

**City of Manistee, Michigan**

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**BASIC FINANCIAL STATEMENTS**

**June 30, 2019**

**CITY OF MANISTEE, MICHIGAN**

ORGANIZATION

**MEMBERS OF THE CITY COMMISSION**

MAYOR

ROGER ZIELINSKI

MAYOR PRO-TEM

LYNDA BEATON

COUNCIL MEMBER

DALE COOPER

COUNCIL MEMBER

CHIP GOODSPEED

COUNCIL MEMBER

MICK SZYMANSKI

COUNCIL MEMBER

JAMES GRABOWSKI

COUNCIL MEMBER

ERIN PONTIAC

**APPOINTED OFFICERS**

CITY MANAGER

THAD TAYLOR

CHIEF FINANCIAL OFFICER

EDWARD BRADFORD

CLERK

HEATHER PEFLEY

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

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**MEMBER AICPA**  
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**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

To the City Council  
City of Manistee  
Manistee, MI 49660

***Report on the Financial Statements***

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

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Manistee Housing Commission, which represents 87 percent, 78 percent, and 69 percent, respectively, of the assets, net position, and revenues of the discretely presented component units. Those 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 Manistee 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.

To the City Council  
City of Manistee

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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manistee, 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, schedule of employee retirement and benefit systems and budgetary comparison information on pages 4 through 13, pages 59 through 63, and pages 64 through 67 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 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 Manistee, Michigan's basic financial statements. The combining major and nonmajor fund and component unit financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining major and nonmajor fund and component unit 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, the combining major and nonmajor fund and component unit financial statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

To the City Council  
City of Manistee

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2019 on our consideration of the City of Manistee, 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 Manistee, 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 Manistee, Michigan's internal control over financial reporting and compliance.



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

October 25, 2019

## **Management's Discussion and Analysis**

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As management of the City of Manistee, Michigan (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the fiscal year 2019 by \$37,460,203 (*net position*). Of this, \$3,215,669 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$1,987,961 (excluding restatement of beginning of net position, see Note 13) or 6%.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$14,242,599, an increase of \$1,469,770 or 12% from the prior year.
- At the end of the current fiscal year, the total General Fund fund balance was \$1,478,081, an increase of \$153,480. Unassigned fund balance was \$1,379,678 or 22% of total General Fund expenditures and transfers out.
- The City's total long-term debt (including vested employee benefits excluding pensions, OPEB and leases,) decreased by \$1,371,817.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise five components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, 4) required supplementary information, and 5) other information.

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

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

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

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

The government-wide financial statements include not only the City (known as the *primary government*), but also three legally separate authorities – the Downtown Development Authority, the Friends of the Ramsdell and the Manistee Housing Commission – for which the City is financially accountable. Financial information for these *component units* is reported in the other information to these financial statements.

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

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

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

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

The City maintains 8 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major and Local Streets, and Oil and Gas Funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

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

**Proprietary funds.** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer and marina and boat ramp operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its motor pool. Because the service benefits the General, Major and Local Streets, and Water and Sewer Fund functions, the services have been allocated between the governmental and business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer Fund, which is considered to be major fund of the City. Data from the other proprietary funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements elsewhere in this report.

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

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

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

**Notes to financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-58 of this report.

**Required supplementary information.** Required supplementary information related to the City's employee retirement and benefit systems and budgetary comparison information related to the City's major governmental funds can be found on pages 59-67 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information including the combining statements referred to earlier in connection with nonmajor governmental and proprietary funds which are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 68-75 of this report.

**Component Units.** Individual component unit financial statements can be found on pages 76-77.

Government-wide Financial Statements

A condensed version of the Statement of Net Position at June 30, 2019 follows:

City of Manistee  
Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2019	2018	2019	2018	2019
<b>Assets</b>						
Current Assets	\$ 13,702,318	\$ 15,389,950	\$ 3,398,659	\$ 3,091,593	\$ 17,100,977	\$ 18,481,543
Capital Assets	21,734,077	21,612,968	19,128,218	19,742,829	40,862,295	41,355,797
<b>Total Assets</b>	<b>35,436,395</b>	<b>37,002,918</b>	<b>22,526,877</b>	<b>22,834,422</b>	<b>57,963,272</b>	<b>59,837,340</b>
<b>Deferred Outflows of Resources</b>	<b>351,728</b>	<b>1,256,649</b>	<b>76,057</b>	<b>109,274</b>	<b>427,785</b>	<b>1,365,923</b>
<b>Liabilities</b>						
Current Liabilities	1,335,905	1,570,097	1,537,441	2,389,746	2,873,346	3,959,843
Noncurrent Liabilities	9,950,985	8,925,359	9,295,640	10,747,987	19,246,625	19,673,346
<b>Total Liabilities</b>	<b>11,286,890</b>	<b>10,495,456</b>	<b>10,833,081</b>	<b>13,137,733</b>	<b>22,119,971</b>	<b>23,633,189</b>
<b>Deferred Inflows of Resources</b>	<b>473,797</b>	<b>101,081</b>	<b>47,757</b>	<b>8,790</b>	<b>521,554</b>	<b>109,871</b>
<b>Net Position</b>						
Net Investment in Capital Assets	14,669,202	17,244,363	8,458,405	7,797,809	23,127,607	25,042,172
Restricted	8,347,542	9,202,362	-	-	8,347,542	9,202,362
Unrestricted	1,010,692	1,216,305	3,263,691	1,999,364	4,274,383	3,215,669
<b>Total Net Position</b>	<b>\$ 24,027,436</b>	<b>\$ 27,663,030</b>	<b>\$ 11,722,096</b>	<b>\$ 9,797,173</b>	<b>\$ 35,749,532</b>	<b>\$ 37,460,203</b>

The largest portion of the City's net position \$25,042,172 (67%) reflects its net investment in capital assets (for example land, buildings, vehicles, equipment, and infrastructure); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot themselves be used to liquidate these liabilities.

A portion of the City's net position of \$9,202,362 (25%) represents resources that are subject to external restrictions on how they may be used both for the City as a whole, as well as for its separate governmental and business-type activities. The balance in restricted net position reflects the charter-protected Oil and Gas fund, the City's Bond Debt reserve, as well as other external restrictions. The remaining balance of unrestricted net position of \$3,215,669 (8%) may be used to meet the City's ongoing obligations to citizens and creditors.

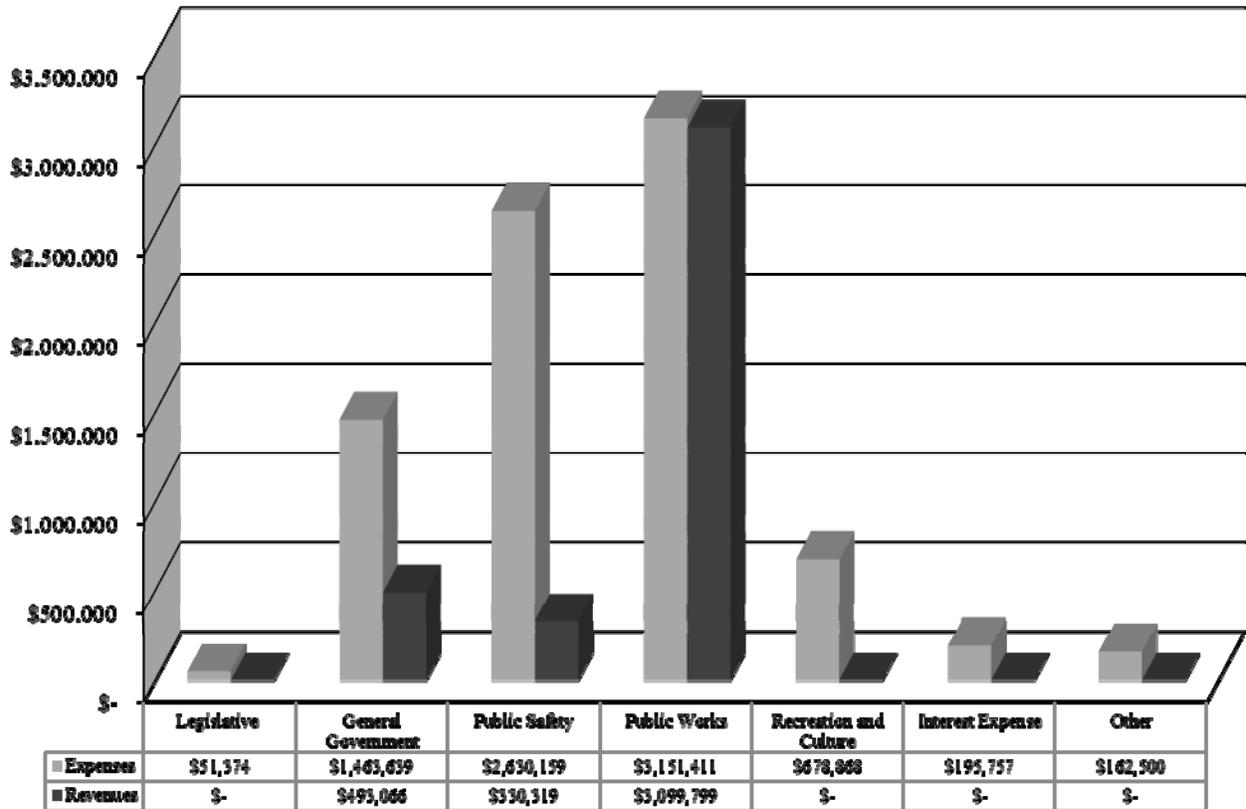
A condensed version of the Statement of Activities follows:

**City of Manistee  
Condensed Statement of Changes in Net Position**

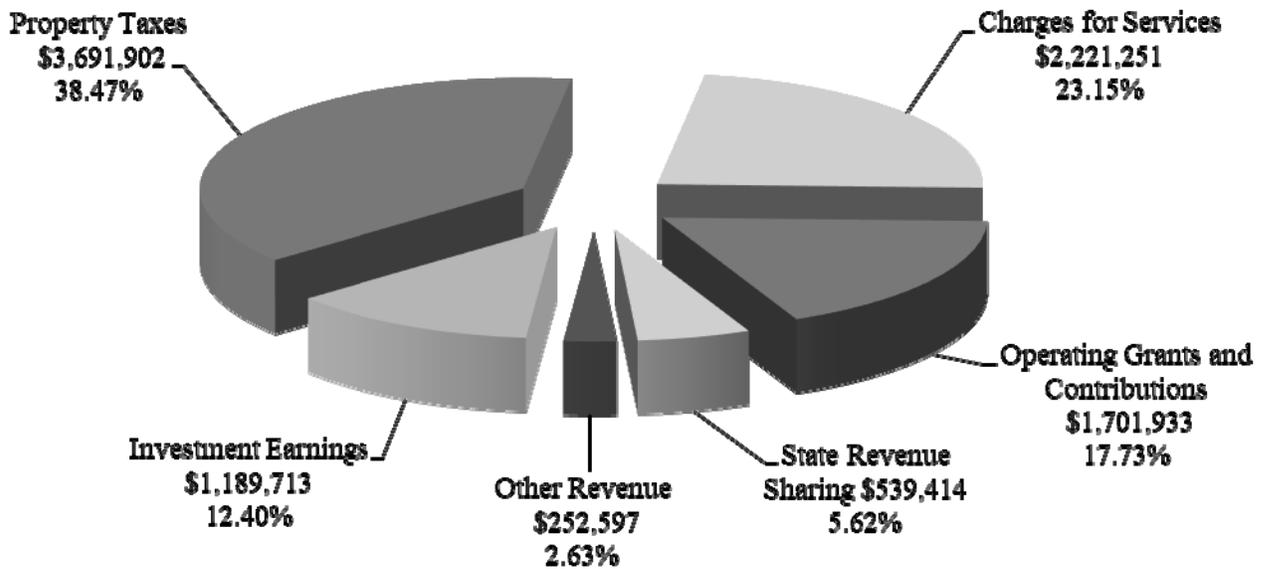
	Governmental Activities		Business-type Activities		Total	
	2018	2019	2018	2019	2018	2019
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for Services	\$ 2,400,042	\$ 2,221,251	\$ 4,799,542	\$ 5,023,505	\$ 7,199,584	\$ 7,244,756
Operating Grants and Contributions	1,402,307	1,701,933	440,815	362,582	1,843,122	2,064,515
<b>General Revenues</b>						
Property Taxes	3,591,361	3,691,902	-	-	3,591,361	3,691,902
State Revenue Sharing	520,702	539,414	-	-	520,702	539,414
Other Revenue	44,882	252,597	-	-	44,882	252,597
Investment Earnings	912,067	1,189,713	25,454	41,201	937,521	1,230,914
<b>Total Revenues</b>	<b>8,871,361</b>	<b>9,596,810</b>	<b>5,265,811</b>	<b>5,427,288</b>	<b>14,137,172</b>	<b>15,024,098</b>
<b>Expenses</b>						
Legislative	37,061	51,374	-	-	37,061	51,374
General Government	1,401,282	1,463,639	-	-	1,401,282	1,463,639
Public Safety	2,636,661	2,630,159	-	-	2,636,661	2,630,159
Public Works	3,258,495	3,151,411	-	-	3,258,495	3,151,411
Recreation and Culture	687,605	678,868	-	-	687,605	678,868
Interest Expense	249,566	195,757	-	-	249,566	195,757
Other	215,381	162,500	-	-	215,381	162,500
Boat Ramp	-	-	61,562	42,819	61,562	42,819
Marina	-	-	242,491	436,912	242,491	436,912
Water and Sewer	-	-	4,234,058	4,222,698	4,234,058	4,222,698
<b>Total Expenses</b>	<b>8,486,051</b>	<b>8,333,708</b>	<b>4,538,111</b>	<b>4,702,429</b>	<b>13,024,162</b>	<b>13,036,137</b>
Changes in Net Position before Transfers	385,310	1,263,102	727,700	724,859	1,113,010	1,987,961
Transfers	210,179	(65,000)	(210,179)	65,000	-	-
<b>Changes in Net Position</b>	<b>595,489</b>	<b>1,198,102</b>	<b>517,521</b>	<b>789,859</b>	<b>1,113,010</b>	<b>1,987,961</b>
Net Position - Beginning, as Restated (see Note 13)	23,431,947	26,464,928	11,204,575	9,007,314	34,636,522	35,472,242
<b>Net Position - Ending</b>	<b>\$ 24,027,436</b>	<b>\$ 27,663,030</b>	<b>\$ 11,722,096</b>	<b>\$ 9,797,173</b>	<b>\$ 35,749,532</b>	<b>\$ 37,460,203</b>

**Governmental activities.** Governmental activities increased the City’s ending net position by \$1,198,102.

**Expenses and Program Revenues – Governmental Activities**

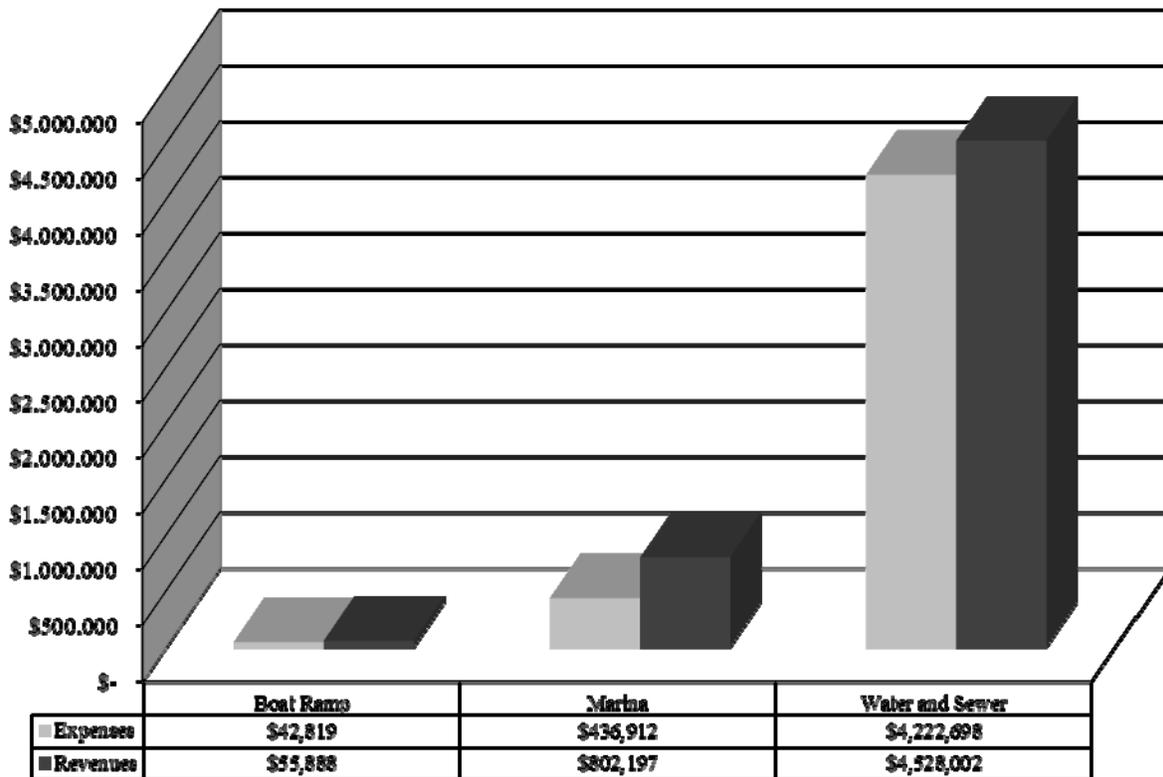


**Revenues by Source – Governmental Activities**



**Business-type activities.** Business-type activities increased the ending City’s net position by \$789,859.

**Expenses and Program Revenues – Business-type Activities**



**Financial Analysis of the Government’s Funds**

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

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

The General Fund is the main operating fund of the City. At the end of the current fiscal year, the total fund balance of the General Fund was \$1,478,081 of which \$1,379,678 was unassigned. As a measure of the General Fund’s liquidity, it may be useful to compare unassigned fund balance to total fund expenditures, including transfers out.

The Oil and Gas Fund has a total fund balance of \$10,997,567, which increased by \$468,532 during the year. This increase is primarily due to stronger market returns. The City Charter prevents the principal of this fund to be spent without a vote of the people.

**Proprietary funds.** The City’s proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the Water and Sewer and Boat Ramp and Marina Funds at the end of the year amounted to \$1,999,364 and net investment in capital assets, net of related debt amounted to \$7,797,809. The Water and Sewer Funds had an increase of \$346,505, while the Boat Ramp and Marina have a combined increase of \$443,354.

**General Fund Budgetary Highlights**

During the year, General Fund budget variance of expenditures was underspent by \$177,791 when comparing final budget to actual. This was primarily due to less actual expenditures than anticipated for general government, public safety, and public works. General Fund revenues were more than anticipated by \$113,976. Further detail on budgetary highlights is found in the required supplementary information section of the audit report.

**Capital Asset and Debt Administration**

**Capital Assets**

The City’s net investment in capital assets as of June 30, 2019, amounted to \$41,355,797. This investment in capital assets includes land, land improvements, infrastructure, buildings and improvements, furniture and equipment, vehicles, and construction in progress. The total net increase in the City’s investment in capital assets after depreciation for the current fiscal year was \$493,502. The following table summarizes the capital assets of the City as of year end:

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

	Governmental Activities		Business-type Activities		Total	
	2018	2019	2018	2019	2018	2019
Land	\$ 4,723,930	\$ 4,723,930	\$ 51,974	\$ 51,974	\$ 4,775,904	\$ 4,775,904
Construction in Progress	68,802	320,111	602,445	2,143,418	671,247	2,463,529
Land Improvements	2,800,185	2,830,589	233,752	211,348	3,033,937	3,041,937
Infrastructure	7,637,934	6,949,758	16,884,014	16,044,789	24,521,948	22,994,547
Buildings and Improvements	4,427,619	4,143,415	939,977	882,625	5,367,596	5,026,040
Vehicles	438,461	1,393,802	-	-	438,461	1,393,802
Furniture and Equipment	1,637,146	1,251,363	416,056	408,675	2,053,202	1,660,038
<b>Total Capital Assets, Net</b>	<b>\$ 21,734,077</b>	<b>\$ 21,612,968</b>	<b>\$ 19,128,218</b>	<b>\$ 19,742,829</b>	<b>\$ 40,862,295</b>	<b>\$ 41,355,797</b>

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

**Long-Term Debt**

At the end of the current fiscal year, the City had total long-term debt of \$16,436,317. Of this amount, \$5,465,000 comprises debt backed by the full faith and credit of the government. The remainder of the City’s debt represents loans and bonds secured solely by specified revenue sources (i.e., revenue bonds). The City also has capital leases that amounted to \$5,032 at the end of the fiscal year. The City’s total long-term debt (excluding vested employee benefits, capital leases, net pension and OPEB obligations) decreased by \$1,378,399.

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

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

	Governmental Activities		Business-type Activities		Total	
	2018	2019	2018	2019	2018	2019
Bonds Payable	\$ 5,895,000	\$ 2,777,324	\$ 10,191,674	\$ 11,531,197	\$ 16,086,674	\$ 14,308,521
Notes Payable	1,161,400	1,586,249	225,000	199,905	1,386,400	1,786,154
Capital Leases	8,475	5,032	-	-	8,475	5,032
<b>Total Long-Term Debt</b>	<b>\$ 7,064,875</b>	<b>\$ 4,368,605</b>	<b>\$ 10,416,674</b>	<b>\$ 11,731,102</b>	<b>\$ 17,481,549</b>	<b>\$ 16,099,707</b>

**Economic Factors and Next Year’s Budgets and Rates**

The City of Manistee continues to recover from the major recession of 2009. Property values have stabilized and are expected to slowly rise over the next few years. State-shared revenue has also reversed its decade long decline and is slowly increasing.

Developer interest in the City is near all-time highs.

Manistee continues to provide a full range of municipal services. The last several years have seen aggressive City efforts to control costs through headcount reductions and health care reforms. Strategic restructuring of various departments has occurred to optimize efficiency and better utilize human resources. Room for future headcount reduction and/or increased efficiencies is rather limited without addressing service level expenditures.

The City’s pension and retiree healthcare (OPEB) obligations are quite manageable compared to many communities across the State because of modest benefits and caps on health costs. OPEB costs are well contained. However, recent MERS investment results and revised actuarial assumptions will result in higher pension costs moving forward; although pension reforms for new hires have been implemented.

The FY 2020 budget anticipates modest growth, and several large infrastructure projects.

**Component Units**

Complete financial statements and management’s discussion and analysis may be obtained from the Manistee Downtown Development Authority and the Manistee Housing Commission.

**Request for Information**

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

City of Manistee  
Attn: Finance Director  
70 Maple Street  
Manistee, Michigan 49660 or;

via email at [ebradford@manisteemi.gov](mailto:ebradford@manisteemi.gov) or;

by visiting our website [www.manisteemi.gov](http://www.manisteemi.gov)

## **Basic Financial Statements**

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**Statement of Net Position  
June 30, 2019**

	Primary Government		Totals	Component Units
	Governmental Activities	Business-type Activities		
<b>ASSETS:</b>				
Cash and Equivalents - Unrestricted	\$ 1,666,009	\$ 1,392,209	\$ 3,058,218	\$ 806,058
Cash and Equivalents - Restricted	27,102	52,500	79,602	-
Investments - Unrestricted	1,315,636	826,080	2,141,716	-
Investments - Restricted	11,110,377	487,884	11,598,261	-
Accounts Receivable	246,628	792,757	1,039,385	37,587
Notes Receivable	-	-	-	13,360
Due From Governmental Units	423,886	-	423,886	-
Internal Loans	484,969	(484,969)	-	-
Other Assets	-	-	-	41,046
Prepaid Items and Inventory	115,343	25,132	140,475	-
Capital Assets (Not Depreciated)	5,044,041	2,195,392	7,239,433	444,432
Capital Assets (Net of Accumulated Depreciation)	16,568,927	17,547,437	34,116,364	2,535,530
<b>TOTAL ASSETS</b>	<b>37,002,918</b>	<b>22,834,422</b>	<b>59,837,340</b>	<b>3,878,013</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Pension Items	1,256,649	109,274	1,365,923	11,921
<b>LIABILITIES:</b>				
Accounts Payable	481,875	807,025	1,288,900	44,211
Accrued Liabilities	232,077	22,605	254,682	35,397
Due to Other Governmental Units	11,137	-	11,137	33,669
Accrued Interest Payable	52,379	60,639	113,018	-
Customer Deposits	-	51,900	51,900	50,702
Unearned Revenue	-	-	-	15,878
Net Pension Liability - Due in more than one year	4,973,489	408,820	5,382,309	7,746
Bonds Payable - Due within one year	438,331	1,421,669	1,860,000	-
Bonds Payable - Due in more than one year	2,316,529	10,109,528	12,426,057	-
Note Payable - Due within one year	350,855	25,908	376,763	-
Note Payable - Due in more than one year	1,257,858	173,997	1,431,855	500,000
Capital Leases - Due within one year	3,443	-	3,443	48,623
Capital Leases - Due in more than one year	1,589	-	1,589	988,650
OPEB Liability - Due in more than one year	89,894	-	89,894	-
Vested Employee Benefits- Due within one year	-	-	-	24,697
Vested Employee Benefits - Due in more than one year	286,000	55,642	341,642	13,536
<b>TOTAL LIABILITIES</b>	<b>10,495,456</b>	<b>13,137,733</b>	<b>23,633,189</b>	<b>1,763,109</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Pension & OPEB Items	101,081	8,790	109,871	10,600
<b>NET POSITION:</b>				
Net Investment in Capital Assets	17,244,363	7,797,809	25,042,172	1,442,689
Restricted	9,202,362	-	9,202,362	-
Unrestricted	1,216,305	1,999,364	3,215,669	673,536
<b>TOTAL NET POSITION</b>	<b>\$ 27,663,030</b>	<b>\$ 9,797,173</b>	<b>\$ 37,460,203</b>	<b>\$ 2,116,225</b>

Statement of Activities  
For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
<b>Primary Government:</b>								
<b>Governmental Activities:</b>								
Legislative	\$ 51,374	\$ -	\$ -	\$ -	(51,374)	\$ -	(51,374)	\$ -
General Government	1,463,639	251,136	241,930	-	(970,573)	-	(970,573)	-
Public Safety	2,630,159	-	330,319	-	(2,299,840)	-	(2,299,840)	-
Public Works	3,151,411	1,970,115	1,129,684	-	(51,612)	-	(51,612)	-
Recreation and Culture	678,868	-	-	-	(678,868)	-	(678,868)	-
Interest Expense	195,757	-	-	-	(195,757)	-	(195,757)	-
Other	162,500	-	-	-	(162,500)	-	(162,500)	-
Total Governmental Activities	8,333,708	2,221,251	1,701,933	-	(4,410,524)	-	(4,410,524)	-
<b>Business-type Activities:</b>								
Boat Ramp	42,819	55,888	-	-	-	13,069	13,069	-
Marina	436,912	802,197	-	-	-	365,285	365,285	-
Water and Sewer	4,222,698	4,165,420	362,582	-	-	305,304	305,304	-
Total Business-type Activities	4,702,429	5,023,505	362,582	-	-	683,658	683,658	-
Total Primary Government	\$ 13,036,137	\$ 7,244,756	\$ 2,064,515	\$ -	(4,410,524)	683,658	(3,726,866)	-
<b>Component Units:</b>								
<b>Public Works:</b>								
Manistee Housing Commission	\$ 1,617,917	\$ 578,660	\$ 730,651	\$ 41,286	-	-	-	(267,320)
<b>Recreation and Culture:</b>								
Friends of the Ramsdell	427,306	162,352	215,336	-	-	-	-	(49,618)
<b>Economic Development:</b>								
Downtown Development Authority	318,882	72,155	-	-	-	-	-	(246,727)
Total Component Units	\$ 2,364,105	\$ 813,167	\$ 945,987	\$ 41,286	-	-	-	(563,665)
Total								
<b>General Revenues and Transfers:</b>								
Property Taxes - Real					3,691,902	-	3,691,902	202,126
State Revenue Sharing					539,414	-	539,414	-
Investment Earnings/(Expense)					1,189,713	41,201	1,230,914	1,564
Rental Income					-	-	-	24,338
Other Revenue					252,597	-	252,597	127,595
Transfers					(65,000)	65,000	-	-
Total General Revenues and Transfers					5,608,626	106,201	5,714,827	355,623
Changes in Net Position					1,198,102	789,859	1,987,961	(208,042)
<b>Net Position - Beginning</b>								
Prior Period Adjustments - See Note 13					24,027,436	11,722,096	35,749,532	2,285,362
					2,437,492	(2,714,782)	(277,290)	38,905
<b>Net Position - Ending</b>								
					\$ 27,663,030	\$ 9,797,173	\$ 37,460,203	\$ 2,116,225

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2019**

	General	Major Street	Local Street	Permanent Fund Oil and Gas	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>						
Cash and Equivalents - Unrestricted	\$ 601,969	\$ 167,284	\$ 585,030	\$ 19,275	\$ 239,735	\$ 1,613,293
Cash and Equivalents - Restricted	27,102	-	-	-	-	27,102
Investments - Unrestricted	698,732	564,769	50,864	-	1,271	1,315,636
Investments - Restricted	-	-	-	10,744,104	-	10,744,104
Accounts Receivable	136,429	-	-	20,270	89,929	246,628
Due from Other Funds	250,700	61,988	185,135	-	6,507	504,330
Long-term Advance from Other Funds	-	-	-	213,918	-	213,918
Due from Governmental Units	177,850	209,030	37,006	-	-	423,886
Prepaid Items	98,403	-	-	-	13,667	112,070
<b>TOTAL ASSETS</b>	<b>\$ 1,991,185</b>	<b>\$ 1,003,071</b>	<b>\$ 858,035</b>	<b>\$ 10,997,567</b>	<b>\$ 351,109</b>	<b>\$ 15,200,967</b>
<b>LIABILITIES:</b>						
Accounts Payable	\$ 288,172	\$ 25,486	\$ 63,920	\$ -	\$ 104,297	\$ 481,875
Unearned Revenue	-	-	-	-	-	-
Accrued Payroll and Related Liabilities	155,156	62,258	14,663	-	-	232,077
Due to Other Governmental Units	11,137	-	-	-	-	11,137
Due to Other Funds	58,639	150,000	21,940	-	2,700	233,279
<b>TOTAL LIABILITIES</b>	<b>513,104</b>	<b>237,744</b>	<b>100,523</b>	<b>-</b>	<b>106,997</b>	<b>958,368</b>
<b>FUND BALANCES:</b>						
Nonspendable	98,403	-	-	-	13,667	112,070
Restricted	-	765,327	757,512	7,574,802	104,721	9,202,362
Committed	-	-	-	-	39,463	39,463
Assigned	-	-	-	3,422,765	86,261	3,509,026
Unassigned	1,379,678	-	-	-	-	1,379,678
<b>TOTAL FUND BALANCES</b>	<b>1,478,081</b>	<b>765,327</b>	<b>757,512</b>	<b>10,997,567</b>	<b>244,112</b>	<b>14,242,599</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,991,185</b>	<b>\$ 1,003,071</b>	<b>\$ 858,035</b>	<b>\$ 10,997,567</b>	<b>\$ 351,109</b>	

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

Capital assets used by governmental activities	19,439,060
Vested employee benefits liability	(286,000)
Net pension liability and pension items	(3,817,921)
OPEB liability	(89,894)
Long-term notes and bonds payable for governmental activities	(3,491,609)
Accrued interest payable	(32,725)
Internal service funds included in governmental activities	1,699,520
<b>Net position of governmental activities</b>	<b>\$ 27,663,030</b>

**Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Governmental Funds  
For the Year Ended June 30, 2019**

	General	Major Street	Local Street	Permanent Fund Oil and Gas	Nonmajor Governmental Funds	Totals Governmental Funds
<b>REVENUES:</b>						
Taxes	\$ 3,487,539	\$ -	\$ -	\$ -	\$ 204,363	\$ 3,691,902
Licenses and Permits	133,746	-	-	-	-	133,746
Federal Sources	-	-	-	-	110,514	110,514
State Sources	958,030	889,406	212,691	-	27,587	2,087,714
Local Sources	-	-	-	-	43,119	43,119
Charges for Services	1,484,254	202,988	-	-	400,263	2,087,505
Interest and Rents	62,058	10,643	-	1,115,741	1,271	1,189,713
Other Revenue	267,758	-	864	-	8,873	277,495
<b>TOTAL REVENUES</b>	<u>6,393,385</u>	<u>1,103,037</u>	<u>213,555</u>	<u>1,115,741</u>	<u>795,990</u>	<u>9,621,708</u>
<b>EXPENDITURES:</b>						
Legislative	51,374	-	-	-	-	51,374
General Government	1,510,401	-	-	56,167	1,080	1,567,648
Public Safety	2,365,897	-	-	-	143,186	2,509,083
Public Works	1,302,931	634,474	238,270	-	591,320	2,766,995
Recreation and Cultural	394,185	-	-	-	-	394,185
Other Expenditures	147,000	-	-	-	-	147,000
Capital Outlay	-	-	-	-	15,500	15,500
Debt Service	367,700	-	80,776	-	186,677	635,153
<b>TOTAL EXPENDITURES</b>	<u>6,139,488</u>	<u>634,474</u>	<u>319,046</u>	<u>56,167</u>	<u>937,763</u>	<u>8,086,938</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)</b>	<u>253,897</u>	<u>468,563</u>	<u>(105,491)</u>	<u>1,059,574</u>	<u>(141,773)</u>	<u>1,534,770</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Operating Transfers In	-	60,000	539,573	-	596,662	1,196,235
Operating Transfers Out	(100,417)	(180,776)	-	(591,042)	(389,000)	(1,261,235)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(100,417)</u>	<u>(120,776)</u>	<u>539,573</u>	<u>(591,042)</u>	<u>207,662</u>	<u>(65,000)</u>
<b>NET CHANGE IN FUND BALANCES</b>	153,480	347,787	434,082	468,532	65,889	1,469,770
<b>FUND BALANCE BEGINNING OF YEAR</b>	<u>1,324,601</u>	<u>417,540</u>	<u>323,430</u>	<u>10,529,035</u>	<u>178,223</u>	<u>12,772,829</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 1,478,081</u>	<u>\$ 765,327</u>	<u>\$ 757,512</u>	<u>\$ 10,997,567</u>	<u>\$ 244,112</u>	<u>\$ 14,242,599</u>

**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	\$ 1,469,770
The change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation and loss on disposals exceeded capital outlay in the current period.	(690,904)
Repayment principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Principal payments	509,651
An internal service fund is used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	(16,442)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:	
Vested employee benefits	(3,411)
OPEB liability	28,247
Change in net pension liability and pension items	(131,556)
Accrued interest payable	<u>32,747</u>
Changes in net position of governmental activities	<u>\$ 1,198,102</u>

**Statement of Net Position  
Proprietary Funds  
June 30, 2019**

	Water and Sewer	Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Fund
<b>ASSETS:</b>				
Cash and Equivalents - Unrestricted	\$ 715,304	\$ 676,905	\$ 1,392,209	\$ 52,716
Cash and Equivalents - Restricted	52,500	-	52,500	-
Investments - Unrestricted	826,080	-	826,080	366,273
Investments - Restricted	487,884	-	487,884	-
Accounts Receivable	788,686	4,071	792,757	-
Due from Other Funds	400,000	-	400,000	-
Prepaid Items	18,157	64	18,221	3,273
Inventory	-	6,911	6,911	-
Capital Assets (Not Depreciated)	2,148,418	46,974	2,195,392	-
Capital Assets (Net of Accumulated Depreciation)	16,470,406	1,077,031	17,547,437	2,173,908
<b>TOTAL ASSETS</b>	<b>21,907,435</b>	<b>1,811,956</b>	<b>23,719,391</b>	<b>2,596,170</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Pension Items	109,274	-	109,274	-
<b>LIABILITIES:</b>				
Accounts Payable	736,787	70,238	807,025	-
Customer Deposits	51,900	-	51,900	-
Accrued Payroll and Related Liabilities	19,824	2,781	22,605	-
Accrued Interest Payable	58,479	2,160	60,639	19,654
Due to Other Funds	671,051	-	671,051	-
Long-term Advance to Other Funds	-	213,918	213,918	-
Vested Employee Benefits - Due in more than one year	55,642	-	55,642	-
Net Pension Liability	408,820	-	408,820	-
Note Payable - Due within one year	-	25,908	25,908	261,412
Note Payable - Due in more than one year	-	173,997	173,997	615,584
Bonds Payable - Due within one year	1,421,669	-	1,421,669	-
Bonds Payable - Due in more than one year	10,109,528	-	10,109,528	-
<b>TOTAL LIABILITIES</b>	<b>13,533,700</b>	<b>489,002</b>	<b>14,022,702</b>	<b>896,650</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Pension Items	8,790	-	8,790	-
<b>NET POSITION:</b>				
Net Investment in Capital Assets	7,087,627	710,182	7,797,809	1,296,912
Unrestricted	1,386,592	612,772	1,999,364	402,608
<b>TOTAL NET POSITION</b>	<b>\$ 8,474,219</b>	<b>\$ 1,322,954</b>	<b>\$ 9,797,173</b>	<b>\$ 1,699,520</b>

**Statement of Revenues, Expenses, and  
Changes in Net Position - Proprietary Funds  
For the Year Ended June 30, 2019**

	Water and Sewer	Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Fund
<b>OPERATING REVENUES:</b>				
Charges for Services	\$ 4,126,774	\$ 206,042	\$ 4,332,816	\$ 382,977
Other Revenue	38,646	652,043	690,689	-
Total Operating Revenues	4,165,420	858,085	5,023,505	382,977
<b>OPERATING EXPENSES:</b>				
Personnel Services	995,929	24,760	1,020,689	-
Contracted Services	39,021	-	39,021	-
Insurance	-	1,833	1,833	38,765
Administration	375,000	15,203	390,203	-
Equipment Rental	150,000	-	150,000	-
Supplies	110,033	83,371	193,404	-
Utilities	233,657	28,015	261,672	-
Repair and Maintenance	224,062	216,988	441,050	1,401
Depreciation	1,157,006	78,637	1,235,643	341,869
Miscellaneous	535,774	18,004	553,778	1,681
Total Operating Expenses	3,820,482	466,811	4,287,293	383,716
<b>OPERATING INCOME (LOSS)</b>	344,938	391,274	736,212	(739)
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Interest Income	41,201	-	41,201	8,651
State Grants	362,582	-	362,582	-
Interest Expense	(402,216)	(12,920)	(415,136)	(24,354)
Total Non-Operating Revenues (Expenses)	1,567	(12,920)	(11,353)	(15,703)
Income (Loss) Before Transfers	346,505	378,354	724,859	(16,442)
Operating Transfers In	-	65,000	65,000	-
<b>CHANGES IN NET POSITION</b>	346,505	443,354	789,859	(16,442)
NET POSITION, JULY 1	10,842,496	879,600	11,722,096	1,715,962
Prior Period Adjustment - See Note 13	(2,714,782)	-	(2,714,782)	-
<b>NET POSITION, JUNE 30</b>	\$ 8,474,219	\$ 1,322,954	\$ 9,797,173	\$ 1,699,520

**Statement of Cash Flows  
Proprietary Fund Types  
For the Year Ended June 30, 2019**

	Water and Sewer	Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from Customers	\$ 4,018,381	\$ 954,838	\$ 4,973,219	\$ 388,602
Payments to Suppliers	(815,682)	(296,303)	(1,111,985)	(24,737)
Payments to Employees	(721,713)	(24,060)	(745,773)	-
Internal Activity - Payments/Receipts with Other Funds	-	(39,221)	(39,221)	-
Net Cash Provided (Used) by Operating Activities	<u>2,480,986</u>	<u>595,254</u>	<u>3,076,240</u>	<u>363,865</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Operating Transfers In	-	65,000	65,000	-
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>-</u>	<u>65,000</u>	<u>65,000</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
(Purchase)/Transfer of Capital Assets	(1,850,255)	-	(1,850,255)	(912,684)
State Grants	362,582	-	362,582	-
Bond Proceeds	-	-	-	660,000
Interest Payments	(402,216)	(12,920)	(415,136)	(24,354)
Principal Payments	<u>(1,375,259)</u>	<u>(25,095)</u>	<u>(1,400,354)</u>	<u>(131,837)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(3,265,148)</u>	<u>(38,015)</u>	<u>(3,303,163)</u>	<u>(408,875)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Net (increase)/decrease in investments	548,772	-	548,772	(8,651)
Interest Income	41,201	-	41,201	8,651
Net Cash Provided (Used) by Investing Activities	<u>589,973</u>	<u>-</u>	<u>589,973</u>	<u>-</u>
Net Increase (Decrease) in Cash and Equivalents	(194,189)	622,239	428,050	(45,010)
Balances - Beginning of the Year	961,993	54,666	1,016,659	97,726
Balances - End of the Year	<u>\$ 767,804</u>	<u>\$ 676,905</u>	<u>\$ 1,444,709</u>	<u>\$ 52,716</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating Income (Loss)	\$ 344,938	\$ 391,274	\$ 736,212	\$ (739)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	1,157,006	78,637	1,235,643	341,869
Change in Assets and Liabilities:				
(Increase) Decrease in Assets:				
Accounts Receivable	(146,239)	96,753	(49,486)	5,625
Prepaid Items and Inventory	(3,876)	7,877	4,001	510
Increase (Decrease) in Liabilities:				
Accounts Payable	562,037	59,505	621,542	-
Accrued Payroll & Related Liabilities	271,045	700	271,745	-
Accrued Interest Payable	22,653	(271)	22,382	16,600
Due to/ Advance to Other Funds	271,050	(39,221)	231,829	-
Customer Deposits	(800)	-	(800)	-
Vested Employee Benefits	3,171	-	3,171	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,480,985</u>	<u>\$ 595,254</u>	<u>\$ 3,076,239</u>	<u>\$ 363,865</u>

**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2019**

	Delinquent Tax	Payroll Clearing	Current Tax Collection	Totals
<b>ASSETS:</b>				
Cash and Equivalents - Unrestricted	\$ -	\$ 61,248	\$ -	\$ 61,248
TOTAL ASSETS	\$ -	\$ 61,248	\$ -	\$ 61,248
<b>LIABILITIES:</b>				
Due to Others	\$ -	\$ 57,792	\$ -	\$ 57,792
Accrued Liabilities	-	3,456	-	3,456
TOTAL LIABILITIES	\$ -	\$ 61,248	\$ -	\$ 61,248

## **Notes to Financial Statements**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The City of Manistee (the “City”) is governed by a City Council elected by the community at large. The legislative body appoints a City Manager to administer the affairs of the City. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, parks and recreation, public improvements, planning and zoning and general administrative services. The City has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14 and Statement No. 61, regarding the definition of the reporting entity.

***Discretely Presented Component Units***

Friends of the Ramsdell

In accordance with GASB Statement No. 61, the financial statements of the Friends of the Ramsdell are included as a discretely presented component unit in the financial statements of the City. A complete financial statement of the Friends of the Ramsdell is included within these financial Statements.

The Friends of the Ramsdell financial statements are prepared in accordance with the accounting standards established by the Financial Accounting Standards Board and accordingly, a reporting model different from that of the City is used. The Friends of Ramsdell financial statements included within reflect both models.

Manistee City Housing Commission

The Mayor, with approval of the City Council, appoints the members of the governing board of the Commission. The Commission’s fiscal year end is December 31, 2018. A complete financial statement of the Housing Commission can be obtained from the Executive Director, City of Manistee Housing Commission, Century Terrace, Manistee, Michigan 49660.

Downtown Development Authority (“DDA”)

The City Manager, with approval of the City Council, appoints the members of the governing board of the DDA. The City also has the ability to significantly influence the operations of the DDA. A complete financial statement of the DDA can be obtained from the City Finance Director, City of Manistee, 70 Maple Street, Manistee, Michigan 49660-0358.

***Blended Component Units***

Brownfield Redevelopment Authority

The Mayor, with approval of the City Council, appoints the members of the governing board of the Brownfield Redevelopment Authority. The Brownfield Redevelopment Authority is reported as a blended component unit as a part of the City of Manistee’s financial statements.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**B. Government-Wide Fund Financial Statements**

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

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

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

The City reports the following major governmental funds:

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

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

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

The *Oil and Gas Fund* accounts for the use of money derived from oil and gas royalties which have been endowed in a permanent fund by action of the electors of the City of Manistee. The income from the endowment was previously pledged in prior bond financing arrangements as part of the revenue stream to the Water and Sewer Utility. This pledge is still in effect; however, the City has adjusted water and sewer rates to allow the water and sewer utility to be self-sufficient without this revenue stream and funds calculated pursuant to an endowment spending rule are being used for capital improvements, including streets.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The City reports the following major proprietary funds:

The *Water and Sewer Fund* is the City's major proprietary fund. It accounts for the activities of the City's water distribution, sewage disposal and treatment system. In addition, a combining statement listed the water and sewer operations separately in order to satisfy USDA Rural Development requirements.

Additionally, the City reports the following fund types:

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

*Capital Project Funds.* These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

*Enterprise Funds.* These funds account for the operations of the Boat Ramp and Marina funds.

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

*Agency Funds.* These funds account for assets held for others in an agency capacity.

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

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

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

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

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

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

The City's cash and equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Pooled investment income for all funds is allocated to each fund based on average cash balance. Deposits are recorded at cost.

***Interfund Receivables and Payables***

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

***Property Taxes***

The City's property taxes are levied each July 1<sup>st</sup> on the taxable valuation of property located in the City as of the preceding December 31<sup>st</sup>, the lien date. Property taxes are payable without penalty and interest through August 20<sup>th</sup> as of March 1<sup>st</sup> of the succeeding year, unpaid real property taxes are sold to and collected by Manistee County.

Assessed values are established annually by the City, and subject to acceptance by the County, are equalized by the state at an estimated 50% of current market value. Real and personal property in the City for the 2018 levy were assessed and equalized at \$191,032,406 (not including properties subject to Industrial Facilities Tax Exemption), representing 50% of estimated current market value.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The government’s general operating tax rate for fiscal year 2019 was 17.7612 mills, with an additional 1.1500 mills levied for the City Refuse Fund.

Property taxes for the DDA are derived from a tax increment financing agreement between the DDA and other related taxing districts. Under this agreement, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City, which are within the DDA district. Property taxes are recognized in the fiscal year in which they are levied.

***Inventories and Prepaids Items***

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

***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

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

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	50 to 75 years
Roads	10 to 30 years
Other Infrastructure	10 to 30 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plans and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the plan administrators. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*****Vested Employee Benefits (Vacation, Personal, and Sick Leave)***

Vacation and sick days for the City's salaried and some hourly employees are determined by the City's personnel policies, and the remaining City's hourly employees are determined by the union agreement between the City and the employees' union. The liability for these amounts will be included in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

**Housing Commission**

It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days. The liability for these compensated absences is recorded as short-term and long-term liabilities based on historical trends. In accordance with the provision of GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to received sick pay benefits.

***Deferred Outflows of Resources***

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

***Deferred Inflows of Resources***

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

***Long-Term Obligations***

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

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*****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 Prepaid Items as being Nonspendable as these items are not expected to be converted to cash within the next year. The City has \$112,070 in Nonspendable fund balance.
- **Restricted**: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City has \$9,202,362 in restricted fund balance.
- **Committed**: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City. These amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City has committed \$39,463 for capital project funds.
- **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 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 assigned funds in the amount of \$3,509,026.
- **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.

***Use of Estimates***

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

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

***Budgetary Procedures***

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the City Council to approve a budget for the General Fund and all Special Revenue Funds. The Manager prepares a budget in accordance with the Act which is adopted by the Board at a public hearing each May. All budgets lapse at fiscal year end.

**NOTE 3 - CASH AND INVESTMENTS**

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and Equivalents -					
Unrestricted	\$ 1,666,009	\$ 1,392,209	\$ 3,058,218	\$ 61,248	\$ 806,058
Restricted	27,102	52,500	79,602	-	-
Investments –					
Unrestricted	1,315,636	826,080	2,141,716	-	-
Restricted	<u>11,110,377</u>	<u>487,884</u>	<u>11,598,261</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 14,119,124</u>	<u>\$ 2,758,673</u>	<u>\$ 16,877,797</u>	<u>\$ 61,248</u>	<u>\$ 806,058</u>

Investments of the Water and Sewer Fund are restricted by bond debt reserve requirements and for future construction in the amount of \$487,887. Investments in the Oil and Gas Fund are restricted by the related trust agreement for \$10,744,104. Other investments and cash for debt and project resources are restricted in the amount of \$445,872.

The breakdown between cash and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Bank Deposits (checking and savings accounts, certificates of deposit and money market accounts)	\$ 3,135,590	\$ 61,248	\$ 805,258
Petty Cash and Cash on Hand	2,230	-	800
Investments	<u>13,739,977</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 16,877,797</u>	<u>\$ 61,248</u>	<u>\$ 806,058</u>

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments

	Fair Value	Maturities in Years				Ratings	Concentration
		Less Than 1	1 – 5	6 – 10	More Than 10		
Investments:							
US Treasury Securities	\$ 1,038,612	\$ -	\$ 603,734	\$ 434,878	\$ -	AAA	8%
Equity Securities	6,644,665	-	-	-	-	N/A	48%
ETF's	294,430	-	-	-	-	N/A	2%
Fixed Income	2,121,834	400,900	977,219	228,604	515,111	AA+	15%
Money Market	521,892	-	-	-	-	N/A	4%
Other Assets	<u>3,118,544</u>	-	-	-	-	N/A	<u>23%</u>
Total Investments	<u>\$ 13,739,977</u>						<u>100%</u>

The City categorizes its fair value measurements of investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following fair value measurements as of year end:

- The Charles Schwab oil and gas fund is valued using quoted market prices (Level 1 inputs).
- The Michigan Class investments are not required to be categorized within the fair value of the securities making up the investment fund/pool.
- The City does not have any investments that report fair value based on significant unobservable inputs (Level 3 inputs).

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

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

*Custodial deposit credit risk.* Custodial deposit credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$3,273,544 of the City's bank balance of \$3,523,544 was exposed to credit risk because it was uninsured and uncollateralized.

*Concentration of credit risk.* State law limits allowable investments but does not limit concentration of credit risk as identified above. The city's investment policy also does not have specific limits in concentration of credit risk. None of the investments held by the City exceeds five percent of the City's total investments.

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

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

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

The City has the following fair value measurements as of June 30, 2019:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Various Investments	<u>\$ 10,744,104</u>	<u>\$ 10,744,104</u>	<u>\$ -</u>	<u>\$ -</u>

Statutory Authority:

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

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

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2); certificates of deposit obtained through a financial institution as provided in subsection (5); or deposit accounts of a financial institution as provided in subsection (6).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers’ acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
  - (i) The purchase of securities on a when-issued or delayed delivery basis.
  - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
  - (iii) The limited ability to borrow and pledge a like portion of the portfolio’s assets for temporary or emergency purposes.

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

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

The Oil and Gas funds are invested pursuant to Section 7 MCL 129.97.

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

**NOTE 4 - CAPITAL ASSETS**

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Adjustments/ Decreases</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 4,723,930	\$ -	\$ -	\$ 4,723,930
Construction in Progress	<u>68,802</u>	<u>251,309</u>	<u>-</u>	<u>320,111</u>
Subtotal	<u>4,792,732</u>	<u>251,309</u>	<u>-</u>	<u>5,044,041</u>
<i>Capital assets being depreciated:</i>				
Land Improvements	5,405,552	-	(4,561)	5,400,991
Infrastructure	12,168,431	-	-	12,168,431
Buildings and Improvements	8,925,602	36,487	(62,383)	8,899,706
Vehicles	2,125,694	670,767	380,720	3,177,181
Furniture and Equipment	<u>3,721,927</u>	<u>397,769</u>	<u>(694,417)</u>	<u>3,425,279</u>
Subtotal	<u>32,347,206</u>	<u>1,105,023</u>	<u>(380,641)</u>	<u>33,071,588</u>
<i>Less accumulated depreciation for:</i>				
Land Improvements	(2,605,367)	(125,801)	160,766	(2,570,402)
Infrastructure	(4,530,497)	(591,129)	(97,047)	(5,218,673)
Buildings and Improvements	(4,497,983)	(288,470)	30,162	(4,756,291)
Vehicles	(1,687,233)	(203,392)	107,246	(1,783,379)
Furniture and Equipment	<u>(2,084,781)</u>	<u>(243,751)</u>	<u>154,616</u>	<u>(2,173,916)</u>
Subtotal	<u>(15,405,861)</u>	<u>(1,452,543)</u>	<u>355,743</u>	<u>(16,502,661)</u>
Net Capital Assets Being Depreciated	<u>16,941,345</u>	<u>(347,520)</u>	<u>(24,898)</u>	<u>16,568,927</u>
Capital Assets – Net	<u>\$ 21,734,077</u>	<u>\$ (96,211)</u>	<u>\$ (24,898)</u>	<u>\$ 21,612,968</u>

**NOTE 4 - CAPITAL ASSETS (Continued)**

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

<b>Governmental Activities</b>		
General Government		\$ 159,566
Public Safety		67,845
Public Works		599,635
Recreation and Culture		283,628
Internal Service		<u>341,869</u>
<b>Total Depreciation Expense - Governmental Activities</b>		<b><u>\$ 1,452,543</u></b>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Business-type Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 51,974	\$ -	\$ -	\$ 51,974
Construction in Progress	<u>602,445</u>	<u>1,540,973</u>	<u>-</u>	<u>2,143,418</u>
Subtotal	<u>654,419</u>	<u>1,540,973</u>	<u>-</u>	<u>2,195,392</u>
<i>Capital assets being depreciated:</i>				
Land Improvements	424,960	-	-	424,960
Building and Improvements	1,456,890	-	-	1,456,890
Infrastructure	38,143,011	278,572	-	38,421,583
Equipment	<u>1,334,900</u>	<u>30,709</u>	<u>-</u>	<u>1,365,609</u>
Subtotal	<u>41,359,761</u>	<u>309,281</u>	<u>-</u>	<u>41,669,042</u>
<i>Less accumulated depreciation for:</i>				
Land Improvements	(191,208)	(22,404)	-	(213,612)
Building and Improvements	(516,913)	(57,352)	-	(574,265)
Infrastructure	(21,258,997)	(1,117,797)	-	(22,376,794)
Equipment	<u>(918,844)</u>	<u>(38,090)</u>	<u>-</u>	<u>(956,934)</u>
Subtotal	<u>(22,885,962)</u>	<u>(1,235,643)</u>	<u>-</u>	<u>(24,121,605)</u>
Net Capital Assets Being Depreciated	<u>18,473,799</u>	<u>(926,362)</u>	<u>-</u>	<u>17,547,437</u>
Capital Assets – Net	<u>\$ 19,128,218</u>	<u>\$ 614,611</u>	<u>\$ -</u>	<u>\$ 19,742,829</u>

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

<b>Business-type Activities</b>		
Water and Sewer		\$ 1,157,006
Boat Ramp		23,225
Marina		<u>55,412</u>
<b>Total Depreciation Expense - Business-type Activities</b>		<b><u>\$ 1,235,643</u></b>

**NOTE 4 - CAPITAL ASSETS (Continued)**

Capital asset activity for the Manistee Housing Commission for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Manistee Housing Commission:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 360,272	\$ -	\$ -	\$ 360,272
<i>Capital assets being depreciated:</i>				
Buildings	10,514,680	47,973	-	10,562,653
Furniture and Equipment – Dwell	261,204	7,673	-	268,877
Furniture and Equipment – Admin.	<u>324,286</u>	<u>2,076</u>	-	<u>326,362</u>
Subtotal	<u>11,100,170</u>	<u>57,722</u>	-	<u>11,157,892</u>
<i>Less accumulated depreciation:</i>				
Buildings	(7,825,546)	(282,815)	-	(8,108,361)
Furniture and Equipment – Dwell	(229,396)	(8,342)	-	(237,738)
Furniture and Equipment – Admin.	<u>(251,360)</u>	<u>(24,903)</u>	-	<u>(276,263)</u>
Subtotal	<u>(8,306,302)</u>	<u>(316,060)</u>	-	<u>(8,622,362)</u>
Net Capital Assets Being Depreciated	<u>2,793,868</u>	<u>(258,338)</u>	-	<u>2,535,530</u>
Capital Assets - Net	<u>\$ 3,154,140</u>	<u>\$ (258,338)</u>	<u>\$ -</u>	<u>\$ 2,895,802</u>

Depreciation expense for the year ended December 31, 2018 was \$316,060.

Capital asset activity for the City of Manistee DDA for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>City of Manistee, DDA</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 84,160	\$ -	\$ -	\$ 84,160
Total Capital Assets - Net	<u>\$ 84,160</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 84,160</u>

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

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

		<b>DUE FROM OTHER FUNDS</b>					
DO TO OTHER FUNDS		General	Major Street	Local Street	Nonmajor Governmental	Water and Sewer	Total
		General	\$ 8,000	\$ 15,359	\$ 35,135	\$ 145	\$ -
	Major Street	-	-	150,000	-	-	150,000
	Local Street	-	15,578	-	6,362	-	21,940
	Nonmajor Governmental	2,700	-	-	-	-	2,700
	Water and Sewer	<u>240,000</u>	<u>31,051</u>	<u>-</u>	<u>-</u>	<u>400,000</u>	<u>671,051</u>
	Total	<u>\$ 250,700</u>	<u>\$ 61,988</u>	<u>\$ 185,135</u>	<u>\$ 6,507</u>	<u>\$ 400,000</u>	<u>\$ 904,330</u>

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

		<b>LONG-TERM ADVANCES FROM OTHER FUNDS</b>
LONG-TERM ADVANCES TO OTHER FUNDS		<u>Oil and Gas</u>
		Nonmajor Enterprise

		<b>TRANSFERS (OUT)</b>				
TRANSFERS IN		General	Major Street	Oil and Gas	Nonmajor Governmental	Total
		Major Street	\$ -	\$ -	\$ -	\$ 60,000
	Local Street	94,797	180,776	-	264,000	539,573
	Nonmajor Governmental	5,620	-	591,042	-	596,662
	Nonmajor Enterprise	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,000</u>	<u>65,000</u>
	Total	<u>\$ 100,417</u>	<u>\$ 180,776</u>	<u>\$ 591,042</u>	<u>\$ 389,000</u>	<u>\$ 1,261,235</u>

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)**

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

**NOTE 6 - LONG-TERM DEBT**

**Primary Government**

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

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers/ Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b><u>Governmental Activities</u></b>							
<b>Bonds:</b>							
2010 DDA Limited Tax General Obligation Bond	2.00 to 4.00%	2020	\$ 265,000	\$ -	\$ 130,000	\$ 135,000	\$ 135,000
2010 Tax General Obligation Bonds	2.00 to 4.65%	2031	4,235,000	-	2,804,524	1,430,476	93,331
2013 General Obligation Refunding Bond	2.00 to 2.50%	2024	1,395,000	-	200,000	1,195,000	210,000
Michigan Economic Development Corporation Loan	0.0%	2022	22,464	-	5,616	16,848	5,616
<b>Notes Payable:</b>							
Braun Ambulance	2.70%	2022	133,864	-	25,335	108,529	26,029
Plow Trucks	1.79%	2020	147,807	-	73,171	74,636	74,636
Small Loader	1.50%	2020	67,162	-	33,331	33,831	33,831
Ramsdell Theatre - HVAC	3.64%	2027	790,103	-	80,850	709,253	83,827
2019 Loader	3.59%	2023	-	150,000	-	150,000	35,540
2019 Vactor Truck	3.79%	2025	-	350,000	-	350,000	53,046
2019 Plow Truck	2.85%	2023	-	160,000	-	160,000	38,330
Subtotal			7,056,400	660,000	3,352,827	4,363,573	789,186
Vested Employee Benefits - net			282,589	3,411	-	286,000	-
<b>Total Governmental Activities</b>			<b>7,338,989</b>	<b>663,411</b>	<b>3,352,827</b>	<b>4,649,573</b>	<b>789,186</b>
<b><u>Business-type Activities</u></b>							
<b>Bonds:</b>							
1998 General Obligation Bonds	2.25%	2019	165,000	-	165,000	-	-
1999 General Obligation Bonds	2.50%	2021	420,000	-	135,000	285,000	140,000
2006 SRF Water & Sewer Bonds	1.63%	2027	1,332,270	-	145,000	1,187,270	145,000
2010 Tax General Obligation Bonds	2.00% - 4.65%	2031	-	2,714,782	160,259	2,554,523	166,669
2010 SRF Water & Sewer Bonds	2.50%	2031	461,075	-	30,000	431,075	30,000
2010 DWRF Water & Sewer Bonds	2.50%	2031	325,000	-	20,000	305,000	20,000
2011 DWRF Water & Sewer Bonds	2.50%	2031	312,555	-	20,000	292,555	20,000
2011 SRF Water & Sewer Bonds	2.50%	2031	930,774	-	60,000	870,774	65,000
2015 Water & Sewer Revenue Bonds	3.00% - 3.25%	2036	2,770,000	-	-	2,770,000	5,000
2017 Water & Sewer Refunding Bonds	2.32 to 4.00%	2038	3,475,000	-	640,000	2,835,000	830,000

**NOTE 6 - LONG-TERM DEBT (Continued)**

	Interest Rate	Principal Matures	Beginning Balance	Additions	Transfers/Reductions	Ending Balance	Due Within One Year
<b>Business-type Activities (Continued)</b>							
<b>Note Payable:</b>							
Marina Debt	3.24%	2026	<u>225,000</u>	<u>-</u>	<u>25,095</u>	<u>199,905</u>	<u>25,908</u>
Subtotal			10,416,674	2,714,782	1,400,354	11,731,102	1,447,577
Vested Employee Benefits - net			<u>52,471</u>	<u>3,171</u>	<u>-</u>	<u>55,642</u>	<u>-</u>
<b>Total Business-type Activities</b>			<u>10,469,145</u>	<u>2,717,953</u>	<u>1,400,354</u>	<u>11,786,744</u>	<u>1,447,577</u>
<b>Total Long-Term Debt – Primary Government</b>			<u><b>\$17,808,134</b></u>	<u><b>\$ 3,381,364</b></u>	<u><b>\$ 4,753,181</b></u>	<u><b>\$16,436,317</b></u>	<u><b>\$ 2,236,763</b></u>

Annual debt service requirements to maturity for the above obligations are as follows:

Fiscal:	Governmental Activities		Business-type Activities	
	Bonds/Installment Notes Payable		Bonds/Installment Notes Payable	
	Principal	Interest	Principal	Interest
2020	\$ 789,186	\$ 141,067	\$ 1,447,577	\$ 352,280
2021	572,480	120,175	789,826	324,902
2022	596,335	102,532	672,864	305,077
2023	623,137	83,482	692,613	285,969
2024	537,915	63,487	709,948	266,006
2025-2029	950,170	156,454	3,656,551	993,777
2030-2034	294,350	13,782	2,746,723	394,678
2035-2038	-	-	1,015,000	57,363
<b>TOTALS</b>	<u><b>\$ 4,363,573</b></u>	<u><b>\$ 680,979</b></u>	<u><b>\$ 11,731,102</b></u>	<u><b>\$ 2,980,052</b></u>

**Vested Employee Benefits**

Employees of the City earn sick and vacation time at varying rates based on the following:

**SICK LEAVE**

Under the terms of the various union’s collective bargaining units and nonunion groups, sick leave is accumulated at the rate of one day for each month of service, with a maximum accumulation. Employees who have accumulated more than the maximum days will not be allowed additional accumulation. Upon retirement or death, employees will be paid out 100% of days accumulated up to the maximum days.

As a result of separation for any other reason, the employees will lose all accumulated sick leave. Total sick leave was \$153,886.

**VACATIONS**

All full-time employees are granted vacation based on their years of service with the City and in accordance with personnel policies and union contracts. Annual earned vacation maxes out at five weeks.

The amount of accumulated vacation time as of June 30, 2019 was 7,138 with a value of \$187,756.

**NOTE 6 - LONG-TERM DEBT (Continued)**

**Component Unit – Housing Commission**

MSHDA Mortgages – In 2007, the Commission, through MSHDA, a government agency, borrowed \$326,000 maturing December 2047 and in 2008 borrowed \$174,000 maturing December 2048. These are three forgivable mortgages that are non-interest bearing and secured by property and buildings. If the properties mortgaged are continuously used in the Domestic Violence program, the mortgages are forgivable over the 40-year term; 25% for each 10 years that the houses stay in the program. The Commission is required by the loan agreement to deposit money each year in a reserve account to cover maintenance and repairs for the homes over the term of the loans. The amount deposited in the reserve account as of December 31, 2018 was \$63,599.

Note obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Housing Commission</b>					
Mortgage 1 MSHDA	\$ 166,000	\$ -	\$ -	\$ 166,000	\$ -
Mortgage 2 MSHDA	160,000	-	-	160,000	-
Mortgage 3 MSHDA	174,000	-	-	174,000	-
Total Notes Payable	500,000	-	-	500,000	-
Vested Employee Benefits	34,588	9,614	(5,969)	38,233	24,697
<b>Total Component Unit Long-Term Debt</b>	<b>\$ 534,588</b>	<b>\$ 9,614</b>	<b>\$ (5,969)</b>	<b>\$ 538,223</b>	<b>\$ 24,697</b>

Since the MSHDA mortgage payables are forgivable over 40 years there are no future debt service requirements as of December 31, 2018.

**NOTE 7 - LEASES**

Capital Lease – Housing Commission – In November 2009, the Commission entered into an equipment lease-purchase agreement to acquire equipment under an energy performance contract to update the heating and efficiency of several properties. The total amount of the contract is \$1,228,854, which began in January 2010 and was all committed as of December 31, 2010. Principal payments commenced March 2010. Interest from inception to March 2010 was added to principal. The agreement ends in July 2030. The balance as of December 31, 2018 is \$1,025,144 with interest at 6.123%.

Capital Lease – Housing Commission – In March 2016, the Commission entered into an equipment lease-purchase agreement to acquire equipment. The total amount of the contract is \$25,036, with interest rate of 5.95%. Principal payments commenced April 2016. The agreement ends in March 2021. The balance as of December 31, 2018 is \$12,129.

**NOTE 7 - LEASES (Continued)**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
EPC Capital Lease	\$ 1,101,128	\$ -	\$ 75,984	\$ 1,025,144	\$ 43,432
Equipment Lease Purchase	<u>17,021</u>	<u>-</u>	<u>4,892</u>	<u>12,129</u>	<u>5,191</u>
Total Capital Leases	<u>\$ 1,118,149</u>	<u>\$ -</u>	<u>\$ 80,876</u>	<u>\$ 1,037,273</u>	<u>\$ 48,623</u>

Payments under the agreement are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 48,623	\$ 67,427	\$ 116,050
2020	55,850	64,131	119,981
2021	59,280	60,444	119,724
2022	66,003	56,494	122,497
2023	74,845	52,016	126,861
2024-2028	534,831	170,568	705,399
2029-2030	<u>197,841</u>	<u>12,926</u>	<u>210,767</u>
Total	<u>\$ 1,037,273</u>	<u>\$ 484,006</u>	<u>\$ 1,521,279</u>

**NOTE 8 - RISK MANAGEMENT**

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

**NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS**

**PRIMARY GOVERNMENT**

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 1.5% to 2.8% (depending on division) times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2018.

**NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

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](http://www.mersofmich.com).

**01 – Non-Union: Open Division**

	<u>2018 Valuation</u>
<b>Benefit Multiplier:</b>	2.00% Multiplier (no max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	8 Years
<b>Early Retirement (Unreduced):</b>	55/30
<b>Early Retirement (Reduced):</b>	50/25 55/15
<b>Final Average Compensation:</b>	5 years
<b>Employee Contributions</b>	4%
<b>Act 88:</b>	Yes (Adopted 1/1/2005)

**02 – POAM: Closed to new hires, linked to Division 21**

	<u>2018 Valuation</u>
<b>Benefit Multiplier:</b>	2.80% Multiplier (80% max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	55/25 50/15
<b>Early Retirement (Reduced):</b>	-
<b>Final Average Compensation:</b>	3 years
<b>Employee Contributions</b>	4%
<b>Act 88:</b>	Yes (Adopted 1/1/2005)

**05 – IAFF: Closed Division**

	<u>2018 Valuation</u>
<b>Benefit Multiplier:</b>	2.80% Multiplier (80% max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	50/25
<b>Early Retirement (Reduced):</b>	50/15
<b>Final Average Compensation:</b>	3 years
<b>Employee Contributions</b>	4%
<b>D-2:</b>	D-2 (25%)
<b>Act 88:</b>	Yes (Adopted 1/1/2005)

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

<b>10 – USWA: Close to new hires, linked to Division 11</b>	
	<u><b>2018 Valuation</b></u>
<b>Benefit Multiplier:</b>	2.00% Multiplier (no max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	8 Years
<b>Early Retirement (Unreduced):</b>	55/30
<b>Early Retirement (Reduced):</b>	50/25
	55/15
<b>Final Average Compensation:</b>	5 years
<b>Employee Contributions</b>	4%
<b>Act 88:</b>	Yes (Adopted 1/1/2005)
<b>11 – USWA hired after 7/1/2012: Open Division, linked to Division 10, 12</b>	
	<u><b>2018 Valuation</b></u>
<b>Benefit Multiplier:</b>	1.50% Multiplier (no max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	8 Years
<b>Early Retirement (Unreduced):</b>	55/30
<b>Early Retirement (Reduced):</b>	50/25
	55/15
<b>Final Average Compensation:</b>	5 years
<b>Employee Contributions</b>	4%
<b>Act 88:</b>	Yes (Adopted 1/1/2005)
<b>12 – USWA hired after 7/1/2011: Open Division, linked to Division 11</b>	
	<u><b>2018 Valuation</b></u>
<b>Benefit Multiplier:</b>	1.50% Multiplier (no max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	8 Years
<b>Early Retirement (Unreduced):</b>	55/30
<b>Early Retirement (Reduced):</b>	50/25
	55/15
<b>Final Average Compensation:</b>	5 years
<b>Employee Contributions</b>	4%
<b>Act 88:</b>	Yes (Adopted 1/1/2005)

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

<b>20 – COAM: Closed to new hires, linked to Division 22</b>	
	<u><b>2018 Valuation</b></u>
<b>Benefit Multiplier:</b>	2.80% Multiplier (80% max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	50/25 55/15
<b>Early Retirement (Reduced):</b>	-
<b>Final Average Compensation:</b>	3 years
<b>Employee Contributions</b>	4%
<b>Act 88:</b>	Yes (Adopted 1/1/2005)
<b>21 – POAM after 07/01/2015: Open Division, linked to Division 02</b>	
	<u><b>2018 Valuation</b></u>
<b>Benefit Multiplier:</b>	2.50% Multiplier (80% max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	50/25 55/15
<b>Early Retirement (Reduced):</b>	-
<b>Final Average Compensation:</b>	3 years
<b>Employee Contributions</b>	4%
<b>Act 88:</b>	Yes (Adopted 1/1/2005)
<b>22 – COAM after 07/01/2015: Open Division, linked to Division 20</b>	
	<u><b>2018 Valuation</b></u>
<b>Benefit Multiplier:</b>	2.50% Multiplier (80% max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	50/25 55/15
<b>Early Retirement (Reduced):</b>	-
<b>Final Average Compensation:</b>	3 years
<b>Employee Contributions</b>	4%
<b>Act 88:</b>	Yes (Adopted 1/1/2005)

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	55
Inactive employees entitled to but not yet receiving benefits	11
Active employees	<u>51</u>
	117

**NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

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 or monthly level dollar amount at July 1, 2018 is as follows:

Non-Union		12.61%
POAM	\$	7,880
IAFF		26.27%
USWA	\$	1,756
USWA hired after 7/1/12		3.33%
COAM	\$	2,453
POAM after 7/1/15		14.99%

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%
Salary increases	3.75%
Investment rate of return	7.75%

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.

Mortality rates used were based on the RP – 2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

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:

**NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

*Discount Rate.* The discount rate used to measure the total pension liability is 8.0% 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.

**Changes in the Net Pension Liability:**

	<b>Increases (Decreases)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
<b>Balances at December 31, 2017</b>	\$ 19,654,005	\$ 16,300,409	\$ 3,353,596
Service cost	299,088	-	299,088
Interest on total pension liability	1,532,814	-	1,532,814
Changes in benefits	-	-	-
Difference between expected and actual experience	(157,178)	-	(157,178)
Changes in assumptions	-	-	-
Employer contributions	-	437,921	(437,921)
Employee contributions	-	131,806	(131,806)
Net investment income	-	(620,444)	620,444
Benefit payments, including employee refunds	(1,286,772)	(1,286,772)	-
Administrative expense	-	(31,217)	31,217
<b>Net changes</b>	<b>387,952</b>	<b>(1,368,706)</b>	<b>1,756,658</b>
<b>Balances as of December 31, 2018</b>	<b>\$ 20,041,957</b>	<b>\$ 14,931,703</b>	<b>\$ 5,110,254</b>

*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:

**NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's net pension liability	\$7,184,932	\$5,110,254	\$3,335,000

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

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

For the year ended December 31, 2018, the City recognized pension expense of \$1,087,036. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 109,871
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	1,129,978	-
Contributions subsequent to the measurement date	235,945	-
<b>Total</b>	<b>\$ 1,365,923</b>	<b>\$ 109,871</b>

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 June 30:</u>	
2020	\$ 370,235
2021	88,473
2022	182,489
2023	378,910
<b>Total</b>	<b>\$ 1,020,107</b>

**NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

Annual Pension Cost

During the year ended June 30, 2019, the City’s contributions totaling \$413,100 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2017. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member’s retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases. The unfunded actuarial liability is amortized as a level percent of payroll on a closed basis. The remaining amortization period is 22 years.

**Fixed Payment Defined Benefit Plan**

The City of Manistee offers eligible employees who retire from the City a \$250 per month stipend from normal retirement age until age 65. This cash benefit is intended to aid the retiree in buying health insurance on the open market or exchange, but there is no requirement that it be used for that and the stipend is reported as taxable income to the employee. Employees hired after July 1, 2012 in the four City-union groups are not eligible for this benefit. Non-union employees hired after July 1, 2018 are not eligible for this benefit.

Certain information contained in this note is based on information for the Defined Benefit Plan measured as of July 1, 2018, which is the most recent valuation date for which complete information related to the year ended June 30, 2019 is available, which was calculated in accordance with GASB Statement Number 73.

*Fiduciary Investment and Control:* The plan is unfunded. Benefits are paid to retirees monthly.

*Participants Covered by the Benefit Terms:* The following participants were covered by the benefit terms:

Inactive participants currently receiving benefit payments	8
Inactive participants entitled to but not yet receiving benefit payments	-
Active participants	<u>31</u>
	39

*Contributions:* Benefits are paid monthly to the retirees. There is no pre-funding of the pension obligation.

*Trust Assets:* None.

*Measurement of Total Pension Liability:* The total pension liability at the June 30, 2019 measurement date was determined using an actuarial valuation as of July 1, 2018.

**NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

Actuarial Assumptions: The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method:	Entry Age Normal, as a percent of Salary
Inflation:	N/A
Salary Scale:	2.00%
Mortality rates were based on:	SOA RP-2014 Total Dataset Mortality with Scale MP-2018 (Base Rate 2006)

As prescribed by GASB No. 73, the discount rate will be based on the index rate for 20-year tax-exempt general obligation municipal bond index rate with an average rating of AA/Aa or higher as of the measurement date. To comply with this provision, the *Bond Buyer 20-Bond General Obligation Index* will be used. The discount rate of 3.87% is the July 1, 2018 value of this index.

*Changes in the Total Pension Liability:* The following table presents the changes to the total pension liability during the fiscal year.

	<u>June 30, 2019</u>
<b>Pension Liability Beginning of Year, July 1st</b>	\$ 277,290
Changes for the Year	
Service cost	6,650
Interest	10,167
Assumption changes	7,146
Difference between actual and expected experience	-
Change in actuarial cost method	-
Benefit payments	<u>(29,198)</u>
<b>Pension Liability End of Year, June 30th</b>	<u>\$ 272,055</u>

*Sensitivity of the Total Pension Liability to Changes in the Discount Rate:* The following presents the total pension liability of the City as of the June 30, 2019 measurement date, calculated using the discount rate of 3.50%, as well as what the City ‘s total pension liability would be if it were not calculated using a discount rate that is one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current rate:

Period	1% Decrease (2.50%)	Current (3.50%)	1% Increase (4.50%)
Net pension liability, June 30, 2019	\$286,937	\$272,055	\$257,839

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

	<u>June 30, 2019</u>
Service cost	\$ 6,650
Interest	10,167
Amortization of Deferred Charges:	
Difference between expected and actual experience	-
Changes of assumptions or other inputs	935
Plan changes	-
Expected return on investments	-
Net Pension Expense	<u>\$ 17,752</u>

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

	<u>Attributable to</u>			
	<u>Actual vs. Expected Experience</u>	<u>Assumption Changes</u>	<u>Plan Changes</u>	<u>Expected Return on Investments</u>
Balance June 30, 2019	\$ -	\$ 6,211	\$ -	\$ -

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

<u>As of June 30th</u>	<u>Actual vs. Expected Experience</u>	<u>Assumption Changes</u>	<u>Plan Changes</u>	<u>Expected Return on Investments</u>
2020	\$ -	\$ 935	\$ -	\$ -
2021	-	935	-	-
2022	-	935	-	-
2023	-	935	-	-
2024	-	935	-	-
2025 and beyond	-	1,536	-	-

**NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

***COMPONENT UNIT – MANISTEE HOUSING COMMISSION***

Description of Plan and Plan Assets

The Commission 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 1.5% to 2.8% (depending on division) times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2017.

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](http://www.mersofmich.com).

	<b>2017 Valuation</b>
<b>Benefit Multiplier:</b>	1.50%
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	-
<b>Early Retirement (Reduced):</b>	50/25 55/15
<b>Final Average Compensation:</b>	5 years
<b>Employee Contributions</b>	6%
<b>Act 88:</b>	Yes (Adopted 4/1/2005)

Employees Covered by Benefit Terms

At the December 31, 2017 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	2
Active employees	8
	<u>14</u>

Funding Policy

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

**NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

Employer contributions range from \$0 to \$0 based on annual payroll for open divisions. The plan is closed to new employees. The Commission has an annual employer contribution amount of \$0. Employees contribute 6% of their payroll. The amount of employee contributions was \$16,770 as of December 31, 2017.

Net Pension Liability

The employer’s net pension liability was measured as of December 31, 2017, 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, 2017 annual 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
Investment rate of return	7.75 percent

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages 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	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

*Discount Rate.* The discount rate used to measure the total pension liability is 8.00% for 2017. 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 employee 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.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
<b>Balances at December 31, 2016</b>	\$ 531,537	\$ 502,358	\$ 29,179
Service cost	22,980	-	22,980
Interest on total pension liability	41,960	-	41,960
Changes in benefits	-	-	-
Difference between expected and actual experience	263	-	263
Changes in assumptions	-	-	-
Employer contributions	-	4,878	(4,878)
Employee contributions	-	16,770	(16,770)
Net investment income	-	66,034	(66,034)
Benefit payments, including employee refunds	(37,056)	(37,056)	-
Administrative expense	-	(1,046)	1,046
Other changes	-	-	-
<b>Net changes</b>	<b>28,147</b>	<b>49,580</b>	<b>(21,433)</b>
<b>Balances as of December 31, 2017</b>	<b>\$ 559,684</b>	<b>\$ 551,938</b>	<b>\$ 7,746</b>

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the Commission, calculated using the discount rate of 8.0%, as well as what the Commission's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0%) or 1-percentage-point higher (9.0%) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability	\$70,085	7,746	(\$45,132)

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

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

For the year ended December 31, 2018, the Commission recognized pension expense of \$12,797. At December 31, 2017, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 881	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	10,600
Contributions subsequent to the measurement date	11,040	-
<b>Total</b>	<b>\$ 11,921</b>	<b>\$ 10,600</b>

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 December 31:</u>	<b>Deferred Outflows of Resources</b>
2018	\$ 13,782
2019	1,050
2020	(8,275)
2021	(5,236)
<b>Total</b>	<b>\$ 1,321</b>

**NOTE 10 - OTHER POST EMPLOYMENT BENEFITS**

***PRIMARY GOVERNMENT***

In addition to the pension benefits described in Note 9, the City provides a post retirement health insurance premium contribution of up to 50% of the premium, or a maximum of \$250 per month, from normal retirement until age 65 or eligibility for Medicare.

**Plan Description**

The City administers a single-employer healthcare plan (“the Retire Health Plan”). The plan provides payments for eligible retirees through the City’s group health insurance plan, which covers both active and retired members. Benefit provisions are established through negotiations between the various agencies and employees. The Retiree Health Plan does not issue a publicly available financial report.

**NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (Continued)**

Employees Covered by Benefit Terms

As of July 1, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	7
Inactive employees entitled to but not yet receiving benefits	-
Active employees	<u>-</u>
Total participants covered by OPEB Plan	<u><u>7</u></u>

Funding Policy

There are no required contributions by plan participants. The required contribution is based on pay-as-you-go financing requirements. The City paid \$32,548 in benefits for participants for the year ended June 30, 2019. The benefit is funded by assets of the City’s General Fund and Water and Sewer Fund depending on what department the employee was employed.

Total OPEB Liability and Net OPEB Liability

The City’s total OPEB liability of \$89,894 was measured as of July 1, 2017, and was determined by an actuarial valuation as of that date, which is calculated in accordance with provisions of GASB Statement Number 75.

As of June 30, 2019, there were no assets in the City’s OPEB trust.

Actuarial assumptions and other inputs.

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified.

Discount Rate	3.58%
Amortization Period	30 years
Healthcare Cost Trend Rates:	
Current Year Trend	(8.60%)
Second Year Trend	9.50%
Decrement	.50%
Ultimate Trend	5.00%
Year Ultimate Trend is Reached	2025
Salary Increases	3.50%
Actuarial Cost Method	Entry Age Normal

Mortality rates were based on the RP-2000 Combined Healthy Participant Table Projected 10 Years using Projection Scale AA.

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (Continued)

	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
<b>Balances at July 1, 2018</b>	\$ 118,141	\$ -	\$ 118,141
Service cost	-	-	-
Interest	3,647	-	3,647
Difference between expected and actual experience and assumptions	654	-	654
Contributions - Employer	-	-	-
Net investment income	-	-	-
Benefit payments	(32,548)	-	(32,548)
<b>Net changes</b>	<u>(28,247)</u>	<u>-</u>	<u>(28,247)</u>
<b>Balances as June 30, 2019</b>	<u>\$ 89,894</u>	<u>\$ -</u>	<u>\$ 89,894</u>

Sensitivity of the total OPEB liability to changes in the discount rate.

The July 1, 2018 was prepared using a discount rate of 3.58%. If the discount rate were 1% higher than what was used in this valuation, the Total OPEB Liability would decrease to \$88,162 or by 1.93%. If the discount rate were 1% lower than was used in this valuation, the Total OPEB Liability would increase to \$91,698 or by 2.01%.

	<u>Discount Rate</u>		
	<u>1% Decrease</u>	<u>Baseline 3.58%</u>	<u>1% Increase</u>
Net OPEB Liability	\$91,698	\$89,894	\$88,162

Sensitivity of the Total OPEB liability to changes in the healthcare cost trend rates.

The July 1, 2018 was prepared using an initial trend rate of 9.50%. If the trend rate were 1% higher than what was used in this valuation, the Total OPEB Liability would increase to \$90,815 or by 1.02%. If the trend rate were 1% lower than was used in this valuation, the Total OPEB Liability would decrease to \$88,990 or by 1.1%.

	<u>Healthcare Cost Trend Rates</u>		
	<u>1% Decrease</u>	<u>Baseline 9.50%</u>	<u>1% Increase</u>
Total OPEB Liability	\$88,990	\$89,894	\$90,815

**NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (Continued)**

OPEB Expense

For the year ended June 30, 2019, the City recognized an OPEB expense as follows:

	<u>June 30, 2019</u>
Service Cost	\$ -
Interest on Net OPEB Liability (Asset)	2,647
Deferred (Inflows)/Outflows from Expected and Actual Experience	<u>(213,112)</u>
Net OPEB Expense	<u>\$ (210,465)</u>

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

At June 30, 2019, the City reported deferred outflows / inflows of resources related to OPEB from the following sources:

Increase (decrease) in July 1, 2018 OPEB liability due to actuarial experience different from expected and actuarial assumption changes	\$ 654
Less Amortization:	<u>(654)</u>
Total June 30, 2019	<u>\$ -</u>

There were no amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB.

***COMPONENT UNIT – MANISTEE HOUSING COMMISSION***

The Commission does not participate in a post employment benefits plan. Under the current union contract, the Commission is required to contribute \$100 for each retiree and \$100 for each spouse monthly to help subsidize the premiums for supplemental health insurance.

For the year ended December 31, 2017, the Commission had one covered retiree and contributed \$300.

**NOTE 11 - CAPITAL LEASES:**

The City has executed various leases for office equipment related to administration of its governmental activities. Lease terms require combined monthly payments of \$323 as follow:

Total lease payments:

2020	\$	2,297
2021		1,984
2022		<u>1,156</u>
Total minimum lease payments		5,437
Less amount resending interest		<u>(405)</u>
Present value of minimum lease payments	\$	<u><u>5,032</u></u>

**NOTE 12 - TAX ABATEMENTS:**

The City of Manistee, entered into certain agreements during the year that involve tax abatements; the following table outlines the key information regarding the entities involved and the type and amounts of City taxes abated during the year ending June 30, 2019.

Contracted Entity	Program	Statutory Authority	Tax Abated	Total	Commitment by Contracted Entity
Fab Lite, Inc.	IFT	ACT 198	Prop. Tax	\$ 2,120	Development
Reitz Park Village	Pilots Housing	ACT 346	Prop. Tax	-	Development
North Channel Investors	OPRA	ACT 146	Prop. Tax	31,709	Development
American Materials etal	REN	ACT 376	Prop. Tax	212,350	Development
Manistee Place Limited	Housing	ACT 346	Prop. Tax	<u>-</u>	Development
Total Abated				<u><u>\$ 246,179</u></u>	

**NOTE 13 - PRIOR PERIOD ADJUSTMENT:**

	Governmental Activities	Business- Type Activities	Component Unit Housing Commission
Beginning net position as previously stated at June 30, 2018	\$ 24,027,436	\$ 10,842,496	\$ 1,746,114
Adjustment to net position due to allocation of bonded debt	2,714,782	(2,714,782)	-
Implementation of GASB Statement Number 73	(277,290)	-	-
Adjustment of prior year income expense items	<u>-</u>	<u>-</u>	<u>38,905</u>
Beginning net position as restated at June 30, 2018	<u><u>\$ 26,464,928</u></u>	<u><u>\$ 8,127,714</u></u>	<u><u>\$ 1,785,009</u></u>

**NOTE 14 - SUBSEQUENT EVENTS:**

After year end, the City received approval from USDA Rural Development to bid Phase 1 of a wastewater improvement project estimated to cost \$4.4 million dollars and to be financed thru low interest, 40-year loans.

The City is also completing a USDA Rural Development loan application for Phase 2 wastewater improvements in an amount of \$18 million dollars also to be financed thru low interest, 40-year loans and/or a possible grant.

## **Required Supplementary Information**

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**Required Supplementary Information**  
**Employee Retirement and Benefit Systems**  
**Schedule of Changes in Pension Liability**  
**For the Year Ended June 30, 2019**

	2015	2016	2017	2018	2019
<b>Total pension liability</b>					
Service cost	\$ 290,722	\$ 293,554	\$ 305,785	\$ 303,716	\$ 299,088
Interest	1,309,986	1,319,718	1,433,368	1,483,502	1,532,814
Changes in benefits	-	(2,973)	-	-	-
Difference between expected and actual experience	-	50,037	11,166	10,443	(157,178)
Change in assumptions	-	780,329	-	-	-
Benefit payments, including refund of member contributions	(939,727)	(1,028,824)	(1,094,230)	(1,150,988)	(1,286,772)
Other changes	-	35,381	-	39,918	-
<b>Net change in total pension liability</b>	660,981	1,447,222	656,089	686,591	387,952
<b>Total pension liability - beginning</b>	16,203,122	16,864,103	18,311,325	18,967,414	19,654,005
<b>Total pension liability - ending</b>	<u>\$ 16,864,103</u>	<u>\$ 18,311,325</u>	<u>\$ 18,967,414</u>	<u>\$ 19,654,005</u>	<u>\$ 20,041,957</u>
<b>Plan fiduciary net position</b>					
Contributions - employer	\$ 196,069	\$ 216,916	\$ 284,796	\$ 367,062	\$ 437,921
Contributions - employee	603,192	132,242	144,382	148,063	131,806
Net investment income	913,523	(219,279)	1,584,820	1,959,571	(620,444)
Benefit payments, including refund of member contributions	(939,727)	(1,028,824)	(1,094,230)	(1,150,988)	(1,286,772)
Administrative expense	(33,619)	(32,521)	(31,310)	(31,062)	(31,217)
<b>Net change in plan fiduciary net position</b>	739,438	(931,466)	888,458	1,292,646	(1,368,706)
<b>Plan fiduciary net position - beginning</b>	14,311,333	15,050,771	14,119,305	15,007,763	16,300,409
<b>Plan fiduciary net position - ending</b>	<u>\$ 15,050,771</u>	<u>\$ 14,119,305</u>	<u>\$ 15,007,763</u>	<u>\$ 16,300,409</u>	<u>\$ 14,931,703</u>
<b>City's net pension liability - ending</b>	<u>\$ 1,813,332</u>	<u>\$ 4,192,020</u>	<u>\$ 3,959,651</u>	<u>\$ 3,353,596</u>	<u>\$ 5,110,254</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	89%	77%	79%	83%	75%
<b>Covered - employee payroll</b>	\$ 2,760,014	\$ 2,781,946	\$ 2,836,757	\$ 2,934,617	\$ 2,827,295
<b>City's net pension liability as a percentage of covered-employee payroll</b>	66%	151%	140%	114%	181%

**Required Supplementary Information  
Employee Retirement and Benefit Systems  
Schedule of Employer Contributions  
For the Year Ended June 30, 2019**

	2015	2016	2017	2018	2019
Actuarially determined contribution	\$ 196,069	\$ 243,437	\$ 284,796	\$ 355,152	\$ 413,100
Contributions in relation to the actuarially determined contribution	196,069	243,437	284,796	355,152	413,100
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered - employee payroll	\$ 2,760,014	\$ 2,781,946	\$ 2,836,757	\$ 2,934,617	\$ 2,827,295
Contributions as a percentage of covered-employee payroll	7%	9%	10%	12%	15%

**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, closed
Remaining amortization period	22 years
Asset valuation method	5-years smoothed market
Inflation	2.50%
Salary increases	3.75%
Investment rate of return	7.75%
Retirement age	In the 2018, actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience
Mortality	Assumptions were based on the RP2014 Group Annuity Mortality Table - Blended 50% Male / 50% Female

**Required Supplementary Information  
Employee Retirement and Benefit Systems  
Schedule of Changes in Pension Liability  
For the Year Ended June 30, 2019**

	2019
<b>Total pension liability</b>	
Service cost	\$ 6,650
Interest	10,167
Changes in benefits	-
Difference between expected and actual experience	-
Change in assumptions	7,146
Benefit payments, including refund of member contributions	(29,198)
Other changes	-
<b>Net change in total pension liability</b>	(5,235)
<b>Total pension liability - beginning</b>	277,290
<b>Total pension liability - ending</b>	\$ 272,055
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 29,198
Contributions - employee	-
Net investment income	-
Benefit payments, including refund of member contributions	(29,198)
Administrative expense	-
<b>Net change in plan fiduciary net position</b>	-
<b>Plan fiduciary net position - beginning</b>	-
<b>Plan fiduciary net position - ending</b>	\$ -
<b>City's net pension liability - ending</b>	\$ 272,055
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	0%
<b>Covered - employee payroll</b>	\$ 1,700,000
<b>City's net pension liability as a percentage of covered-employee payroll</b>	16.31%

**Required Supplementary Information  
Employee Retirement and Benefit Systems  
Schedule of Employer Contributions  
For the Year Ended June 30, 2019**

	2019
Actuarially determined contribution	\$ 29,198
Contributions in relation to the actuarially determined contribution	(29,198)
Contribution deficiency (excess)	\$ -
Covered - employee payroll	\$ 1,700,000
Contributions as a percentage of covered-employee payroll	2%

**Notes to Schedule:**

Actuarially determined contribution rates are calculated as of June 1, 2018:

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Age Enry Normal, as a percent of salary
Discount rate	3.87%
Duration of benefits	Payable until age 65
Inflation	2.00%
Salary increases	2.00%
Mortality	RP-2014 total data set mortality with scale MP-2018

**Required Supplementary Information**  
**Employee Retirement and Benefit Systems**  
**Schedule of Changes in the City's Total OPEB Liability and Related Ratios**  
**For the Year Ended June 30, 2019**

	2018	2019
<b>OPEB Liability Beginning of Year</b>	\$ 330,195	\$ 118,141
<b>Changes for the Year:</b>		
Service Cost	18,919	-
Interest	14,139	3,647
Change in Benefit Terms	-	-
Assumption Changes and Differences Between Actual and Expected Experience	(213,112)	654
Change in Actuarial Cost Method	-	-
Benefit Payments	(32,000)	(32,548)
<b>OPEB Liability End of Year</b>	\$ 118,141	\$ 89,894
<b>Covered Payroll</b>	NA	N/A
<b>Total OPEB Liability as a percentage of covered payroll</b>	NA	N/A
<b>Actuarially Determined Contribution:</b>		2019
Service Cost		\$ -
30 Year amortization of NOL at 3.58%		4,937
Actuarially Determined Contribution		4,937
Actual Contribution		31,909
Contribution deficiency (excess)		\$ (26,972)
<b>Key Assumptions:</b>		
Census Collection Date	July 1, 2017	
Discount Rate	3.58%	
Year 1 Inflation Rate	(8.60%)	
Year 2 Inflation Rate	5.02%	
Ultimate Inflation Rate	5.00%	
Year Ultimate Inflation Rate is Reached	2028	
Actuarial Cost Method	Entry Age Normal (Percent of Salary)	

**Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 3,438,340	\$ 3,438,340	\$ 3,487,539	\$ 49,199
Licenses and Permits	157,500	157,500	133,746	(23,754)
State Sources	888,906	888,906	958,030	69,124
Charges for Services	1,552,610	1,552,610	1,484,254	(68,356)
Interest and Rents	51,053	51,053	62,058	11,005
Other Revenue	191,000	191,000	267,758	76,758
<b>TOTAL REVENUES</b>	<b>6,279,409</b>	<b>6,279,409</b>	<b>6,393,385</b>	<b>113,976</b>
<b>EXPENDITURES:</b>				
Legislative:				
City Council	40,208	52,708	51,374	1,334
General Government:				
Manager	228,004	228,004	221,889	6,115
Clerk	162,748	172,053	169,925	2,128
Board of Review	1,850	1,850	1,908	(58)
Finance/Treasurer	340,720	341,920	338,945	2,975
Building and Grounds	150,516	177,516	175,043	2,473
Assessor	88,398	88,398	84,188	4,210
Elections	16,400	16,400	12,181	4,219
General	422,927	504,927	506,322	(1,395)
<b>Total General Government</b>	<b>1,411,563</b>	<b>1,531,068</b>	<b>1,510,401</b>	<b>20,667</b>
Public Safety:				
Police Department	1,231,157	1,231,157	1,203,779	27,378
Fire Department	1,087,649	1,094,130	1,070,002	24,128
Planning & Zoning	107,953	107,953	92,116	15,837
<b>Total Public Safety</b>	<b>2,426,759</b>	<b>2,433,240</b>	<b>2,365,897</b>	<b>67,343</b>
Public Works:				
Public Works	1,378,619	1,378,619	1,302,931	75,688
<b>Total Public Works</b>	<b>1,378,619</b>	<b>1,378,619</b>	<b>1,302,931</b>	<b>75,688</b>
Recreation and Culture:				
Parks and Recreation	406,944	406,944	394,185	12,759
<b>Total Recreation and Culture</b>	<b>406,944</b>	<b>406,944</b>	<b>394,185</b>	<b>12,759</b>
Debt Service	367,700	367,700	367,700	-
Other Expenditures:				
Appropriations	172,000	147,000	147,000	-
<b>Total Other Expenditures</b>	<b>172,000</b>	<b>147,000</b>	<b>147,000</b>	<b>-</b>
<b>TOTAL EXPENDITURES</b>	<b>6,203,793</b>	<b>6,317,279</b>	<b>6,139,488</b>	<b>177,791</b>

**Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)</b>	75,616	(37,870)	253,897	291,767
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	<u>(75,616)</u>	<u>(100,616)</u>	<u>(100,417)</u>	<u>199</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>\$ -</u>	<u>\$ (138,486)</u>	153,480	<u>\$ 291,966</u>
<b>FUND BALANCE BEGINNING OF YEAR</b>			<u>1,324,601</u>	
<b>FUND BALANCE AT END OF YEAR</b>			<u>\$ 1,478,081</u>	

**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Major Street Fund**  
**For the Year Ended June 30, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
State Sources	\$ 774,208	\$ 887,708	\$ 889,406	\$ 1,698
Charges for Services	293,500	180,000	202,988	22,988
Interest	1,000	1,000	10,643	9,643
<b>TOTAL REVENUES</b>	<u>1,068,708</u>	<u>1,068,708</u>	<u>1,103,037</u>	<u>34,329</u>
<b>EXPENDITURES:</b>				
Public Works	1,049,526	868,750	634,474	234,276
<b>TOTAL EXPENDITURES</b>	<u>1,049,526</u>	<u>868,750</u>	<u>634,474</u>	<u>234,276</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)</b>				
	<u>19,182</u>	<u>199,958</u>	<u>468,563</u>	<u>268,605</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers In	85,000	85,000	60,000	(25,000)
Operating Transfers Out	-	(180,776)	(180,776)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>85,000</u>	<u>(95,776)</u>	<u>(120,776)</u>	<u>(25,000)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>\$ 104,182</u>	<u>\$ 104,182</u>	347,787	<u>\$ 243,605</u>
<b>FUND BALANCE BEGINNING OF YEAR</b>			<u>417,540</u>	
<b>FUND BALANCE AT END OF YEAR</b>			<u>\$ 765,327</u>	

**Required Supplementary Information  
Budgetary Comparison Schedule  
Local Street Fund  
For the Year Ended June 30, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 199,488	\$ 199,488	\$ 212,691	\$ 13,203
Other Revenue	50	50	864	814
<b>TOTAL REVENUES</b>	<b>199,538</b>	<b>199,538</b>	<b>213,555</b>	<b>14,017</b>
EXPENDITURES:				
Public Works	652,600	652,600	238,270	414,330
Debt Service	80,776	80,776	80,776	-
<b>TOTAL EXPENDITURES</b>	<b>733,376</b>	<b>733,376</b>	<b>319,046</b>	<b>414,330</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)</b>	<b>(533,838)</b>	<b>(533,838)</b>	<b>(105,491)</b>	<b>428,347</b>
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	524,776	524,776	539,573	14,797
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ (9,062)</b>	<b>\$ (9,062)</b>	<b>434,082</b>	<b>\$ 443,144</b>
<b>FUND BALANCE BEGINNING OF YEAR</b>			<b>323,430</b>	
<b>FUND BALANCE AT END OF YEAR</b>			<b>\$ 757,512</b>	

## **Other Information**

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**Other Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2019**

	Special Revenue Funds					Capital Project Fund	Debt Service Fund	Totals
	City Refuse	Peg Commission	Brownfield Redevelopment Authority	Street Improvement	Grant Management Fund	Capital Improvement	Renaissance Park	
<b>ASSETS:</b>								
Cash and Equivalents - Unrestricted	\$ 47,546	\$ 19,724	\$ 72,336	\$ 57,959	\$ 7	\$ 36,486	\$ 5,677	\$ 239,735
Investments - Unrestricted	1,271	-	-	-	-	-	-	1,271
Accounts Receivable	60,044	2,216	-	69	27,600	-	-	89,929
Due From Other Funds	145	-	-	6,362	-	-	-	6,507
Prepaid Items	-	-	246	-	13,421	-	-	13,667
<b>TOTAL ASSETS</b>	<b>\$ 109,006</b>	<b>\$ 21,940</b>	<b>\$ 72,582</b>	<b>\$ 64,390</b>	<b>\$ 41,028</b>	<b>\$ 36,486</b>	<b>\$ 5,677</b>	<b>\$ 351,109</b>
<b>LIABILITIES:</b>								
Accounts Payable	\$ 41,445	\$ -	\$ 56,769	\$ 69	\$ 6,014	\$ -	\$ -	\$ 104,297
Due To Other Funds	-	-	-	-	-	-	2,700	2,700
<b>TOTAL LIABILITIES</b>	<b>41,445</b>	<b>-</b>	<b>56,769</b>	<b>69</b>	<b>6,014</b>	<b>-</b>	<b>2,700</b>	<b>106,997</b>
<b>FUND BALANCES:</b>								
Nonspendable	-	-	246	-	13,421	-	-	13,667
Restricted	67,561	-	15,567	-	21,593	-	-	104,721
Committed	-	-	-	-	-	36,486	2,977	39,463
Assigned	-	21,940	-	64,321	-	-	-	86,261
<b>TOTAL FUND BALANCES</b>	<b>67,561</b>	<b>21,940</b>	<b>15,813</b>	<b>64,321</b>	<b>35,014</b>	<b>36,486</b>	<b>2,977</b>	<b>244,112</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 109,006</b>	<b>\$ 21,940</b>	<b>\$ 72,582</b>	<b>\$ 64,390</b>	<b>\$ 41,028</b>	<b>\$ 36,486</b>	<b>\$ 5,677</b>	<b>\$ 351,109</b>

**Other Information**  
**Combining Statement of Revenues, Expenditures,**  
**and Changes in Fund Balance - Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2019**

	Special Revenue Funds					Capital Project Fund	Debt Service Fund	
	City Refuse	Peg Commission	Brownfield Redevelopment Authority	Street Improvement	Grant Management Fund	Capital Improvement	Renaissance Park	Totals
<b>REVENUES:</b>								
Taxes	\$ 204,363	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 204,363
Federal Sources	-	-	-	-	110,514	-	-	110,514
State Sources	-	-	-	27,587	-	-	-	27,587
Charges for Services	400,263	-	-	-	-	-	-	400,263
Local Sources	-	5,056	-	-	38,063	-	-	43,119
Other Revenues	73	8,800	-	-	-	-	-	8,873
Interest and Rents	1,271	-	-	-	-	-	-	1,271
<b>TOTAL REVENUES</b>	<b>605,970</b>	<b>13,856</b>	<b>-</b>	<b>27,587</b>	<b>148,577</b>	<b>-</b>	<b>-</b>	<b>795,990</b>
<b>EXPENDITURES:</b>								
General Government	-	1,080	-	-	-	-	-	1,080
Public Safety	-	-	-	-	143,186	-	-	143,186
Public Works	582,949	-	2,954	5,417	-	-	-	591,320
Debt Service	-	-	-	-	-	181,061	5,616	186,677
Capital Outlay	-	-	-	-	-	15,500	-	15,500
<b>TOTAL EXPENDITURES</b>	<b>582,949</b>	<b>1,080</b>	<b>2,954</b>	<b>5,417</b>	<b>143,186</b>	<b>196,561</b>	<b>5,616</b>	<b>937,763</b>
<b>EXCESS OF REVENUES OVER (UNDER)</b>								
<b>EXPENDITURES BEFORE OTHER</b>								
<b>FINANCING SOURCES (USES)</b>	23,021	12,776	(2,954)	22,170	5,391	(196,561)	(5,616)	(141,773)
<b>OTHER FINANCING SOURCES (USES):</b>								
Operating Transfers In	-	-	-	-	-	591,042	5,620	596,662
Operating Transfers Out	-	-	-	(20,000)	-	(369,000)	-	(389,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(20,000)</b>	<b>-</b>	<b>222,042</b>	<b>5,620</b>	<b>207,662</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>23,021</b>	<b>12,776</b>	<b>(2,954)</b>	<b>2,170</b>	<b>5,391</b>	<b>25,481</b>	<b>4</b>	<b>65,889</b>
<b>FUND BALANCE BEGINNING OF YEAR</b>	<b>44,540</b>	<b>9,164</b>	<b>18,767</b>	<b>62,151</b>	<b>29,623</b>	<b>11,005</b>	<b>2,973</b>	<b>178,223</b>
<b>FUND BALANCE AT END OF YEAR</b>	<b>\$ 67,561</b>	<b>\$ 21,940</b>	<b>\$ 15,813</b>	<b>\$ 64,321</b>	<b>\$ 35,014</b>	<b>\$ 36,486</b>	<b>\$ 2,977</b>	<b>\$ 244,112</b>

**Other Information**  
**Combining Statement of Net Position**  
**Major Enterprise Funds**  
**June 30, 2019**

	Sewer	Water	Totals
<b>ASSETS:</b>			
Cash and Equivalents - Unrestricted	\$ 29,614	\$ 685,690	\$ 715,304
Cash and Equivalents - Restricted	-	52,500	52,500
Investments - Unrestricted	826,008	72	826,080
Investments - Restricted for Debt Reserve	487,884	-	487,884
Accounts Receivable	396,982	391,704	788,686
Due from Other Funds	-	400,000	400,000
Prepaid Items	9,462	8,695	18,157
Capital Assets (Not Depreciated)	2,148,418	-	2,148,418
Capital Assets (Net of Accumulated Depreciation)	15,762,494	707,912	16,470,406
<b>TOTAL ASSETS</b>	<b>19,660,862</b>	<b>2,246,573</b>	<b>21,907,435</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Pension Items	59,604	49,670	109,274
<b>LIABILITIES:</b>			
Accounts Payable	649,434	87,353	736,787
Customer Deposits	37,887	14,013	51,900
Accrued Payroll and Related Liabilities	11,088	8,736	19,824
Accrued Interest Payable	54,557	3,922	58,479
Due to Other Funds	431,051	240,000	671,051
Vested Employee Benefits - Due in more than one year	22,141	33,501	55,642
Net Pension Liability	222,993	185,827	408,820
Bonds Payable - Due within one year	1,381,669	40,000	1,421,669
Bonds Payable - Due in more than one year	9,551,973	557,555	10,109,528
<b>TOTAL LIABILITIES</b>	<b>12,362,793</b>	<b>1,170,907</b>	<b>13,533,700</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Pension Items	4,795	3,995	8,790
<b>NET POSITION:</b>			
Net Investment in Capital Assets	6,977,270	110,357	7,087,627
Unrestricted	375,608	1,010,984	1,386,592
<b>TOTAL NET POSITION</b>	<b>7,352,878</b>	<b>1,121,341</b>	<b>8,474,219</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b>\$ 19,720,466</b>	<b>\$ 2,296,243</b>	<b>\$ 22,016,709</b>

**Other Information**  
**Combining Statement of Revenues, Expenses, and**  
**Changes in Net Position - Major Enterprise Funds**  
**For the Year Ended June 30, 2019**

	Sewer	Water	Totals
<b>OPERATING REVENUES:</b>			
Charges for Services	\$ 2,828,264	\$ 1,298,510	\$ 4,126,774
Other Revenue	7,689	30,957	38,646
<b>TOTAL OPERATING REVENUES</b>	<b>2,835,953</b>	<b>1,329,467</b>	<b>4,165,420</b>
<b>OPERATING EXPENSES:</b>			
Personnel Services	577,149	418,780	995,929
Contracted Services	30,149	8,872	39,021
Administration	187,500	187,500	375,000
Equipment Rental	100,000	50,000	150,000
Supplies	63,940	46,093	110,033
Utilities	155,905	77,752	233,657
Repair and Maintenance	177,603	46,459	224,062
Depreciation	1,041,305	115,701	1,157,006
Miscellaneous	283,468	252,306	535,774
<b>Total Operating Expenses</b>	<b>2,617,019</b>	<b>1,203,463</b>	<b>3,820,482</b>
<b>OPERATING INCOME (LOSS)</b>	<b>218,934</b>	<b>126,004</b>	<b>344,938</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest Income	32,961	8,240	41,201
State Grants	131,469	231,113	362,582
Interest Expense	(388,876)	(13,340)	(402,216)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(224,446)</b>	<b>226,013</b>	<b>1,567</b>
<b>CHANGES IN NET POSITION</b>	<b>(5,512)</b>	<b>352,017</b>	<b>346,505</b>
NET POSITION, JULY 1	9,150,094	1,692,402	10,842,496
Prior Period Adjustment - See Note 13	(1,791,704)	(923,078)	(2,714,782)
<b>NET POSITION, JUNE 30</b>	<b>\$ 7,352,878</b>	<b>\$ 1,121,341</b>	<b>\$ 8,474,219</b>

**Other Information**  
**Combining Statement of Cash Flows**  
**Major Enterprise Funds**  
**For the Year Ended June 30, 2019**

	Sewer	Water	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from Customers	\$ 2,908,945	\$ 1,109,436	\$ 4,018,381
Payments to Suppliers	(188,660)	(627,022)	(815,682)
Payments to Employees	(441,488)	(280,225)	(721,713)
Net Cash Provided (Used) by Operating Activities	<u>2,278,797</u>	<u>202,189</u>	<u>2,480,986</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
(Purchase)/Transfer of Capital Assets	(1,834,253)	(16,002)	(1,850,255)
State Grants	131,469	231,113	362,582
Principal Paid on Capital Debt	(1,335,259)	(40,000)	(1,375,259)
Interest Paid on Capital Debt	(388,876)	(13,340)	(402,216)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(3,426,919)</u>	<u>161,771</u>	<u>(3,265,148)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net (increase)/decrease in investments	439,957	108,815	548,772
Interest Income	32,961	8,240	41,201
Net Cash Provided (Used) by Investing Activities	<u>472,918</u>	<u>117,055</u>	<u>589,973</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(675,204)	481,015	(194,189)
Balances - Beginning of the Year	704,818	257,175	961,993
Balances - End of the Year	<u>\$ 29,614</u>	<u>\$ 738,190</u>	<u>\$ 767,804</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>			
Operating Income (Loss)	\$ 218,934	\$ 126,004	\$ 344,938
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	1,041,305	115,701	1,157,006
Change in Assets and Liabilities:			
(Increase) Decrease in Assets:			
Accounts Receivable	73,716	(219,955)	(146,239)
Prepaid Items	(893)	(2,983)	(3,876)
Increase (Decrease) in Liabilities:			
Accounts Payable	484,561	77,477	562,038
Customer Deposits	(724)	(76)	(800)
Accrued Payroll and Related Liabilities	145,003	126,042	271,045
Accrued Interest Payable	20,038	2,615	22,653
Due to Other Funds	306,199	(35,149)	271,050
Vested Employee Benefits	(9,342)	12,513	3,171
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,278,797</u>	<u>\$ 202,189</u>	<u>\$ 2,480,986</u>

**Other Information  
Combining Statement of Net Position  
Nonmajor Enterprise Funds  
June 30, 2019**

	<u>Boat Ramp</u>	<u>Marina</u>	<u>Totals</u>
<b>ASSETS:</b>			
Cash and Equivalents - Unrestricted	\$ 56,274	\$ 620,631	\$ 676,905
Accounts Receivable	-	4,071	4,071
Prepaid Items	-	64	64
Inventory	-	6,911	6,911
Capital Assets (Not Depreciated)	-	46,974	46,974
Capital Assets (Net of Accumulated Depreciation)	213,882	863,149	1,077,031
<b>TOTAL ASSETS</b>	<u><u>\$ 270,156</u></u>	<u><u>\$ 1,541,800</u></u>	<u><u>\$ 1,811,956</u></u>
<b>LIABILITIES:</b>			
Accounts Payable	\$ 5,267	\$ 64,971	\$ 70,238
Accrued Payroll and Related Liabilities	-	2,781	2,781
Accrued Interest Payable	-	2,160	2,160
Long-term Advance to Other Funds	42,169	171,749	213,918
Notes Payable - Due within one year	-	25,908	25,908
Notes Payable - Due in more than one year	-	173,997	173,997
<b>TOTAL LIABILITIES</b>	<u><u>47,436</u></u>	<u><u>441,566</u></u>	<u><u>489,002</u></u>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	171,713	538,469	710,182
Unrestricted	51,007	561,765	612,772
<b>TOTAL NET POSITION</b>	<u><u>222,720</u></u>	<u><u>1,100,234</u></u>	<u><u>1,322,954</u></u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 270,156</u></u>	<u><u>\$ 1,541,800</u></u>	<u><u>\$ 1,811,956</u></u>

**Other Information**  
**Combining Statement of Revenues, Expenses, and**  
**Changes in Net Position - Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2019**

	<u>Boat Ramp</u>	<u>Marina</u>	<u>Totals</u>
<b>OPERATING REVENUES:</b>			
Charges for Services	\$ 55,888	\$ 150,154	\$ 206,042
Other Revenue	-	652,043	652,043
<b>TOTAL OPERATING REVENUES</b>	<u>55,888</u>	<u>802,197</u>	<u>858,085</u>
<b>OPERATING EXPENSES:</b>			
Personnel Services	-	24,760	24,760
Administration	2,600	12,603	15,203
Insurance	-	1,833	1,833
Supplies	1,246	82,125	83,371
Utilities	6,342	21,673	28,015
Repair and Maintenance	2,934	214,054	216,988
Depreciation	23,225	55,412	78,637
Miscellaneous	5,090	12,914	18,004
<b>Total Operating Expenses</b>	<u>41,437</u>	<u>425,374</u>	<u>466,811</u>
<b>OPERATING INCOME (LOSS)</b>	<u>14,451</u>	<u>376,823</u>	<u>391,274</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest Expense	<u>(1,382)</u>	<u>(11,538)</u>	<u>(12,920)</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(1,382)</u>	<u>(11,538)</u>	<u>(12,920)</u>
<b>Income (Loss) Before Transfers</b>	13,069	365,285	378,354
Operating Transfers In	<u>-</u>	<u>65,000</u>	<u>65,000</u>
<b>CHANGES IN NET POSITION</b>	13,069	430,285	443,354
<b>NET POSITION, JULY 1</b>	<u>209,651</u>	<u>669,949</u>	<u>879,600</u>
<b>NET POSITION, JUNE 30</b>	<u>\$ 222,720</u>	<u>\$ 1,100,234</u>	<u>\$ 1,322,954</u>

**Other Information**  
**Combining Statement of Cash Flows**  
**Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2019**

	Boat Ramp	Marina	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from Customers	\$ 55,888	\$ 898,950	\$ 954,838
Payments to Suppliers	(13,491)	(282,812)	(296,303)
Payments to Employees	-	(24,060)	(24,060)
Internal Activity - Payments/Receipts with Other Funds	(13,154)	(26,067)	(39,221)
Net Cash Provided (Used) by Operating Activities	29,243	566,011	595,254
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Operating Transfers In	-	65,000	65,000
Net Cash Provided (Used) by Noncapital and Related Financing Activities	-	65,000	65,000
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Principal Paid on Capital Debt	-	(25,095)	(25,095)
Interest Paid on Capital Debt	(1,382)	(11,538)	(12,920)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,382)	(36,633)	(38,015)
Net Increase (Decrease) in Cash and Cash Equivalents	27,861	594,378	622,239
Balances - Beginning of the Year	28,413	26,253	54,666
Balances - End of the Year	\$ 56,274	\$ 620,631	\$ 676,905
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>			
Operating Income (Loss)	\$ 14,451	\$ 376,823	\$ 391,274
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	23,225	55,412	78,637
Change in Assets and Liabilities:			
(Increase) Decrease in Assets:			
Accounts Receivable	-	96,753	96,753
Inventory	-	7,757	7,757
Prepaid Items	-	120	120
Increase (Decrease) in Liabilities:			
Accounts Payable	4,721	54,784	59,505
Accrued Payroll and Related Liabilities	-	700	700
Accrued Interest Payable	-	(271)	(271)
Due to/Advance to Other Funds	(13,154)	(26,067)	(39,221)
Net Cash Provided (Used) by Operating Activities	\$ 29,243	\$ 566,011	\$ 595,254

**Other Information**  
**Combining Balance Sheet**  
**Component Units**  
**June 30, 2019**

	Downtown Development Authority	Friends of the Ramsdell	Manistee Housing Commission	Totals
<b>ASSETS:</b>				
Cash and Equivalents - Unrestricted	\$ 322,710	\$ 53,999	\$ 429,349	\$ 806,058
Accounts Receivable - net	5,719	16,959	14,909	37,587
Notes Receivable	13,360	-	-	13,360
Prepaid Items	4,138	5,342	31,566	41,046
Capital Assets (Not Depreciated)	84,160	-	360,272	444,432
Capital Assets (Net of Accumulated Depreciation)	-	-	2,535,530	2,535,530
<b>TOTAL ASSETS</b>	<b>430,087</b>	<b>76,300</b>	<b>3,371,626</b>	<b>3,878,013</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Pension Items	-	-	11,921	11,921
<b>LIABILITIES:</b>				
Accounts Payable	426	18,423	25,362	44,211
Accrued Liabilities	1,397	3,454	30,546	35,397
Due to Other Governmental Units	-	-	33,669	33,669
Security Deposits	-	-	50,702	50,702
Unearned Revenue	12,514	-	3,364	15,878
Capital Leases - Due within one year	-	-	48,623	48,623
Capital Leases - Due in more than one year	-	-	988,650	988,650
Note Payable - Due in more than one year	-	-	500,000	500,000
Net Pension Liability	-	-	7,746	7,746
Vested Employee Benefits - Due within one year	-	-	24,697	24,697
Vested Employee Benefits - Due in more than one year	-	-	13,536	13,536
<b>TOTAL LIABILITIES</b>	<b>14,337</b>	<b>21,877</b>	<b>1,726,895</b>	<b>1,763,109</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Pension Items	-	-	10,600	10,600
<b>NET POSITION:</b>				
Net Investment in Capital Assets	84,160	-	1,358,529	1,442,689
Unrestricted	331,590	54,423	287,523	673,536
<b>TOTAL NET POSITION</b>	<b>415,750</b>	<b>54,423</b>	<b>1,646,052</b>	<b>2,116,225</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b>\$ 430,087</b>	<b>\$ 76,300</b>	<b>\$ 3,383,547</b>	<b>\$ 3,889,934</b>

**Other Information**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Net Position**  
**Component Units**  
**For the Year Ended June 30, 2019**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	Friends of the Ramsdell	Manistee Housing Commission	Total
<b>Public Works:</b>								
Manistee Housing Commission	\$ 1,547,636	\$ 578,660	\$ 730,651	\$ 41,286	\$ -	\$ -	\$ (197,039)	\$ (197,039)
<b>Recreation and Culture:</b>								
Friends of the Ramsdell	427,306	162,352	215,336	-	-	(49,618)	-	(49,618)
<b>Economic Development:</b>								
Downtown Development Authority	318,882	72,155	-	-	(246,727)	-	-	(246,727)
<b>Total Component Units</b>	<u>\$ 2,293,824</u>	<u>\$ 813,167</u>	<u>\$ 945,987</u>	<u>\$ 41,286</u>	<u>(246,727)</u>	<u>(49,618)</u>	<u>(197,039)</u>	<u>(493,384)</u>
<b>General Revenues:</b>								
Property Taxes					202,126	-	-	202,126
Interest Expense					-	-	(70,281)	(70,281)
Interest Income					796	-	768	1,564
Rental Income					-	24,338	-	24,338
Other Revenue					-	-	127,595	127,595
<b>Total General Revenues</b>					<u>202,922</u>	<u>24,338</u>	<u>58,082</u>	<u>285,342</u>
Changes in Net Position					<u>(43,805)</u>	<u>(25,280)</u>	<u>(138,957)</u>	<u>(208,042)</u>
Net Position - Beginning					459,555	79,703	1,746,104	2,285,362
Prior Period Adjustment					-	-	38,905	38,905
Restated Net Position - Beginning					459,555	79,703	1,785,009	2,324,267
<b>Net Position - Ending</b>					<u>\$ 415,750</u>	<u>\$ 54,423</u>	<u>\$ 1,646,052</u>	<u>\$ 2,116,225</u>

# **Report on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

**KINROSS OFFICE**

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**MEMBER AICPA  
DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN  
MICHIGAN & WISCONSIN**

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

To the City Council  
City of Manistee  
Manistee, MI 49660

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manistee, 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 Manistee, Michigan's basic financial statements and have issued our report thereon dated October 25, 2019. Our report includes a reference to other auditors who audited the financial statements of the Manistee Housing Commission, as described in our report on the City of Manistee, 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 auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Manistee, 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 Manistee, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Manistee, 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.

To the City Council  
City of Manistee

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Manistee, 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 material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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



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

October 25, 2019



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

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**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

To the City Council  
City of Manistee  
Manistee, MI 49660

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Manistee, Michigan for the year ended June 30, 2019, and have issued our report thereon dated October 25, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information about our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards***

As stated in our engagement letter dated August 12, 2019, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of Manistee, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Manistee, Michigan's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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

We have been engaged to report on combining fund financial statements, which accompany the financial statements but are not RSI. Our responsibility for this supplementary information, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on August 12, 2019.

### **Significant Accounting Policies**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Manistee, Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the accrued vested employee benefits is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible accounts receivable is based on past experience and future expectations for collection of various account balances and has been determined to be \$0.
- Management's estimate for OPEB Obligations and pension benefits were based on various assumptions regarding life expectancies, inflation, premium increases, and investment rates.

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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### ***Disagreement with Management***

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

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated October 25, 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 governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

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

### ***Comments and Recommendations***

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

### **BS&A Financial Reporting (Prior Year)**

During the fiscal year, management implemented a new enhanced accounting software which significantly improved the City's ability to report and monitor financial information. The software allows for various governmental financial reports including GASB 34 – government-wide summary reporting, combining fund financial statements and various other activity reports. The City should fully implement these financial reports to comply with generally accepted accounting principles regarding governmental financial reporting and budget monitoring.

Status: The City has always relied on its auditors to do the GASB 34 statements and will continue to do so as it is not cost effective for the City to generate them.

### **Information Technology (Prior Year)**

The Board may want to perform vulnerability or intrusion scans or test to assure that unauthorized or illegal access to the City's software or data has not occurred to prevent or detect theft or private information. Additionally, this procedure detects "ghost" programs operating for other than the City's purposes due to the internet.

Status: While the city has not conducted intrusion scans, it did replace its primary firewall and keeps the device patched and up to date.

### **Credit Card Transactions**

It was noted in our review of credit card transactions that the City had multiple purchases that did not conform to the credit card policy in that some were missing required supporting documentation, had sales tax paid on transactions, and were missing approval signature on support. We recommend that the City review its credit card policy and credit card practices to ensure future compliance with policies and that the City take all measures possible to avoid paying sales tax as the City is a tax-exempt organization.

Status: The City will review and update its credit card policy in the coming year to simplify and streamline the policy and help with compliance. The City has taken measures to avoid paying sales tax such as opening an Amazon Business account, providing tax exempt forms for hotels when travelling and being tax exempt with local and regular vendors. In limited instances where the purchase is over the internet, or remote via phone, with an infrequently used vendor, sales tax avoidance may not be cost justified.

### **Accrued Sick and Vacation Time**

During our review of accrued sick and vacation time we noted that the City currently has a few employees with accrued sick and vacation balances above the stated accrual caps. We also noted that the City is not calculating the cost of associated payroll taxes into the accrued liability amount. We recommend that the City review its balances of accrued sick and vacation time against the City's personnel policy manual and/or union agreements to ensure that all balances are within the agreed ranges. We also recommend that the City add the cost of the employer matching amount of FICA to the accrued liability calculation to reflect a more accurate liability amount.

Status: The City has reviewed its spreadsheet and will add FICA to the calculation for next year. It will also review sick time caps to ensure full compliance.

### **Upcoming Standards**

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the City in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the City. For the complete text of these and other GASB standards, visit [www.gasb.org](http://www.gasb.org). If you have questions regarding the applicability, timing, or implementation, please contact us.

## **GASB 87 – Single Approach for Reporting Leases**

The Governmental Accounting Standards Board (GASB) issued guidance that establishes a single approach to accounting for and reporting leases by state and local governments. The single approach is based on the principle that leases are financing of the right to use an underlying asset.

GASB Statement No. 87, *Leases*, provides guidance for lease contracts for nonfinancial assets – including vehicles heavy equipment, and buildings – but excludes nonexchange transactions, including donated assets, and leases of intangible assets.

Under the new Statement, a lessee government is required to recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. A lessor government is required to recognize (1) a lease receivable and (2) a deferred inflow of resources. A lessor will continue to report the leased asset in its financial statements.

A lease also will report the following in its financial statements:

- Amortization expense for using the lease asset (similar to depreciation) over the shorter of the term of the lease or the useful life of the underlying asset.
- Interest expense on the lease liability.
- Note disclosures about the lease, including a general description of the leasing arrangement, the amount of the lease assets recognized, and a schedule of future lease payments to be made.

Limited exceptions to the single-approach guidance are provided for:

- Short-term leases, defined as lasting a maximum of 12 months at inception, including any options to extend.
- Financial purchases.
- Certain regulated leases, such as between municipal airports and air carriers.

The full text of Statement 87 is available on the GASB website, [www.gasb.org](http://www.gasb.org).

## **Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements**

*Effective for fiscal years beginning after June 15, 2018 (City's fiscal year 2019).* This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

### **Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period**

*Effective for fiscal years beginning after December 15, 2019 (City's fiscal year 2021).* This Statement establishes accounting requirements for interest cost incurred before the end of a construction period.

Such interest cost includes all interest that was previously accounted for in accordance with the requirements of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statement prepared using the economic resources measurement focus.

### **Statement No. 90, Majority Equity**

*Effective for fiscal years beginning after December 15, 2018 (City's fiscal year 2020).* This statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority interest in a legally separate organization results in a government being financially accountable for a legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit.

### **Other Matters**

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

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

**Conclusion**

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

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

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

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

October 25, 2019