

CITY OF MANISTIQUE, MICHIGAN

**BASIC FINANCIAL STATEMENTS
with Supplemental Information**

JUNE 30, 2019

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet - Governmental Funds	17
Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position	18
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	19
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	20
Statement of Net Position - Proprietary Funds	21
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	23
Statement of Cash Flows - Proprietary Funds	25
Statement of Fiduciary Net Position	27
Notes to the Basic Financial Statements	28
Required Supplemental Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	70
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - DDA Fund	71
Schedule of Net Pension Liability and Related Ratios - Employee Retirement and Benefit Systems	72
Schedule of Employer Contributions - Employee Retirement and Benefit Systems	73
Schedule of Net OPEB Liability and Related Ratios - Employee Retirement and Benefit Systems	74
Schedule of OPEB Contributions - Employee Retirement and Benefit Systems	75

TABLE OF CONTENTS

	<u>Page</u>
Other Supplemental Information:	
Combining Balance Sheet Nonmajor Governmental Funds	76
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	79
Combining Statement of Net Position - Nonmajor Proprietary Funds.....	82
Combining Statement of Revenues, Expenditures and Changes in Net Position - Nonmajor Proprietary Funds	83
Combining Statement of Cash Flows - Nonmajor Proprietary Funds.....	84
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 <i>Government Auditing Standards</i>	85



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

Kristine P. Berhow, CPA, Principal
Brandy M. Olson, CPA, Principal
Kathleen A. Ciantar, CPA, Principal

"A Regional Firm Within the Upper Peninsula of Michigan"

Alan M. Stotz, CPA

INDEPENDENT AUDITOR'S REPORT

To the City Council and Management
City of Manistique, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manistique, Michigan, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Manistique, Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Manistique Housing Commission for the year ended December 31, 2018, which represent 86 percent of the assets, 87 percent of the net position, and 87 percent of the revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Manistique Housing Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manistique, Michigan, as of June 30, 2019, 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.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Manistique, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2019, on our consideration of the City of Manistique, 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 Manistique, 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 Manistique, Michigan’s internal control over financial reporting and compliance.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Escanaba, Michigan

December 9, 2019

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

This discussion and analysis of City of Manistique's financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2019. Please read it in conjunction with the City's financial statements, which begin on page 15.

FINANCIAL HIGHLIGHTS

- The City's net position was reported at \$14,263,742. Net position for our business-type activities was \$21,275,079 while net position in our governmental activities was a deficit of (\$7,011,337).
- We are tracking all assets over \$5,000 (the limit set by Council with recommendation from Management) in a depreciation program which will allow us to account for depreciation and be able to predict and budget more readily for this non-cash expense, a cost that ultimately affects our bottom line and Fund Balance, therefore becoming an important part of the accounting equation.
- The City's expenses for the year totaled \$9,596,121, an increase of \$189,354 (2.0%) over 2018. Revenues from all sources were \$9,500,546, an increase of \$430,031 (4.7%). Expenses in Wastewater went from \$1,703,277 to \$1,777,275, a difference of \$73,998 (4.3%). Expenses in Water went from \$1,932,928 to \$1,899,531, a difference of (\$33,397) (-1.7%).
- Sales in Ambulance went from \$1,495,996 to \$1,436,744, a decrease of \$59,252 (4.0%).
- In the City's business type activities, total revenues were \$5,741,623. Business-type activity revenues were 60.4% as a percentage of total revenues compared to 58.2% the previous year. Business type expenses were \$5,660,214 compared to \$5,592,959 last year. Business type expenses were 59.0% of total expenses, up from 59.5% last year. Business-type activities include the campground, marina, ambulance services, recreation department, water utilities, and wastewater utilities. Business-type activities included the Manistique Lakeshore Campground for the first time in 2017. However, 2018 was the first full year of operations. The Campground fund recorded \$242,166 in expenses and \$443,920 in revenue, excluding transfers, in the current year. Water and Wastewater have continued using DPW services when at all possible. This creates a win-win situation for Water, Wastewater, and the General Fund, as it obviously saves the General Fund, while Water and Wastewater save substantially over the cost of contracted help. In 2020, the City will obtain USDA Rural Development grants and loans to move closer to meeting the DEQ CSO (Combined Sewer Overflow) deadline. The City will continue to seek grants to finish the remaining infrastructure over the next three to four years.
- The City is working on its website, cityofmanistique.org. Tax information is available online, as well as the ability to pay taxes and utility bills. All City departments are now connected to high-speed Internet services. Many reports and forms are now transmitted through the Internet. The service has also allowed the City to avoid the cost of dedicated phone lines for some utility functions. The City also has an organization called Municode reviewing the ordinances and charter and making needed changes to bring them up to date with current laws. The ordinances

have been reviewed and approved by council and are now available on our website in their entirety.

- The General Fund finished the year with a positive unassigned fund balance of \$337,389 compared to last year's balance \$306,682. Revenues of \$2,443,430 compared to \$2,415,890 in 2018 (\$27,540), and expenditures of \$2,384,984 compared to expenditures of \$2,311,941 in 2018 (\$73,043).
- The net position (deficit) for the governmental activities was (\$7,011,337) in 2019 compared to (\$5,388,961) in 2018 (\$1,622,376). The significant decrease is due to the issuance of \$1,500,000 in debt by the DDA for the benefit of the marina. The related assets are recorded in the marina fund.

During 2015, the City implemented GASB Statement 68, which required us to record our pension liability on our financial statements. Governmental activities now show a net pension liability of \$6,640,975 in 2019 compared to \$5,846,052 in 2018 and business-type activities also show a net pension liability of \$2,199,220 in 2019 compared to \$1,897,030 in 2018. During the prior year, the City implemented GASB Statement 75, which required us to record our OPEB liability on our financial statements. Governmental activities show a net OPEB liability of \$1,516,732 in 2019 compared to \$1,313,876 in 2018 and business-type activities also show a net OPEB liability of \$786,897 in 2019 compared to \$681,653 in 2018. Previously, we showed our liability for retiree healthcare, known as OPEB, as the City's annual required contributions to the plan, with certain adjustments. GASB Statement No. 75 requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. Funding this liability will be a challenge moving forward. Employees hired after 2007 have no post-retirement healthcare per union contract. The City is also tracking the retiree liability for our MERS employees. This will aide in future forecasting and budgeting. We continue our tracking of assets monitoring our depreciation. Depreciation plays a huge part in the value of the City as a whole. Net position also serves as an indicator of how we look to lending institutions and our other creditors and determines what kind of interest rates we obtain from them when we bond or borrow.

USING THIS REPORT

This annual report consists of financial statements. The Statement of Net Position and Statement of Activities (on pages 15 and 16) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 17. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statement provides financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of government.

The City has included the Manistique Housing Commission and the Manistique Senior Center as discretely presented component units as determined by GASB Statement 14, as amended by GASB Statement 39. The Manistique Housing Commission issues its own separately audited financial

statement which may be obtained at 400 East Lake Shore Drive, Manistique, Michigan 49854. The Manistique Housing Commission has a December 31 year end which differs from that of the City. The Manistique Senior Center does not issue its own separately audited financial statement

Reporting the City as a whole

Statement of Net Position and the Statement of Activities

Our analysis of the City as a whole begins on page 8. One of the most important questions asked about a city's finances is "Is the City as a whole better off or in worse condition as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's *net position* and changes in them. You can think of the City's net position - the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources - as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net position is one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall financial health* of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two categories of activities:

- Governmental activities – Most of the City's basic services are reported here including public safety, public works, parks and recreation, and general administration. Property taxes, state shared revenues and state and federal grants fund the majority of these activities.
- Business-type activities – The City charges a fee to customers to help cover all or most of the costs of certain services it provides. The City's Water, Wastewater, Ambulance, Marina, Campground, and Recreation funds are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's Major Funds begins on page 11. The fund financial statements begin on page 17 and provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law, and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that the City is meeting legal requirements for certain taxes, grants and other money (such as grants received from the U.S. Department of Housing and Urban development). The City's two kinds of funds *governmental* and *proprietary* – use different accounting methods.

- *Governmental funds* – Most of the City's services are reported in governmental funds, which focus on how money flows into and out of those funds, and the balances that are left at year-end available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and Statement of Activities) and governmental *funds* in a reconciliation that follows the fund financial statements.
- *Proprietary funds* - When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities that we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

The City as a Trustee

The City is the trustee, or *fiduciary*, of funds that are collected for other agencies and held for periodic payment to those agencies. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 27. We exclude these funds from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

The City as a Whole

The City's net combined position was \$14,263,742.

Table 1
Net Position

	Governmental Activities		Business-Type Activities	
	2019	2018	2019	2018
Current and other assets	\$ 1,332,280	\$ 1,435,086	\$ 4,217,716	\$ 2,559,623
Capital assets (net)	6,287,212	6,459,466	33,268,007	33,507,978
Total Assets	\$ 7,619,492	\$ 7,894,552	\$ 37,485,723	\$ 36,067,601
Deferred outflows of resources	\$ 1,084,113	\$ 559,728	\$ 426,337	\$ 202,013
Long-term debt outstanding	\$ 6,253,605	\$ 5,186,060	\$ 13,030,477	\$ 13,305,157
Other liabilities	9,215,170	8,298,777	3,516,619	3,084,721
Total Liabilities	\$ 15,468,775	\$ 13,484,837	\$ 16,547,096	\$ 16,389,878
Deferred inflows of resources	\$ 246,167	\$ 358,404	\$ 89,885	\$ 131,458
Net Position:				
Net investment in capital assets	\$ 5,383,607	\$ 5,278,406	\$ 20,237,530	\$ 20,326,158
Restricted assets:				
Expendable	559,607	644,335	-	-
Nonexpendable	212,433	203,180	-	-
Unrestricted	(13,166,984)	(11,514,882)	1,037,549	(577,880)
Total net position (deficit)	\$ (7,011,337)	\$ (5,388,961)	\$ 21,275,079	\$ 19,748,278

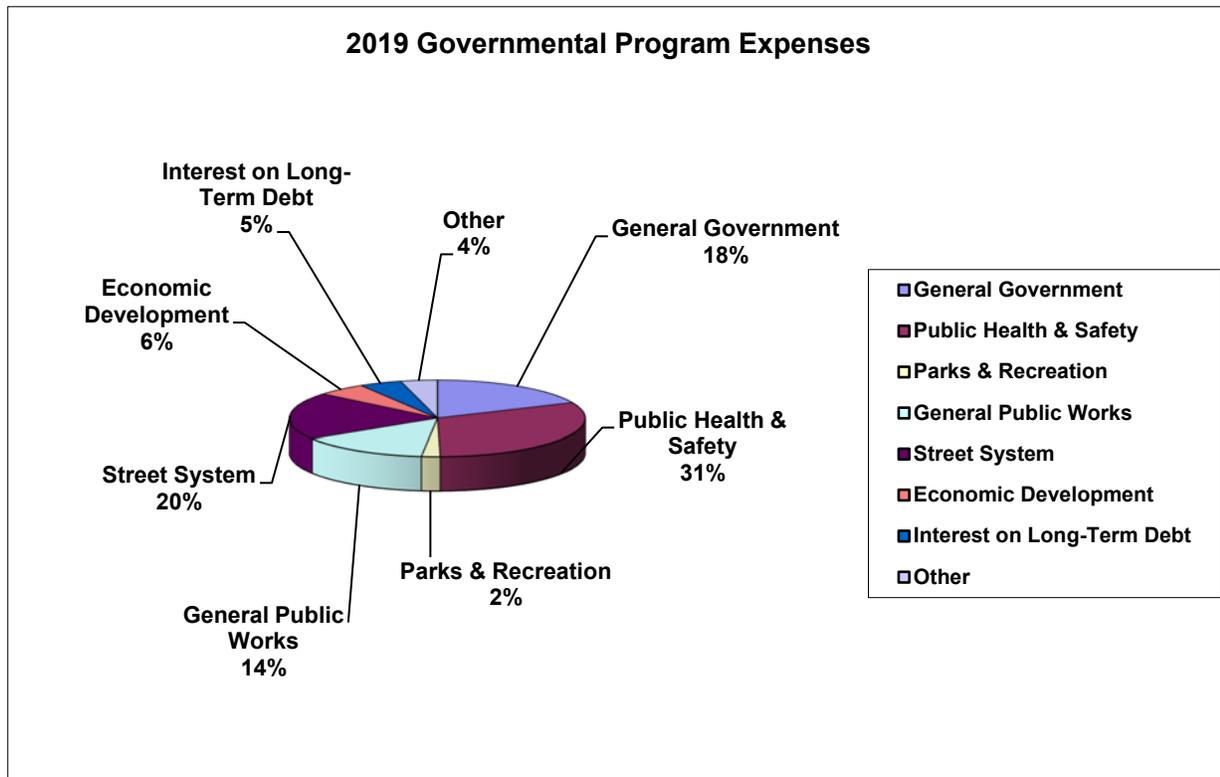
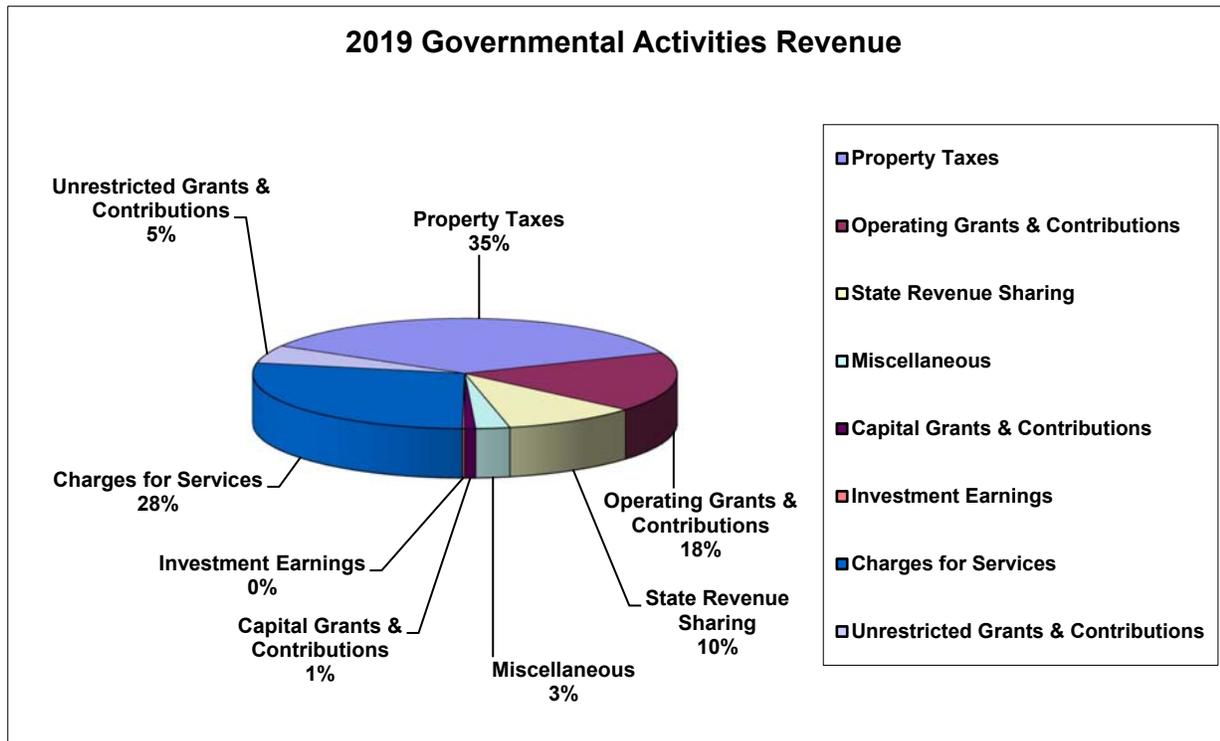
Net position (deficit) of the City's governmental activities stood at (\$7,011,337) in 2019 compared to (\$5,388,961) in 2018. The decrease in net position is due the items explained in paragraph on page 5 above. Total assets stood at \$7,619,492. The ratio of assets to liabilities stood at 0.49 in 2019 compared 0.59 in 2018. This will serve as our twelfth year in tracking this number, a good indicator of our overall financial health.

Net position in our business-type activities stood at \$21,275,079 in 2019. Total assets were at \$37,485,723 in 2019 compared \$36,067,601 in 2018, an increase of \$1,418,122. This increase was primarily due to the funding received from the DDA for marina projects. Liabilities stood at \$16,547,096 in 2019 and \$16,389,878 in 2018, an increase of \$157,218. Unrestricted net position (deficit) ended at a \$1,037,549 in 2019 compared (\$577,880) in 2018.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities	
	2019	2018	2019	2018
Revenues:				
Program Revenues:				
Charges for services	\$ 1,048,327	\$ 1,004,726	\$ 5,604,993	\$ 5,015,122
Operating grants & contributions	659,725	711,536	-	-
Capital grants & contributions	30,200	63,000	130,384	257,504
General Revenues:				
Property taxes	1,333,724	1,336,316	-	-
State revenue sharing	384,460	374,151	-	-
Other grants & contributions	197,902	197,572	-	-
Unrestricted investment earnings/interest income	7,215	7,197	6,246	2,676
Miscellaneous/Other	97,370	97,982	-	2,733
Total Revenues	<u>3,758,923</u>	<u>3,792,480</u>	<u>5,741,623</u>	<u>5,278,035</u>
Program Expenses:				
General government	724,299	688,915	-	-
Public health & safety	1,237,995	1,121,237	-	-
Parks & recreation	80,269	88,568	-	-
General public works	562,063	523,519	-	-
Street system	788,882	810,570	-	-
Economic development	212,814	258,707	-	-
Sanitary landfill	(11,826)	(16,965)	-	-
Other	157,705	152,601	-	-
Interest on long-term debt	183,706	186,656	-	-
Campground	-	-	242,166	240,939
Ambulance	-	-	1,519,678	1,491,502
Marina	-	-	72,476	88,705
Recreation building	-	-	149,088	135,608
Waste water utility	-	-	1,777,275	1,703,277
Water utility	-	-	1,899,531	1,932,928
Total Expenses	<u>3,935,907</u>	<u>3,813,808</u>	<u>5,660,214</u>	<u>5,592,959</u>
Excess (deficiency) before transfers and contributions	(176,984)	(21,328)	81,409	(314,924)
Transfers	<u>(1,445,392)</u>	<u>(66,859)</u>	<u>1,445,392</u>	<u>66,859</u>
Increase (decrease) in net position	(1,622,376)	(88,187)	1,526,801	(248,065)
Net position (deficit) - beginning	(5,388,961)	(977,818)	19,748,278	17,200,166
Prior period adjustment	-	(4,322,956)	-	2,796,177
Net position (deficit) - beginning, restated	<u>(5,388,961)</u>	<u>(5,300,774)</u>	<u>19,748,278</u>	<u>19,996,343</u>
Net position (deficit) - ending	<u>\$ (7,011,337)</u>	<u>\$ (5,388,961)</u>	<u>\$ 21,275,079</u>	<u>\$ 19,748,278</u>

Governmental Activities



The City's total revenues were \$9,500,546 in 2019. The cost of all programs and services was \$9,596,121 for 2019. For 2019, the difference between revenue and expenses was (\$95,575).

Governmental Activities

Revenues for the City's governmental activities totaled \$3,758,923 while expenses totaled \$3,935,907.

Table three below reflects the cost of each of the City's five largest activities; Public Safety, Street Systems, Economic Development, Public works, and General Government- as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the taxpayers.

Table 3
Government Activities

	Total Cost of Services		Net Cost of Services	
	2019	2018	2019	2018
Public health & safety	\$ 1,237,995	\$ 1,121,237	\$ 1,114,067	\$ 989,776
Street systems	788,882	810,570	186,604	291,662
Economic development	212,814	258,707	212,814	258,707
General public works	562,063	523,519	285,369	293,873
General government	724,299	688,915	26,879	(10,145)
Totals	<u>\$ 3,526,053</u>	<u>\$ 3,402,948</u>	<u>\$ 1,825,733</u>	<u>\$ 1,823,873</u>

We have health insurance with Teamsters Welfare Fund, which helps us in budgeting by having fixed costs going forward and we will continue using them for the next year. This plays a large part in our budgeting. Health insurance will continue to be an area of focus in future budget planning.

Business-Type Activities

Revenues for the City's business-type activities totaled \$5,741,623 in 2019, up from \$5,278,035 in 2018 (8.9%). This increase is due to an increase in charges for service.

THE CITY'S FUNDS

As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on page 17) reported a combined fund balance of \$1,166,702, a decrease of \$42,977 from 2018.

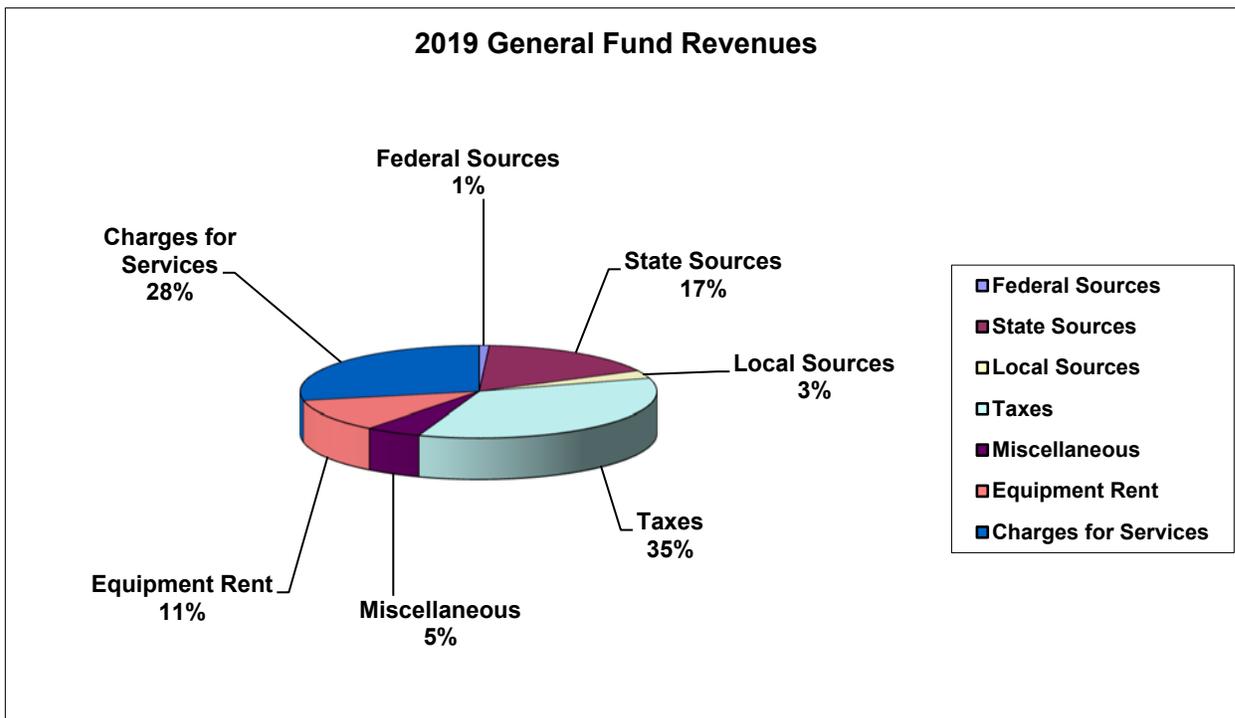
General Fund Budgetary Highlights

Over the course of the year, the budget was amended to recognize known changes to revenue or expenses. Final revenue was \$2,443,430, which was \$62,307 below the amended budget. Final expenditures were \$2,384,984, which was below the revised expenditure estimate of \$2,445,229, excluding transfers out. The transfers out were below the budget (approximately \$2,100). Over the next year, we will concentrate on building up the fund balance in the General Fund.

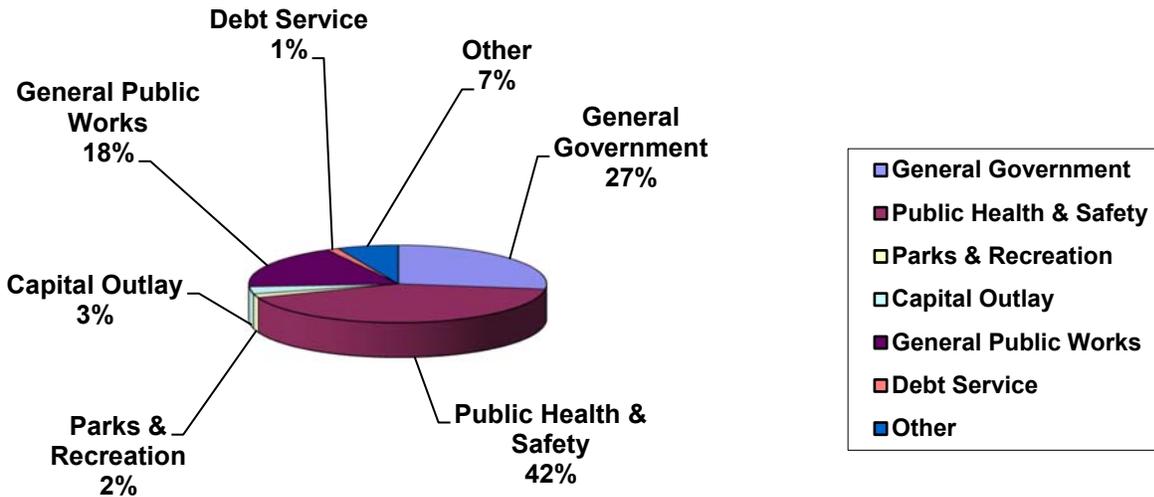
The final fund balance for General Fund was \$406,429, which included the unassigned amount of \$337,389, the rest being restricted for inventory, donations, etc. We will continue to monitor Major and Local Street funds, along with the General Fund, and plan accordingly.

All employees worked together to reduce expenses in their departments. We finished the year adding \$32,498 to our fund balance. Our goal now is to increase the unassigned fund balance. It is our understanding that the General Fund should have a minimum fund balance or cushion of approximately 10-15% of expenditures. We now have \$337,389, which is approximately 14% of expenditures, which we feel is our fiscal responsibility to have. The City is also very fortunate to have personnel and a City Council willing to work with us, and for that we say **“Thank You”** to them.

General Fund



2019 General Fund Expenditures



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2019, the City had \$39,555,219, net of accumulated depreciation, invested in a variety of capital assets including public safety equipment, buildings, parks, roads, water and wastewater. (See table 4 below)

Table 4
Capital Assets at Year-End
(Net of accumulated depreciation)

	Governmental Activities		Business-Type Activities	
	2019	2018	2019	2018
Land	\$ 1,598,733	\$ 1,598,733	\$ 2,139	\$ 2,139
Construction in progress	30,502	54,280	434,695	-
Land Improvements	920,715	919,412	3,946,637	3,737,207
Buildings	1,022,138	1,006,138	1,358,289	1,348,611
Machinery & Equipment	859,669	842,689	3,163,497	2,882,053
Vehicles	1,084,163	1,045,491	-	-
Infrastructure- road system	9,091,207	9,042,859	-	-
Infrastructure-other	-	-	1,796,343	1,796,343
Distribution/collection system	-	-	41,956,210	41,956,210
Accumulated Depreciation	<u>(8,319,915)</u>	<u>(8,050,136)</u>	<u>(19,389,803)</u>	<u>(18,214,585)</u>
Total	<u>\$ 6,287,212</u>	<u>\$ 6,459,466</u>	<u>\$ 33,268,007</u>	<u>\$ 33,507,978</u>

DEBT

At year-end the City had a total \$19,284,082 in long-term debt obligations. This is a net increase of \$792,865 in total long-term debt. The State of Michigan limits the amount of general obligation debt that municipalities can issue to 10% of the current equalized valuation, including TIF valuations, within the City's corporate limits. The City's outstanding general obligation debt is well below the 10% limit.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
General obligation bonds/ notes (backed by the City)	\$ 18,605	\$ 30,317	\$ 172,477	\$ 196,157	\$ 191,082	\$ 226,474
Revenue bonds and notes (backed by specific tax and fee revenues)	6,235,000	5,155,743	12,858,000	13,109,000	19,093,000	18,264,743
Totals	\$ 6,253,605	\$ 5,186,060	\$ 13,030,477	\$ 13,305,157	\$ 19,284,082	\$ 18,491,217

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials will consider many factors when setting the fiscal year budget, tax rates and fees that will be charged for business type activities. One of those factors is the economy. Further, development is continuing to focus on Manistique's waterfront. This growth will affect revenues for the years coming.

The cost of living in Manistique is below the national and State average, and real estate values are stable. Other costs continue to rise at the national inflation rate or lower. These factors were taken into account when adopting the 2020 budget. We will continue to monitor all costs, explore health insurance savings, and will make adjustments where necessary.

For our business type activities, continued slow growth is forecast in water and wastewater. Our Ambulance is now providing ALS service to the community. Recreation seems to be the area that has struggled in the past and this year remains no exception.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and customers, as well as investors and creditors with a general overview of the City's finances and to show the City's accountability for the revenues it receives. If you have questions about this report or need additional information, contact the City Treasurer, or the City Manager at Manistique City Hall, 300 North Maple St, P.O. Box 515, Manistique, Michigan, 49854.

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF NET POSITION
June 30, 2019

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Manistique Housing Commission*	Manistique Senior Center
ASSETS					
Current assets:					
Cash and cash equivalents					
Restricted	\$ 240,905	\$ 2,631,397	\$ 2,872,302	\$ 24,084	\$ 31,241
Unrestricted	785,992	733,678	1,519,670	260,002	163,885
Investments	-	-	-	112,253	-
Receivables					
Accounts	16,442	309,471	325,913	4,297	-
Utilities	-	583,079	583,079	-	-
Delinquent taxes	4,818	-	4,818	-	-
Internal balances	93,378	(93,378)	-	-	-
Due from other governmental units	133,472	-	133,472	-	-
Prepays	-	-	-	4,504	-
Inventory	57,273	53,469	110,742	-	-
Total current assets	<u>1,332,280</u>	<u>4,217,716</u>	<u>5,549,996</u>	<u>405,140</u>	<u>195,126</u>
Noncurrent assets:					
Land	1,598,733	-	1,598,733	11,805	-
Construction in progress	30,502	434,695	465,197	-	-
Capital assets (net)	4,657,977	32,833,312	37,491,289	755,852	-
Total noncurrent assets	<u>6,287,212</u>	<u>33,268,007</u>	<u>39,555,219</u>	<u>767,657</u>	<u>-</u>
Total assets	<u>\$ 7,619,492</u>	<u>\$ 37,485,723</u>	<u>\$ 45,105,215</u>	<u>\$ 1,172,797</u>	<u>\$ 195,126</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflow - OPEB	\$ 174,398	\$ 90,480	\$ 264,878	\$ -	\$ -
Deferred outflow - pension plan	909,715	335,857	1,245,572	-	-
Total deferred outflows of resources	<u>\$ 1,084,113</u>	<u>\$ 426,337</u>	<u>\$ 1,510,450</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 136,633	\$ 185,998	\$ 322,631	\$ 10,710	\$ -
Accrued payroll	24,127	23,235	47,362	-	-
Accrued interest	29,129	97,748	126,877	-	-
Accrued liabilities	-	-	-	12,032	-
Unearned revenue	-	107,501	107,501	7,213	25,348
Customer deposits	-	20,251	20,251	20,017	-
Compensated absences	61,132	18,086	79,218	12,397	-
Bonds payable	405,000	257,000	662,000	-	-
Notes payable	4,531	24,316	28,847	-	-
Landfill postclosure costs	44,000	-	44,000	-	-
Total current liabilities	<u>704,552</u>	<u>734,135</u>	<u>1,438,687</u>	<u>62,369</u>	<u>25,348</u>
Noncurrent liabilities:					
Other	-	-	-	10,988	-
Compensated absences	142,641	57,738	200,379	9,466	-
Bonus retirement	47,801	19,945	67,746	-	-
Net OPEB liability	1,516,732	786,897	2,303,629	-	-
Bonds payable	5,830,000	12,601,000	18,431,000	-	-
Notes payable	14,074	148,161	162,235	-	-
Landfill postclosure costs	572,000	-	572,000	-	-
Net pension liability	6,640,975	2,199,220	8,840,195	-	-
Total noncurrent liabilities	<u>14,764,223</u>	<u>15,812,961</u>	<u>30,577,184</u>	<u>20,454</u>	<u>-</u>
Total liabilities	<u>\$ 15,468,775</u>	<u>\$ 16,547,096</u>	<u>\$ 32,015,871</u>	<u>\$ 82,823</u>	<u>\$ 25,348</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflow - OPEB	\$ 6,386	\$ 3,313	\$ 9,699	\$ -	\$ -
Deferred inflow - pension plan	239,781	86,572	326,353	-	-
Total deferred inflows of resources	<u>\$ 246,167</u>	<u>\$ 89,885</u>	<u>\$ 336,052</u>	<u>\$ -</u>	<u>\$ -</u>
NET POSITION					
Net investment in capital assets	\$ 5,383,607	\$ 20,237,530	\$ 25,621,137	\$ 767,657	\$ -
Restricted for:					
Expendable:					
Donated projects	3,137	-	3,137	-	-
Sanitary landfill	198,249	-	198,249	-	-
Street system	319,527	-	319,527	-	-
Downtown development	34,315	-	34,315	-	-
Capital projects	4,379	-	4,379	-	-
Marina	-	1,111,991	1,111,991	-	-
Housing assistance payments	-	-	-	4,067	-
Nonexpendable:					
Cemetery perpetual care	212,433	-	212,433	-	-
Unrestricted	(13,166,984)	(74,442)	(13,241,426)	318,250	169,778
Total net position (deficit)	<u>\$ (7,011,337)</u>	<u>\$ 21,275,079</u>	<u>\$ 14,263,742</u>	<u>\$ 1,089,974</u>	<u>\$ 169,778</u>

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 724,299	\$ 679,220	\$ 15,000	\$ 3,200	\$ (26,879)	\$ -	\$ (26,879)	\$ -
Public health and safety	1,237,995	73,289	28,639	22,000	(1,114,067)	-	(1,114,067)	-
Parks and recreation	80,269	19,124	13,808	5,000	(42,337)	-	(42,337)	-
General public works	562,063	276,694	-	-	(285,369)	-	(285,369)	-
Street system	788,882	-	602,278	-	(186,604)	-	(186,604)	-
Economic development	212,814	-	-	-	(212,814)	-	(212,814)	-
Sanitary landfill	(11,826)	-	-	-	11,826	-	11,826	-
Other	157,705	-	-	-	(157,705)	-	(157,705)	-
Interest on long-term debt	183,706	-	-	-	(183,706)	-	(183,706)	-
Total governmental activities	<u>3,935,907</u>	<u>1,048,327</u>	<u>659,725</u>	<u>30,200</u>	<u>(2,197,655)</u>	<u>-</u>	<u>(2,197,655)</u>	<u>-</u>
Business-type activities:								
Campground	242,166	443,920	-	-	-	201,754	201,754	-
Ambulance	1,519,678	1,436,744	-	47,000	-	(35,934)	(35,934)	-
Marina	72,476	21,652	-	83,384	-	32,560	32,560	-
Recreation building	149,088	121,259	-	-	-	(27,829)	(27,829)	-
Waste water utility	1,777,275	1,888,042	-	-	-	110,767	110,767	-
Water utility	1,899,531	1,693,376	-	-	-	(206,155)	(206,155)	-
Total business-type activities	<u>5,660,214</u>	<u>5,604,993</u>	<u>-</u>	<u>130,384</u>	<u>-</u>	<u>75,163</u>	<u>75,163</u>	<u>-</u>
Total primary government	<u>\$ 9,596,121</u>	<u>\$ 6,653,320</u>	<u>\$ 659,725</u>	<u>\$ 160,584</u>	<u>(2,197,655)</u>	<u>75,163</u>	<u>(2,122,492)</u>	<u>-</u>
Component Units:								
Manistique Housing Commission*	\$ 606,005	\$ 266,138	\$ 318,733	\$ 3,335	-	-	-	(17,799)
Manistique Senior Center	89,095	69,300	13,359	1,920	-	-	-	(4,516)
Total component units	<u>\$ 695,100</u>	<u>\$ 335,438</u>	<u>\$ 332,092</u>	<u>\$ 5,255</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,315)</u>
General revenues:								
Property taxes					1,169,553	-	1,169,553	-
Property taxes - restricted for sanitary landfill					164,171	-	164,171	-
State revenue sharing					384,460	-	384,460	-
Grants and contributions not restricted to specific programs					197,902	-	197,902	-
Contributions to permanent fund					9,125	-	9,125	-
Unrestricted investment earnings					7,215	6,246	13,461	1,768
Miscellaneous					88,245	-	88,245	6,407
Insurance recovery					-	-	-	-
Transfers					(1,445,392)	1,445,392	-	-
Total general revenues and transfers					<u>575,279</u>	<u>1,451,638</u>	<u>2,026,917</u>	<u>8,175</u>
Changes in net position					<u>(1,622,376)</u>	<u>1,526,801</u>	<u>(95,575)</u>	<u>(14,140)</u>
Net position (deficit) - beginning					<u>(5,388,961)</u>	<u>19,748,278</u>	<u>14,359,317</u>	<u>1,273,892</u>
Net position (deficit) - ending					<u>\$ (7,011,337)</u>	<u>\$ 21,275,079</u>	<u>\$ 14,263,742</u>	<u>\$ 1,259,752</u>

See accompanying notes to financial statements.

**CITY OF MANISTIQUE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019**

	General Fund	DDA Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and equivalents:				
Restricted	\$ 29,072	\$ -	\$ 211,833	\$ 240,905
Unrestricted	247,795	27,779	510,418	785,992
Receivables:				
Accounts	15,842	-	600	16,442
Delinquent taxes	4,151	-	667	4,818
Due from other funds	111,544	-	-	111,544
Due from other governmental units	65,980	-	67,492	133,472
Inventory	57,273	-	-	57,273
	<u>\$ 531,657</u>	<u>\$ 27,779</u>	<u>\$ 791,010</u>	<u>\$ 1,350,446</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 97,184	\$ 20,182	\$ 19,267	\$ 136,633
Accrued payroll	23,893	-	234	24,127
Due to other funds	-	7,548	10,618	18,166
Unearned revenue	4,151	-	667	4,818
	<u>125,228</u>	<u>27,730</u>	<u>30,786</u>	<u>183,744</u>
Fund balances:				
Nonspendable:				
Inventory	57,273	-	-	57,273
Cemetery perpetual care	-	-	212,433	212,433
Restricted for:				
Donated projects	3,137	-	-	3,137
Sanitary landfill	8,630	-	189,619	198,249
Street system	-	-	319,527	319,527
Special projects	-	49	34,266	34,315
Capital projects	-	-	4,379	4,379
Unassigned	337,389	-	-	337,389
	<u>406,429</u>	<u>49</u>	<u>760,224</u>	<u>1,166,702</u>
Total liabilities and fund balances	<u>\$ 531,657</u>	<u>\$ 27,779</u>	<u>\$ 791,010</u>	<u>\$ 1,350,446</u>

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2019

Total fund balances for governmental funds \$ 1,166,702

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Capital assets	\$ 14,607,127	
Accumulated depreciation	<u>(8,319,915)</u>	
Net capital assets		6,287,212

Deferred outflow of resources related to recording of net pension liability. 909,715

Deferred outflow of resources related to recording of net OPEB liability. 174,398

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position.

Accrued interest on long-term debt	\$ (29,129)	
Bonds payable	(6,235,000)	
Notes payable	(18,605)	
Landfill postclosure costs	(616,000)	
Net OPEB liability	(1,516,732)	
Bonus retirement	(47,801)	
Compensated absences	(203,773)	
Net pension liability	<u>(6,640,975)</u>	(15,308,015)

Deferred inflow of resources related to recording of net pension liability. (239,781)

Deferred inflow of resources related to recording of net OPEB liability. (6,386)

Unearned revenue is reported as a liability on the balance sheet of the fund financial statements and has been recognized as revenue in the statement of activities has been removed from the statement of net position.

4,818

Total net position of governmental activities \$ (7,011,337)

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019

	General Fund	DDA Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Federal sources	\$ 22,000	\$ -	\$ -	\$ 22,000
State sources	407,271	184,937	602,277	1,194,485
Local sources	68,463	-	28,808	97,271
Taxes	855,772	315,562	164,171	1,335,505
Charges for services	687,974	-	13,947	701,921
Equipment rental	276,694	-	-	276,694
Interest income	2,835	247	4,132	7,214
Miscellaneous	122,421	-	9,125	131,546
	<u>2,443,430</u>	<u>500,746</u>	<u>822,460</u>	<u>3,766,636</u>
EXPENDITURES:				
General government	648,382	-	800	649,182
Public health and safety	1,002,091	-	-	1,002,091
Parks and recreation	38,896	-	12,553	51,449
General public works	435,062	-	-	435,062
Street system	-	-	610,835	610,835
Economic development	-	206,403	1,125	207,528
Sanitary landfill	-	-	32,174	32,174
Capital outlay	71,652	-	31,804	103,456
Debt service:				
Principal	30,317	265,743	155,000	451,060
Interest and other charges	879	147,048	34,358	182,285
Other	157,705	-	-	157,705
	<u>2,384,984</u>	<u>619,194</u>	<u>878,649</u>	<u>3,882,827</u>
Excess revenues (expenditures)	<u>58,446</u>	<u>(118,448)</u>	<u>(56,189)</u>	<u>(116,191)</u>
OTHER FINANCING SOURCES (USES):				
Loan proceeds	18,605	1,500,000	-	1,518,605
Transfers in	13,349	113,400	26,302	153,051
Transfers out	(57,902)	(1,500,000)	(40,541)	(1,598,443)
	<u>(25,948)</u>	<u>113,400</u>	<u>(14,239)</u>	<u>73,213</u>
Net changes in fund balances	32,498	(5,048)	(70,428)	(42,978)
Fund balances - beginning	<u>373,931</u>	<u>5,097</u>	<u>830,652</u>	<u>1,209,680</u>
Fund balances - ending	<u>\$ 406,429</u>	<u>\$ 49</u>	<u>\$ 760,224</u>	<u>\$ 1,166,702</u>

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
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, 2019

Net changes in fund balances - total governmental funds \$ (42,978)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$176,899) were less than depreciation expense (\$461,621) . (166,323)

Loss on disposal of capital assets (5,932)

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Position.

Principal repayments:

Bond principal	420,743	
Note principal	30,317	
Landfill postclosure costs	44,000	495,060

Net change in unearned revenue which was recognized as revenue in the prior year in the statement of activities. (1,781)

Loan proceeds recorded as revenue under the modified accrual method are recorded as a liability in the statement of net position. (1,518,605)

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	(17,083)	
Bonus retirement	(2,158)	
Net OPEB liability	(34,812)	
Net pension liability	(326,343)	
Accrued interest on debt	(1,421)	(381,817)

Changes in net position of governmental activities \$ (1,622,376)

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2019

	Manistique Lakeshore Campground	Ambulance Service	Waste Water Utility
ASSETS			
Current assets:			
Cash and cash equivalents:			
Restricted	\$ -	\$ -	\$ 467,526
Unrestricted	215,135	44,090	331,133
Receivables:			
Accounts	154	142,960	160,202
Utilities	-	-	255,104
Inventory	-	-	14,688
Total current assets	<u>215,289</u>	<u>187,050</u>	<u>1,228,653</u>
Noncurrent assets:			
Construction in progress	-	-	120,000
Capital assets (net)	<u>3,535,642</u>	<u>405,643</u>	<u>10,551,909</u>
Total noncurrent assets	<u>3,535,642</u>	<u>405,643</u>	<u>10,671,909</u>
Total assets	<u>\$ 3,750,931</u>	<u>\$ 592,693</u>	<u>\$ 11,900,562</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow - OPEB	\$ -	\$ -	\$ 44,973
Deferred outflow - pension plan	-	-	188,036
Total deferred outflows of resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 233,009</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 3,210	\$ 7,983	\$ 19,332
Accrued payroll	2,741	9,836	4,931
Accrued interest	-	-	23,305
Due to other funds	-	92,728	325
Customer deposits	-	-	-
Unearned revenue	107,501	-	-
Compensated absences	-	-	11,415
Bonds payable	-	-	96,000
Notes payable	-	14,068	-
Total current liabilities	<u>113,452</u>	<u>124,615</u>	<u>155,308</u>
Noncurrent liabilities:			
Compensated absences	-	-	32,855
Bonus retirement	-	-	9,934
Net OPEB liability	-	-	391,127
Bonds payable	-	-	4,654,000
Notes payable	-	109,261	-
Net pension liability	-	-	1,264,460
Total noncurrent liabilities	<u>-</u>	<u>109,261</u>	<u>6,352,376</u>
Total liabilities	<u>\$ 113,452</u>	<u>\$ 233,876</u>	<u>\$ 6,507,684</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow - OPEB	\$ -	\$ -	\$ 1,647
Deferred inflow - pension plan	-	-	47,835
Total deferred inflows of resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,482</u>
NET POSITION			
Net investment in capital assets	\$ 3,535,642	\$ 282,314	\$ 5,921,909
Restricted	-	-	-
Unrestricted	<u>101,837</u>	<u>76,503</u>	<u>(345,504)</u>
Total net position	<u>\$ 3,637,479</u>	<u>\$ 358,817</u>	<u>\$ 5,576,405</u>

See accompanying notes to financial statements.

Water Utility	Nonmajor Enterprise Funds	Total Enterprise Funds
\$ 792,409	\$ 1,371,462	\$ 2,631,397
124,319	19,001	733,678
-	6,155	309,471
327,975	-	583,079
38,781	-	53,469
<u>1,283,484</u>	<u>1,396,618</u>	<u>4,311,094</u>
-	314,695	434,695
<u>15,953,743</u>	<u>2,386,375</u>	<u>32,833,312</u>
<u>15,953,743</u>	<u>2,701,070</u>	<u>33,268,007</u>
<u>\$ 17,237,227</u>	<u>\$ 4,097,688</u>	<u>\$ 37,579,101</u>
\$ 45,507	\$ -	\$ 90,480
147,821	-	335,857
<u>\$ 193,328</u>	<u>\$ -</u>	<u>\$ 426,337</u>
\$ 22,761	\$ 132,712	\$ 185,998
4,493	1,234	23,235
74,443	-	97,748
325	-	93,378
20,251	-	20,251
-	-	107,501
6,671	-	18,086
161,000	-	257,000
-	10,248	24,316
<u>289,944</u>	<u>144,194</u>	<u>827,513</u>
24,883	-	57,738
10,011	-	19,945
395,770	-	786,897
7,947,000	-	12,601,000
-	38,900	148,161
934,760	-	2,199,220
<u>9,312,424</u>	<u>38,900</u>	<u>15,812,961</u>
<u>\$ 9,602,368</u>	<u>\$ 183,094</u>	<u>\$ 16,640,474</u>
\$ 1,666	\$ -	\$ 3,313
38,737	-	86,572
<u>\$ 40,403</u>	<u>\$ -</u>	<u>\$ 89,885</u>
\$ 7,845,743	\$ 2,651,922	\$ 20,237,530
-	1,111,991	1,111,991
(57,959)	150,681	(74,442)
<u>\$ 7,787,784</u>	<u>\$ 3,914,594</u>	<u>\$ 21,275,079</u>

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2019

	Manistique Lakeshore Campground	Ambulance Service	Waste Water Utility
OPERATING REVENUES:			
Charges for services	\$ 424,658	\$ 1,432,039	\$ 1,819,712
Miscellaneous	19,262	4,705	68,330
Total operating revenue	<u>443,920</u>	<u>1,436,744</u>	<u>1,888,042</u>
OPERATING EXPENSES:			
Salaries	\$ 60,051	\$ 559,226	\$ 208,991
Fringe benefits	4,521	117,523	355,716
General administration	-	-	126,971
Supplies	33,236	47,168	56,763
Contracted services	8,092	59,659	82,129
Safety	-	-	2,259
Repairs and maintenance	-	25,025	96,213
Utilities	50,143	7,891	158,791
Communications	-	418	11,701
Advertising	10,302	-	-
Printing and publishing	-	-	-
Transportation	-	30,219	4,196
Insurance	-	9,641	35,967
Conference and workshops	-	488	2,189
Uncollectible accounts	-	605,187	-
Other services and charges	-	-	49,252
Depreciation	74,624	53,677	457,233
Miscellaneous	1,197	-	34,310
Total operating expenses	<u>242,166</u>	<u>1,516,122</u>	<u>1,682,681</u>
Operating income (loss)	<u>201,754</u>	<u>(79,378)</u>	<u>205,361</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	-	230	2,692
Interest expense	-	(3,556)	(94,594)
Total nonoperating revenue (expense)	<u>-</u>	<u>(3,326)</u>	<u>(91,902)</u>
Income (loss) before transfers and contributions	201,754	(82,704)	113,459
Capital contributions	-	47,000	-
Transfer in	90,122	-	-
Transfer out	(124,149)	-	-
Change in net position	<u>167,727</u>	<u>(35,704)</u>	<u>113,459</u>
Total net position - beginning	3,469,752	394,521	5,462,946
Total net position - ending	<u>\$ 3,637,479</u>	<u>\$ 358,817</u>	<u>\$ 5,576,405</u>

See accompanying notes to financial statements.

Water Utility	Nonmajor Enterprise Funds	Total Enterprise Funds
\$ 1,621,255	\$ 115,155	\$ 5,412,819
<u>72,121</u>	<u>27,756</u>	<u>192,174</u>
<u>1,693,376</u>	<u>142,911</u>	<u>5,604,993</u>
\$ 191,749	43,938	1,063,955
284,641	4,419	766,820
157,326	19,630	303,927
141,544	17,780	296,491
41,679	1,687	193,246
2,371	-	4,630
146,144	3,999	271,381
146,104	46,480	409,409
9,949	1,031	23,099
-	-	10,302
656	-	656
4,248	-	38,663
35,967	2,665	84,240
3,724	-	6,401
8,880	-	614,067
13,968	-	63,220
525,416	77,960	1,188,910
4,531	-	40,038
<u>1,718,897</u>	<u>219,589</u>	<u>5,379,455</u>
<u>(25,521)</u>	<u>(76,678)</u>	<u>225,538</u>
3,102	222	6,246
<u>(180,634)</u>	<u>(1,975)</u>	<u>(280,759)</u>
<u>(177,532)</u>	<u>(1,753)</u>	<u>(274,513)</u>
(203,053)	(78,431)	(48,975)
-	83,384	130,384
-	1,479,419	1,569,541
-	-	(124,149)
<u>(203,053)</u>	<u>1,484,372</u>	<u>1,526,801</u>
7,990,837	2,430,222	19,748,278
<u>\$ 7,787,784</u>	<u>\$ 3,914,594</u>	<u>\$ 21,275,079</u>

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2019

	Manistique Lakeshore Campground	Ambulance Service	Waste Water Utility
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 364,142	\$ 1,456,538	\$ 1,772,582
Payments to suppliers	(136,778)	(785,786)	(742,601)
Payments for wages and related benefits	(64,463)	(676,255)	(481,916)
Other receipts (payments)	19,262	40,430	68,655
Net cash provided (used) by operating activities	<u>182,163</u>	<u>34,927</u>	<u>616,720</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	(34,027)	-	-
Cash received (paid) on customer deposits	-	-	-
Net cash provided (used) by noncapital financing activities	<u>(34,027)</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(207,375)	(85,966)	(252,022)
Capital contributions	-	47,000	-
Principal paid on debt instruments	-	(13,720)	(93,000)
Interest paid on debt instruments	-	(3,556)	(95,052)
Net cash provided (used) by capital and related financing activities	<u>(207,375)</u>	<u>(56,242)</u>	<u>(440,074)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	-	230	2,692
Net increase (decrease) in cash and equivalents	(59,239)	(21,085)	179,338
Cash and equivalents, beginning of year	<u>274,374</u>	<u>65,175</u>	<u>619,321</u>
Cash and equivalents, end of year	<u>\$ 215,135</u>	<u>\$ 44,090</u>	<u>\$ 798,659</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 201,754	\$ (79,378)	\$ 205,361
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	74,624	53,677	457,233
(Gain)/loss of disposal of capital assets	-	306	-
Changes in assets and liabilities:			
(Increase) decrease in receivables	(154)	24,499	(99,028)
(Increase) decrease in due from other funds	-	-	-
(Increase) decrease in due from other governments	-	-	-
(Increase) decrease in inventory	-	-	-
(Increase) decrease in deferred outflows	-	-	(119,169)
Increase (decrease) in accounts payable	(33,808)	(396)	(29,962)
Increase (decrease) in accrued payroll & benefits	109	494	224,954
Increase (decrease) in unearned revenue	(60,362)	-	-
Increase (decrease) in due to other funds	-	35,725	325
Increase (decrease) in deferred inflows	-	-	(22,994)
Net cash provided by operating activities	<u>\$ 182,163</u>	<u>\$ 34,927</u>	<u>\$ 616,720</u>

See accompanying notes to financial statements.

Water Utility	Nonmajor Enterprise Funds	Total Enterprise Funds
\$ 1,584,860	\$ 113,552	\$ 5,291,674
(706,368)	36,497	(2,335,036)
(410,704)	(47,780)	(1,681,118)
72,446	27,756	228,549
<u>540,234</u>	<u>130,025</u>	<u>1,504,069</u>
-	1,479,419	1,445,392
2,290	-	2,290
<u>2,290</u>	<u>1,479,419</u>	<u>1,447,682</u>
(39,219)	(364,662)	(949,244)
-	83,384	130,384
(158,000)	(9,960)	(274,680)
(182,086)	(1,975)	(282,669)
<u>(379,305)</u>	<u>(293,213)</u>	<u>(1,376,209)</u>
3,101	222	6,245
166,320	1,316,453	1,581,787
<u>750,408</u>	<u>74,010</u>	<u>1,783,288</u>
<u>\$ 916,728</u>	<u>\$ 1,390,463</u>	<u>\$ 3,365,075</u>
\$ (25,521)	\$ (76,678)	\$ 225,538
525,416	77,960	1,188,910
-	-	306
(36,395)	(1,603)	(112,681)
-	-	-
-	-	-
-	-	-
(105,155)	-	(224,324)
10,723	129,769	76,326
189,420	577	415,554
-	-	(60,362)
325	-	36,375
(18,579)	-	(41,573)
<u>\$ 540,234</u>	<u>\$ 130,025</u>	<u>\$ 1,504,069</u>

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2019

	<u>Water Tower Trust Fund</u>
ASSETS	
Cash and cash equivalents	\$ <u>3,157</u>
LIABILITIES	
Due to other governmental units	\$ <u>3,157</u>

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) REPORTING ENTITY

The City of Manistique was incorporated under the provision of Act 279, P. A. 1909, as amended (Home Rule City Act) and operates under a Council-Manager form of government. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, utility services, recreation, public improvements, planning and zoning, and general administrative services.

The City's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body establishing governmental accounting and financial reporting principles. The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis*.

For financial reporting purposes, in conformance with GASB Statement 14, as amended by GASB Statement 39, the City's basic financial statements include the accounts of all City operations for which the City exercises oversight responsibility. In addition, State of Michigan, Department of Treasury pronouncements were considered in the determination process. The component units discussed below are included in the City's reporting entity because of the significance of their operational and financial relationships with the City.

Component Units – In conformity with U.S. generally accepted accounting principles, the financial statements of the component units have been included in the financial reporting entity as a blended component unit or as a discretely presented component unit.

Blended Component Unit – The City has one component unit in which the financial data has been blended with the primary government financial statement.

Downtown Development Authority – For financial reporting purposes the Downtown Development Authority is reported as if it were part of the City's operations because the City Council maintains budgetary control and its purpose is to promote and provide financial support to the downtown district.

Discretely Presented Component Units – The component unit columns include the financial data of the Manistique Housing Commission and the Manistique Senior Center, which are reported in separate columns to emphasize that they are legally separate from the City.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Manistique Housing Commission – The Housing Commission provides housing to low income and elderly citizens of the City of Manistique. The Housing Commission board is appointed by the City Council and therefore the Housing Commission is determined to be a component unit of the City of Manistique because of the control that the City can exercise over the Housing Commission activities. The Housing Commission has a fiscal year end of December 31, which differs from the City's. However, the year ends are treated consistently each year and there were no significant receivable or payable balances between the City and the Housing Commission at June 30, 2019. The Housing Commission issues its own separately audited financial statements, which may be obtained at:

Manistique Housing Commission
400 East Lake Shore Drive
Manistique, Michigan 49854

Manistique Senior Center – The Senior Center provides services and activities to the elderly citizens of the City of Manistique. The Senior Center board is appointed by the City Council and therefore the Senior Center is determined to be a component unit of the City of Manistique because of the control that the City can exercise over the Senior Center activities. The Senior Center has a fiscal year end of September 30, which differs from the City's. However, the year ends are treated consistently each year and there were no significant receivable or payable balances between the City and the Senior Center at June 30, 2019. Complete financial information may be obtained at:

Manistique Senior Center
101 Main Street
Manistique, Michigan 49854

The accounting policies of the City of Manistique conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

(2) BASIS OF PRESENTATION

Government-Wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the City as a whole. They include all funds of the City except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

Fund Financial Statements:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the City are considered major if it meets the following criteria:

- a. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The City reports the following as major governmental funds in accordance with the above criteria:

The General Fund which is described below.

The DDA Fund which is used to account for the support and improvement of the City's downtown district.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The City reports the following as major enterprise funds in accordance with the above criteria:

The Manistique Lakeshore Campground Fund accounts for the activity associated with the campground in the City of Manistique.

The Ambulance Service Fund accounts for ambulance services provided to the citizens of the City of Manistique.

The Waste Water Utility Fund accounts for waste water services provided to the citizens of the City of Manistique.

The Water Utility Fund accounts for water services provided to the citizens of the City of Manistique.

The funds of the City are described below:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Capital Projects Fund – Capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Permanent Fund – The Cemetery Perpetual Care Fund is the City’s only permanent fund. The principal portion of this fund must stay intact, but the interest earnings are used to provide care for the cemetery.

Proprietary Funds

Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Fiduciary Funds

Agency Funds - Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Water Tower Trust fund is used to account for assets held by the City in a trustee capacity or as an agent for individuals or other governments. The Tax Fund is used to account for the collections and payments of amounts received by the City in an agency capacity for governmental units assessing a property tax on property within the City limits. The City did not hold any assets in the Tax Fund as of June 30, 2019.

(3) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities as well as the proprietary fund financial statements are presented using the economic resource measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net position.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of cash flows. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

(4) ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS AND NET POSITION/FUND BALANCE

- a. Cash and Equivalents – The City’s cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Position are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable.
- c. Due to and Due From Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.
- d. Inventory – Materials inventory in the Waste Water and Water utility funds and supplies inventory in the General Fund are recorded at the lower of cost or market using the last-in first-out method of valuing inventory.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- e. Fixed Assets – The accounting and reporting treatment applied to property plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Prior to July 1, 2003, governmental funds' infrastructure assets, the major and local street systems, were not capitalized. These assets have been valued at estimated historical cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	15 – 50 years
Machinery and equipment	4 – 15 years
Infrastructure	20 – 50 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

- f. Restricted Assets – Restricted assets include cash and equivalents which have been restricted by statute, third party requirements or by contract.
- g. Long-Term Debt – The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and notes payable.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

- h. Compensated Absences – The City’s policies regarding vacation and sick time permits employees to accumulate earned but unused vacation and sick time. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred. For governmental activities, compensated absences are liquidated by the fund the employee’s regular payroll is charged to, and any claims or judgments are typically liquidated by the general fund.
- i. Unearned Revenues – In the government-wide statements and proprietary fund financial statements unearned revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements unearned revenue is recognized when revenue is unearned or unavailable. The City has reported unearned revenue of \$4,151 and \$667 in the General Fund and Landfill Construction Fund for personal property taxes. These amounts have been deemed measurable, but not currently available.
- j. Deferred Outflows of Resources – In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, 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 pension plan and OPEB items that qualify for reporting in this category.
- k. Deferred Inflows of Resources – In addition to liabilities, the statement of net position and/or 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/fund balance 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 pension plan and OPEB items that qualify for reporting in this category.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

1. Equity Classification

Government-Wide Statements

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
3. Unrestricted net position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Fund Statements

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 in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified inventories and cemetery perpetual care as being nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

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 classified donated projects as being restricted by contributors. Sanitary landfill, street system and downtown development have been restricted because their use is restricted by state statute. Capital projects are restricted by grantors or contributors for various capital projects within the City.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of 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 (ordinance or resolution) 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. The City did not have any committed resources as of June 30, 2019.

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 or through the City Council delegating this responsibility to the City manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has not assigned funds as of June 30, 2019.

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.

Proprietary fund equity is classified the same as in the government-wide statements.

(5) REVENUES AND EXPENDITURES/EXPENSES

Revenues

Government-Wide Statements

In the government-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues which do not meet the criteria of program revenues and include revenues such as property taxes, State revenue sharing payments, and interest earnings.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Fund Statements

In the governmental fund statements revenues are reported by source, such as federal sources, state sources and taxes. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the City's policy to use restricted resources first.

Expenses/Expenditures

Government-Wide Statements

In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements expenditures are classified by character; current, debt service and capital outlay.

In the proprietary fund financial statements expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Other Financing Sources (Uses)

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(6) OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Position, except for the residual amounts due between governmental and business-type activities.

Budgets and Budgetary Accounting

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

- a. Prior to the third Monday in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. The City will hold a public hearing on the proposed budget prior to its final adoption. City Council shall adopt, by resolution, a budget for the next fiscal year no later than the second regular meeting in May.
- c. Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles at the activity level. Budgeted amounts are as originally adopted, or as amended by the City Council in June. Individual amendments were material in relation to the original appropriations which were amended.
- d. Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control. Any unexpendable appropriations lapse at the end of the fiscal year.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Property Taxes

Property taxes levied attach as an enforceable lien on property. The City’s annual property tax on real and personal property within the City is levied on July 1, payable by September 15, and is based on the taxable valuation of the property on the preceding December 31. Unpaid property taxes become delinquent on March 1, and all delinquent real property taxes are purchased by the County Treasurer. The City bills and collects its own property taxes and also the taxes for the local School District, the Intermediate School District, and the County. City property tax revenues are recognized when levied to the extent that they result in current receivables. The City considers tax revenue to be available for property taxes if it is collected within 60 days of the fiscal year-end. The City did not have any significant tax abatements.

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – BUDGET NON-COMPLIANCE

Budget Violations – Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. The funds below had several activities where expenditures exceeded the budgeted amounts.

The following funds had expenditures that exceeded appropriations:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
General Fund			
Capital Outlay	\$ 69,119	\$ 71,652	\$ (2,533)
DDA Fund			
Economic development	200,487	206,403	(5,916)

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE C – CASH AND EQUIVALENTS

City

The composition of cash and equivalents as reported in the government-wide Statement of Net Position is presented below:

Imprest Cash		\$ 100
Deposits:		
Checking accounts	\$ 3,837,551	
Savings accounts	384,803	
Certificates of Deposit	<u>172,675</u>	<u>4,395,029</u>
Total cash and equivalents		<u><u>\$ 4,395,129</u></u>
Government-wide Statement of Net Position Presentation:		
Restricted	\$ 2,872,302	
Unrestricted	<u>1,519,670</u>	\$ 4,391,972
Statement of Fiduciary Net Position		<u>3,157</u>
Total cash and equivalents		<u><u>\$ 4,395,129</u></u>

State statutes authorize the City to deposit and invest in 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, deposit accounts, or depository receipts of a financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptance of United States banks.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE C – CASH AND EQUIVALENTS (continued)

- 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, title I of chapter 686, 54 sat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the 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 either 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 all times equal to at least 100% of the securities loaned.
 - iii. The limited ability to borrow and pledge a like portion of the portfolios' assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation of 1967, MCL 124.501 to 124.512.
- i. Investments pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, MCL 129.141 to 129.150.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

Interest Rate Risk – The City carries no significant interest rate risk as all of its holdings are in bank accounts with a high degree of liquidity.

Credit Risk – The City did not hold any deposits in investments that require credit risk disclosure.

Custodial Credit Risk–Deposits – Custodial credit risk is the risk that in the event of a bank failure the City's deposits may not be returned. At June 30, 2019 the City held \$4,469,143 in bank deposits. Of this amount \$4,017,595 was uninsured and uncollateralized.

Concentration of Credit Risk – The City has no significant concentration of credit risk due to the fact that all deposits are in local financial institutions.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE C – CASH AND EQUIVALENTS (continued)

Foreign Currency Risk – The City has no foreign currency risk as it has no deposits in foreign currency.

The City’s investment policy is silent in respect to the above risks, however, it does state that, “Safety of the principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio.”

Cash has been restricted within the listed funds as follows:

Governmental Activities:

General Fund:

PSO fantasy project	\$	2,880	
PSO donations		17,311	
Donations		212	
Landfill perpetual care		<u>8,669</u>	
Total General Fund	\$		29,072

Permanent Fund:

Cemetery Perpetual Care		<u>211,833</u>	
Total Governmental Activities	\$		<u><u>240,905</u></u>

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE C – CASH AND EQUIVALENTS (continued)

Business-Type Activities:	June 30, 2019	
	Required Balance	Actual Balance
Water Utility:		
2010 bond reserve, \$5,900 per quarter up to \$236,000	\$ 206,500	\$ 208,294
2010 bond and interest redemption, each quarter 1/4 of next principal and interest payment due	158,019	158,608
2010 Repair, Replacement & Improvement	258,125	260,387
2012 bond reserve, \$3,000 per quarter up to \$120,000	84,000	84,591
2012 bond and interest redemption, each quarter 1/4 of next principal and interest payment due	27,310	30,698
2016 bond reserve, \$450 per quarter up to \$18,000	5,400	5,424
2016 bond and interest redemption, each quarter 1/4 of next principal and interest payment due	3,614	3,728
2016 Repair, Replacement & Improvement	30,375	40,679
Waste Water Utility:		
2012 bond reserve, \$4,375 per quarter up to \$175,000	\$ 122,500	\$ 125,888
2012 bond and interest redemption, each quarter 1/4 of next principal and interest payment due	41,190	44,206
2012 Repair, Replacement & Improvement	280,000	281,996
2016 bond reserve, \$762.50 per quarter up to \$30,500	9,150	9,190
2016 bond and interest redemption, each quarter 1/4 of next principal and interest payment due	6,115	6,246
Marina:		
Loan proceeds-infrastructure	\$ -	\$ 1,327,790
Recreation Building:		
Donations	\$ -	\$ 43,672
Total Business-Type Activities	\$ 1,232,298	\$ 2,631,397

The 2010 water bonds and the 2012 and 2016 water and sewer infrastructure bonds require an operation and maintenance fund be maintained to pay the reasonable and necessary current expenses of administration and operating and maintaining the system for the ensuing quarter. The amount recorded as unrestricted cash represents the funds available for this purpose.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE D – ACCOUNTS RECEIVABLE

Business-Type Activities:

Ambulance Fund – The City has established a reserve for uncollectable accounts. The gross amount of the accounts receivable for the Ambulance Fund is \$220,115 and the allowance for uncollectable accounts was \$77,155, leaving a net accounts receivable of \$142,960.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE E – CAPITAL ASSETS

City

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Capital asset activity for the year ended June 30, 2019, was as follows:

	Balance at July 1, 2018	Additions	Transfers/ Disposals	Balance at June 30, 2019
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,598,733	\$ -	\$ -	\$ 1,598,733
Construction in progress	54,280	30,502	54,280	30,502
Total non-depreciable capital assets	<u>1,653,013</u>	<u>30,502</u>	<u>54,280</u>	<u>1,629,235</u>
Capital assets being depreciated:				
Land improvements	919,412	40,697	39,394	920,715
Buildings	1,006,138	16,000	-	1,022,138
Machinery and equipment	842,689	16,980	-	859,669
Vehicles	1,045,491	38,672	-	1,084,163
Infrastructure-road system	9,042,859	48,348	-	9,091,207
Total depreciable capital assets	<u>12,856,589</u>	<u>160,697</u>	<u>39,394</u>	<u>12,977,892</u>
Total capital assets	<u>14,509,602</u>	<u>191,199</u>	<u>93,674</u>	<u>14,607,127</u>
Less accumulated depreciation:				
Land improvements	207,737	20,937	-	228,674
Buildings	582,178	20,724	-	602,902
Machinery and equipment	553,543	40,468	-	594,011
Vehicles	693,723	53,108	-	746,831
Infrastructure-road system	6,012,955	134,542	-	6,147,497
Total accumulated depreciation	<u>8,050,136</u>	<u>269,779</u>	<u>-</u>	<u>8,319,915</u>
Net depreciable capital assets	<u>4,806,453</u>	<u>(109,082)</u>	<u>39,394</u>	<u>4,657,977</u>
Governmental activities capital assets, net	<u>\$ 6,459,466</u>	<u>\$ (78,580)</u>	<u>\$ 93,674</u>	<u>\$ 6,287,212</u>

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE E – CAPITAL ASSETS (continued)

	Balance at July 1, 2018	Additions	Transfers/ Disposals	Balance at June 30, 2019
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,139	\$ -	\$ -	\$ 2,139
Construction in progress	-	434,695	-	434,695
Total non-depreciable capital assets	<u>2,139</u>	<u>434,695</u>	<u>-</u>	<u>436,834</u>
Capital assets being depreciated:				
Land improvements	3,737,207	209,430	-	3,946,637
Buildings	1,348,611	9,678	-	1,358,289
Machinery and equipment	2,882,053	295,442	13,998	3,163,497
Infrastructure - other	1,796,343	-	-	1,796,343
Distribution/collection system	41,956,210	-	-	41,956,210
Total depreciable capital assets	<u>51,720,424</u>	<u>514,550</u>	<u>13,998</u>	<u>52,220,976</u>
Total capital assets	<u>51,722,563</u>	<u>949,245</u>	<u>13,998</u>	<u>52,657,810</u>
Less accumulated depreciation:				
Land improvements	162,965	76,847	-	239,812
Buildings	639,068	44,246	-	683,314
Machinery and equipment	1,636,234	178,503	13,692	1,801,045
Infrastructure - other	143,574	35,927	-	179,501
Distribution/collection system	15,632,744	853,387	-	16,486,131
Total accumulated depreciation	<u>18,214,585</u>	<u>1,188,910</u>	<u>13,692</u>	<u>19,389,803</u>
Net depreciable capital assets	<u>33,505,839</u>	<u>(674,360)</u>	<u>306</u>	<u>32,831,173</u>
Business-type activities capital assets, net	<u>\$ 33,507,978</u>	<u>\$ (239,665)</u>	<u>\$ 306</u>	<u>\$ 33,268,007</u>

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE E – CAPITAL ASSETS (continued)

Depreciation expense was charged to the governmental and business-type activities as follows:

Governmental activities:

General government	\$ 22,964
Public health and safety	32,161
Parks and recreation	28,820
General public works	61,823
Street system	118,725
Economic development	<u>5,286</u>
Total governmental activities	
depreciation expense	<u><u>\$ 269,779</u></u>

Business-type activities:

Marina	\$ 41,986
Ambulance	53,677
Recreation	35,974
Campground	74,624
Waste water utility	457,233
Water utility	<u>525,416</u>
Total business-type activities	
depreciation expense	<u><u>\$ 1,188,910</u></u>

The City adopted a capitalization policy that identifies fixed assets as those having a value of \$5,000 or more.

The City entered into a construction contract with Olsen & Olsen Building Contractors, Inc. to assist with various construction projects including the Manistique Marina renovation (phase II). As of June 30, 2019, the City had an outstanding construction contract with approximately \$2,286,000 remaining to be paid. The project was financed primarily with loans.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE E – CAPITAL ASSETS (continued)

Component Unit

	<u>Balance at January 1, 2018</u>	<u>Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance at December 31, 2018</u>
Manistique Housing Commission:				
Capital assets not being depreciated:				
Land	\$ 11,805	\$ -	\$ -	\$ 11,805
Construction in progress	3,340	3,335	6,675	-
Total non-depreciable capital assets	<u>15,145</u>	<u>3,335</u>	<u>6,675</u>	<u>11,805</u>
Capital assets being depreciated:				
Buildings and improvements	4,503,626	6,675	-	4,510,301
Furniture, equipment, & machinery - Dwelling	37,922	-	-	37,922
Furniture, equipment, & machinery - Administration	76,844	-	-	76,844
Total depreciable capital assets	<u>4,618,392</u>	<u>6,675</u>	<u>-</u>	<u>4,625,067</u>
Total capital assets	<u>4,633,537</u>	<u>10,010</u>	<u>6,675</u>	<u>4,636,872</u>
Less accumulated depreciation:				
Buildings and improvements	3,675,689	82,519	-	3,758,208
Furniture, equipment, & machinery - Dwelling	35,332	336	-	35,668
Furniture, equipment, & machinery - Administration	74,798	541	-	75,339
Total accumulated depreciation	<u>3,785,819</u>	<u>83,396</u>	<u>-</u>	<u>3,869,215</u>
Net depreciable capital assets	<u>832,573</u>	<u>(76,721)</u>	<u>-</u>	<u>755,852</u>
Component unit capital assets, net	<u>\$ 847,718</u>	<u>\$ (73,386)</u>	<u>\$ 6,675</u>	<u>\$ 767,657</u>

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE F – LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2019:

Type of Debt	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Amounts Due Within One Year
Governmental Activities:					
Direct Borrowings and Placements:					
Note - 2018 Ford Explorer	\$ -	\$ 18,605	\$ -	\$ 18,605	\$ 4,531
Note - 2013 loader	30,317	-	30,317	-	-
Other Debt:					
DDA bonds - 2009	195,743	-	195,743	-	-
DDA bonds - 2014 marina	955,000	-	70,000	885,000	75,000
DDA bonds - 2016A campground*	1,030,000	-	-	1,030,000	25,000
DDA bonds - 2016B campground*	1,060,000	-	-	1,060,000	-
DDA bonds - 2016C campground*	975,000	-	-	975,000	115,000
DDA bonds - 2016D campground*	250,000	-	-	250,000	5,000
DDA bonds - 2019 marina	-	1,500,000	-	1,500,000	20,000
Landfill bonds	690,000	-	155,000	535,000	165,000
Landfill postclosure cost	660,000	-	44,000	616,000	44,000
Bonus retirement**	45,643	2,158	-	47,801	-
Compensated absences**	186,690	17,083	-	203,773	61,132
Total governmental long-term debt	\$ 6,078,393	\$ 1,537,846	\$ 495,060	\$ 7,121,179	\$ 514,663
Business-type Activities:					
Direct Borrowings and Placements:					
Note - 2016 Ambulance	\$ 137,049	\$ -	\$ 13,719	\$ 123,330	\$ 14,068
Note - hockey boards	59,108	-	9,961	49,147	10,248
Bonds - 2012 waste water	4,120,000	-	82,000	4,038,000	84,000
Bonds - 2016 waste water	723,000	-	11,000	712,000	12,000
Bonds - 2010A water	3,158,000	-	61,000	3,097,000	62,000
Bonds - 2010B water	1,312,000	-	25,000	1,287,000	25,000
Bonds - 2010C water	597,000	-	11,000	586,000	12,000
Bonds - 2012 water	2,766,000	-	54,000	2,712,000	55,000
Bonds - 2016 water	433,000	-	7,000	426,000	7,000
Bonus retirement**	19,365	580	-	19,945	-
Compensated absences**	70,175	5,649	-	75,824	18,086
Total business-type long-term debt	\$ 13,394,697	\$ 6,229	\$ 274,680	\$ 13,126,246	\$ 299,402

** Change shown as a net amount

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE F – LONG-TERM DEBT (continued)

Debt service requirements on long-term debt at June 30, 2019 are as follows:

For the Year Ending June 30,	Governmental Activities			
	Direct Borrowings and Placements		Other Debt	
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2020	\$ 4,531	\$ 326	\$ 405,000	\$ 157,928
2021	4,610	246	285,000	143,861
2022	4,691	166	550,000	123,380
2023	4,773	84	245,000	119,433
2024	-	-	125,000	105,402
2025-2029	-	-	1,605,000	439,909
2030-2034	-	-	1,505,000	275,164
2035-2039	-	-	1,515,000	92,786
	<u>\$ 18,605</u>	<u>\$ 822</u>	<u>\$ 6,235,000</u>	<u>\$ 1,457,863</u>
For the Year Ending June 30,	Business-type Activities			
	Direct Borrowings and Placements		Direct Borrowings and Placements	
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2020	\$ 24,316	\$ 4,894	\$ 257,000	\$ 271,777
2021	25,030	4,179	263,000	264,558
2022	25,766	3,443	270,000	258,887
2023	26,524	4,371	278,000	254,865
2024	21,656	1,905	284,000	243,128
2025-2029	49,185	2,583	1,528,000	1,150,358
2030-2034	-	-	1,724,000	978,521
2035-2039	-	-	1,946,000	784,568
2040-2044	-	-	2,206,000	563,843
2045-2049	-	-	2,495,000	313,883
2050-2054	-	-	1,517,000	64,324
2055-2057	-	-	90,000	2,345
	<u>\$ 172,477</u>	<u>\$ 21,375</u>	<u>\$ 12,858,000</u>	<u>\$ 5,151,057</u>

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE F – LONG-TERM DEBT (continued)

Governmental Activities:

As of June 30, 2019, the governmental activities long-term debt consisted of the following:

Notes Payable:

During the year ended June 30, 2014, the City signed a 60 month note for the purchase of a front end loader. The note calls for five annual payments of \$31,195 and bears an interest rate of 2.9%.

During the year ended June 30, 2019, the City signed a 48 month note for the purchase of a Ford Explorer for public safety. The note calls for four annual payments of \$4,857 and bears an interest rate of 1.75%.

Bonds Payable:

Bonds were issued January 2019 in the name of the Downtown Development Authority for \$1,500,000 at an interest rate of 4.1% for the purpose of capital improvements for the City marina. The bonds have final maturity of December 2038.

Bonds were issued August 2013 in the name of the Downtown Development Authority for \$995,000 at an interest rate of 4.5% for the purpose of capital improvements for the City marina. On November 1, 2016, the balance of \$985,000 was reissued to adjust the interest rate to 3.08%. The bonds have final maturity of May 2029.

2016 Campground Bond Series A, B, C, & D – On August 1, 2016, bonds were issued in the name of the Downtown Development Authority for \$3,315,000 for the purpose of various public improvements at the campground. The bonds have final maturity of November 2037. The bonds were issued in series A, B, C, & D and in the amounts of \$1,030,000, \$1,060,000, \$975,000, and \$250,000, respectively. Series A requires annual payments in November 2019, 2021, 2024, 2027, 2030, 2033, and 2036. Series B requires annual payments in November 2022, 2025, 2028, 2031, 2034, and 2037. Series C requires annual payments in November 2020, 2023, 2026, 2029, 2032, and 2035. Series D requires annual payments beginning in November 2019. All series require semi-annual interest payments due each May 1 and November 1 and all bear an interest rate ranging from 1.10% to 3.55%. All four Series have a 20-year amortization period with a final payment due November 1, 2037.

Bonds were issued March 2002 for \$2,055,000 for the purpose of closing the City landfill. The City has issued a separate tax levy for the purpose of making the future debt payments. The bonds call for annual principal payments and semi-annual interest payments and bear an interest rate ranging from 4.25% to 5.05% and have a final maturity of May 2022.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE F – LONG-TERM DEBT (continued)

As part of closing the City's landfill, the Michigan Department of Environmental Quality (MDEQ) required the site to be monitored to ensure the site is compliant with the various environmental requirements of the MDEQ. Because of this requirement, the City had estimated the cost of the future monitoring to be \$20,000 per year for a period of 30 years beginning in the year 2003. In 2008 the City revised the estimate to \$44,000 per year, which is based on an average of the historical actual costs, which are expected to be consistent in future periods.

Business-type Activities:

As of June 30, 2019, the long-term debt of business-type activities consists of the following:

Notes Payable:

During the year ended June 30, 2017, the City signed a 120 month note for the purchase of an ambulance. The note calls for ten annual payments \$17,275 and bears an interest rate of 2.60%. Early redemption is not allowed until 8/26/2024.

During the year ended June 30, 2014, the City signed a 120 month note for the purchase of new hockey boards. The note calls for ten annual payments \$11,935 and bears an interest rate of 3.35%.

Bonds Payable:

2012 Wastewater System Bond - Waste water system revenue bond, original issue dated April 3, 2012 for \$4,575,000 with an interest rate of 2.0%. Principal amounts are due in varying annual installments each April 1st beginning in 2013 and ending in 2052. Interest payments are due semi-annually each October 1st and April 1st. The purpose of the bond was to pay part of the cost to acquire, construct, furnish and equip improvements to the City's existing wastewater and sewage disposal system and refinance the 1999 wastewater bonds.

2016 Wastewater System Bond - Waste water system revenue bond, original issue dated April 19, 2016 for \$745,000 with an interest rate of 1.75%. Principal amounts are due in varying annual installments each April 1st beginning in 2017 and ending in 2056. Interest payments are due semi-annually each October 1st and April 1st. The purpose of the bond was to pay part of the cost to acquire, construct, furnish and equip improvements to the City's existing wastewater and sewage disposal system.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE F – LONG-TERM DEBT (continued)

2010 Water System Bond Series A, B & C – On July 20, 2010 the City issued water system bonds for the purpose of making improvements to the water system and retiring the 1995 Water System Bonds. The bonds were issued in series A, B & C and in the amounts of \$3,534,000, \$1,466,000 and \$666,000, respectively. All series require annual principal payments due each July 1 and semi-annual interest payments due each January 1 and July 1 and all bear an interest rate of 2.375%. All three Series have a 40-year amortization period with a final payment due July 1, 2050.

2012 Water System Bond - Water system revenue bond, original issue dated April 3, 2012 for \$3,064,000 with an interest rate of 2.0%. Principal amounts are due in varying annual installments each April 1st beginning in 2013 and ending in 2052. Interest payments are due semi-annually each October 1st and April 1st. The purpose of the bond was to pay part of the cost to acquire, construct, furnish and equip improvements to the City's existing water supply system.

2016 Water System Bond - Water system revenue bond, original issue dated April 19, 2016 for \$446,000 with an interest rate of 1.75%. Principal amounts are due in varying annual installments each April 1st beginning in 2017 and ending in 2056. Interest payments are due semi-annually each October 1st and April 1st. The purpose of the bond was to pay part of the cost to acquire, construct, furnish and equip improvements to the City's existing water supply system.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE G – INTERFUND BALANCES AND TRANSFERS

Interfund receivables/payables represent temporary advances between funds for goods or services, or to cover short-term cash flow requirements. Individual fund interfund receivables and payable balances at June 30, 2019 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 111,544	DDA Fund	7,548
		Major Street Fund	6,747
		Local Street Fund	3,871
		Ambulance Fund	92,728
		Waste Water System	325
		Water System	325
	<u>\$ 111,544</u>		
Total	<u>\$ 111,544</u>	Total	<u>\$ 111,544</u>

Financial Statement Presentation:

Governmental Funds	111,544	Governmental Funds	18,166
Enterprise Funds	<u>-</u>	Enterprise Funds	<u>93,378</u>
	<u>\$ 111,544</u>		<u>\$ 111,544</u>

Interfund transfers for the year ended June 30, 2019 were as follows:

		<u>TRANSFERS IN</u>					
		<u>General</u>	<u>DDA Fund</u>	<u>Campground Fund</u>	<u>Nonmajor Govern.</u>	<u>Nonmajor Enterprise</u>	<u>Total</u>
TRANSFERS (OUT)	General	\$ -	\$ 2,600	\$ -	\$ 1,302	\$ 54,000	\$ 57,902
	DDA Fund	-	-	76,314	-	1,423,686	1,500,000
	Campground Fund	13,349	110,800	-	-	-	124,149
	Nonmajor Govern.	-	-	13,808	25,000	1,733	40,541
	Total	<u>\$ 13,349</u>	<u>\$ 113,400</u>	<u>\$ 90,122</u>	<u>\$ 26,302</u>	<u>\$ 1,479,419</u>	<u>\$ 1,722,592</u>

The primary purpose of interfund transfers were for the reallocation of ACT 51 funds between Local and Major Street funds, an operating appropriation from the General Fund to the DDA Fund, Ballfield Fund, Recreation fund, and Marina Fund, an operating appropriation from the DDA Fund to the Campground Fund and a capital appropriation from the DDA Fund to the Marina Fund, an operating transfer from the Campground Fund to the General Fund and an appropriation for debt service from the Campground Fund to the DDA Fund, and an operating appropriation from the Boat Launch Fund to the Campground Fund.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE H – RETIREMENT PLANS

City

MUNICIPAL EMPLOYEE’S RETIREMENT SYSTEM

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 multiplies by the sum of 2.5% times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2018.

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.

	Divisions - For the 2018 Valuation			
	01-General Open	02-Plc/Fire Open	10-General after 1/1/04 Closed	20-Admin Open
Benefit Multiplier:	2.5%-80% max	2.5%-80% max	2.5%-80% max	2.5%-80% max
Normal Retirement Age:	60	60	60	60
Vesting:	10 years	10 years	10 years	10 years
Early Retirement (unreduced):	50/25	50/25	50/25	50/25
Early Retirement (reduced):	55/15	55/15	55/15	55/15
Final Average Compensation:	5 years	5 years	5 years	3 years
COLA for Future Retirees:	2.50%	2.50%	2.50%	2.50%
Employee Contributions:	0%	0%	3%	0%
Act 88:	No	No	No	No

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE H – RETIREMENT PLANS (continued)

Employees Covered by Benefit Terms

At the December 31, 2018 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	34
Inactive employees entitled to but not yet receiving benefits	3
Active employees	<u>25</u>
	62

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.

The contribution rate as a percentage of payroll at June 30, 2019 is as follows:

01 – General	66.10%
02 – Police/Fire	31.78%
10 – General after 01/01/04	0.00%
20 – Administration	52.09%

Net Pension Liability

The City’s net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.75 percent in the long-term
Investment rate of return	7.75 percent, net of investment and administrative expense including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.50% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE H – RETIREMENT PLANS (continued)

Mortality rates used were based on a blend of the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%; RP-2014 Employee Mortality Tables; and RP-2014 Juvenile Mortality Tables all with a 50 percent male and 50 percent female blend. For disabled retirees, the RP-2014 Disabled Retiree Mortality Tables with a 50 percent male and 50 percent female blend is used to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study covering the period from January 1, 2009, through December 31, 2013.

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

Asset Class	Target Allocation	Target Allocation Gross Rate of Return	Long-Term Expected Real Rate of Return
Global Equity	55.5%	8.65%	3.41%
Global Fixed Income	18.5%	3.76%	0.23%
Real Assets	13.5%	9.72%	0.97%
Diversifying Strategies	12.5%	7.50%	0.63%

Discount Rate. The discount rate used to measure the total pension liability is 8.00% for 2018. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE H – RETIREMENT PLANS (continued)

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2017	\$ 14,924,116	\$ 7,181,034	\$ 7,743,082
Service cost	205,188	-	205,188
Interest on total pension liability	1,165,488	-	1,165,488
Changes in benefits	-	-	-
Difference between expected and actual experience	117,295	-	117,295
Changes in assumptions	-	-	-
Employer contributions	-	679,013	(679,013)
Employee contributions	-	-	-
Net investment income	-	(274,427)	274,427
Benefit payments, including employee refunds	(916,218)	(916,218)	-
Administrative expense	-	(13,729)	13,729
Other changes	(1)	-	(1)
Net changes	571,752	(525,361)	1,097,113
Balances as of December 31, 2018	\$ 15,495,868	\$ 6,655,673	\$ 8,840,195

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 8.00% , 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 (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net pension liability at 12/31/18	\$8,840,195	\$8,840,195	\$8,840,195
City’s change in net pension liability at 12/31/18	\$1,798,632	\$-	(\$1,508,087)
	\$10,638,827	\$8,840,195	\$7,332,108

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE H – RETIREMENT PLANS (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 June 30, 2019, the City recognized pension expense of \$1,179,457. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 87,971	\$ 40,418
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	794,080	285,935
Contributions subsequent to the measurement date *	<u>363,521</u>	<u>-</u>
Total	<u>\$ 1,245,572</u>	<u>\$ 326,353</u>

* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending June 30, 2020.

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

<u>Year Ended:</u>	
2019	\$ 190,030
2020	68,690
2021	129,205
2022	167,773

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE H – RETIREMENT PLANS (continued)

Component Unit

The Manistique Housing Commission participates in a SEP-IRA Deferred Compensated Pension Plan covering all employees that have completed 3 years of service. At December 31, 2018, there were 3 plan members. The employer's contribution percentage is 10% of eligible wages which is determine on an annual basis and can be amended by the Board of Commissioners. Upon separation, accrued funds remain the property of that individual. During the year, the Housing Commission contributed a total of \$13,207 to the Plan.

NOTE I – VESTED EMPLOYEE BENEFITS

Compensated Absences - Substantially all City employees are entitled to certain vacation, sick pay benefits, and compensation time that accrue and vest based on various union and employment agreements. Vacation pay is not subject to accumulations beyond a one-year period. Sick pay accumulations are limited based upon various criteria. Compensated absences in the amount of \$203,773 are reported under governmental activities and \$75,825 is reported under business-type activities in the Statement of Net Position.

Bonus Retirement – Substantially all full-time City employees are entitled to a retirement bonus of 10% of their annual salary at retirement. Employees who meet the retirement system vesting requirements are eligible to receive the bonus retirement payment. As of June 30, 2019, \$47,801 is reported under governmental activities and \$19,945 is reported under business-type activities.

NOTE J – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

Plan Description - The City provides its employees with post retirement health benefits through a single-employer plan. These benefits were negotiated through union contracts for the AFSCME, P.O.L.C. and Teamsters union contracts and approved separately for the non-union employees. Any employee hired by the City after January 1, 2007 is not eligible for post retirement health benefits.

For the year ended June 30, 2019 the City has not established a Trust to fund the OPEB obligation. The City's funding policy is to pay all premiums as they come due on a pay-as-you-go basis. Management of the Plan is vested with the City Council.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE J – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (continued)

Benefits Provided - The City pays health insurance premiums for employees who retire under the terms of employment contracts or City policy, until the retiree reaches age 65 or becomes eligible for Medicare. The City will pay for both the retiree and the spouse of the retiree (subject to specific limits per the contracts for spouses) for employees hired prior to the following dates: AFSCME – January 1, 1998; P.O.L.C. – January 1, 1995; Teamsters and non-union – August 1, 1998. Employees hired after the dates in the preceding sentence and before January 1, 2007 are eligible for employee coverage only, subject to the age and Medicare limits noted above.

City retirees from all groups will receive the health insurance coverage as received by active employees at that time, with the total cost of the single person coverage being paid by the City.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

Date of member count	June 30, 2018
Inactive plan members receiving benefits	17
Active plan members	<u>11</u>
Total members covered by the plan	<u><u>28</u></u>

Contributions - The Plan was established and is being funded under the authority of the City Council. Retiree healthcare costs are paid by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. In the current year, the City paid post employment healthcare premiums of \$139,416. There are no long-term contracts for contributions to the Plan. The Plan has no legally required reserves.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE J – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (continued)

Net OPEB Liability

	Increases (Decreases)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balances at June 30, 2018	\$ 1,998,022	\$ 2,494	\$ 1,995,528
Service cost	68,936	-	68,936
Interest on total OPEB liability	70,104	-	70,104
Changes in benefits	-	-	-
Difference between expected and actual experience	(11,714)	-	(11,714)
Changes in assumptions	320,290	-	320,290
Contributions-employer	-	139,416	(139,416)
Net investment income	-	119	(119)
Benefit payments, including employee refunds	(139,416)	(139,416)	-
Administrative expense	-	(19)	19
Net changes	308,200	100	308,100
Balances as of June 30, 2019	\$ 2,306,222	\$ 2,594	\$ 2,303,628

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year end June 30, 2019 the City recognized OPEB expenses of \$192,290. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 9,687
Changes in assumptions	264,877	-
Net difference between projected and actual earnings on OPEB plan investments	-	12
Total	\$ 264,877	\$ 9,699

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE J – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows. Employer contributions subsequent to the measurement date will reduce the net OPEB liability and, therefore, will not be included in future OPEB expense.

<u>Year Ended:</u>		
2020	\$	53,380
2021		53,380
2022		53,380
2023		53,392
2024		41,646

Actuarial Assumptions - The total OPEB liability was determined by an actuarial valuation as of June 30, 2018 and rolled forward to June 30, 2019. The City's OPEB liability was measured as of June 30, 2019. The valuation used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	Included in investment rate of return
Healthcare cost trend rate	Pre-Medicare: 8.5% graded down to 4.5% by 0.25% per year Post-Medicare: 7.0% graded down to 4.5% by 0.25% per year
Salary increases	3.50%
Investment rate of return	7.08% Including inflation

Mortality rates for Non-Public Safety were based on public general headcount-weighted 2010 employee and healthy retiree MP-2018 with no pre-retirement mortality. Mortality rates for Public Safety were based on public safety headcount-weighted 2010 employee and healthy retiree MP-2018 with no pre-retirement mortality.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2019 are summarized in the following table:

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE J – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (continued)

Asset Class	Target Allocation	Long-Term Expected Rate of Return*
Global Equity	64.7%	8.00%
Global Fixed Income	29.1%	5.50%
Real Assets	3.9%	6.20%
Diversifying Strategies	2.3%	2.75%

The sum of each target allocation times its long-term expected rate, including inflation, is 7.08%

Discount Rate

The discount rate used to measure the total OPEB liability was 2.79 percent, depending on the plan option. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that City contributions will be made at statutorily required rates.

Based on those assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate incorporates a municipal bond rate. The source of that bond rate was a 20-year AA/Aa tax-exempt municipal bond yield.

Investment Rate of Return - The long-term expected rate of return on OPEB plan investments was determined based on the nature and mix of current and expected plan investments and over the time period from when an employee is hired to when all benefits to the employee have been paid.

Sensitivity of the net OPEB liability to changes in the discount rate - The following presents the net OPEB liability of the City, calculated using the discount rate of 8.00%, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.79%) or 1-percentage-point higher (3.79%) than the current rate:

	1% Decrease (1.79%)	Current Discount Rate (2.79%)	1% Increase (3.79%)
Net OPEB liability at 6/30/19	\$2,303,628	\$2,303,628	\$2,303,628
City's change in net OPEB liability at 6/30/19	\$204,299	\$-	(\$183,830)
	<hr/> \$2,507,927	<hr/> \$2,303,628	<hr/> \$2,119,798

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE J – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (continued)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate - The following presents the net OPEB liability of the City, calculated using the healthcare cost trend rate of 8.50%/7.00%, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.50%/6.00%) or 1-percentage-point higher (9.50%/8.00%) than the current rate:

	1% Decrease (7.50%/6.00%)	Current Healthcare Cost Trend Rate (8.50%/7.00%)	1% Increase (9.50%/8.00%)
Net OPEB liability at 6/30/19	\$2,303,628	\$2,303,628	\$2,303,628
City's change in net OPEB liability at 6/30/19	(\$231,373)	\$-	\$270,665
	<u>\$2,072,255</u>	<u>\$2,303,628</u>	<u>\$2,574,293</u>

Investment Policy - The Plan's policy in regard to the allocation of invested assets is established and may be amended by the City Council.

Rate of Return - For the year ended June 30, 2019, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 7.08 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTE K – RESTRICTED NET POSITION

Net position restricted by enabling legislation amounted to \$559,607, which represents the sanitary landfill, street system, downtown development and other projects as listed in the statement of net position.

NOTE L – RISK MANAGEMENT

The City is exposed to various risks of loss to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE M – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The City of Manistique, as licensee, previously operated a landfill on land owned by the State of Michigan. State and federal laws and regulations require that a final cover be placed on the landfill and that certain maintenance and monitoring functions be performed at the landfill site for thirty years after closure.

During the year ended June 30, 2002, the City issued bonds in the amount of \$2,055,000 for the purpose of paying a portion of the cost of the landfill closure and acquiring and installing equipment for ongoing landfill monitoring and related structures and equipment necessary to comply with Michigan Department of Environmental Quality and court ordered requirements.

The City originally recognized a liability in the amount of \$600,000 in the financial statements for estimated postclosure monitoring costs. These costs were based on an estimated amount of \$20,000 per year for 30 years. In 2008, the City revised the estimate based upon the average of the past couple of years actual monitoring costs, which amounted to \$44,000 per year and required a change in accounting estimate going forward of an additional \$624,000 of liability and expense being recorded in 2008. With 15 years of monitoring remaining, the liability recorded for post closure monitoring is \$616,000 as of June 30, 2019. These estimates could change in the future based upon changes in state and federal laws and regulations, inflation or deflation and technology. Since December 1996, three mills are levied annually for landfill closure and postclosure care costs. Proceeds from this levy will be used to cover the bond payment and future maintenance and monitoring expenses.

NOTE N – CONTINGENT LIABILITIES

The City has received financial assistance from federal and state agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements or on the overall financial position of the City as of June 30, 2019.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE O – CONCENTRATIONS

City

Tax revenue collected by the Downtown Development Authority from UP Paper, LLC/Zellar MPI Real Estate represents approximately 6% of the total tax revenue collected by the Downtown Development Authority on an annual basis.

Component Unit

The Manistique Housing Commission is dependent upon HUD to fund its operations through operating subsidies and capital funding grants. Total revenue received from HUD for 2018 was \$322,068 or 54% of revenue.

NOTE P – SINGLE AUDIT

Uniform Guidance requires entities that expend more than \$750,000 in federal awards to have a single audit. For the year ended June 30, 2019, the City did not expend more than \$750,000 in federal awards and therefore a single audit was not required in 2019.

NOTE Q – FUTURE CHANGES IN ACCOUNTING PRINCIPLE

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2019-2020 fiscal year.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2020-2021 fiscal year.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE R – TAX ABATEMENTS

For the year end June 30, 2019, the City did not have material tax abatements.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF MANISTIQUE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
Federal sources	\$ -	\$ 40,605	\$ 22,000	\$ (18,605)
State sources	380,170	386,481	407,271	20,790
Local sources	48,802	64,985	68,463	3,478
Taxes	835,108	842,963	855,772	12,809
Charges for services	703,396	749,714	687,974	(61,740)
Equipment rental	175,000	266,274	276,694	10,420
Interest income	4,500	4,500	2,835	(1,665)
Miscellaneous	88,492	150,215	122,421	(27,794)
Total revenues	<u>\$ 2,235,468</u>	<u>\$ 2,505,737</u>	<u>\$ 2,443,430</u>	<u>\$ (62,307)</u>
EXPENDITURES:				
General government:				
City council	\$ 14,468	\$ 15,428	\$ 13,883	\$ 1,545
Community promotion	18,995	25,545	28,273	(2,728)
City manager	137,571	146,326	142,303	4,023
General administration	26,000	23,600	23,328	272
Office assistant	39,000	39,416	39,536	(120)
Elections	8,280	8,917	6,211	2,706
City assessor	58,800	61,600	59,376	2,224
City attorney	35,300	44,800	43,587	1,213
City clerk	87,385	88,920	91,667	(2,747)
Board of review	700	700	42	658
City treasurer	60,919	61,615	74,139	(12,524)
Building and grounds	60,535	60,035	59,814	221
Cemeteries	69,425	74,200	65,604	8,596
Planning	4,319	1,819	619	1,200
Public health and safety:				
Public safety	939,592	1,012,184	1,002,091	10,093
Parks and recreation:				
Parks	24,500	29,900	25,459	4,441
Recreation	11,175	11,243	1,433	9,810
West side boat launch	19,500	19,500	12,004	7,496
General public works:				
Department of public works	385,700	442,216	421,754	20,462
Street lighting	14,000	14,000	13,308	692
Capital outlay	21,500	69,119	71,652	(2,533)
Debt service	31,195	31,196	31,196	-
Other	143,000	162,950	157,705	5,245
Total expenditures	<u>2,211,859</u>	<u>2,445,229</u>	<u>2,384,984</u>	<u>60,245</u>
Excess revenues (expenditures)	23,609	60,508	58,446	(2,062)
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	-	18,605	(18,605)
Transfer in	-	-	13,349	(13,349)
Transfer out	(22,500)	(60,035)	(57,902)	2,133
Net changes in fund balances	1,109	473	32,498	(31,883)
Fund balances - beginning	<u>373,931</u>	<u>373,931</u>	<u>373,931</u>	<u>-</u>
Fund balances - ending	<u>\$ 375,040</u>	<u>\$ 374,404</u>	<u>\$ 406,429</u>	<u>\$ (31,883)</u>

CITY OF MANISTIQUE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DDA FUND
For the Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
State sources	\$ 201,021	\$ 184,937	\$ 184,937	\$ -
Taxes	311,330	315,562	315,562	-
Interest income	300	300	247	(53)
Miscellaneous	-	2,000	-	(2,000)
Total revenues	<u>512,651</u>	<u>502,799</u>	<u>500,746</u>	<u>(2,053)</u>
EXPENDITURES:				
Economic development	212,750	200,487	206,403	(5,916)
Debt service	389,899	412,791	412,791	-
Total expenditures	<u>602,649</u>	<u>613,278</u>	<u>619,194</u>	<u>(5,916)</u>
Excess revenues (expenditures)	<u>(89,998)</u>	<u>(110,479)</u>	<u>(118,448)</u>	<u>(7,969)</u>
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	-	1,500,000	1,500,000
Transfer in	90,000	113,000	113,400	400
Transfer out	-	-	(1,500,000)	(1,500,000)
Net changes in fund balances	2	2,521	(5,048)	(7,569)
Fund balances - beginning	<u>5,097</u>	<u>5,097</u>	<u>5,097</u>	<u>-</u>
Fund balances - ending	<u>\$ 5,099</u>	<u>\$ 7,618</u>	<u>\$ 49</u>	<u>\$ (7,569)</u>

CITY OF MANISTIQUE, MICHIGAN
EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS
SCHEDULE OF NET PENSION LIABILITY AND RELATED RATIOS
For the Year Ended June 30, 2019
(Schedule is prepared prospectively upon implementation of GASB 68)

	2014	2015	2016	2017	2018
Total pension liability					
Service cost	\$ 185,492	\$ 187,355	\$ 191,094	\$ 200,731	\$ 205,188
Interest	1,003,393	1,043,598	1,097,622	1,135,461	1,165,488
Difference between expected and actual experience	-	(133,638)	(6,573)	(77,550)	117,295
Change in assumptions	-	719,280	-	-	-
Benefit payments, including refund of member contributions	(700,200)	(722,592)	(773,121)	(854,844)	(916,218)
Other	8,911	1	2	-	(1)
Net change in total pension liability	497,596	1,094,004	509,024	403,798	571,752
Total pension liability - beginning	12,419,694	12,917,290	14,011,294	14,520,318	14,924,116
Total pension liability - ending	<u>\$ 12,917,290</u>	<u>\$ 14,011,294</u>	<u>\$ 14,520,318</u>	<u>\$ 14,924,116</u>	<u>\$ 15,495,868</u>
Plan fiduciary net position					
Contributions - employer	\$ 540,668	\$ 573,211	\$ 570,404	\$ 599,042	\$ 679,013
Contributions - employee	2,973	-	-	-	-
Net investment income	386,397	(95,138)	686,875	856,226	(274,427)
Benefit payments, including refunds of member contributions	(700,200)	(722,592)	(773,121)	(854,844)	(916,218)
Administrative expense	(14,170)	(13,897)	(13,569)	(13,573)	(13,729)
Net change in plan fiduciary net position	215,668	(258,416)	470,589	586,851	(525,361)
Plan fiduciary net position - beginning	6,166,342	6,382,010	6,123,594	6,594,183	7,181,034
Plan fiduciary net position - ending	<u>\$ 6,382,010</u>	<u>\$ 6,123,594</u>	<u>\$ 6,594,183</u>	<u>\$ 7,181,034</u>	<u>\$ 6,655,673</u>
City's net pension liability - ending	<u>\$ 6,535,280</u>	<u>\$ 7,887,700</u>	<u>\$ 7,926,135</u>	<u>\$ 7,743,082</u>	<u>\$ 8,840,195</u>
Plan fiduciary net position as a percentage of the total pension liability	49%	44%	45%	48%	43%
Covered - employee payroll	\$ 1,342,557	\$ 1,347,736	\$ 1,330,108	\$ 1,416,841	\$ 1,446,839
City's net pension liability as a percentage of covered-employee payroll	487%	585%	596%	547%	611%
Annual money-weighted rate of return, net of investment expense	6%	-2%	11%	13%	-4%

Notes to schedule:

Above dates are based on measurement date, which may not necessarily tie to the fiscal year.

**CITY OF MANISTIQUE, MICHIGAN
EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
For the Year Ended June 30, 2019
(Schedule is prepared prospectively upon implementation of GASB 68)**

	2015	2016	2017	2018	2019
Actuarially determined contribution	\$ 572,270	\$ 546,974	\$ 579,919	\$ 631,460	\$ 735,313
Contributions in relation to the actuarially determined contribution	572,270	546,974	579,919	631,460	735,313
Contribution deficiency (excess)	<u>\$ -</u>				
Covered - employee payroll	\$ 1,342,557	\$ 1,347,736	\$ 1,330,108	\$ 1,416,841	\$ 1,446,839
Contributions as a percentage of covered-employee payroll	43%	41%	44%	45%	51%

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	21 years
Asset valuation method	5-years smoothed market
Inflation	2.50%
Salary increases	3.75%, average, including inflation
Investment rate of return	7.75%
Retirement age	50-55 years of age depending on years of credited service
Mortality	50% Female/50% Male blend of RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%; RP-2014 Employee Mortality Tables; and RP-2014 Mortality Tables

Above dates are based on fiscal year, not necessarily the measurement date

CITY OF MANISTIQUE, MICHIGAN
EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS
SCHEDULE OF NET OPEB LIABILITY AND RELATED RATIOS
For the Year Ended June 30, 2019
(Schedule is prepared prospectively upon implementation of GASB 75)

	2018	2019
Total OPEB liability		
Service cost	\$ 66,598	\$ 68,936
Interest	70,019	70,104
Difference between expected and actual experience	-	(11,714)
Change in assumptions	-	320,290
Benefit payments, including refund of member contributions	(133,640)	(139,416)
Other	-	-
	2,977	308,200
Net change in total OPEB liability		
	2,977	308,200
Total OPEB liability - beginning	1,995,045	1,998,022
Total OPEB liability - ending	\$ 1,998,022	\$ 2,306,222
Plan fiduciary net position		
Contributions to OPEB Trust	\$ -	\$ -
Contributions/benefit paid from general operating funds	133,640	139,416
Net investment income	198	119
Benefit payments, including refunds of member contributions	(133,640)	(139,416)
Administrative expense	(12)	(18)
	186	101
Net change in plan fiduciary net position		
	186	101
Plan fiduciary net position - beginning	2,307	2,493
Plan fiduciary net position - ending	\$ 2,493	\$ 2,594
City's net OPEB liability - ending	\$ 1,995,529	\$ 2,303,628
Plan fiduciary net position as a percentage of the total OPEB liability	0.1%	0.1%
Covered - employee payroll	\$ 776,907	\$ 724,386
City's net OPEB liability as a percentage of covered-employee payroll	256.9%	318%
Annual money-weighted rate of return, net of investment expense	8%	4%

**CITY OF MANISTIQUE, MICHIGAN
EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS
SCHEDULE OF OPEB CONTRIBUTIONS
For the Year Ended June 30, 2019
(Schedule is prepared prospectively upon implementation of GASB 75)**

	2018	2019
Actuarially determined contribution	\$ 261,118	\$ 311,422
Contributions in relation to the actuarially determined contribution	133,640	139,416
Contribution deficiency (excess)	\$ 127,478	\$ 172,006
Covered - employee payroll	\$ 776,907	\$ 724,386
Contributions as a percentage of covered-employee payroll	34%	43%

Notes to Schedule:

Actuarially determined contribution rates are calculated as of June 30th, at 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
Asset valuation method	Market Value
Salary increases	3.50%
Investment rate of return	2.79%
Return on plan assets	6.00%
Mortality	Non-public safety: public general headcount-weighted 2010 employee and healthy retiree with MP-2018, no preretirement mortality; Public safety: public safety headcount-weighted 2010 employee and healthy retiree with MP-2018, no preretirement mortality.
Utilization	100% of covered employees at the valuation date will elect the same coverage at retirement; actual coverage used for non-active
Medical Trend	Medical premiums: Pre-Medicare, 8.5% graded down to 4.5% by 0.25% per year; Post-Medicare, 7.0% graded down to 4.5% by 0.25% per year
Assumption changes since prior valuation	<ol style="list-style-type: none"> 1) Mortality table changed from RPH-2014 adjusted to 2006 Total Data Set with MP-2017 no pre-retirement mortality to the Public General Headcount-weighted 2010 Employee and Healthy Retiree and Public Safety Headcount-weighted 2010 Employee and Health Retiree, both with MP-2018, no pre-retirement mortality. 2) Medical inflation trend rates changed from 8.00% grade down to 5.00% over six years to rates prescribed by PA 202 3) Salary scale changed from 3.0% to 3.5% 4) Discount rate changed from 3.51% to 2.79%

COMBINING FUND FINANCIAL STATEMENTS

**CITY OF MANISTIQUE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2019**

Special Revenue

	Major Street	Local Street	Farmers Market Grant	Marketing
ASSETS				
Cash and equivalents:				
Restricted	\$ -	\$ -	\$ -	\$ -
Unrestricted	159,714	114,991	-	1,101
Receivables:				
Accounts	-	-	-	-
Delinquent taxes	-	-	-	-
Due from other funds	-	-	-	-
Due from other governmental units	49,034	18,458	-	-
	<u>208,748</u>	<u>133,449</u>	<u>-</u>	<u>1,101</u>
Total assets	<u>\$ 208,748</u>	<u>\$ 133,449</u>	<u>\$ -</u>	<u>\$ 1,101</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 11,236	\$ 582	\$ -	\$ -
Accrued payroll	97	137	-	-
Due to other funds	6,747	3,871	-	-
Unearned revenue	-	-	-	-
	<u>18,080</u>	<u>4,590</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>18,080</u>	<u>4,590</u>	<u>-</u>	<u>-</u>
Fund balances:				
Nonspendable:				
Cemetery perpetual care	-	-	-	-
Restricted for:				
Sanitary landfill	-	-	-	-
Street system	190,668	128,859	-	-
Capital projects	-	-	-	-
Special projects	-	-	-	1,101
Unassigned	-	-	-	-
	<u>190,668</u>	<u>128,859</u>	<u>-</u>	<u>1,101</u>
Total fund balances	<u>190,668</u>	<u>128,859</u>	<u>-</u>	<u>1,101</u>
Total liabilities and fund balances	<u>\$ 208,748</u>	<u>\$ 133,449</u>	<u>\$ -</u>	<u>\$ 1,101</u>

See accompanying notes to financial statements.

Special Revenue				Capital Project Funds	
Blight & Beautification	Triangle Park	Folk Fest	Ballfield Grant	GLFT Fishing Pier	Westside Boat Launch Waterway
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15,318	326	18,721	-	4,379	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 15,318</u>	<u>\$ 326</u>	<u>\$ 18,721</u>	<u>\$ -</u>	<u>\$ 4,379</u>	<u>\$ -</u>
\$ -	\$ -	\$ 1,200	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	1,200	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	4,379	-
15,318	326	17,521	-	-	-
-	-	-	-	-	-
<u>15,318</u>	<u>326</u>	<u>17,521</u>	<u>-</u>	<u>4,379</u>	<u>-</u>
<u>\$ 15,318</u>	<u>\$ 326</u>	<u>\$ 18,721</u>	<u>\$ -</u>	<u>\$ 4,379</u>	<u>\$ -</u>

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (continued)
June 30, 2019

	Capital Project Funds	Permanent Fund	
	Landfill Construction	Cemetery Perpetual Care	Total Nonmajor Governmental Funds
ASSETS			
Cash and equivalents:			
Restricted	\$ -	\$ 211,833	\$ 211,833
Unrestricted	195,868	-	510,418
Receivables:			
Accounts	-	600	600
Delinquent taxes	667	-	667
Due from other funds	-	-	-
Due from other governmental units	-	-	67,492
	<u>\$ 196,535</u>	<u>\$ 212,433</u>	<u>\$ 791,010</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 6,249	\$ -	\$ 19,267
Accrued payroll	-	-	234
Due to other funds	-	-	10,618
Unearned revenue	667	-	667
	<u>6,916</u>	<u>-</u>	<u>30,786</u>
Fund balances:			
Nonspendable:			
Cemetery perpetual care	-	212,433	212,433
Restricted for:			
Sanitary landfill	189,619	-	189,619
Street system	-	-	319,527
Capital projects	-	-	4,379
Special projects	-	-	34,266
Unassigned	-	-	-
	<u>189,619</u>	<u>212,433</u>	<u>760,224</u>
Total liabilities and fund balances	<u>\$ 196,535</u>	<u>\$ 212,433</u>	<u>\$ 791,010</u>

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019

	Special Revenue			
	Major Street	Local Street	Farmers Market Grant	Marketing
REVENUES:				
Federal sources	\$ -	\$ -	\$ -	\$ -
State sources	441,636	160,641	-	-
Local sources	-	-	-	-
Taxes	-	-	-	-
Charges for service	-	-	-	-
Interest income	954	475	-	-
Miscellaneous	-	-	-	-
Total revenues	442,590	161,116	-	-
EXPENDITURES:				
General government	-	-	-	-
Parks and recreation	-	-	-	-
Street system	433,846	176,989	-	-
Economic development	-	-	1,125	-
Sanitary landfill	-	-	-	-
Capital outlay	30,502	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	464,348	176,989	1,125	-
Excess revenues (expenditures)	(21,758)	(15,873)	(1,125)	-
OTHER FINANCING SOURCES (USES):				
Transfers in	-	25,000	-	-
Transfers out	(25,000)	-	-	-
Total other financing sources (uses)	(25,000)	25,000	-	-
Net changes in fund balances	(46,758)	9,127	(1,125)	-
Fund balances - beginning	237,426	119,732	1,125	1,101
Fund balances - ending	<u>\$ 190,668</u>	<u>\$ 128,859</u>	<u>\$ -</u>	<u>\$ 1,101</u>

See accompanying notes to financial statements.

Special Revenue			Capital Project Funds		
Blight & Beautification	Triangle Park	Folk Fest	Ballfield Grant	GLFT Fishing Pier	Westside Boat Launch Waterway
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
15,000	-	-	-	-	13,808
-	-	-	-	-	-
-	-	13,947	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>15,000</u>	<u>-</u>	<u>13,947</u>	<u>-</u>	<u>-</u>	<u>13,808</u>
800	-	-	-	-	-
-	-	12,553	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,302	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>800</u>	<u>-</u>	<u>12,553</u>	<u>1,302</u>	<u>-</u>	<u>-</u>
14,200	-	1,394	(1,302)	-	13,808
-	-	-	1,302	-	-
-	-	(1,733)	-	-	(13,808)
-	-	(1,733)	1,302	-	(13,808)
14,200	-	(339)	-	-	-
1,118	326	17,860	-	4,379	-
<u>\$ 15,318</u>	<u>\$ 326</u>	<u>\$ 17,521</u>	<u>\$ -</u>	<u>\$ 4,379</u>	<u>\$ -</u>

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (continued)
For the Year Ended June 30, 2019

	<u>Capital Project Funds</u>	<u>Permanent Fund</u>	Total Nonmajor Governmental Funds
	<u>Landfill Construction</u>	<u>Cemetery Perpetual Care</u>	
REVENUES:			
Federal sources	\$ -	\$ -	\$ -
State sources	-	-	602,277
Local sources	-	-	28,808
Taxes	164,171	-	164,171
Charges for service	-	-	13,947
Interest income	2,575	128	4,132
Miscellaneous	-	9,125	9,125
	<u>166,746</u>	<u>9,253</u>	<u>822,460</u>
EXPENDITURES:			
General government	-	-	800
Parks and recreation	-	-	12,553
Street system	-	-	610,835
Economic development	-	-	1,125
Sanitary landfill	32,174	-	32,174
Capital outlay	-	-	31,804
Debt service:			
Principal	155,000	-	155,000
Interest and other charges	34,358	-	34,358
	<u>221,532</u>	<u>-</u>	<u>878,649</u>
Excess revenues (expenditures)	(54,786)	9,253	(56,189)
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	26,302
Transfers out	-	-	(40,541)
	<u>-</u>	<u>-</u>	<u>(14,239)</u>
Total other financing sources (uses)	-	-	(14,239)
Net changes in fund balances	(54,786)	9,253	(70,428)
Fund balances - beginning	244,405	203,180	830,652
Fund balances - ending	<u>\$ 189,619</u>	<u>\$ 212,433</u>	<u>\$ 760,224</u>

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
June 30, 2019

	Marina	Recreation Building	Total Enterprise Funds
ASSETS			
Current assets:			
Cash and cash equivalents			
Restricted	\$ 1,327,790	\$ 43,672	\$ 1,371,462
Unrestricted	-	19,001	19,001
Receivables:			
Accounts (net)	-	6,155	6,155
Total current assets	<u>1,327,790</u>	<u>68,828</u>	<u>1,396,618</u>
Noncurrent assets:			
Construction in progress	314,695	-	314,695
Capital assets (net)	1,794,539	591,836	2,386,375
Total noncurrent assets	<u>2,109,234</u>	<u>591,836</u>	<u>2,701,070</u>
Total assets	<u>\$ 3,437,024</u>	<u>\$ 660,664</u>	<u>\$ 4,097,688</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 131,717	\$ 995	\$ 132,712
Accrued payroll	136	1,098	1,234
Notes payable	-	10,248	10,248
Total current liabilities	<u>131,853</u>	<u>12,341</u>	<u>144,194</u>
Noncurrent liabilities:			
Notes payable	-	38,900	38,900
Total liabilities	<u>\$ 131,853</u>	<u>\$ 51,241</u>	<u>\$ 183,094</u>
NET POSITION			
Net investment in capital assets	\$ 2,109,234	\$ 542,688	\$ 2,651,922
Restricted	1,111,991	-	1,111,991
Unrestricted	83,946	66,735	150,681
Total net position	<u>\$ 3,305,171</u>	<u>\$ 609,423</u>	<u>\$ 3,914,594</u>

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
NONMAJOR PROPRIETARY FUNDS
For the Year Ended June 30, 2019

	Marina	Recreation Building	Total Enterprise Funds
OPERATING REVENUES:			
Charges for services	\$ 21,652	\$ 93,503	\$ 115,155
Miscellaneous	-	27,756	27,756
Total operating revenue	<u>\$ 21,652</u>	<u>\$ 121,259</u>	<u>\$ 142,911</u>
OPERATING EXPENSES:			
Salaries	\$ 4,113	\$ 39,825	\$ 43,938
Fringe benefits	309	4,110	4,419
General administration	-	19,630	19,630
Supplies	9,647	8,133	17,780
Contracted services	72	1,615	1,687
Repairs and maintenance	1,515	2,484	3,999
Utilities	14,248	32,232	46,480
Communications	-	1,031	1,031
Insurance	586	2,079	2,665
Depreciation	41,986	35,974	77,960
Total operating expenses	<u>72,476</u>	<u>147,113</u>	<u>219,589</u>
Operating income (loss)	<u>(50,824)</u>	<u>(25,854)</u>	<u>(76,678)</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	7	215	222
Interest expense	-	(1,975)	(1,975)
Total nonoperating revenue (expense)	<u>7</u>	<u>(1,760)</u>	<u>(1,753)</u>
Income (loss) before transfers and contributions	(50,817)	(27,614)	(78,431)
Capital contributions	83,384	-	83,384
Transfer in	1,433,686	45,733	1,479,419
Change in net position	1,466,253	18,119	1,484,372
Total net position - beginning	<u>1,838,918</u>	<u>591,304</u>	<u>2,430,222</u>
Total net position - ending	<u>\$ 3,305,171</u>	<u>\$ 609,423</u>	<u>\$ 3,914,594</u>

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended June 30, 2019

	Marina	Recreation Building	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 21,652	\$ 91,900	\$ 113,552
Payments to suppliers	102,850	(66,353)	36,497
Payments for wages and related benefits	(4,405)	(43,375)	(47,780)
Other receipts (payments)	-	27,756	27,756
	<u>120,097</u>	<u>9,928</u>	<u>130,025</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	<u>1,433,686</u>	<u>45,733</u>	<u>1,479,419</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(314,695)	(49,967)	(364,662)
Capital contributions	83,384	-	83,384
Principal paid on debt instruments	-	(9,960)	(9,960)
Interest paid on debt instruments	-	(1,975)	(1,975)
	<u>(231,311)</u>	<u>(61,902)</u>	<u>(293,213)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	<u>7</u>	<u>215</u>	<u>222</u>
	<u>1,322,479</u>	<u>(6,026)</u>	<u>1,316,453</u>
Cash and equivalents, beginning of year	<u>5,311</u>	<u>68,699</u>	<u>74,010</u>
Cash and equivalents, end of year	<u>\$ 1,327,790</u>	<u>\$ 62,673</u>	<u>\$ 1,390,463</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (50,824)	\$ (25,854)	\$ (76,678)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	41,986	35,974	77,960
Changes in assets and liabilities:			
(Increase) decrease in receivables	-	(1,603)	(1,603)
Increase (decrease) in accounts payable	128,918	851	129,769
Increase (decrease) in accrued payroll	17	560	577
	<u>\$ 120,097</u>	<u>\$ 9,928</u>	<u>\$ 130,025</u>

See accompanying notes to financial statements.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

Kristine P. Berhow, CPA, Principal
Brandy M. Olson, CPA, Principal
Kathleen A. Ciantar, CPA, Principal

"A Regional Firm Within the Upper Peninsula of Michigan"

Alan M. Stotz, CPA

**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 and Management
City of Manistique, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manistique, Michigan, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Manistique, Michigan's basic financial statements, and have issued our report thereon dated December 9, 2019. Our report includes a reference to other auditors who audited the financial statements of the Manistique Housing Commission, as described in our report on the City of Manistique, Michigan's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Manistique, Michigan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Manistique, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Manistique, 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control listed below that we consider to be material weaknesses.

2019-001 – Audit Adjustments (repeat matter)

Deficiency: Material audit adjustments were required to properly classify and record activity. This is a repeat deficiency.

Criteria: The City is required to have internal controls in place to properly record, process and report accounting data.

Condition: Audit adjustments were required to properly classify and record activity to present the financial statements in accordance with generally accepted accounting principles.

Cause: This condition was caused by the City’s decision to rely on the external auditor to recommend journal entries at year-end and by the City staff not reconciling activity recorded in the general ledger.

Effect: The City lacks internal controls over recording and reporting accounting data resulting in the financial statements not being presented in accordance with generally accepted accounting principles.

Recommendation: The City should record all journal entries necessary to materially record all financial activity prior to final trial balances being produced to be used for preparation of the year-end financial statements. Also, the City should reconcile activity throughout the year to ensure the year-end trial balances are correct.

Management Response: The City does accrue and record journal entries at year end, and we feel comfortable in our ability to do so. The entries that were made by the auditor happened well after end of the fiscal year. The City will attempt to have all entries posted before the audit in the future.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Manistique, 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below:

2019-002 – Bond Reserve Requirements (repeat matter)

Criteria: The 2010, 2012 and 2016 water bonds along with the 2012 and 2016 waste water bonds require an operating and maintenance account be maintained to pay the reasonable and necessary current expenses of administration and operating and maintaining the systems for the ensuing quarter. The water bonds experienced a shortfall as noted below:

	<u>Required Balance</u>	<u>Actual Balance</u>	<u>Shortfall</u>
Water Fund:			
2010, 2012 & 2016 operation & maintenance	\$ 298,370	\$ 124,319	\$ (174,051)

Condition: Our examination of the required reserves revealed a shortfall as required by the various bond documents executed with the United State Department of Agriculture as noted above.

Cause: Inadequate excess cash generated to fund all the required reserves.

Effect: The City is not in compliance with the bond requirements.

Recommendation: The City should monitor its cash balances to ensure it is adequately funding the required reserves.

Management Response: The City is aware of the lack of operation and maintenance cash and we are hoping to correct it in the future. The City has decreased the shortfall from the prior year and was able to eliminate the shortfall in the waste water bonds.

2019-003 – Excess Expenditures Over Appropriations (*repeat matter*)

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Public Act 2 of 1968, as amended.

Condition: Our examination of procedures used by the City to adopt and maintain operating budgets for the City’s budgetary funds revealed instances of noncompliance as noted on page 40.

Cause: Failure to amend the budgets of the affected funds.

Effect: The City is not in compliance with State Statutes.

Recommendation: The City should monitor its budgets during the year and amend the budgets as soon as it can be determined that an excess of expenditures over appropriation is going to occur.

Management Response: The City will attempt to properly forecast and budget for these funds in the future.

City of Manistique, Michigan’s Response to Findings

The City of Manistique, Michigan’s response to the findings identified in our audit is described above. The City of Manistique, Michigan’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
Escanaba, Michigan

December 9, 2019



December 9, 2019

To the City Council and Management
City of Manistique, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manistique for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 26, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Manistique are described in Note A to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2019 except for the adopting Statement of Governmental Accounting Standards (GASB Statement) No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. We noted no transactions entered into by the City of Manistique 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 City's financial statements were:

Management's estimate of the useful lives of capital assets, the allowance for doubtful accounts related to ambulance services, post-closure monitoring liability for the landfill, net pension liability, and other post-employment benefits (OPEB) liability are based on past experience and knowledge of management and consultation with third party professionals assisting with actuarial assumptions. We evaluated the key factors and assumptions used to develop the estimated useful lives of capital assets, the allowance for doubtful accounts, the liability for post-closure monitoring and the liabilities for pension and OPEB liabilities in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement 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. The following material misstatements detected as a result of audit procedures were corrected by management: to properly record and classify activity such as accruals, classification, and fund consolidation.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 9, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City of Manistique'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 City of Manistique's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, budgetary comparison schedules, schedule of net pension liability and related ratios, schedule of employer contributions for the pension system, schedule of net OPEB liability and related ratios, and schedule of OPEB contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on combining nonmajor fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing 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.

Comments, Recommendations, and Other Information

In planning and performing our audit of the financial statements of the City of Manistique for the year ended June 30, 2019, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated December 9, 2019, on the financial statements of the City of Manistique.

Informational Items

Local Community Stabilization Authority

On June 27, 2018, Governor Snyder signed into law 2018 Public Act 247 and 2018 Public Act 248. These acts make significant changes to the Local Community Stabilization Authority Act and the calculation of personal property tax (PPT) reimbursements.

The State Department of Treasury issued a summary document of the amendments in July 2018, which can be found on the State's website. This summary document lists the following changes as a result of these acts.

1. Accelerate some reporting deadlines and add two new reporting requirements
2. Change the calculation of the millage rate to be used in the calculation of the PPT reimbursements
3. Change the calculation of the personal property exemption loss and eliminate the requirements to recalculate prior year taxable values
4. Change the millage rate to be used in the calculation of a Tax Increment Finance Authority's (TIFA's) PPT reimbursement
5. Make the Local Community Stabilization Authority responsible for distributing the fire protection services payments
6. Create a process for correcting PPT reimbursements
7. Allow for a one-time PPT advance for prior year underpayments of \$500,000 or more
8. Change the payment dates of the PPT reimbursements to allow for corrections to current year reimbursements, and delay the payment of qualified loss in excess of 100% until May 20
9. Change how municipalities are required to record and allocate the revenue

We recommend that the City review the summary document and public acts for an in-depth look at the changes.

Updated Uniform Chart of Accounts

In April 2017, the State released an updated Uniform Chart of Accounts and requires local units of government to comply with the changes. Treasury is working on developing training and additional information to assist in the transition. Local units should begin evaluating this new chart of accounts to determine what changes will be necessary and set up a plan to achieve compliance. Some accounting software vendors have already been working with some local units on an automated remapping solution to the extent needed; this could be a possible solution for some. The new chart of accounts can be found on the State website. On September 18, 2019, the Department of Treasury released a Manual regarding the Uniform Chart of Accounts Timeline. With any future revisions other than minor updates, the Department of Treasury will issue three documents: 1) the revised chart, 2) the marked-up version of the chart showing the changes, and 3) a summary of the revisions report. The revised Michigan Uniform Chart of Accounts should be implemented for fiscal years ending September 30, 2021 and thereafter. Early implementation after December 31, 2019 is encouraged.

GASB Statement No. 84 – Fiduciary Activities

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. The Summary section of the Statement states the following:

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The provisions of this statement are effective for the City's financial statements for the 2019-2020 fiscal year. The City should begin analyzing the impact the implementation of the standard will have on the City's funds.

GASB 87 – Leases

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The Summary section of the Statement states the following:

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

The provisions of this statement are effective for the City's financial statements for the 2020-2021 fiscal year. The City should begin analyzing the impact the implementation of the standard will have on the City's funds.

Restriction on Use

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



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Escanaba, Michigan

City of Manistique
COMMENTS & RECOMMENDATIONS
June 30, 2019

Reconciliation of Open Skate Receipts

Comment: During the receipt testing, it was noted that the City does not have reliable controls on the collection of open skating revenue. The tracking procedure did not reconcile supporting documentation to the deposit brought into City Hall. It was also noted that the amount written on the envelope did not agree to what was in the envelope related to the deposit. These issues could lead to opportunity to misappropriate monies given limited reconciling process.

Recommendation: We recommend applying a reconciling process to the spreadsheet used for tracking open skate participation and the monies collected.

Recording and Calculating Equipment Rental

Comment: During our testing, it was noted that the City does not have reliable controls or review procedures to ensure that equipment rental and related payroll are recorded in the appropriate accounts or at the appropriate amounts.

Recommendation: We recommend the City implement additional controls and review procedures to ensure this data is properly recorded in the general ledger.