service	419,450	-	51,320	-	470,770
Other Expenditures	434,124	-	-	-	434,124
TOTAL EXPENDITURES	4,144,485	1,113,422	1,243,403	197,033	6,698,343
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	90,172	142,655	(682,861)	67,363	(382,671)
OTHER FINANCING SOURCES (USES):					
Transfers In	-	-	166,320	50,174	216,494
Transfers Out	(259,042)	(115,000)	-	-	(374,042)
TOTAL OTHER FINANCING SOURCES (USES)	(259,042)	(115,000)	166,320	50,174	(157,548)
NET CHANGE IN FUND BALANCES	(168,870)	27,655	(516,541)	117,537	(540,219)
FUND BALANCE BEGINNING OF YEAR, (As Restated, See Note 10)	1,877,837	851,894	747,300	144,382	3,621,413
FUND BALANCE AT END OF YEAR	\$ 1,708,967	\$ 879,549	\$ 230,759	\$ 261,919	\$ 3,081,194

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2022**

Net changes in fund balances - total governmental funds \$ (540,219)

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$879,401 exceeded depreciation (\$362,895).

516,506

Loans receivable are long-term in nature and are collectible over several years. However, only the current receipts are reflected as revenues in the funds.

(24,723)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal payments

449,609

An internal service fund is used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.

(201,532)

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:

Compensated absences

(8,402)

Pension and OPEB Items

53,238

Accrued interest

962

Change in net position of governmental activities

\$ 245,439

Statement of Net Position
 Proprietary Funds
 June 30, 2022

	Business-type Activities Enterprise Funds				Totals	Governmental
	Water Supply	Sewer Disposal System	Parking System	Transit		Internal Service Funds
ASSETS:						
Cash and Equivalents - Unrestricted	\$ 274,385	\$ 662,024	\$ 147,079	\$ 329,858	\$ 1,413,346	\$ 474,826
Cash and Equivalents - Restricted	587,294	214,278	-	-	801,572	-
Accounts Receivable	162,289	441,126	-	270	603,685	30,148
Due from Other Funds	14,458	-	-	-	14,458	157,106
Due from Other Governmental Unit	-	-	-	-	-	37,721
Investment in Joint Venture	-	941,313	-	-	941,313	-
Capital Assets (Not Depreciated)	2,476,894	3,790,513	77,211	-	6,344,618	-
Capital Assets (Net of Accumulated Depreciation)	6,774,233	4,510,662	1,943,293	678,798	13,906,986	1,655,665
TOTAL ASSETS	10,289,553	10,559,916	2,167,583	1,008,926	24,025,978	2,355,466
DEFERRED OUTFLOWS OF RESOURCES						
OPEB Items	3,554	4,548	1,143	6,282	15,527	1,802
Pension Items	56,663	72,528	18,222	100,179	247,592	28,739
TOTAL DEFERRED OUTFLOWS OF RESOURCES	60,217	77,076	19,365	106,461	263,119	30,541
LIABILITIES:						
Accounts Payable	44,893	228,364	1,972	4,777	280,006	31,486
Accrued Liabilities	6,191	8,431	2,890	13,879	31,391	3,499
Accrued Interest Payable	62,009	35,664	-	-	97,673	3,438
Due to Other Fund	6,615	18,761	285	6	25,667	-
Due to Other Governmental Units	-	-	-	78,112	78,112	-
Compensated Absences - due in more than one year	41,217	52,657	6,041	63,573	163,488	-
Net Pension Liability	50,266	64,340	16,165	88,869	219,640	25,495
Net OPEB Liability	53,627	68,643	17,247	94,813	234,330	27,200
Installment Loans - due within one year	-	-	-	-	-	30,000
Installment Loans - due in more than one year	-	-	-	-	-	270,000
Bonds Payable - due within one year	285,674	72,500	-	-	358,174	-
Bonds Payable - due in more than one year	8,501,858	3,835,500	-	-	12,337,358	-
TOTAL LIABILITIES	9,052,350	4,384,860	44,600	344,029	13,825,839	391,118
DEFERRED INFLOWS OF RESOURCES						
Bond Proceeds	-	-	-	-	-	-
OPEB Items	10,858	13,897	3,492	19,196	47,443	5,507
Pension Items	38,821	49,691	12,485	68,635	169,632	19,690
TOTAL DEFERRED INFLOWS OF RESOURCES	49,679	63,588	15,977	87,831	217,075	25,197
NET POSITION:						
Net Investment in Capital Assets	463,595	4,393,175	2,020,504	678,798	7,556,072	1,355,665
Restricted	587,294	214,278	-	-	801,572	-
Unrestricted	196,852	1,581,091	105,867	4,729	1,888,539	614,027
TOTAL NET POSITION	\$ 1,247,741	\$ 6,188,544	\$ 2,126,371	\$ 683,527	10,246,183	\$ 1,969,692

Reconciliation to amounts reported for business activities in the statement of net position:

Internal service funds included in business-type activities	210,969
Net position of business-type activities	\$ 10,457,152

**Statement of Revenues, Expenses and
Changes in Net Position - Proprietary Funds
For the Year Ended June 30, 2022**

	Business-type Activities Enterprise Funds				Governmental Activities	
	Water Supply	Sewer Disposal System	Parking System	Transit	Totals	Internal Service Funds
OPERATING REVENUES:						
Charges for Services	\$ 1,266,612	\$ 1,987,852	\$ 180,267	\$ 98,138	\$ 3,532,869	\$ 881,975
Other Revenue	5,925	6,204	237	-	12,366	13,269
Total Operating Revenues	<u>1,272,537</u>	<u>1,994,056</u>	<u>180,504</u>	<u>98,138</u>	<u>3,545,235</u>	<u>895,244</u>
OPERATING EXPENSES:						
Personnel	238,413	225,722	78,294	438,789	981,218	130,606
Supplies	175,300	68,682	13,155	3,983	261,120	62,045
Contracted Services	46,700	18,755	8,225	4,473	78,153	5,186
Insurance	3,029	3,879	2,350	13,611	22,869	43,281
Utilities	156,015	664	24,000	14,575	195,254	14,882
Fuel	-	-	-	19,356	19,356	217,784
Repairs and Maintenance	23,116	33,761	9,123	33,767	99,767	249,489
Rental	28,044	15,248	72,190	11,427	126,909	-
Depreciation	264,564	183,866	102,118	84,646	635,194	409,107
City Share of PLWSA Expenses	-	1,076,285	-	-	1,076,285	-
Other Expenses	30,544	68,550	59,723	16,090	174,907	-
Total Operating Expenses	<u>965,725</u>	<u>1,695,412</u>	<u>369,178</u>	<u>640,717</u>	<u>3,671,032</u>	<u>1,132,380</u>
OPERATING INCOME (LOSS)	<u>306,812</u>	<u>298,644</u>	<u>(188,674)</u>	<u>(542,579)</u>	<u>(125,797)</u>	<u>(237,136)</u>
NON-OPERATING REVENUES (EXPENSES):						
State Sources	-	1,680	-	209,403	211,083	30,148
Federal Sources	-	-	-	219,489	219,489	25,700
Interest Income	705	533	135	191	1,564	424
Interest Expense	(210,241)	(97,425)	-	-	(307,666)	(8,716)
Other	7,560	-	-	-	7,560	-
Total Non-operating Revenues (Expenses)	<u>(201,976)</u>	<u>(95,212)</u>	<u>135</u>	<u>429,083</u>	<u>132,030</u>	<u>47,556</u>
Income (Loss) Before Contributions and Transfers	<u>104,836</u>	<u>203,432</u>	<u>(188,539)</u>	<u>(113,496)</u>	<u>6,233</u>	<u>(189,580)</u>
Contributions and Transfers						
Capital Grants - Federal	-	718,842	-	181,571	900,413	-
Capital Grants - State	-	-	-	171,439	171,439	-
Transfers In	-	-	50,000	119,500	169,500	38,048
Transfers Out	-	-	-	-	-	(50,000)
Total Transfers	<u>-</u>	<u>718,842</u>	<u>50,000</u>	<u>472,510</u>	<u>1,241,352</u>	<u>(11,952)</u>
CHANGE IN NET POSITION	<u>104,836</u>	<u>922,274</u>	<u>(138,539)</u>	<u>359,014</u>	<u>1,247,585</u>	<u>(201,532)</u>
NET POSITION BEINNING OF YEAR	<u>1,142,905</u>	<u>5,266,270</u>	<u>2,264,910</u>	<u>324,513</u>	<u>8,998,598</u>	<u>2,171,224</u>
NET POSITION END OF YEAR	<u>\$ 1,247,741</u>	<u>\$ 6,188,544</u>	<u>\$ 2,126,371</u>	<u>\$ 683,527</u>	<u>\$ 10,246,183</u>	<u>\$ 1,969,692</u>

Statement of Cash Flows
Proprietary Fund Types
For the Year Ended June 30, 2022

	Business-type Activities Enterprise Funds				Governmental Activities	
	Water Supply	Sewer Disposal System	Parking System	Transit	Totals	Internal Service Fund
Cash Flows From Operating Activities:						
Receipts from Customers or Users	\$ 1,211,778	\$ 1,976,430	\$ 180,504	\$ 180,890	\$ 3,549,602	\$ 827,748
Cash Payments to Vendors	(786,805)	(1,254,508)	(187,614)	(198,943)	(2,427,870)	(591,560)
Cash Paid to Employees	(244,247)	(232,075)	(78,497)	(443,426)	(998,245)	(133,042)
Cash Payments to/from Internal Funds	-	-	-	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>180,726</u>	<u>489,847</u>	<u>(85,607)</u>	<u>(461,479)</u>	<u>123,487</u>	<u>103,146</u>
Cash Flows From Noncapital and Related Financing Activities:						
State Sources	-	1,680	-	209,403	211,083	30,148
Federal Sources	-	-	-	219,489	219,489	25,700
Other Revenue	7,560	-	-	-	7,560	-
Payments Received on Intefund Borrowing	31,884	-	-	-	31,884	(129,784)
Payments Made for Interfund Borrowing	3,666	(29,212)	(88)	(519)	(26,153)	-
Operating Transfers In	-	-	50,000	119,500	169,500	38,048
Operating Transfers Out	-	-	-	-	-	(50,000)
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>43,110</u>	<u>(27,532)</u>	<u>49,912</u>	<u>547,873</u>	<u>613,363</u>	<u>(85,888)</u>
Cash Flows from Capital and Related Financing Activities:						
Purchase/Disposal of Capital Assets	(691,954)	(891,348)	-	(370,678)	(1,953,980)	(163,743)
Proceeds from Capital Grants	-	718,842	-	353,010	1,071,852	-
Debt Proceeds	1,071,400	209,000	-	-	1,280,400	-
Interest Payments	(210,241)	(97,425)	-	-	(307,666)	(8,716)
Principal Payments	(276,920)	(70,500)	-	-	(347,420)	(29,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(107,715)</u>	<u>(131,431)</u>	<u>-</u>	<u>(17,668)</u>	<u>(256,814)</u>	<u>(201,459)</u>
Cash Flows From Investing Activities:						
Interest Income	705	533	135	191	1,564	424
Net Cash Provided (Used) by Investing Activities	<u>705</u>	<u>533</u>	<u>135</u>	<u>191</u>	<u>1,564</u>	<u>424</u>
Net Increase (Decrease) in Cash and Equivalents	116,826	331,417	(35,560)	68,917	481,600	(183,777)
Cash and Equivalents - Beginning of the Year	744,853	544,885	182,639	260,941	1,733,318	658,603
Cash and Equivalents - End of the Year	<u>\$ 861,679</u>	<u>\$ 876,302</u>	<u>\$ 147,079</u>	<u>\$ 329,858</u>	<u>\$ 2,214,918</u>	<u>\$ 474,826</u>
Reconciliation of Operating Income (Loss) to						
Net Cash Provided (Used) by Operating Activities:						
Operating Income (Loss)	\$ 306,812	\$ 298,644	\$ (188,674)	\$ (542,579)	\$ (125,797)	\$ (237,136)
Adjustments to Reconcile Operating Income (Loss) to						
Net Cash Provided (Used) by Operating Activities:						
Depreciation Expense	264,564	183,866	102,118	84,646	635,194	409,107
Amortization of Premium	(2,290)	-	-	-	(2,290)	-
Change in Assets, Deferred Outflows, Liabilities and Deferred Inflows:						
(Increase) Decrease in Assets:						
Accounts Receivable	(58,469)	(285,402)	-	242	(343,629)	(30,148)
Due From Other Governments	-	267,776	-	82,510	350,286	(37,348)
Increase (Decrease) in Liabilities:						
Accounts Payable	(324,057)	31,316	1,152	(82,230)	(373,819)	1,439
Accrued Liabilities	(4,906)	(5,961)	260	(8,288)	(18,895)	(2,436)
Accrued Interest Payable	-	-	-	-	-	(332)
Due To Other Governments	-	-	-	569	569	-
Compensated Absences	(928)	(392)	(463)	3,651	1,868	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 180,726</u>	<u>\$ 489,847</u>	<u>\$ (85,607)</u>	<u>\$ (461,479)</u>	<u>\$ 123,487</u>	<u>\$ 103,146</u>

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2022

	Trust Fund		Total	Custodial Fund
	Employee Retirement	Employee Benefit		General Agency
ASSETS:				
Cash and Equivalents - Unrestricted	\$ -	\$ 668,073	\$ 668,073	\$ 18,718
Investments - at fair value	1,363,992	-	1,363,992	-
Prepaid Items	-	52,865	52,865	-
Loans to Retirement Plan Participants	5,736	-	5,736	-
TOTAL ASSETS	\$ 1,369,728	\$ 720,938	\$ 2,090,666	\$ 18,718
LIABILITIES:				
Due to Other Funds	\$ -	\$ -	\$ -	\$ 13,967
Due to Other Governments	-	-	-	4,751
Accrued Liabilities	-	284,089	284,089	-
TOTAL LIABILITIES	\$ -	\$ 284,089	\$ 284,089	\$ 18,718
NET POSITION:				
Held in Trust for Pension				
Benefits and Other Purposes	\$ 1,369,728	\$ 436,849	\$ 1,806,577	\$ -

**Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2022**

	Trust Fund		Total	Custodial
	Employee Retirement Fund	Employee Benefit Fund		General Agency Fund
ADDITIONS:				
Contributions:				
Employer and Employee	\$ 47,062	\$ 2,014,721	\$ 2,061,783	\$ -
Taxes Collected for Other Governments	-	-	-	8,662,684
Total Contributions	<u>47,062</u>	<u>2,014,721</u>	<u>2,061,783</u>	<u>8,662,684</u>
Investment Earnings:				
Interest, Dividends	586	708	1,294	-
Total Investment Earnings	<u>586</u>	<u>708</u>	<u>1,294</u>	<u>-</u>
Total Additions	<u>47,648</u>	<u>2,015,429</u>	<u>2,063,077</u>	<u>8,662,684</u>
DEDUCTIONS:				
Benefits Paid Out	127	1,934,438	1,934,565	-
Loss on Investments	211,772	-	211,772	-
Administration Fees	12,333	-	12,333	-
Taxes Distributed to Other Governments	-	-	-	8,663,698
Total Deductions	<u>224,232</u>	<u>1,934,438</u>	<u>2,158,670</u>	<u>8,663,698</u>
Change in Net Position	(176,584)	80,991	(95,593)	(1,014)
Net Position Beginning of the Year	<u>1,546,312</u>	<u>355,858</u>	<u>1,902,170</u>	<u>1,014</u>
Net Position End of the Year	<u>\$ 1,369,728</u>	<u>\$ 436,849</u>	<u>\$ 1,806,577</u>	<u>\$ -</u>

**Statement of Net Position
Component Units
June 30, 2022**

	Downtown Development Authority	TIFA	Houghton Housing Commission	Totals
ASSETS:				
Cash and Equivalents - Unrestricted	\$ 595,207	\$ 167,258	\$ 499,781	\$ 1,262,246
Due from Other Governmental Units	812,435		-	812,435
Accounts Receivable - net	-	149,646	100	149,746
Prepaid Items	-	-	23,383	23,383
Capital Assets (Not Depreciated)	4,144,619	-	173,736	4,318,355
Capital Assets (Net of Accumulated Depreciation)	604,135	5,910,191	2,818,999	9,333,325
TOTAL ASSETS	6,156,396	6,227,095	3,515,999	15,899,490
DEFERRED OUTFLOWS OF RESOURCES:				
OPEB Items	927	2,377		3,304
Pension Items	14,777	37,896	-	52,673
TOTAL DEFERRED OUTFLOWS OF RESOURCES	15,704	40,273	-	55,977
LIABILITIES:				
Accounts Payable	\$ 982,983	11,800	5,594	1,000,377
Accrued Liabilities	5,059	17,674	82,123	104,856
Accrued Interest Payable	737	-	-	737
Due to Other Governmental Units	1,833	10,188	-	12,021
Net Pension Liability	13,109	33,618	-	46,727
Net OPEB Liability	13,986	35,866	-	49,852
Vested Employee Benefits - Due in one year	-	-	20,626	20,626
Vested Employee Benefits - Due in more than one year	-	-	18,620	18,620
TOTAL LIABILITIES	1,017,707	109,146	126,963	1,253,816
DEFERRED INFLOWS OF RESOURCES:				
OPEB Items	2,832	7,261	-	10,093
Pension Items	10,124	25,963	-	36,087
TOTAL DEFERRED INFLOWS OF RESOURCES	12,956	33,224	-	46,180
NET POSITION:				
Net Investment in Capital Assets	4,748,754	5,910,191	2,818,999	13,477,944
Restricted	392,683	214,807	570,037	1,177,527
TOTAL NET POSITION	5,141,437	6,124,998	3,389,036	14,655,471
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 6,172,100	\$ 6,267,368	\$ 3,515,999	\$ 15,955,467

**Statement of Activities
Component Units
For the Year Ended June 30, 2022**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	TIFA	Houghton Housing Commission	Total
Public Works:								
Houghton Housing Commission	\$ 1,033,456	\$ 330,170	\$ 140,194	\$ 141,709	\$ -	\$ -	\$ (421,383)	\$ (421,383)
Community & Economic Development:								
TIFA	940,094	-	-	111,364	-	(828,730)	-	(828,730)
Community & Economic Development:								
Downtown Development Authority	219,132	73,938	11,206	3,585,346	3,451,358	-	-	3,451,358
Total Component Units	<u>\$ 2,192,682</u>	<u>\$ 404,108</u>	<u>\$ 151,400</u>	<u>\$ 3,838,419</u>	3,451,358	(828,730)	(421,383)	2,201,245
General Revenues and Special Items:								
Property Taxes					214,904	702,700	-	917,604
Interest Income					700	411	1,086	2,197
Other Revenue					-	-	409,905	409,905
Total General Revenues					<u>215,604</u>	<u>703,111</u>	<u>410,991</u>	<u>1,329,706</u>
Changes in Net Position					3,666,962	(125,619)	(10,392)	3,530,951
Net Position - Beginning (As Restated See Note 10)					<u>1,474,475</u>	<u>6,250,617</u>	<u>3,399,428</u>	<u>11,124,520</u>
Net Position - Ending					<u>\$ 5,141,437</u>	<u>\$ 6,124,998</u>	<u>\$ 3,389,036</u>	<u>\$ 14,655,471</u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Houghton conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Houghton.

A. Reporting Entity

The City of Houghton (the "City") is governed by a City Council elected by the community at large. The 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 (police and fire), highways and streets, parks and recreation, public improvements, planning and zoning and general administrative services. The City has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14 and Statement No. 61, regarding the definition of the reporting entity.

Jointly Governed Organization**Portage Lake Water and Sewer Authority**

On January 24, 1964, Portage Lake Water and Sewer Authority entered into a contract with the City of Houghton and the City of Hancock. The contract calls for the acquisition, improvements, enlargements, extension, operation and maintenance of a sewage disposal system. The cost of operations and improvements are divided between the City of Houghton and the City of Hancock on a pro rata basis based upon the percentage use of the plant by each city as measured by the material flow from the pumping station. The Authority is not considered a component unit of either city. The City's investment in the Authority is included in the Sewage Disposal System Fund's. Net Positions for the Water and Sewer Authority as of June 30, 2022 is \$7,436,285.

Blended Component Unit

A blended component unit is a legally separate entity from the City, but is so intertwined with the City that it is, in substance, the same as the City. It is reported as part of the City and blended into the appropriate fund types and account groups.

Building Authority

The Building Authority of the City of Houghton is governed by a five-member board appointed by the City Council. It was created to facilitate the issuance of bonded debt. This unit has no day-to-day operations and the debt issued by it is reflected in the government-wide statement of net position under governmental activities and component units.

Discretely Presented Component Units

The following component units are reported within the "component units" column in the financial statements. A discretely presented component unit is an entity that is legally separate from the City, but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

The Downtown Development Authority and the Tax Increment Finance Authority are considered to be component units of the City and their financial statements are presented discretely with the City's. The Downtown Development Authority and the Tax Increment Finance Authority are governed by the same board. The board consists of nine members which include the City Manager and 8 others that are appointed by the Mayor subject to approval by the City Council.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Houghton Housing Commission is a component unit of the City of Houghton. It is governed by a five-member board appointed by the City Manager. It is audited separately. Complete financial statements of the individual component unit can be obtained from the following:

Houghton Housing Commission
401 E. Montezuma Street
Houghton, Michigan 49931

B. Government-Wide 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 the legally separate *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 is 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*.

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 proprietary funds are reported as separate columns in the fund financial statements. 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 needed.

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

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the use of motor fuel taxes which are restricted by State statute for major street and highway purposes.

The *Local Street Fund* accounts for the use of motor fuel taxes which are restricted by State statute for local street purposes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major proprietary funds:

The *Water, Sewer, Parking and Transit Funds* are the City's major proprietary fund. It accounts for the activities of the City's water distribution, sewage disposal and treatment system, parking and transportation.

Additionally, the City reports the following fund types:

Special Revenue Funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Internal Service Fund. This fund accounts for operations that provide machinery and equipment to other departments of the City on a cost-reimbursement basis.

Agency Funds. These funds account for assets held for others in an agency capacity. These include the Tax Collection Fund, an Agency Fund; the Employee Retirement Fund, a Pension Fund; and the Employee Benefit Fund, an Expendable Trust Fund. The Employee Retirement Fund is accounted for in essentially the same manner as proprietary fund since capital maintenance is critical. Trust Funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and don't involve measurement of results of operations.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash is disbursed.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within 60 days after year-end. Property taxes, state revenue, and interest are considered to be susceptible to accrual.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance***Cash and Equivalents***

The City's cash and equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Pooled investment income for all funds is allocated to each fund based on average cash balance. Deposits are recorded at cost. Investments are reported at fair market value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sale price. Investments that do not have an established market are reported at estimated fair value. All investments comply with Michigan Compiled Laws, Section 139.91.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reports as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Inventories and Prepaids Items

Inventories are valued at cost on the first in, first out basis for proprietary fund types. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both governmental-wide and fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

Property taxes include amounts levied against all real and public utility property and tangible personal property which is used in business located in the City. Taxes are levied on July 1 on the taxable value listed as of the prior December 31. The due date for taxes to be paid without penalty for the summer levy is September 14, the winter levy due date is February 14. All real property taxes remaining unpaid by March 1 are bought by Houghton County. Property tax revenue is recognized as of July 1, when the taxes are levied. In the fund financial statements, any taxes collected before that date are recorded as deferred revenue. Property taxes receivable over 60 days are required to be recorded as deferred revenue in accordance with generally accepted accounting principles for local governments.

Assessed values are established annually by the City, and subject to acceptance by the City, are equalized by the state at an estimated 50% of current market value. Real and personal property in the City for the 2021 taxable value was assessed at \$155,518,255.

The government’s general operating tax rate for fiscal year 2022 was 15.000 mills.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	10 to 50 years
Roads	50 years
Other Infrastructure	50 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Interest incurred during capital asset construction periods is expensed in accordance with GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period.

Restricted Assets

The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Impairment of Long-Lived Assets***

Management reviews long-lived assets held and used by the City for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed.

Pensions and OPEB

For purposes of measuring the net pension liability and Other Post Employment Benefits, deferred outflows of resources and deferred inflows of resources, and pension and fringe expense, information about the fiduciary net position of the Plans and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the plan administrators. 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.

Vested Employee Benefits (Vacation, Personal, and Sick Leave)

City employees earn vacation leave, which generally cannot be accumulated. Unused sick leave may be accumulated to a specific maximum amount. In accordance with generally accepted accounting principles an accrual for compensated absences is reflected in the fiduciary fund types financial statements. The amount of current year compensated absences for the City is budgeted annually as an expense in the Employee Benefit Fund. The liability is split between the current and the long-term portion. The current portion is recorded in the Employee Benefit Fund. The long-term portion is recorded in the Government-Wide Statement of Net Assets.

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has OPEB and pension items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has unavailable revenues, OPEB and pension items that qualify for reporting in this category.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are recorded as deferred inflows and outflows and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as period expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Issuances costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable**: This classification includes amounts that cannot be spent because they are either (a) not spendable form or (b) are legally or contractually required to be maintained intact. The City has classified Prepaid Items as being Nonspendable as these items are not expected to be converted to cash within the next year. The City has \$5,554 in Nonspendable fund balance.
- **Restricted**: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City has \$1,298,237 in restricted fund balance.
- **Committed**: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. The City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances approved by the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned**: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- **Unassigned**: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets deferred outflows, liabilities and deferred inflows and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the City Council to approve a budget for the General Fund and all Special Revenue Funds. The Manager prepares a budget in accordance with the Act which is adopted by the Council at a public hearing each May. All budgets lapse at fiscal year end.

NOTE 3 - CASH, EQUIVALENTS AND INVESTMENTS

At year end, the City’s cash, equivalents and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and Equivalents -					
Unrestricted	\$ 3,348,612	\$ 1,624,315	\$ 4,972,927	\$ 686,791	\$ 1,262,246
Restricted	-	801,572	801,572	-	-
Investments -					
Unrestricted	-	-	-	1,363,992	-
Total	<u>\$ 3,348,612</u>	<u>\$ 2,425,887</u>	<u>\$ 5,774,499</u>	<u>\$ 2,050,783</u>	<u>\$ 1,262,246</u>

Investments of the Water and Sewer Fund are restricted by bond debt reserves requirements and construction projects in the amount of \$801,572.

The breakdown between cash and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Bank Deposits (checking and savings accounts, certificates of deposit and money market accounts)	\$ 5,773,898	\$ 686,791	\$ 1,262,246
Petty Cash and Cash on Hand	601	-	-
Investments	-	1,363,992	-
Total	<u>\$ 5,774,499</u>	<u>\$ 2,050,783</u>	<u>\$ 1,262,246</u>

NOTE 3 - CASH, EQUIVALENTS AND INVESTMENTS (Continued)

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end, the City’s bank balance of \$6,825,415 was fully insured and collateralized.

Interest rate risk. State law limits the allowable investments and maturities of some of the allowable investments as identified above. The City’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure of fair value losses arising from decreasing interest rates.

Credit risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The City’s investment policy does not have specific limits in excess of state law or investment credit risk.

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

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the measurements required judgement and considers factors specific to each asset or liability.

The City has the following fair value measurements as of June 30, 2022:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	\$ 1,363,992	\$ -	\$ -	\$ -

Bonds and secured mortgages, stocks, mutual funds, and annuities are held in the Employee Retirement Fund. All investments are Nonrisk-Categorized Investments.

Statutory Authority:

P.A. 152, entitled “An act relative to the investment of funds of public corporations of the state; and to validate certain investments,” by amending section 1 (MCL 129.91), as amended by 2009 PA 21.

Except as provided in section 5, the governing body by resolution may authorize its investment officer to invest the funds of that public corporation in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2); certificates of deposit obtained through a financial institution as provided in subsection (5); or deposit accounts of a financial institution as provided in subsection (6).

NOTE 3 - CASH AND INVESTMENTS (Continued)

- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
 - (i) The purchase of securities on a when-issued or delayed delivery basis.
 - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
 - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The City's deposits and investment policy are in accordance with statutory authority.

These deposits are in various financial institutions in varying amounts. All accounts are in the name of the City and specific funds. They are recorded in City records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Adjustments/ Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 691,259	\$ -	\$ -	\$ 691,259
Construction in Progress	<u>-</u>	<u>115,825</u>	<u>-</u>	<u>115,825</u>
Subtotal	<u>691,259</u>	<u>115,825</u>	<u>-</u>	<u>807,084</u>
<i>Capital assets being depreciated:</i>				
Buildings	3,859,979	-	-	3,859,979
Improvements	4,677,264	-	-	4,677,264
Equipment	5,530,790	184,892	-	5,715,682
Infrastructure	<u>6,653,563</u>	<u>742,426</u>	<u>-</u>	<u>7,395,989</u>
Subtotal	<u>20,721,596</u>	<u>927,318</u>	<u>-</u>	<u>21,648,914</u>
<i>Less accumulated depreciation for:</i>				
Building	(1,642,780)	(71,269)	-	(1,714,049)
Improvements	(3,454,770)	(108,477)	-	(3,563,247)
Equipment	(3,490,470)	(467,429)	-	(3,957,899)
Infrastructure	<u>(2,999,904)</u>	<u>(124,827)</u>	<u>-</u>	<u>(3,124,731)</u>
Subtotal	<u>(11,587,924)</u>	<u>(772,002)</u>	<u>-</u>	<u>(12,359,926)</u>
Net Capital Assets Being Depreciated	<u>9,133,672</u>	<u>155,316</u>	<u>-</u>	<u>9,288,988</u>
Capital Assets – Net	<u>\$ 9,824,931</u>	<u>\$ 271,141</u>	<u>\$ -</u>	<u>\$ 10,096,072</u>

Depreciation expense was charged to functions/programs of the governmental activities as follows:

Governmental Activities	
General Government	\$ 112,669
Public Safety	51,912
Public Works	176,584
Recreation and Culture	21,730
Internal Service	<u>409,107</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 772,002</u>

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Adjustments/ Decreases</u>	<u>Ending Balances</u>
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 77,211	\$	-	\$ 77,211
Construction in Progress	<u>4,684,105</u>	<u>1,583,302</u>	<u>-</u>	<u>6,267,407</u>
Subtotal	<u>4,761,316</u>	<u>1,583,302</u>	<u>-</u>	<u>6,344,618</u>
<i>Capital assets being depreciated:</i>				
Building	276,443	-	-	276,443
Improvements	74,334	-	-	74,334
Equipment	1,546,896	370,678	-	1,917,574
Infrastructure	<u>29,892,378</u>	<u>-</u>	<u>-</u>	<u>29,892,378</u>
Subtotal	<u>31,790,051</u>	<u>370,678</u>	<u>-</u>	<u>32,160,729</u>
<i>Less accumulated depreciation for:</i>				
Building	(197,897)	(6,836)	-	(204,733)
Improvements	(28,611)	(1,858)	-	(30,469)
Equipment	(1,249,151)	(83,031)	-	(1,332,182)
Infrastructure	<u>(16,142,890)</u>	<u>(543,469)</u>	<u>-</u>	<u>(16,686,359)</u>
Subtotal	<u>(17,618,549)</u>	<u>(635,194)</u>	<u>-</u>	<u>(18,253,743)</u>
Net Capital Assets Being Depreciated	<u>14,171,502</u>	<u>(264,516)</u>	<u>-</u>	<u>13,906,986</u>
Capital Assets – Net	<u>\$ 18,932,818</u>	<u>\$ 1,318,786</u>	<u>\$ -</u>	<u>\$ 20,251,604</u>

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Business-type Activities

Water	\$ 264,564
Sewer	183,866
Parking	102,118
Transit	<u>84,646</u>

**Total Depreciation Expense -
Business-type Activities**

\$ 635,194

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Adjustments/ Decreases</u>	<u>Ending Balances</u>
Component Unit Activities				
<i>Capital assets not being depreciated:</i>				
Land	\$ 52,111	\$ -	\$ -	\$ 52,111
<i>Capital assets being depreciated:</i>				
Buildings	635,570	-	-	635,570
Equipment	45,365	-	(4,457)	40,908
Infrastructure	8,585,675	-	4,457	8,590,132
Subtotal	<u>9,266,610</u>	<u>-</u>	<u>-</u>	<u>9,266,610</u>
<i>Less accumulated depreciation:</i>				
Buildings	(322,398)	(12,709)	-	(335,107)
Equipment	(45,625)	-	4,717	(40,908)
Infrastructure	(2,692,629)	(178,923)	(4,717)	(2,876,269)
Subtotal	<u>(3,060,652)</u>	<u>(191,632)</u>	<u>-</u>	<u>(3,252,284)</u>
Net Capital Assets Being Depreciated	<u>6,205,958</u>	<u>(191,632)</u>	<u>-</u>	<u>6,014,326</u>
Capital Assets - Net	<u>\$ 6,258,069</u>	<u>\$ (191,632)</u>	<u>\$ -</u>	<u>\$ 6,066,437</u>

Depreciation expense for the year ended June 30, 2021 was \$191,632.

Capital asset activity for the Houghton Housing Commission for the year ended December 31, 2021 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Houghton Housing Commission:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 173,736	\$ -	\$ -	\$ 173,736
Construction in progress	3,993	137,716	(141,709)	-
Subtotal	<u>177,729</u>	<u>137,716</u>	<u>(141,709)</u>	<u>173,736</u>
<i>Capital assets being depreciated:</i>				
Leasehold Improvements	673,699	8,000	-	681,699
Building and Improvements	6,575,870	120,897	-	6,696,767
Equipment	201,278	32,812	(10,537)	223,553
Subtotal	<u>7,450,847</u>	<u>161,709</u>	<u>(10,537)</u>	<u>7,602,019</u>
<i>Less accumulated depreciation:</i>				
Accumulated depreciation	<u>(4,581,024)</u>	<u>(212,533)</u>	<u>10,537</u>	<u>(4,783,020)</u>
Net Capital Assets Being Depreciated	<u>2,869,823</u>	<u>(50,824)</u>	<u>-</u>	<u>2,818,999</u>
Capital Assets - Net	<u>\$ 3,047,552</u>	<u>\$ 86,892</u>	<u>\$ (141,709)</u>	<u>\$ 2,992,735</u>

Depreciation expense for the year ended December 31, 2021 was \$212,533.

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The City reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds, proprietary funds, and fiduciary funds. Interfund transactions resulting in interfund receivables and payables are as follows:

DUE FROM OTHER FUNDS						
		General	Local Street	Water Supply	Internal Service	Total
DUE TO OTHER FUNDS	General	\$ -	\$ -	\$ -	\$ 20,286	\$ 20,286
	Major Street	-	10,358	-	33,689	44,047
	Local Street	-	-	-	95,406	95,406
	Nonmajor Governmental	453,878	-	-	-	453,878
	Water Supply	2,562	-	-	4,053	6,615
	Sewer Disposal System	922	-	14,458	3,381	18,761
	Parking System	-	-	-	285	285
	Transit	-	-	-	6	6
	Custodial Fund	13,967	-	-	-	13,967
	Total	<u>\$ 471,329</u>	<u>\$ 10,358</u>	<u>\$ 14,458</u>	<u>\$ 157,106</u>	<u>\$ 653,251</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

TRANSFERS OUT					
		General	Major Street	Internal Service	Total
TRANSFERS IN	Local Street	\$ 51,320	\$ 115,000	\$ -	\$ 166,320
	Nonmajor Governmental	50,174	-	-	50,174
	Parking System	-	-	50,000	50,000
	Transit	119,500	-	-	119,500
	Internal Service	38,048	-	-	38,048
	Total	<u>\$ 259,042</u>	<u>\$ 115,000</u>	<u>\$ 50,000</u>	<u>\$ 424,042</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 - LONG-TERM DEBT

PRIMARY GOVERNMENT

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. City contractual agreements and installment purchase agreements are also general obligations of the City. Revenue bonds involve a pledge of specified income derived from the acquired or constructed assets to pay debt service.

Bond and contractual obligation activity can be summarized as follows:

	Interest Rate	Principal Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>							
Bonds:							
2016 Michigan Transportation General Obligation Bonds	2.75%	2031	\$ 448,000	\$ -	\$ 39,000	\$ 409,000	\$ 41,000
2013 Limited Tax General Obligation Refunding Bond	2.00 to 4.00%	2036	1,325,000	-	67,580	1,257,420	69,116
2021 General Obligation Limited Tax Bonds	.750 to 3.9%	2041	765,000	-	-	765,000	35,000
Installment Notes/Contracts:							
2006 Rural Development	4.25%	2022	17,000	-	17,000	-	-
2016 Rural Development	2.75%	2031	329,000	-	29,000	300,000	30,000
2018 Michigan Transportation	0.00%	2023	<u>975,000</u>	<u>-</u>	<u>325,000</u>	<u>650,000</u>	<u>325,000</u>
Subtotal			3,859,000	-	477,580	3,381,420	500,116
2013 Limited Tax General Obligation Refunding Bond Premiums			<u>15,429</u>	<u>-</u>	<u>1,029</u>	<u>14,400</u>	<u>1,029</u>
Subtotal			3,874,429	-	478,609	3,395,820	501,145
Vested Employee Benefits - net			<u>427,299</u>	<u>8,402</u>	<u>-</u>	<u>435,701</u>	<u>59,343</u>
Total Governmental Activities			<u>\$ 4,301,728</u>	<u>\$ 8,402</u>	<u>\$ 478,609</u>	<u>\$ 3,831,521</u>	<u>\$ 560,488</u>
<u>Business-type Activities</u>							
Bonds:							
2020A Water Supply System Junior Lien Revenue Bonds	1.375%	2060	1,723,000	-	27,000	1,696,000	28,000
2020A Sewer Disposal System Junior Lien Revenue Bonds	1.63%	2060	492,000	-	8,000	484,000	8,000
2020B Sewer Disposal System Junior Lien Revenue Bonds	1.375%	2060	85,500	-	1,500	84,000	1,500
2012 Water Supply and Sewer System Revenue Bonds	2.125%	2052	3,577,000	-	75,000	3,502,000	77,000
2012 Water Supply and Sewer System Revenue Bonds	2.75%	2052	3,075,000	-	55,000	3,020,000	57,000
2013 Limited Tax General Obligation Refunding Bond	2.00 to 4.00%	2036	2,990,000	-	152,420	2,837,580	155,884
2021A Sewage Disposal System Junior Lien Revenue Bonds	1.375%	2039	117,000	209,000	6,000	320,000	6,000
2021A Water Supply System Junior Lien Revenue Bond	1.625%	2027	<u>125,000</u>	<u>617,400</u>	<u>22,500</u>	<u>719,900</u>	<u>22,500</u>
Subtotal			<u>12,184,500</u>	<u>826,400</u>	<u>347,420</u>	<u>12,663,480</u>	<u>355,884</u>

	Interest Rate	Principal Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
Bonds: (Continued)							
2013 LTGO Refunding Bond Premiums			34,342	-	2,290	32,052	2,290
Subtotal			12,218,842	826,400	349,710	12,695,532	358,174
Vested Employee Benefits - net			161,618	1,870	-	163,488	30,411
Total Business-type Activities			<u>12,380,460</u>	<u>828,270</u>	<u>349,710</u>	<u>12,859,020</u>	<u>388,585</u>
Total Long-Term Debt – Primary Government			<u>\$16,682,188</u>	<u>\$ 836,672</u>	<u>\$ 828,319</u>	<u>\$16,690,541</u>	<u>\$ 949,073</u>

	Governmental Activities		Business-type Activities	
	Bonds/Installment Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
Fiscal:				
2023	\$ 500,116	\$ 83,509	\$ 355,884	\$ 309,594
2024	503,652	79,162	364,848	300,760
2025	183,724	74,600	376,276	291,570
2026	186,260	69,815	385,740	281,944
2027	191,331	64,517	398,669	271,249
2028-2032	977,558	228,548	2,216,942	1,169,356
2033-2037	648,779	77,524	2,353,721	815,889
2038-2042	190,000	22,145	1,555,000	584,163
2043-2047	-	-	1,771,500	411,767
2048-2052	-	-	1,875,900	216,866
2053-2057	-	-	706,500	49,736
2058-2062	-	-	302,500	14,962
TOTALS	<u>\$ 3,381,420</u>	<u>\$ 699,820</u>	<u>\$ 12,663,480</u>	<u>\$ 4,717,856</u>

COMPONENT UNIT – HOUGHTON HOUSING COMMISSION

During the year ended December 31, 2021, the following changes occurred in long-term liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Housing Commission					
Vested Employee Benefits	\$ 38,166	\$ 1,080	-	\$ 39,246	\$ 20,626

NOTE 7 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

PRIMARY GOVERNMENT - DEFINED BENEFIT PLAN

Description of Plan and Plan Assets

The City is in an agent multiple-employer defined benefit pension plan with the Municipal Employees’ Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2021.

General Information about the Pension Plan

Plan Description. The employer’s defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer 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.

01 – All Full Time Employees: Open Division	
	2021 Valuation
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	5 Years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	3 years
Employee Contributions	5.40%
COLA for Future Retirees:	2.50% (Non-Compound)
Act 88:	Yes (Adopted 3/8/2010)

Employees Covered by Benefit Terms

At December 31, 2021, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	3
Active employees	<u>27</u>
	37

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City’s competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The City is required to contribute at an actuarially determined rate.

NOTE 7 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2020	\$ 6,399,632	\$ 5,543,272	\$ 856,360
Service cost	195,977	-	195,977
Interest on total pension liability	487,085	-	487,085
Changes in benefits	(9,287)	-	(9,287)
Difference between expected and actual experience	55,989	-	55,989
Changes in assumptions	346,983	-	346,983
Employer contributions	-	261,711	(261,711)
Employee contributions	-	79,102	(79,102)
Net investment income	-	797,186	(797,186)
Benefit payments, including employee refunds	(177,203)	(177,203)	-
Administrative expense	-	(9,140)	9,140
Other changes	-	-	-
Net changes	899,544	951,656	(52,112)
Balances as of December 31, 2021	\$ 7,299,176	\$ 6,494,928	\$ 804,248

Discount Rate. The discount rate used to measure the total pension liability is 7.25% for 2021. 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.

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-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
City’s net pension liability	\$1,940,874	\$804,248	\$131,731

NOTE 7 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued MERS financial report.

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

For the year ended December 31, 2021, the City recognized pension expense of \$205,405. At June 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Difference between expected and actual experience	\$ 166,882	\$ 124,734
Changes in assumptions	605,673	-
Net difference between projected and actual earnings on pension plan investments	-	496,395
Contributions subsequent to the measurement date	<u>134,041</u>	<u>-</u>
 Total	 <u><u>\$ 906,596</u></u>	 <u><u>\$ 621,129</u></u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the employer contributions to the plan made subsequent to the measurement date of \$134,041, which will impact the net pension liability in fiscal year 2023, rather than pension expense:

<u>Year Ended June 30:</u>	
2023	\$ 33,361
2024	(77,039)
2025	(53,411)
2026	13,535
2027	94,286
2028-2029	<u>140,694</u>
Total	<u><u>\$ 151,426</u></u>

NOTE 7 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

PRIMARY GOVERNMENT – MONEY PURCHASE PLAN

The City provided pension benefits through April of 2010 for all of its full-time employees through a money purchase plan. In a money purchase plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The agreement requires that the City contribute an amount equal to 15.054% of the employees base salary each month. The City's contributions for each employee (and interest are allocated to the employee's account) were fully vested after three years of continuous service. City contributions for, and interest forfeited by, employees who leave employment before the three years of service are used to reduce the City's current period contribution requirement.

In April of 2010, the City gave its employees the option to have their retirement benefits paid into the Michigan Municipal Employee Retirement System, an agent multi-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. All qualified new employees will be covered by this plan.

The City's total payroll in the fiscal year ending June 30, 2022 was \$2,710,133. The City's contributions to the money purchase plan were calculated using the base salary amount of \$312,495. The City made the required contribution of \$47,062.

Money purchase plan participants may borrow up to 50% of the amount vested in their plan. The loan must be paid back through payroll check deductions. The length of the loan can vary from one to five years and the interest rate is set by the pension board. Interest is currently 9.5%. A loan for up to twenty-five years can be made for the purchase of a new home or to refinance their current mortgage. The interest rate on these loans is currently set at 7.5%.

COMPONENT UNIT – HOUGHTON HOUSING COMMISSION – DEFINED CONTRIBUTION PLAN

Description of Plan and Plan Assets

The Commission contributes to defined contribution plans (Plans) administered through F&G Insurance and Edward Jones for its full-time administrative and maintenance employees who have completed twelve months of continued service. Benefit terms, including contribution requirements, for the Plans are established and may be amended by the Board of Commissioners. The Commission is required to contribute 8 percent of annual salaries to individual employee accounts for each participating employee. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. For the year ended December 31, 2021, employee contribution totaled \$0, and the Commission recognized pension expense of \$19,374.

Employees are immediately vested in all contributions (Employer and Employee) and earnings on those contributions. As, such there were no forfeitures for the year ended December 31, 2021.

The Commission had no liability to the Plans at December 31, 2021.

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS

PRIMARY GOVERNMENT

Plan Description

The City Houghton Other Post-Employment Benefits Plan is a single employer plan established and administers by the City of Houghton and can be amended at its discretion. No assets are accumulated in a trust that meets criteria in paragraph 4 of GASB Statement 75.

Benefits Provided

The plan provides a defined benefit to eligible retirees and their spouses. This benefit covers full-time employees who were hired prior to July 1, 2015. The plan is closed to new entrants as employees hired on July 1, 2015 or later are not covered. Eligibility for benefits is achieved at age 62 or when age plus service years is at least 80 years. Eligible participants who retire prior to July 1, 2002 are entitled to received \$230 per month for themselves and also their spouses. Eligible participants who retire on or after July 1, 2002 are entitled to a \$200 per month benefit. The benefit continues for a surviving spouse.

Summary of Plan Participants

As of June 30, 2022, the following employees were covered by the benefit terms:

Active members	14
Inactive members	-
Retirees and beneficiaries	<u>22</u>
Total members	<u><u>36</u></u>

Contributions

The Plan was established and is being funded under the authority of the City Council and under agreements with the unions representing various classes of employees. The Plan’s funding policy is to pay expected plan benefits from general operating funds on a “pay-as-you-go” basis. Active participants do not make contributions to prefund the Plan. There are no long-term contracts for contributions to the Plan. The Plan has no legally required reserves.

Total OPEB Liability

The City’s Total OPEB Liability of \$858,038 was measured as of June 30, 2022 and was determined by an actuarial valuation as of June 30, 2022.

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (Continued)

Actuarial Assumptions

The Total OPEB Liability was determined by an actuarial valuation as of June 30, 2022. The following actuarial assumptions were used in the measurement:

Inflation	Not applicable
Salary increases	3.0% (for purposes of allocating liability)
Investment rate of return	N/A; this plan is not pre-funded
20-year Aa municipal bond rate	4.09% (S&P Municipal Bond 20-Year High Grade Index)
Mortality	Public General and Public Safety 2010 Employee and Healthy Retiree, Headcount weighted
Improvement Scale	MP-2021

As this plan is not pre-funded, no long term expected rate of return in Plan Investments was determined.

Assumption Changes Since Prior Valuation

- Mortality improvement scale updated
- Discount rate changed from 2.18% to 4.09%

Discount Rate

The discount rate used to measure the Total OPEB Liability was 4.09%. Because the plan does not have a dedicated OPEB trust, there are not assets projected to be sufficient to make projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (2022, the “depletion date”), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the Total OPEB Liability.

Net OPEB Liability – Discount and Trend Rate Sensitivity

The following presents the net OPEB liability (NOL) of the City, calculated using trend and discount rates 1% higher and lower than base assumptions. Trend rate sensitivity is not applicable to this plan, as it provides a flat monthly stipend.

	1% Decrease (1%)	Current Rate 4.09%	1% Increase 1%
Discount			
Total OPEB Liability	952,244	858,038	778,381
Plan Fiduciary Net Position	-	-	-
Net OPEB Liability	952,244	858,038	778,381

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (Continued)

Change in the Net OPEB Liability

	Increases (Decreases)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2021	\$ 1,074,453	\$ -	\$ 1,074,453
Service cost	21,400	-	21,400
Interest	23,412	-	23,412
Changes in experience	(24,727)	-	(24,727)
Changes in assumptions	(192,660)	-	(192,660)
Employer contributions	-	43,840	(43,840)
Employee contributions	-	-	-
Net investment income	-	-	-
Including Refunds of Employee Contributions	(43,840)	(43,840)	-
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	(216,415)	-	(216,415)
Balances as of June 30, 2022	\$ 858,038	\$ -	\$ 858,038

OPEB Expenses

Below are the components of the total OPEB expense:

Service Cost	\$ 21,400
Interest on total OPEB liability	23,412
Experience (Gains)/Losses	(4,688)
Changes in Assumptions	<u>(21,481)</u>
Net OPEB Expense	<u>\$ 18,643</u>

OPEB Plan Fiduciary Net Position

The OPEB Plan Fiduciary Net Position as of June 30, 2022 is \$0 this plan is not pre-funded.

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (Continued)

Deferred Inflows and Outflows of Resources Related to OPEB Plan

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Difference between expected and actual experience	\$ 5,704	\$ 22,943
Changes in assumptions	51,151	150,777
Net difference between projected and actual earnings on OPEB plan investments	<u>-</u>	<u>-</u>
 Total	 <u>\$ 56,855</u>	 <u>\$ 173,720</u>

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

Year Ended June 30:

2023	\$ (26,169)
2024	(26,169)
2025	(36,172)
2026	<u>(28,355)</u>
Total	<u>\$ (116,865)</u>

COMPONENT UNIT – HOUGHTON HOUSING COMMISSION

The Commission does not participate in a post-employment benefits plan.

NOTE 9 - RISK MANAGEMENT

The City is exposed to various risks of losses related to property loss, torts theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which it obtains coverage from commercial insurance companies. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

NOTE 10 - RESTATEMENTS:

	<u>Governmental Activities Net Position</u>
Beginning net position as previously stated at July 1, 2021	\$ 9,412,958
Restatement of Net Position – To reclassify DDA Debt to governmental activities.	(765,000)
Restatement of Net Position – To reclassify property tax revenue recorded in fiscal year 2022 that should have been recorded in fiscal year 2021.	<u>86,356</u>
Beginning net position as restated at July 1, 2021	<u>\$ 8,734,314</u>
	<u>Local Streets Fund</u>
Beginning fund balance as previously reported at July 1, 2021	\$ 660,944
Restatement of beginning fund balance – To reclassify property tax revenue recorded in fiscal year 2022 that should have been recorded in fiscal year 2021.	<u>86,356</u>
Beginning fund balance as restated, July 1, 2021	<u>\$ 747,300</u>
	<u>Component Unit DDA</u>
Beginning Net Position as previously reported at July 1, 2021	\$ 709,475
Restatement of beginning Net Position – To reclassify DDA long-term debt to governmental activities in fiscal year 2022 that should have been recorded in year 2021.	<u>765,000</u>
Beginning Net Position as restated, July 1, 2021	<u>\$ 1,474,475</u>

Required Supplementary Information

Required Supplementary Information
Schedule of Changes in the City's MERS Net Pension Liability and Related Ratios
For the Year Ended June 30, 2022

	Actuarial Date as of December 31						
	2021	2020	2019	2018	2017	2016	2015
Total pension liability							
Service cost	\$ 195,977	\$ 198,948	\$ 195,969	\$ 185,438	\$ 170,938	\$ 145,464	\$ 106,558
Interest	464,654	442,912	403,305	375,576	347,172	301,089	283,264
Benefit changes	(9,287)	(11,786)	(17,692)	(5,846)	4,188	(5,719)	(700)
Difference between expected and actual experience	55,989	(110,364)	66,249	35,604	(73,669)	215,784	(114,732)
Changes in actuarial assumptions	346,983	234,723	153,453	-	-	-	189,760
Benefit payments, including refund of member contributions	(177,203)	(166,239)	(139,067)	(107,347)	(94,265)	(92,338)	(214,647)
Other Changes	22,431	-	10,101	5	-	-	-
Net change in total pension liability	899,544	588,194	672,318	483,430	354,364	564,280	249,503
Total pension liability - beginning	6,399,632	5,811,438	5,139,120	4,655,690	4,301,326	3,737,046	3,487,543
Total pension liability - ending	<u>\$ 7,299,176</u>	<u>\$ 6,399,632</u>	<u>\$ 5,811,438</u>	<u>\$ 5,139,120</u>	<u>\$ 4,655,690</u>	<u>\$ 4,301,326</u>	<u>\$ 3,737,046</u>
Plan fiduciary net position							
Contributions - employer	\$ 261,711	\$ 255,964	\$ 258,668	\$ 242,064	\$ 220,902	\$ 186,248	\$ 141,688
Contributions - employee	79,102	26,117	25,267	14,261	-	-	-
Net investment income	797,186	644,848	568,831	170,050	478,123	358,762	(47,007)
Benefit payments, including refunds of member contributions	(177,203)	(166,239)	(139,067)	(107,347)	(94,265)	(92,338)	(214,647)
Administrative expense	(9,140)	(9,862)	(9,814)	(8,186)	(7,542)	(7,073)	(7,018)
Other	-	-	-	(340,099)	-	-	-
Net change in plan fiduciary net position	951,656	750,828	703,885	(29,257)	597,218	445,599	(126,984)
Plan fiduciary net position - beginning	5,543,272	4,792,444	4,088,559	4,117,816	3,520,598	3,074,999	3,201,983
Plan fiduciary net position - ending	<u>\$ 6,494,928</u>	<u>\$ 5,543,272</u>	<u>\$ 4,792,444</u>	<u>\$ 4,088,559</u>	<u>\$ 4,117,816</u>	<u>\$ 3,520,598</u>	<u>\$ 3,074,999</u>
City's net pension liability - ending	<u>\$ 804,248</u>	<u>\$ 856,360</u>	<u>\$ 1,018,994</u>	<u>\$ 1,050,561</u>	<u>\$ 537,874</u>	<u>\$ 780,728</u>	<u>\$ 662,047</u>
Plan fiduciary net position as a percentage of the total pension liability	88.98%	86.62%	82.47%	79.56%	88.45%	81.85%	82.28%
Covered - employee payroll	\$ 1,619,648	\$ 1,707,709	\$ 1,704,076	\$ 1,655,700	\$ 1,504,735	\$ 1,290,717	\$ 989,398
City's net pension liability as a percentage of covered-employee payroll	49.66%	50.15%	59.80%	63.45%	35.75%	60.49%	66.91%

**Required Supplementary Information
Schedule of City's MERS Employer's Contributions
For the Year Ended June 30, 2022**

	Actuarial Date as of December 31						
	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 261,711	\$ 255,964	\$ 258,668	\$ 242,064	\$ 211,597	\$ 162,513	\$ 122,591
Contributions in relation to the actuarially determined contribution	261,711	255,964	258,668	242,064	220,902	186,248	141,688
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (9,305)</u>	<u>\$ (23,735)</u>	<u>\$ (19,097)</u>
Covered - employee payroll	\$ 1,619,648	\$ 1,707,709	\$ 1,704,076	\$ 1,655,700	\$ 1,504,735	\$ 1,290,717	\$ 989,398
Contributions as a percentage of covered-employee payroll	16.16%	14.99%	15.18%	14.62%	14.68%	14.43%	14.32%

Notes to Schedule:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	17 years
Asset valuation method	5-years smoothed market
Inflation	2.5%
Salary increases	3.00% plus merit and longevity
Investment rate of return	7.00%
Retirement age	60
Mortality	Mortality rates were based on the PUB-2010 Annual Mortality Tables

Significant Changes from the Previous Actuarial Valuation:

Investment rate of return changes from 7.35% to 7.00%.

Discount rate changes from 7.60% to 7.25%

**Required Supplementary Information
Employee Retirement and Benefit Systems
Changes in Net OPEB Liability and Related Ratios
For the Year Ended June 30, 2022**

	2018	2019	2020	2021	2022
Total OPEB liability					
Service cost	\$ 18,447	\$ 19,000	\$ 19,580	\$ 18,466	\$ 21,400
Interest	29,005	29,029	29,568	27,109	23,412
Changes in experience	-	(3,978)	12,208	(3,841)	(24,727)
Change in assumptions	-	22,428	23,988	56,942	(192,660)
Benefit payments, including refund of member contributions	(47,760)	(46,641)	(51,560)	(49,800)	(43,840)
Other changes	-	-	-	-	-
Net change in total OPEB liability	(308)	19,838	33,784	48,876	(216,415)
Total OPEB liability - beginning	972,263	971,955	991,793	1,025,577	1,074,453
Total OPEB liability - ending	<u>\$ 971,955</u>	<u>\$ 991,793</u>	<u>\$ 1,025,577</u>	<u>\$ 1,074,453</u>	<u>\$ 858,038</u>
Plan fiduciary net position					
Contributions - employer	\$ 47,760	\$ 46,641	\$ 51,560	\$ 49,800	\$ 43,840
Contributions - employee	-	-	-	-	-
Net investment income	-	-	-	-	-
Benefit payments, including refund of member contributions	(47,760)	(46,641)	(51,560)	(49,800)	(43,840)
Administrative expense	-	-	-	-	-
Net change in plan fiduciary net position	-	-	-	-	-
Plan fiduciary net position - beginning	-	-	-	-	-
Plan fiduciary net position - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's net OPEB liability - ending	<u>\$ 971,955</u>	<u>\$ 991,793</u>	<u>\$ 1,025,577</u>	<u>\$ 1,074,453</u>	<u>\$ 858,038</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0%	0%	0%	0%	0%
Covered - employee payroll	Not Available	\$ 1,245,973	\$ 1,109,696	\$ 1,181,810	\$ 1,104,267
City's net OPEB liability as a percentage of covered-employee payroll	0.00%	79.60%	92.42%	90.92%	77.70%

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2022**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 1,777,400	\$ 1,946,760	\$ 1,962,480	\$ 15,720
Licenses and Permits	9,000	9,000	110	(8,890)
Federal Sources	-	387,403	19,843	(367,560)
State Sources	1,262,000	1,276,700	1,361,619	84,919
Charges for Services	649,500	654,500	551,738	(102,762)
Rentals	316,100	316,100	278,708	(37,392)
Interest Earnings	15,000	15,000	2,810	(12,190)
Other Revenue	5,000	27,000	57,349	30,349
TOTAL REVENUES	4,034,000	4,632,463	4,234,657	(397,806)
EXPENDITURES:				
Legislative:				
City Commission	26,600	26,600	19,264	7,336
General Government:				
City Manager	162,650	175,750	171,375	4,375
Elections	13,050	19,050	14,345	4,705
Accounting/Auditing	23,000	25,000	24,993	7
City Assessor	45,850	48,850	48,822	28
City Attorney	25,000	25,000	13,553	11,447
Code Enforcement	66,800	66,800	55,533	11,267
City Clerk	161,950	161,950	148,848	13,102
City Treasurer	62,500	62,500	58,223	4,277
Building and Grounds	107,600	137,000	134,530	2,470
Other General Government	91,700	104,700	87,576	17,124
Total General Government	760,100	826,600	757,798	68,802
Public Safety:				
Police	1,188,700	1,188,700	1,190,074	(1,374)
Task Force	187,700	230,103	120,046	110,057
Fire	173,309	178,809	168,418	10,391
Total Public Safety	1,549,709	1,597,612	1,478,538	119,074
Public Works:				
Department of Public Works	56,400	64,400	64,376	24
Street Lighting	132,900	132,900	100,647	32,253
Sidewalks and Curbs	23,400	23,400	15,783	7,617
Refuse Collection	223,300	259,600	259,593	7
Other Public Works	107,000	131,100	95,182	35,918
Total Public Works	543,000	611,400	535,581	75,819

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2022**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Recreation and Culture:				
Beach & RV Park	87,700	87,700	72,327	15,373
Dee Stadium	179,300	189,300	189,264	36
Park Maintenance	235,450	230,450	238,139	(7,689)
Total Recreation and Culture	<u>502,450</u>	<u>507,450</u>	<u>499,730</u>	<u>7,720</u>
Debt Service	<u>497,000</u>	<u>497,000</u>	<u>419,450</u>	<u>77,550</u>
Other Expenditures:				
Insurance and Bonds	57,000	73,000	72,541	459
Christmas Decorations	17,800	35,800	35,494	306
Civic Betterment	51,200	35,200	35,152	48
Economic Development	-	210,285	210,285	-
Other	83,036	91,800	80,652	11,148
Total Other Expenditures	<u>209,036</u>	<u>446,085</u>	<u>434,124</u>	<u>11,961</u>
TOTAL EXPENDITURES	<u>4,087,895</u>	<u>4,512,747</u>	<u>4,144,485</u>	<u>368,262</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	<u>(53,895)</u>	<u>119,716</u>	<u>90,172</u>	<u>(29,544)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	-	-
Transfers Out	<u>(271,105)</u>	<u>(565,994)</u>	<u>(259,042)</u>	<u>306,952</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(271,105)</u>	<u>(565,994)</u>	<u>(259,042)</u>	<u>306,952</u>
NET CHANGE IN FUND BALANCES	<u>\$ (325,000)</u>	<u>\$ (446,278)</u>	<u>(168,870)</u>	<u>\$ 277,408</u>
FUND BALANCE BEGINNING OF YEAR			<u>1,877,837</u>	
FUND BALANCE AT END OF YEAR			<u>\$ 1,708,967</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Major Streets Fund
For the Year Ended June 30, 2022**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 1,278,000	\$ 1,278,000	\$ 1,255,443	\$ (22,557)
Interest Earnings	5,000	5,000	634	(4,366)
TOTAL REVENUES	<u>1,283,000</u>	<u>1,283,000</u>	<u>1,256,077</u>	<u>(26,923)</u>
EXPENDITURES:				
Public Works	<u>1,283,000</u>	<u>1,341,600</u>	<u>1,113,422</u>	<u>228,178</u>
TOTAL EXPENDITURES	<u>1,283,000</u>	<u>1,341,600</u>	<u>1,113,422</u>	<u>228,178</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(58,600)</u>	<u>142,655</u>	<u>201,255</u>
OTHER FINANCING SOURCES (USES):				
Transfers Out	<u>-</u>	<u>(115,000)</u>	<u>(115,000)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(115,000)</u>	<u>(115,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>\$ -</u>	<u>\$ (173,600)</u>	<u>27,655</u>	<u>\$ 201,255</u>
FUND BALANCE BEGINNING OF YEAR			<u>851,894</u>	
FUND BALANCE AT END OF YEAR			<u>\$ 879,549</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Local Streets Fund
For the Year Ended June 30, 2022**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES:				
Taxes	\$ 170,000	\$ 170,000	\$ 181,490	\$ 11,490
State Sources	363,000	363,000	374,543	11,543
Interest Earnings	2,000	2,000	306	(1,694)
Other Revenue	2,000	2,000	4,203	2,203
TOTAL REVENUES	<u>537,000</u>	<u>537,000</u>	<u>560,542</u>	<u>23,542</u>
EXPENDITURES:				
Public Works	937,000	1,237,800	1,192,083	45,717
Debt Service	51,320	51,320	51,320	-
TOTAL EXPENDITURES	<u>988,320</u>	<u>1,289,120</u>	<u>1,243,403</u>	<u>45,717</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	<u>(451,320)</u>	<u>(752,120)</u>	<u>(682,861)</u>	<u>69,259</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	51,320	166,320	166,320	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>51,320</u>	<u>166,320</u>	<u>166,320</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>\$ (400,000)</u>	<u>\$ (585,800)</u>	<u>(516,541)</u>	<u>\$ 69,259</u>
FUND BALANCE BEGINNING OF YEAR, (As Restated, See Note 10)			<u>747,300</u>	
FUND BALANCE AT END OF YEAR			<u>\$ 230,759</u>	

Supplementary Information

**Supplementary Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2022**

	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	
	<u>Loan Revolving</u>	<u>Public Improvement</u>	<u>Total</u>
ASSETS:			
Cash and Equivalents - Unrestricted	\$ 187,929	\$ 635,569	\$ 823,498
Due from Governmental Units	-	187,573	187,573
Loans Receivable	195,535	-	195,535
TOTAL ASSETS	<u>\$ 383,464</u>	<u>\$ 823,142</u>	<u>\$ 1,206,606</u>
LIABILITIES:			
Accounts Payable	\$ -	\$ 5,028	\$ 5,028
Unearned Revenue	-	290,246	290,246
Due to Other Funds	-	453,878	453,878
TOTAL LIABILITIES	<u>-</u>	<u>749,152</u>	<u>749,152</u>
DEFERRED INFLOWS OF RESOURCES:			
Loan Sources	195,535	-	195,535
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>195,535</u>	<u>-</u>	<u>195,535</u>
FUND BALANCES:			
Restricted	187,929	-	187,929
Unassigned	-	73,990	73,990
TOTAL FUND BALANCES	<u>187,929</u>	<u>73,990</u>	<u>261,919</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 383,464</u>	<u>\$ 823,142</u>	<u>\$ 1,206,606</u>

Supplementary Information
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2022

	Special Revenue Fund	Capital Project Fund	
	Loan Revolving	Public Improvement	Total
REVENUES:			
Federal Sources	\$ -	\$ 75,614	\$ 75,614
State Sources	-	109,438	109,438
Interest Earnings	28,973	371	29,344
Other Revenue	-	50,000	50,000
TOTAL REVENUES	28,973	235,423	264,396
EXPENDITURES:			
Public Works	-	196,433	196,433
Health and Welfare	600	-	600
TOTAL EXPENDITURES	600	196,433	197,033
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	28,373	38,990	67,363
OTHER FINANCING SOURCES (USES):			
Transfers In	-	50,174	50,174
TOTAL OTHER FINANCING SOURCES (USES)	-	50,174	50,174
NET CHANGE IN FUND BALANCES	28,373	89,164	117,537
FUND BALANCE BEGINNING OF YEAR	159,556	(15,174)	144,382
FUND BALANCE AT END OF YEAR	\$ 187,929	\$ 73,990	\$ 261,919

Supplementary Information
Downtown Development Authority Component Unit
Combining Balance Sheet and Statement of Net Position
June 30, 2022

	<u>Downtown Development Authority</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS:			
Cash and Equivalents	\$ 595,207	\$ -	\$ 595,207
Due from Other Governmental Units	812,435	-	812,435
Capital Assets (Not Depreciated)	-	4,144,619	4,144,619
Capital Assets (Net of Accumulated Depreciation)	-	604,135	604,135
	<u>1,407,642</u>	<u>4,748,754</u>	<u>6,156,396</u>
DEFERRED OUTFLOWS OF RESOURCES			
OPEB Items	-	927	927
Pension Items	-	14,777	14,777
	<u>-</u>	<u>15,704</u>	<u>15,704</u>
LIABILITIES AND FUND BALANCE:			
Liabilities			
Accounts Payable	982,983	-	982,983
Accrued Liabilities	5,059	-	5,059
Due to Other Governments	1,833	-	1,833
Accrued Interest Payable	-	737	737
Net Pension Liability	-	13,109	13,109
Net OPEB Liability	-	13,986	13,986
	<u>989,875</u>	<u>27,832</u>	<u>1,017,707</u>
DEFERRED INFLOWS OF RESOURCES			
OPEB Items	-	2,832	2,832
Pension Items	-	10,124	10,124
	<u>-</u>	<u>12,956</u>	<u>12,956</u>
Fund Balance			
Restricted for DDA	<u>417,767</u>		
	<u>\$ 1,407,642</u>		
NET POSITION:			
Net Investment in Capital Assets			4,748,754
Restricted for DDA			<u>392,683</u>
			<u>\$ 5,141,437</u>

Supplementary Information
Downtown Development Authority Component Unit
Combining Statement of Activities and Revenues, Expenditures,
and Changes in Fund Balance and Net Position
For the Year Ended June 30, 2022

	Downtown Development Authority	Adjustments	Statement of Activities
REVENUES:			
Property Taxes	\$ 214,904	\$ -	\$ 214,904
Federal Sources	3,146,511	-	3,146,511
State Sources	11,206	-	11,206
Local Sources	438,835	-	438,835
Charges for Service	73,938	-	73,938
Interest Earnings	700	-	700
TOTAL REVENUES	3,886,094	-	3,886,094
EXPENDITURES/EXPENSES			
Personnel Services	70,606	(1,437)	69,169
Supplies	8,380	-	8,380
Contractual Services	4,198,975	(4,092,508)	106,467
Equipment Rental	5,499	-	5,499
Utilities	7,645	-	7,645
Repair & Maintenance	999	-	999
Other	-	-	-
Depreciation	-	20,973	20,973
TOTAL EXPENDITURES/EXPENSES	4,292,104	(4,072,972)	219,132
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	(406,010)	4,072,972	3,666,962
OTHER FINANCING SOURCES (USES):			
Interest Expense	-	-	-
Debt Proceeds	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
NET CHANGE IN FUND BALANCE	(406,010)	4,072,972	3,666,962
FUND BALANCES/NET POSITION AT BEGINNING OF YEAR	823,777	650,698	1,474,475
FUND BALANCES/NET POSITION AT END OF YEAR	\$ 417,767	\$ 4,723,670	\$ 5,141,437

**Supplementary Information
TIFA Component Unit
Combining Balance Sheet and Statement Net Position
June 30, 2022**

	TIFA	Adjustments	Statement of Net Position
ASSETS:			
Cash and Equivalents	\$ 167,258	\$ -	\$ 167,258
Taxes Receivable	3,426	-	3,426
Accounts Receivable	146,220	-	146,220
Capital Assets (Net of Accumulated Depreciation)	-	5,910,191	5,910,191
	316,904	5,910,191	6,227,095
DEFERRED OUTFLOWS OF RESOURCES			
OPEB Items	-	2,377	2,377
Pension Items	-	37,896	37,896
	-	40,273	40,273
LIABILITIES AND FUND BALANCE:			
Liabilities			
Accounts Payable	11,800	-	11,800
Accrued Liabilities	17,674	-	17,674
Due to Other Governments	10,188	-	10,188
Net Pension Liability	-	33,618	33,618
Net OPEB Liability	-	35,866	35,866
	39,662	69,484	109,146
DEFERRED INFLOWS OF RESOURCES			
OPEB Items	-	7,261	7,261
Pension Items	-	25,963	25,963
	-	33,224	33,224
Fund Balance			
Restricted for TIFA	277,242		
	\$ 316,904		
NET POSITION:			
Net Investment in Capital Assets			5,910,191
Restricted for DDA			214,807
			\$ 6,124,998

**Supplementary Information
TIFA Component Unit
Combining Statement of Activities and Revenues, Expenditures,
and Changes in Fund Balance and Net Position
For the Year Ended June 30, 2022**

	TIFA	Adjustments	Statement of Activities
REVENUES:			
Property Taxes	\$ 702,700	\$ -	\$ 702,700
Federal Sources	63,895	-	63,895
State Sources	47,469	-	47,469
Interest and Rents	411	-	411
	<u>814,475</u>	<u>-</u>	<u>814,475</u>
TOTAL REVENUES			
EXPENDITURES/EXPENSES			
Personnel Services	188,366	(3,682)	184,684
Supplies	5,718	-	5,718
Contractual Services	540,490	-	540,490
Repairs and Maintenance	500,000	(500,000)	-
Equipment Rental	26,426	-	26,426
Utilities	11,625	-	11,625
Other	492	-	492
Depreciation	-	170,659	170,659
	<u>1,273,117</u>	<u>(333,023)</u>	<u>940,094</u>
TOTAL EXPENDITURES/EXPENSES			
NET CHANGE IN FUND BALANCE	<u>(458,642)</u>	<u>333,023</u>	<u>(125,619)</u>
FUND BALANCES/NET POSITION AT BEGINNING OF YEAR	<u>735,884</u>	<u>5,514,733</u>	<u>6,250,617</u>
FUND BALANCES/NET POSITION AT END OF YEAR	<u>\$ 277,242</u>	<u>\$ 5,847,756</u>	<u>\$ 6,124,998</u>

**Supplementary Information
Transit Fund
Schedule 1
Local Operating Revenue
For the Year Ended June 30, 2022**

	7/1/2021 to 9/30/2021	10/1/2021 to 6/30/2022	Total
Local Revenue:			
Fares	\$ 40,108	\$ 58,030	\$ 98,138
Contributions from Other City Funds	-	119,500	119,500
Interest	110	81	191
	<u>110</u>	<u>81</u>	<u>191</u>
 Total Local Revenue	 <u>\$ 40,218</u>	 <u>\$ 177,611</u>	 <u>\$ 217,829</u>

**Supplementary Information
Transit Fund
Schedule 1A
Local Operating Revenue
Based on the September 30, 2021 Year End**

	10/1/2020 to 6/30/2021	7/1/2021 to 9/30/2021	Total
Local Revenue:			
Fares	\$ 81,531	\$ 40,108	\$ 121,639
Contributions from Other City Funds	100,000	-	100,000
Other revenue	508	-	508
Interest	919	110	1,029
 Total Local Revenue	 \$ 182,958	 \$ 40,218	 \$ 223,176

	Federal CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures			Prior Year's Expend.	Award Amount Remaining	
				Total	Federal	State			Local
U.S. Department of Transportation									
State and Federal Operating Assistance Computations									
Based on Operating Expenses:									
Passed Through MDOT:									
CARES Operating Assistance- Section 5311	20.509	2017-0065/P14/R1	200,951	52,937	52,937	-	-	142,058	5,956
CARES Operating Assistance- Section 5311	20.509	2022-0068/P2	205,140	153,855	153,855	-	-	-	51,285
Rural Transit Assistance Program (RTAP)	20.509	Unavailable	12,697	12,697	12,697	-	-	-	-
Capital Grants-Section 5339 (80/20)	20.526	2017-0065/P11	378,769	220,389	176,311	44,078	-	82,511	75,869
Capital Grants-Section 5339 (80/20)	20.526	2017-0065/P8	155,434	6,575	5,260	1,315	-	134,829	14,030
Passed Through MDOT:									
Operating Assistance - Act 51	N/A	N/A	209,411	209,411	-	209,411	-	-	-
Capital Grant	N/A	2017-0065/P12	136,425	126,046	-	126,046	-	-	10,379
Total Operating Assistance				<u>\$ 575,118</u>	<u>\$ 401,060</u>	<u>\$ 380,850</u>	<u>\$ -</u>	<u>\$ 217,340</u>	<u>\$ 100,278</u>

This schedule is prepared on an accrual basis of accounting as described in the summary of significant accounting policies in Note 1 of the Notes to Financial Statements.

**Supplementary Information
Transit Fund
Schedule 2A
Federal and State Awards
Operating Revenue Only
For the Year Ended June 30, 2022**

	7/1/2021 to 9/30/2021	10/1/2021 to 6/30/2022	<u>Total</u>
Michigan Department of Transportation			
Local Bus Operating (Act 51)	\$ 52,478	\$ 156,933	\$ 209,411
Federal Transit Administration			
Section 5311	37,105	-	37,105
CARES Act	16,211	153,476	169,687
RTAP	1,292	11,405	12,697
Total	<u>\$ 107,086</u>	<u>\$ 321,814</u>	<u>\$ 428,900</u>

City of Houghton, Michigan

**Supplementary Information
Transit Fund
Schedule 2B
Federal and State Awards
Operating Revenue Only
Based on the September 30, 2021 Year End**

	10/1/2020 to 6/30/2021	7/1/2021 to 9/30/2021	<u>Total</u>
Michigan Department of Transportation Local Bus Operating (Act 51)	\$ 135,768	\$ 52,478	\$ 188,246
Federal Transit Administration			
Section 5311		37,105	37,105
CARES Act	142,058	16,211	158,269
RTAP	-	1,292	1,292
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 277,826</u>	<u>\$ 107,086</u>	<u>\$ 384,912</u>

**Supplementary Information
Transit Fund
Schedule 3A
Operating Expenses Split Between a
September 30 and June 30 Year End
For the Year Ended June 30, 2022**

	7/1/2021 to 9/30/2021	10/1/2021 to 6/30/2022	Total
Expenses			
Labor	\$ 43,929	\$ 205,086	\$ 249,015
Fringe Benefits	33,533	139,877	173,410
Pension	3,192	13,172	16,364
Services	3,971	2,390	6,361
Materials and Supplies	25,378	51,843	77,221
Utilities	1,597	12,978	14,575
Casualty & Liability Costs	-	13,611	13,611
Miscellaneous Expenses	1,985	3,529	5,514
Depreciation	-	84,646	84,646
	<u>\$ 113,585</u>	<u>\$ 527,132</u>	<u>\$ 640,717</u>
Total Expenses	<u>\$ 113,585</u>	<u>\$ 527,132</u>	<u>\$ 640,717</u>

**Supplementary Information
Transit Fund
Schedule 3B
Operating Expenses By Program
Based on the September 30, 2021 Year End**

	10/1/2020 to 6/30/2021	7/1/2021 to 9/30/2021	Total
Expenses			
Labor	\$ 222,190	\$ 43,929	\$ 266,119
Fringe Benefits	137,733	33,533	171,266
Pension	12,801	3,192	15,993
Services	1,886	3,971	5,857
Materials and Supplies	65,046	25,378	90,424
Utilities	9,573	1,597	11,170
Casualty & Liability Costs	9,194	-	9,194
Miscellaneous Expenses	4,085	1,985	6,070
Depreciation	47,977	-	47,977
	<u>510,485</u>	<u>113,585</u>	<u>624,070</u>
Total Expenses	<u>\$ 510,485</u>	<u>\$ 113,585</u>	<u>\$ 624,070</u>

Supplementary Information
Transit Fund
OAR Schedule 3R
Nonurban Regular Service Revenue Report
Based on the September 30, 2021 Year End

Code	Description	Amount
401	: Farebox Revenue	
40100	Passenger Fares	\$ 121,639
40400	Package Delivery/Meal Delivery Programs (cost allocation plan applied)	-
407	: NonTrans Revenue	
40710	Sales of Maintenance Services (cost allocation plan applied)	-
40799	Other NonTrans Revenue (Sale of Fuel)	-
408	: Local Revenue	
40910	Local Operating Assistance	100,000
40950	Local Service Contract/Local Source	-
411	: State Formula and Contracts	
41101	State Operating Assistance	188,246
413	: Federal Contracts	
41301	Federal Section 5311 (Operating Funds Only)	37,105
41361	CARES Act	158,269
41398	RTAP	1,292
414	: Other Revenue	
41400	Interest Income	1,029
440	: Other Revenue	
44000	Miscellaneous Income	508
Total Revenues		\$ 608,088

Supplementary Information
 Transit Fund
 OAR Schedule 3E
 Nonurban Regular Service Expense Report
 Based on the September 30, 2021 Year End

Code	Description	Operations	Maintenance	General Administration	Total
501	: Labor				
50101	Operators Salaries & Wages	\$ 190,128	\$ -	\$ -	\$ 190,128
50102	Other Salaries & Wages	-	45,676	30,315	75,991
502	: Fringe Benefits				
50200	Other Fringe Benefits	114,206	34,686	22,374	171,266
50210	DC Pensions	4,869	6,284	-	11,153
50220	DB Pensions	-	525	4,315	4,840
503	: Services				
50302	Advertising Fees	-	-	1,093	1,093
50305	Audit Costs	-	-	2,800	2,800
50399	Other Services (all fuel outside transit operations)	1,801	163	-	1,964
504	: Materials and Supplies				
50401	Fuel & Lubricants	19,889	-	-	19,889
50402	Tires & Tubes	4,545	-	-	4,545
50499	Other Materials & Supplies	50,153	15,588	249	65,990
505	: Utilities				
50500	Utilities	300	10,870	-	11,170

City of Houghton, Michigan

**Supplementary Information
Transit Fund
OAR Schedule 3E
Nonurban Regular Service Expense Report
Based on the September 30, 2021 Year End**

Code	Description	Operations	Maintenance	General Administration	Total
506	: Insurance				
50603	Liability Insurance	9,194	-	-	9,194
509	: Miscellaneous Expenses				
50902	Travel, Meetings, Training	3,360	-	2,010	5,370
50903	Association Dues & Subscriptions	-	-	700	700
50999	Other Misc. Expenses (Building Maintenance, Trash Removal,	-	-	-	-
513	: Depreciation				
51300	Depreciation	47,977	-	-	47,977
550	: Ineligible Expenses				
2207	Ineligible Depreciation	47,977	-	-	47,977
55009	Ineligible Percent of Association Dues	-	-	117	117
574	: Ineligible Expenses				
57402	Ineligible RTAP	-	-	1,292	1,292
580	: Ineligible Expenses				
58009	Ineligible Loss on Disposal	508	-	-	508
Total Expenses					624,070
Total Ineligible Expenses					49,894
Total Eligible Expenses					574,176

**Supplementary Information
Transit Fund
OAR Schedule 3N
Nonurban Regular Service Nonfinancial Report
Based on the September 30, 2021 Year End**

Public Service

Code	Description	Weekday DR	Saturday DR	Sunday DR	Total
610	Vehicle Hours	9,000	-	-	9,000
611	Vehicle Miles	64,833	-	-	64,833
615	Unlinked Passenger Trips - Regular	9,352	-	-	9,352
616	Unlinked Passenger Trips - Elderly	8,004	-	-	8,004
617	Unlinked Passenger Trips - Persons w/Disabilities	4	-	-	4
618	Unlinked Passenger Trips -Elderly Persons w/Disabilities	2,959	-	-	2,959
622	Total Demand-Response Unlinked Passenger Trips	9,932	-	-	9,932
624	Total Deviated Route Unlinked Passenger Trips	10,387	-	-	10,387
625	Days Operated	252	-	-	252

Total Passengers: 20319

Vehicle Information

Code	Description	Quantity
651	Total Deviated Route Vehicles	3
652	Deviated Route Vehicle w/ Lifts	2
655	Total Demand - Response Vehicles	5
656	Demand - Response Vehicle w/ Lifts	4
658	Total Transit Vehicles	8

Total Vehicles: 8

Miscellaneous Information

Code	Description	Quantity DR
634	Deviated Route Hours	1,791
635	Deviated Route Miles	21,353
660	Diesel/Gasoline Gallons Consumed	9,075
661	Total Transit Agency Employees (Full-Time Equivalents)	8
662	Total Revenue Vehicle Operators (Full-Time Equivalents)	6

**Supplementary Information
Transit Fund
Schedule 4
Operating Assistance Calculation
Based on the September 30, 2021 Year End**

	10/1/2020 to 9/30/2021						
Total Expenses	<u>\$ 624,070</u>						
Less Ineligible Expenses							
Depreciation	47,977						
Cost of Maintenance to Outside Agencies	-						
Cost of Fuel Sold to Outside Agencies	-						
Ineligible DB Expenses	-						
Ineligible OPEB expenses	-						
Ineligible Loss on Disposal of Assets	508						
RTAP	1,292						
Association Dues	117						
Total Ineligible Expenses	<u>\$ 49,894</u>						
Total State Eligible Expenses	<u>\$ 574,176</u>						
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Eligible Expenses for State Reimbursement</td> <td style="text-align: right;">\$ 574,176</td> </tr> <tr> <td>x Reimbursement Percentage</td> <td style="text-align: right;">37.5350%</td> </tr> <tr> <td>State Operating Assistance</td> <td style="text-align: right;"><u>\$ 215,517</u></td> </tr> </table>		Eligible Expenses for State Reimbursement	\$ 574,176	x Reimbursement Percentage	37.5350%	State Operating Assistance	<u>\$ 215,517</u>
Eligible Expenses for State Reimbursement	\$ 574,176						
x Reimbursement Percentage	37.5350%						
State Operating Assistance	<u>\$ 215,517</u>						
Total Federal Eligible Expenses	\$ 574,176						
Less Additional Federal Ineligible Expenses Per Uniform Guidance Audit Costs	<u>2,800</u>						
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Eligible Expenses for Federal Reimbursement</td> <td style="text-align: right;">571,376</td> </tr> <tr> <td>x Reimbursement Percentage</td> <td style="text-align: right;">36.00%</td> </tr> <tr> <td>Calculated Federal Section 5311 Operating Assistance</td> <td style="text-align: right;"><u>\$ 205,695</u></td> </tr> </table>		Eligible Expenses for Federal Reimbursement	571,376	x Reimbursement Percentage	36.00%	Calculated Federal Section 5311 Operating Assistance	<u>\$ 205,695</u>
Eligible Expenses for Federal Reimbursement	571,376						
x Reimbursement Percentage	36.00%						
Calculated Federal Section 5311 Operating Assistance	<u>\$ 205,695</u>						

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

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

To the City Council
City of Houghton
Houghton, MI 49931

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Houghton, Michigan as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Houghton, Michigan's basic financial statements and have issued our report thereon dated December 2, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Houghton, Michigan'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 of Houghton, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Houghton, Michigan'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

To the City Council
City of Houghton

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Houghton, Michigan'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*.

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



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

December 2, 2022



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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

To the City Council
City of Houghton
Houghton, MI 49931

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Houghton, Michigan's, compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City of Houghton, Michigan's major federal programs for the year ended June 30, 2022. The City of Houghton, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

City of Houghton, Michigan's basic financial statements include the operations of Houghton Housing Commission which expended \$281,903 in federal awards which is not included in the City of Houghton, Michigan's schedule of federal awards during the year ended June 30, 2022. Our audit, described below, did not include the operations of Houghton Housing Commission because they performed a separate financial audit and federal expenditures did not exceed \$750,000.

In our opinion, the City of Houghton, Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Houghton, Michigan and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Houghton, Michigan's compliance with the compliance requirements referred to above.

To the City Council
City of Houghton

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City of Houghton, Michigan's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Houghton, Michigan's compliance based on our audit. 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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Houghton, Michigan's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City of Houghton, Michigan's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Houghton, Michigan's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Houghton, Michigan's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

To the City Council
City of Houghton

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Anderson, Tackman and Company, PLC
Certified Public Accountants
Kincheloe, Michigan

December 2, 2022

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2022**

Federal Agency / Cluster / Program Title	COVID-19 Related	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Agriculture					
<i>Community Facilities Loans and Grants Cluster</i>					
Community Facilities Loans and Grants	N	10.766	Direct	N/A	\$ 25,700
Water and Waste Disposal Systems for Rural Communities - S	N	10.760	Direct	N/A	204,142
Water and Waste Disposal Systems for Rural Communities - S	N	10.760	Direct	N/A	209,000
Water and Waste Disposal Systems for Rural Communities - S	N	10.760	Direct	N/A	514,700
Water and Waste Disposal Systems for Rural Communities -W	N	10.760	Direct	N/A	454,000
Water and Waste Disposal Systems for Rural Communities -W	N	10.760	Direct	N/A	617,400
Subtotal Program					1,999,242
Total U.S. Department of Agriculture					2,024,942
U.S. Department of Housing & Urban Development					
Community Development Block Grant	N	14.228	MEDC	MSC 221001-WRI	3,500
Community Development Block Grant	N	14.228	MEDC	MSC 220057-CPF	3,146,511
Community Development Block Grant	N	14.228	MEDC	MSC 219001-RR	8,080
Community Development Block Grant	N	14.228	MEDC	MSC 218004-CSB	9,280
Total U.S. Department of Housing & Urban Development					3,167,371
U.S. Department of Justice					
Public Safety Partnership and Community Policing Grants	N	16.710	Direct	15JCOPS-21-GG	19,843
U.S. Department of Transportation					
<i>Federal Transit Cluster</i>					
Buses and Bus Facilities Formula, Competitive, and Low or No Emmissions Program	N	20.526	MDOT	206427	5,260
Buses and Bus Facilities Formula, Competitive, and Low or No Emmissions Program	N	20.526	MDOT	208306NI	176,311
Subtotal Program & Cluster					181,571
RTAP	N	20.509	MDOT	N/A	12,697
CARES Act Operating Assistance	Y	20.509	MDOT	211501NI/212595NII	52,937
CARES Act Operating Assistance	Y	20.509	MDOT	213669/NI	153,855
Subtotal Program					219,489
Total U.S. Department of Transportation					401,060
U.S. Department of Treasury					
ARPA	Y	21.027	MDT	MI3142	54,754
U.S. Department of Homeland Security					
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	N	97.036	MSP	061-39360-00	63,895
Total Expenditures of Federal Awards					\$ 5,731,865

See accompanying notes to the schedule of expenditures of federal awards.

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of City of Houghton, Michigan under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Houghton, Michigan it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Houghton, Michigan.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - COGNIZANT AGENCY

The City has not been assigned a cognizant agency. Therefore, the City is under the general oversight of the U.S. Department of Agriculture which provided the greatest amount of direct federal funding to the City during 2022.

NOTE D - INDIRECT COST

For purposes of charging indirect costs to federal awards, the City has elected to use the 10% de minimis cost rate as permitted by CFR Section 200.414 of the Uniform Guidance, though in all federal grants received in the current fiscal year no indirect costs were charged to the grants.

NOTE E – LOANS AND LOAN GUARANTEE PROGRAMS

The City had outstanding federal loan balances as of June 30, 2022 of:

2020 Series A Water Supply System Junior Lien Revenue Bonds	\$ 1,696,000
2020 Series A Sewer Disposal System Junior Lien Revenue Bonds	484,000
2020 Series B Sewer Disposal System Junior Lien Revenue Bonds	84,000
2021 Series A Sewage Disposal System Junior Lien Revenue Bonds	320,000
2021 Series A Water Supply System Junior Lien Revenue Bonds	<u>719,900</u>
Total	<u>\$ 3,303,900</u>

NOTE F - RECONCILIATION TO THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE

The following is a reconciliation of the amounts reported on the basic financial statements to the Schedule of Expenditures of Federal Awards:

Total Federal Sources per Financial Statements	
Primary Government	\$ 1,241,059
Total Federal Sources per Financial Statements	
Component Units	3,210,406
Federal Grants U.S.D.A. Bonds	<u>1,280,400</u>
Total Federal Revenue Recognized per Schedule of Expenditures of Federal Awards	<u>\$ 5,731,865</u>

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting: Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs: Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Title 2 (CFR) part 200, Uniform Guidance?	No

Identification of Major Programs

<u>CFDA NUMBERS</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

NONE.

Section III – Federal Award Findings and Questioned Costs

NONE.

Section III – Federal Award Findings and Questioned Costs

NONE.



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

KENNETH A. TALSMA, CPA, PRINCIPAL
AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA
LESLIE A. BOHN, CPA
TORI N. KRUISE, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the City Council
City of Houghton
Houghton, MI 49931

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Houghton, Michigan, for the year ended June 30, 2022, and have issued our report thereon dated December 2, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information about our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards, *Government Auditing Standards* and the Uniform Guidance

As stated in our engagement letter dated May 24, 2022, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we will consider the City of Houghton, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the City of Houghton, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also, in accordance with the Uniform Guidance, we will examine, on a test basis, evidence about the City of Houghton, Michigan's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the City of Houghton, Michigan's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it does not provide a legal determination on the City of Houghton, Michigan's compliance with those requirements.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis, schedule of employee retirement and benefit systems and budgetary comparison schedules, which supplement(s) the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

We have been engaged to report on combining nonmajor funds, component unit financial statements, Michigan Bureau of Passenger Transportation Schedules (excluding the schedules of Vehicle Miles and Hours), and the schedule of expenditures of federal awards, which accompany the financial statements but are not RSI. Our responsibility for this other information, as described by professional standards, is to evaluate the presentation of the other information in relation to the financial statements as a whole and to report on whether the other information is fairly stated, in all material respects, in relation to the financial statements as a whole.

We have not been engaged to report on the Michigan Bureau of Passenger Transportation Schedule of Vehicle Miles and Hours, which accompanies the financial statements but are not RSI. Our responsibility with respect to this other information in documents containing the audited financial statements and auditor's report does not extend beyond the financial information identified in the report. We have no responsibility for determining whether this other information is properly stated. This other information will not be audited and we will not express an opinion or provide any assurance on it.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters on May 24, 2022.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Houghton, Michigan are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the City of Houghton, Michigan changed accounting policies related to capitalized interest on construction projects by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period in 2022. The application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the Annual Required Contribution for pension benefits was based on various assumptions regarding life expectancies, inflation, premium increases, and investment rates. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statements disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion units, financial statements taken as a whole.

Disagreement with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 2, 2022.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Comments and Recommendations

The following is a summary of our observations with suggestions for improvements we believe should be brought to your attention. We noted no material matters involving the internal control over financial reporting and compliance, as reported in a separate letter in accordance with *Government Auditing Standards* of the basic financial statement audit report.

Policies (Prior Year)

It was noted in our review of the City policies that the City does not currently have approved policies for any of the following items: capital assets policy, fund balance policy, conflict of interest policy (one covering all employees), fraud policy (including whistle blower protections), and policies that are required related to federal granting under the uniform guidance. We recommend that the City research and adopt policies related to all of the above noted items, and research the current personnel policy to expand it to include all personal related items.

Status: Corrected.

Journal Entry Procedures (Prior Year)

It was noted in our review of the Journal entry process that there currently is no approval or review of journal entries completed before they are posted to the ledger. We recommend that the City implement a review and approval process in the journal entries procedures prior to the posting of journal entries to the ledger.

Status: Corrected.

Noncompliance with GASB 84 (Prior Year)

It was noted in our review of the agency activities that the City is currently booking City activities in agency funds in violation of GASB 84. We recommend that the City review GASB 84 and the agency fund activities to ensure that all city related activities are posted to the operational funds and not recorded in Agency funds in compliance with GASB 84.

Status: Corrected.

Transmittal Procedures (Prior Year)

It was noted that when transmittal are received from other departments, they are not currently signing the transmittal form as a attestation to the information and money provided. We recommend that this procedure be updated to include a signature to all transmittals used by the City departments.

Status: Corrected.

Credit Card Transactional Fee's (Prior Year)

It was noted in our review of the credit card processing contract that the City is currently paying transactional fees related to some of the credit card payments they are receiving. We recommend that the City review credit card processors that will allow them to have the user pay these fees, so that these fees are not placing a burden on all tax payors for an individual's transactions.

Status: Corrected.

Trust Account Activities (Prior Year)

It was noted in our review of the trust account activity that the City is currently recording operational expenditures related to other funds in a City trust funds. We recommend that the City code all operational expenditures in the funds in which they are related, and that the trust fund only be used for the holding of payments received for, investment of, and payment of future benefits, in compliance with the state chart of accounts.

Status: Corrected.

Payroll

It was noted during our testing of payroll, that two of the employees had no W-4's on file. We recommend these employees fill out a W-4 and reviewing all employee files to ensure that they have W-4's filled out.

Credit Card Testing

It was noted during our test of the City's April 2022 credit card statement that the majority of the purchases included sales taxes. There was also one receipt missing from the statement for a small charge. We recommended that the City try to reduce or eliminate the sales tax loses in the future and make sure they include documentation for all Credit card transactions including monthly and yearly subscriptions.

Status: The City Clerk said that they have been having a problem getting staff to use the proper documentation to avoid sales tax and mentioned that she will look into enforcing it more in the future. She mentioned that the one transaction without a receipt was for a month subscription with Adobe and that she will place the subscription documentation in future statements.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, schedule of employee retirement and benefit systems, and budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and our knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

We were not engaged to report on the Transit Fund schedules, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction of Use

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

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of any further assistance, please contact us.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

December 2, 2022