

City of Manistee, Michigan

BASIC FINANCIAL STATEMENTS

June 30, 2015

CITY OF MANISTEE, MICHIGAN

ORGANIZATION

MEMBERS OF THE CITY COMMISSION

MAYOR

COLLEEN KENNY

MAYOR PRO-TEM

JAMES SMITH

COUNCIL MEMBER

MARK WITTLIEFF

COUNCIL MEMBER

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CHIP GOODSPEED

COUNCIL MEMBER

ROGER ZIELINSKI

COUNCIL MEMBER

ED COTE

APPOINTED OFFICERS

INTERIM CITY MANAGER

R. BEN BIFOSS

CHIEF FINANCIAL OFFICER

EDWARD BRADFORD

CLERK/DEPUTY TREASURER

MICHELLE WRIGHT

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	17
Reconciliation of Governmental Funds:	
Statement of Revenues, Expenditures, and Changes in in Fund Balances to the Statement of Activities	18
Proprietary Funds:	
Statement of Net Position	19
Statement of Revenues, Expenses, and Changes in Net Position.....	20
Statement of Cash Flows	21
Fiduciary Funds:	
Statement of Fiduciary Net Position.....	22
NOTES TO FINANCIAL STATEMENTS	23
REQUIRED SUPPLEMENTARY INFORMATION:	
Employee Retirement and Benefit Systems:	
Schedule of Funding Progress	48
Major Funds:	
Budgetary Comparison Schedule – General Fund.....	51
Budgetary Comparison Schedule – Major Street Fund	53
Budgetary Comparison Schedule – Local Street Fund.....	54

TABLE OF CONTENTS (Continued)

	<u>Page</u>
OTHER INFORMATION:	
Combining Balance Sheet – Nonmajor Governmental Funds.....	55
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.....	56
Combining Statement of Net Position – Nonmajor Enterprise Funds.....	57
Combining Statement of Revenues, Expenses, and Changes in Net Position – Nonmajor Enterprise Funds.....	58
Combining Statement of Cash Flows – Nonmajor Enterprise Funds.....	59
COMPONENT UNITS:	
Combining Balance Sheet	60
Combining Statement of Revenues, Expenditures, and Changes in Net Position	61
REPORTS ON COMPLIANCE:	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	62
Schedule of Findings and Responses.....	64



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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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 ending June 30, 2015, 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 92 percent, 87 percent, and 81 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, 2015, 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 funding progress and budgetary comparison information on pages 4 through 13, pages 48 through 50, and pages 51 through 54 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 nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund 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 14, 2015 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 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 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 14, 2015

Management's Discussion and Analysis

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, 2015. 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 of the City exceeded its liabilities at the close of the fiscal year 2015 by \$34,787,611 (*net position*). Of this, \$6,071,579 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The government's total net position decreased by \$2,094,416 or 6%.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$11,823,346, a decrease of \$307,338 or 3% from the prior year.
- At the end of the current fiscal year, the total General Fund fund balance was \$1,051,792, a decrease of \$35,246. Unassigned fund balance was \$725,945 or 11% of total General Fund expenditures and transfers out.
- The City's total long-term debt (including vested employee benefits and excluding leases) increased by \$871,078.

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 and liabilities, with the difference between the two 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, Ramsdell Theatre, 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 15 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 Ramsdell Theatre, water and sewer, 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 and the Ramsdell Theatre Fund, which are considered to be major funds 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 23-47 of this report.

Required supplementary information. Required supplementary information related to the City's employee retirement and benefit system and budgetary comparison information related to the City's major governmental funds can be found on pages 48-54 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 55-59 of this report.

Component Units. Individual component unit financial statements can be found on pages 60-61.

Government-wide Financial Statements

A condensed version of the Statement of Net Position at June 30, 2015 follows:

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

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets						
Current Assets	\$ 12,731,305	\$ 12,815,503	\$ 4,081,800	\$ 1,421,710	\$ 16,813,105	\$ 14,237,213
Capital Assets	20,974,897	21,867,488	21,319,500	22,349,061	42,294,397	44,216,549
Total Assets	33,706,202	34,682,991	25,401,300	23,770,771	59,107,502	58,453,762
Deferred Outflows of Resources	\$ 294,737	\$ -	\$ 12,282	\$ -	\$ 307,019	\$ -
Liabilities						
Current Liabilities	\$ 1,049,047	\$ 1,040,201	\$ 1,655,673	\$ 1,376,189	\$ 2,704,720	\$ 2,416,390
Noncurrent Liabilities	9,568,205	8,384,792	12,353,985	10,770,553	21,922,190	19,155,345
Total Liabilities	10,617,252	9,424,993	14,009,658	12,146,742	24,626,910	21,571,735
Net Position						
Net Investment in Capital Assets	13,237,751	13,473,620	7,480,612	10,437,440	20,718,363	23,911,060
Restricted	7,955,469	7,895,206	42,200	420,000	7,997,669	8,315,206
Unrestricted	2,190,467	3,889,172	3,881,112	766,589	6,071,579	4,655,761
Total Net Position	\$ 23,383,687	\$ 25,257,998	\$ 11,403,924	\$ 11,624,029	\$ 34,787,611	\$ 36,882,027

The largest portion of the City's net position \$20,718,363 (60%) 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 \$7,997,669 (23%) 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 \$6,071,579 (17%) may be used to meet the City's ongoing obligations to citizens and creditors.

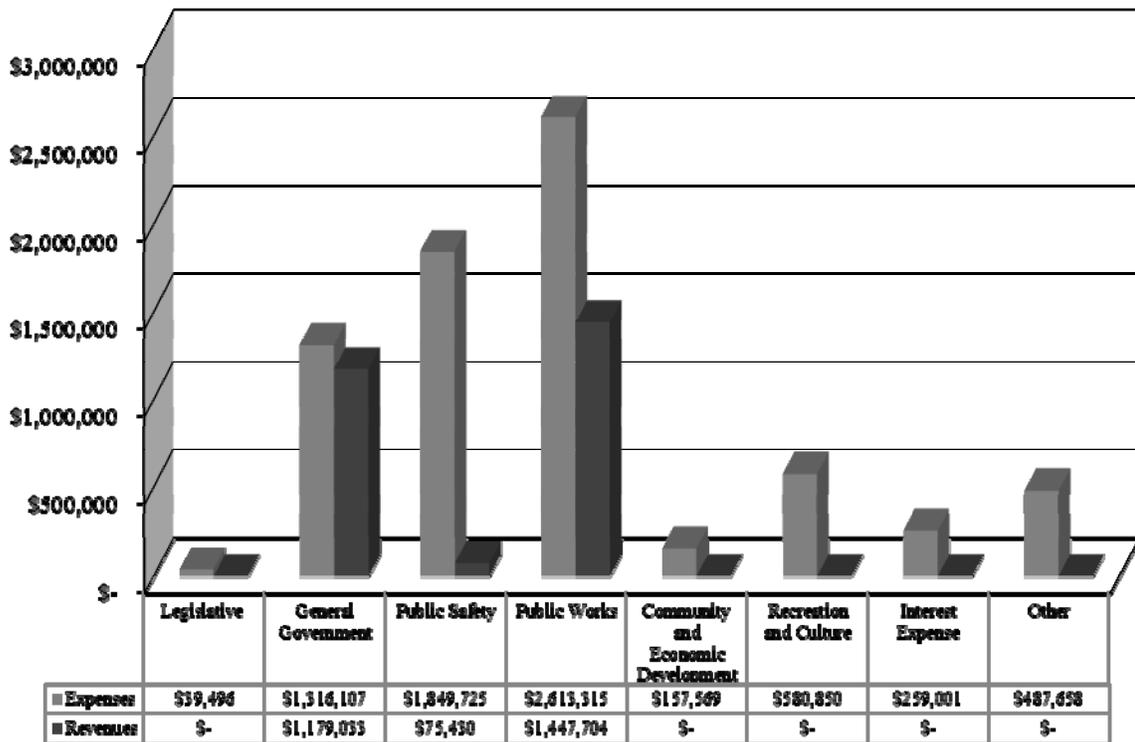
A condensed version of the Statement of Activities follows:

City of Manistee
Condensed Statement of Changes in Net Position

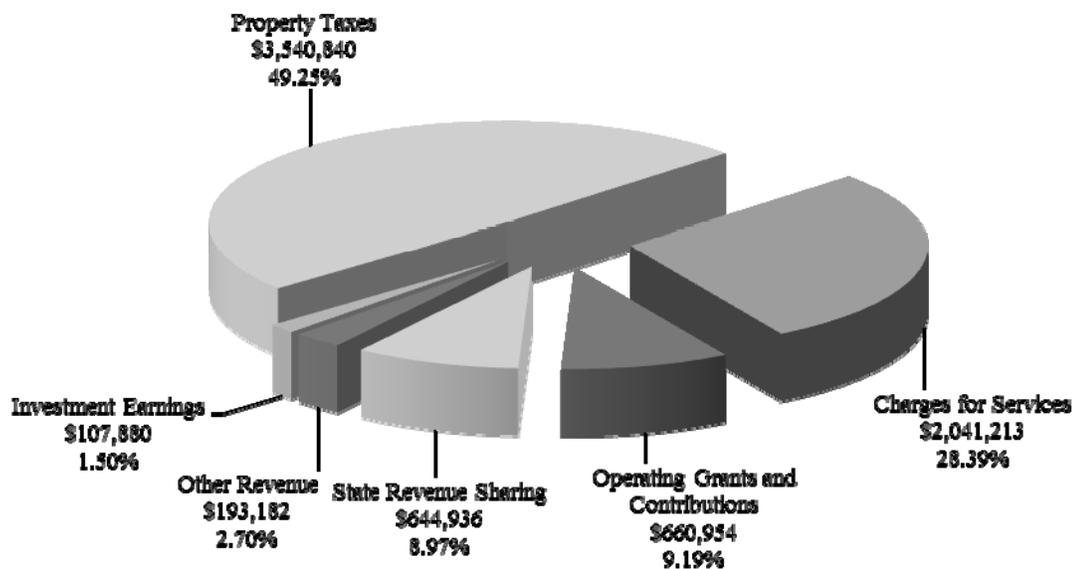
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program Revenues						
Charges for Services	\$ 2,041,213	\$ 1,717,117	\$ 3,867,557	\$ 3,832,189	\$ 5,908,770	\$ 5,549,306
Operating Grants and Contributions	660,954	810,083	1,540	107,846	662,494	917,929
Capital Grants and Contributions	-	267,030	-	-	-	267,030
General Revenues						
Property Taxes	3,540,840	3,423,754	-	-	3,540,840	3,423,754
State Revenue Sharing	644,936	631,722	-	-	644,936	631,722
Other Revenue	193,182	152,300	-	-	193,182	152,300
Interest Earnings	107,880	1,566,792	104,354	521	212,234	1,567,313
Total Revenues	7,189,005	8,568,798	3,973,451	3,940,556	11,162,456	12,509,354
Expenses						
Legislative	39,496	39,741	-	-	39,496	39,741
General Government	1,316,107	1,157,948	-	-	1,316,107	1,157,948
Public Safety	1,849,725	2,077,314	-	-	1,849,725	2,077,314
Public Works	2,613,315	1,962,905	-	-	2,613,315	1,962,905
Community and Economic Development	157,569	225,961	-	-	157,569	225,961
Recreation and Culture	580,850	559,506	-	-	580,850	559,506
Interest Expense	259,001	309,706	-	-	259,001	309,706
Other	487,658	802,719	-	-	487,658	802,719
Boat Ramp	-	-	36,594	44,262	36,594	44,262
Marina	-	-	264,074	346,360	264,074	346,360
Ramsdell Theatre	-	-	350,191	352,479	350,191	352,479
Water and Sewer	-	-	3,501,695	3,364,523	3,501,695	3,364,523
Total Expenses	7,303,721	7,135,800	4,152,554	4,107,624	11,456,275	11,243,424
Changes in Net Position before Transfers	(114,716)	1,432,998	(179,103)	(167,068)	(293,819)	1,265,930
Transfers	(31,022)	(203,318)	31,022	203,318	-	-
Changes in Net Position	(145,738)	1,229,680	(148,081)	36,250	(293,819)	1,265,930
Net Position - Beginning	25,257,998	24,299,591	11,624,029	11,587,779	36,882,027	35,887,370
Prior Period Adjustment	(1,728,573)	(271,273)	(72,024)	-	(1,800,597)	(271,273)
Restated Net Position - Beginning	23,529,425	24,028,318	11,552,005	11,587,779	35,081,430	35,616,097
Net Position - Ending	\$ 23,383,687	\$ 25,257,998	\$ 11,403,924	\$ 11,624,029	\$ 34,787,611	\$ 36,882,027

Governmental activities. Governmental activities decreased the City’s ending net position by \$1,874,311.

Expenses and Program Revenues – Governmental Activities

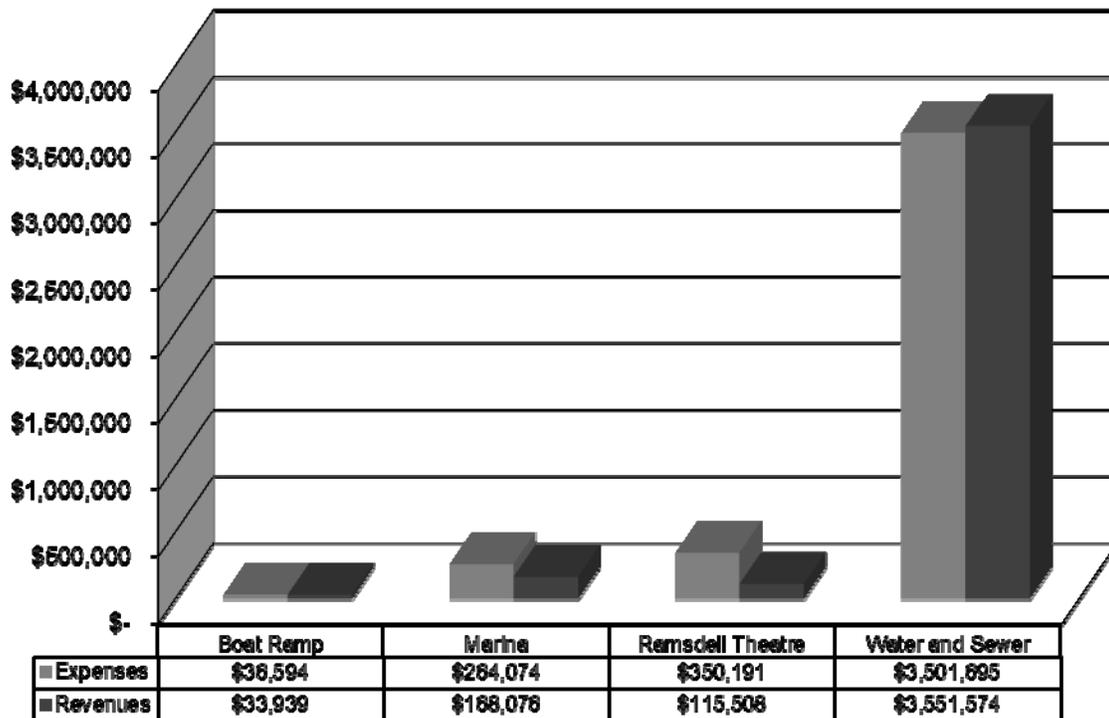


Revenues by Source – Governmental Activities



Business-type activities. Business-type activities decreased the ending City’s net position by \$220,105.

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 \$1,051,792, of which \$725,945 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 \$10,078,340, which decreased by \$331,445 during the year. This decrease is due to a decrease in earnings on investments. 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 Ramsdell Theatre, Water and Sewer, Boat Ramp and Marina Funds at the end of the year amounted to \$3,881,112, restricted net position amounted to \$42,200 and net investment in capital assets, net of related debt amounted to \$7,480,612. The Ramsdell Theatre has an increase in net position for the year of \$9,712, while the Water and Sewer Funds, Boat Ramp and Marina have a decrease of \$229,817.

General Fund Budgetary Highlights

During the year, General Fund budget variance of expenditures was overspent by \$2,091 when comparing final budget to actual. This was primarily due to less actual expenditures than anticipated for public works, debt service, other expenditures, and community development. General Fund revenues were more than anticipated by \$384,081. 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, 2015, amounted to \$42,294,397. This investment in capital assets includes land, land improvements, infrastructure, buildings and improvements, furniture and equipment, vehicles, and construction in progress. The total net decrease in the City’s investment in capital assets after depreciation for the current fiscal year was \$1,922,152. The following table summarizes the capital assets of the City as of year end:

City of Manistee
Capital Assets
(net of depreciation, where applicable)
June 30, 2015

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 4,715,697	\$ 4,715,697	\$ 60,207	\$ 60,207	\$ 4,775,904	\$ 4,775,904
Construction in Progress	19,330	-	291,557	123,516	310,887	123,516
Land Improvements	3,200,041	3,320,754	301,550	323,642	3,501,591	3,644,396
Infrastructure	7,627,198	8,101,357	17,190,026	18,211,979	24,817,224	26,313,336
Buildings and Improvements	3,420,195	3,594,062	2,966,005	3,123,010	6,386,200	6,717,072
Vehicles	785,828	900,468	-	-	785,828	900,468
Furniture and Equipment	1,206,608	1,235,150	510,155	506,707	1,716,763	1,741,857
Total Capital Assets, Net	\$ 20,974,897	\$ 21,867,488	\$ 21,319,500	\$ 22,349,061	\$ 42,294,397	\$ 44,216,549

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 \$21,618,260. Of this amount, \$21,301,184 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 \$212,884 at the end of the fiscal year. The City’s total long-term debt (excluding vested employee benefits) increased by \$893,757.

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

**City of Manistee
Outstanding Long-Term Debt
June 30, 2015**

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
General Obligation Bonds	\$ 7,495,000	\$ 8,125,000	\$ 12,056,674	\$ 1,810,000	\$ 19,551,674	\$ 9,935,000
Notes Payable	296,473	325,878	1,413,725	1,569,947	1,710,198	1,895,825
MEDC Loan	39,312	44,928	-	-	39,312	44,928
Revenue Bonds	-	-	-	8,531,674	-	8,531,674
Total Long-Term Debt	\$ 7,830,785	\$ 8,495,806	\$ 13,470,399	\$ 11,911,621	\$ 21,301,184	\$ 20,407,427

Economic Factors and Next Year’s Budgets and Rates

The City of Manistee continues to weather the ongoing sluggish national and state economic recovery through sound budgeting, strategic planning and increased operational efficiencies. Although state-shared revenue has decreased by nearly 50% from its peak, it appears to have now stabilized and is increasing slightly. Property values have stabilized and are expected to slowly rise over the next few years.

In spite of ongoing revenue challenges, Manistee continues to provide a wide range of services. The last several years have seen aggressive City efforts to control costs through headcount reductions and health care reforms. Now that revenue is stabilizing, strategic restructuring of various departments is occurring to optimize efficiency and better utilize human resources. In addition, 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. Finally, a comprehensive water and sewer rate study was implemented July 1, 2015. The new rate structure is expected to equitably raise revenue to address system maintenance needs.

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 or;

by visiting our website www.manisteemi.gov

Basic Financial Statements

	Primary Government		Totals	Component Units
	Governmental Activities	Business-type Activities		
ASSETS:				
Cash and Equivalents - Unrestricted	\$ 2,365,251	\$ 473,289	\$ 2,838,540	\$ 632,222
Cash and Equivalents - Restricted	-	42,200	42,200	58,042
Investments - Restricted	9,260,756	3,215,187	12,475,943	-
Accounts Receivable	176,003	687,189	863,192	24,922
Notes Receivable	-	-	-	202,500
Due From Governmental Units	254,702	-	254,702	13,956
Due From Others	240,770	2,817	243,587	-
Internal Loans	363,989	(363,989)	-	-
Other Assets	-	-	-	25,632
Prepaid Items and Inventory	69,834	25,107	94,941	-
Capital Assets (Not Depreciated)	4,735,027	351,764	5,086,791	360,272
Capital Assets (Net of Accumulated Depreciation)	16,239,870	20,967,736	37,207,606	3,006,700
TOTAL ASSETS	33,706,202	25,401,300	59,107,502	4,324,246
DEFERRED OUTFLOWS:				
Pension investment experience and contributions	\$ 294,737	\$ 12,282	\$ 307,019	\$ -
LIABILITIES:				
Accounts Payable	\$ 178,699	\$ 287,548	\$ 466,247	\$ 45,327
Accrued Liabilities	60,439	10,876	71,315	7,824
Due to Other Governmental Units	-	-	-	39,830
Due to Others	27,621	-	27,621	-
Accrued Interest	71,464	67,974	139,438	-
Security Deposits	106,985	42,200	149,185	58,042
Unearned Revenue	4,607	-	4,607	12,189
Net Pension Obligation - Due in more than one year	1,740,798	72,534	1,813,332	-
Installment Loans Payable - Due within one year	5,616	162,075	167,691	-
Installment Loans Payable - Due in more than one year	33,696	1,251,650	1,285,346	-
Bonds Payable - Due within one year	515,000	1,085,000	1,600,000	-
Bonds Payable - Due in more than one year	6,980,000	10,971,674	17,951,674	-
Note Payable - Due within one year	53,162	-	53,162	-
Note Payable - Due in more than one year	243,311	-	243,311	500,000
Capital Leases - Due within one year	25,454	-	25,454	20,988
Capital Leases - Due in more than one year	187,430	-	187,430	1,158,265
OPEB Liability - Due in more than one year	124,021	-	124,021	-
Vested Employee Benefits- Due within one year	-	-	-	14,625
Vested Employee Benefits - Due in more than one year	258,949	58,127	317,076	17,835
TOTAL LIABILITIES	10,617,252	14,009,658	24,626,910	1,874,925
NET POSITION:				
Net Investment in Capital Assets	13,237,751	7,480,612	20,718,363	1,687,719
Restricted	7,955,469	42,200	7,997,669	-
Unrestricted	2,190,467	3,881,112	6,071,579	761,602
TOTAL NET POSITION	\$ 23,383,687	\$ 11,403,924	\$ 34,787,611	\$ 2,449,321

Statement of Activities
For the Year Ended June 30, 2015

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	Governmental Activities	Primary Government Business-type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 39,496	\$ -	\$ -	\$ -	(39,496)	\$ -	(39,496)	\$ -
General Government	1,316,107	1,139,187	39,846	-	(137,074)	-	(137,074)	-
Public Safety	1,849,725	22,149	53,281	-	(1,774,295)	-	(1,774,295)	-
Public Works	2,613,315	879,877	567,827	-	(1,165,611)	-	(1,165,611)	-
Community and Economic Development	157,569	-	-	-	(157,569)	-	(157,569)	-
Recreation and Culture	580,850	-	-	-	(580,850)	-	(580,850)	-
Interest Expense	259,001	-	-	-	(259,001)	-	(259,001)	-
Other	487,658	-	-	-	(487,658)	-	(487,658)	-
Total Governmental Activities	<u>7,303,721</u>	<u>2,041,213</u>	<u>660,954</u>	<u>-</u>	<u>(4,601,554)</u>	<u>-</u>	<u>(4,601,554)</u>	<u>-</u>
Business-type Activities:								
Boat Ramp	36,594	33,939	-	-	-	(2,655)	(2,655)	-
Marina	264,074	166,536	1,540	-	-	(95,998)	(95,998)	-
Ramsdell Theatre	350,191	115,508	-	-	-	(234,683)	(234,683)	-
Water and Sewer	3,501,695	3,551,574	-	-	-	49,879	49,879	-
Total Business-type Activities	<u>4,152,554</u>	<u>3,867,557</u>	<u>1,540</u>	<u>-</u>	<u>-</u>	<u>(283,457)</u>	<u>(283,457)</u>	<u>-</u>
Total Primary Government	<u>\$ 11,456,275</u>	<u>\$ 5,908,770</u>	<u>\$ 662,494</u>	<u>\$ -</u>	<u>(4,601,554)</u>	<u>(283,457)</u>	<u>(4,885,011)</u>	<u>-</u>
Component Units:								
Public Works:								
Manistee Housing Commission	\$ 1,587,754	\$ 624,766	\$ 568,952	\$ 59,324	-	-	-	(334,712)
Recreation and Culture:								
Friends of the Ramsdell	7,266	-	6,267	-	-	-	-	(999)
Economic Development:								
Downtown Development Authority	365,536	57,212	-	-	-	-	-	(308,324)
Total Component Units	<u>\$ 1,960,556</u>	<u>\$ 681,978</u>	<u>\$ 575,219</u>	<u>\$ 59,324</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(644,035)</u>
Total								
General Revenues and Transfers:								
Property Taxes	-	-	-	-	3,540,840	-	3,540,840	277,137
State Revenue Sharing	-	-	-	-	644,936	-	644,936	-
Investment Earnings/(Expense)	-	-	-	-	107,880	104,354	212,234	(73,168)
Other Revenue	-	-	-	-	193,182	-	193,182	204,737
Transfers	-	-	-	-	(31,022)	31,022	-	-
Total General Revenues and Transfers	-	-	-	-	<u>4,455,816</u>	<u>135,376</u>	<u>4,591,192</u>	<u>408,706</u>
Changes in Net Position	-	-	-	-	<u>(145,738)</u>	<u>(148,081)</u>	<u>(293,819)</u>	<u>(235,329)</u>
Net Position - Beginning	-	-	-	-	25,257,998	11,624,029	36,882,027	2,683,436
Prior Period Adjustment	-	-	-	-	<u>(1,728,573)</u>	<u>(72,024)</u>	<u>(1,800,597)</u>	<u>1,214</u>
Restated Net Position - Beginning	-	-	-	-	<u>23,529,425</u>	<u>11,552,005</u>	<u>35,081,430</u>	<u>2,684,650</u>
Net Position - Ending	-	-	-	-	<u>\$ 23,383,687</u>	<u>\$ 11,403,924</u>	<u>\$ 34,787,611</u>	<u>\$ 2,449,321</u>

City of Manistee, Michigan

Balance Sheet Governmental Funds June 30, 2015

	General	Major Street	Local Street	Permanent Fund Oil and Gas	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:						
Cash and Equivalents - Unrestricted	\$ 717,259	\$ 231,134	\$ 42,861	\$ 481,667	\$ 365,472	\$ 1,838,393
Investments - Restricted	57,230	-	-	9,203,526	-	9,260,756
Accounts Receivable	119,279	-	-	24,658	32,066	176,003
Due from Other Funds	68,269	10,000	10,000	-	13,128	101,397
Long-term Advance from Other Funds	-	-	-	368,489	-	368,489
Due from Governmental Units	111,917	90,161	21,996	-	30,628	254,702
Due from Others	189,473	-	-	-	-	189,473
Prepaid Items	66,898	-	-	-	186	67,084
TOTAL ASSETS	<u>\$ 1,330,325</u>	<u>\$ 331,295</u>	<u>\$ 74,857</u>	<u>\$ 10,078,340</u>	<u>\$ 441,480</u>	<u>\$ 12,256,297</u>
LIABILITIES:						
Accounts Payable	\$ 79,488	\$ 16,559	\$ 12,718	\$ -	\$ 69,934	\$ 178,699
Unearned Revenue	-	-	-	-	4,607	4,607
Security Deposits	106,985	-	-	-	-	106,985
Accrued Payroll and Related Liabilities	60,439	-	-	-	-	60,439
Due to Others	27,621	-	-	-	-	27,621
Due to Other Funds	4,000	-	-	-	50,600	54,600
TOTAL LIABILITIES	<u>278,533</u>	<u>16,559</u>	<u>12,718</u>	<u>-</u>	<u>125,141</u>	<u>432,951</u>
FUND BALANCES:						
Nonspendable	66,898	-	-	7,416,075	186	7,483,159
Restricted	-	314,736	62,139	-	162,519	539,394
Committed	258,949	-	-	-	111,334	370,283
Assigned	-	-	-	2,662,265	42,300	2,704,565
Unassigned	725,945	-	-	-	-	725,945
TOTAL FUND BALANCES	<u>1,051,792</u>	<u>314,736</u>	<u>62,139</u>	<u>10,078,340</u>	<u>316,339</u>	<u>11,823,346</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,330,325</u>	<u>\$ 331,295</u>	<u>\$ 74,857</u>	<u>\$ 10,078,340</u>	<u>\$ 441,480</u>	

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

Capital assets used by governmental activities	19,323,464
Vested employee benefits liability	(258,949)
Net Pension Obligation & Deferred Outflows	(1,446,061)
OPEB Liability	(124,021)
Long-term notes and bonds payable for governmental activities	(7,544,362)
Accrued interest expense	(63,783)
Internal service funds included in governmental activities	1,674,053
Net position of governmental activities	<u>\$ 23,383,687</u>

**Statement of Revenues, Expenditures, and
Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2015**

	General	Major Street	Local Street	Permanent Fund Oil and Gas	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES:						
Taxes	\$ 3,332,162	\$ -	\$ -	\$ -	\$ 208,678	\$ 3,540,840
Licenses and Permits	112,704	-	-	-	-	112,704
State Revenues	665,667	413,083	154,745	-	23,409	1,256,904
Local Revenues	-	-	-	-	39,846	39,846
Charges for Services	1,347,095	145,160	-	-	253,509	1,745,764
Interest and Rents	26,353	197	60	80,725	545	107,880
Other Revenue	364,202	3,581	-	-	17,284	385,067
TOTAL REVENUES	5,848,183	562,021	154,805	80,725	543,271	7,189,005
EXPENDITURES:						
Legislative	39,496	-	-	-	-	39,496
General Government	1,151,572	-	-	53,627	41,041	1,246,240
Public Safety	2,011,228	-	-	-	42,378	2,053,606
Public Works	1,118,880	317,556	227,808	-	484,691	2,148,935
Community and Economic Development	172,284	-	-	-	-	172,284
Recreation and Cultural	393,214	-	-	-	5,616	398,830
Other Expenditures	464,782	-	-	-	-	464,782
Capital Outlay	-	-	-	-	43,676	43,676
Debt Service	761,974	143,640	-	-	-	905,614
TOTAL EXPENDITURES	6,113,430	461,196	227,808	53,627	617,402	7,473,463
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(265,247)	100,825	(73,003)	27,098	(74,131)	(284,458)
OTHER FINANCING SOURCES (USES):						
Capital Lease Proceeds	8,142	-	-	-	-	8,142
Operating Transfers In	425,236	33,212	162,199	-	394,635	1,015,282
Operating Transfers Out	(203,377)	(80,697)	(80,697)	(358,543)	(322,990)	(1,046,304)
TOTAL OTHER FINANCING SOURCES (USES)	230,001	(47,485)	81,502	(358,543)	71,645	(22,880)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(35,246)	53,340	8,499	(331,445)	(2,486)	(307,338)
FUND BALANCES, JULY 1	1,087,038	261,396	53,640	10,409,785	318,825	12,130,684
FUND BALANCES, JUNE 30	\$ 1,051,792	\$ 314,736	\$ 62,139	\$ 10,078,340	\$ 316,339	\$ 11,823,346

**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, 2014**

Net changes in fund balances - total governmental funds \$ (307,338)

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 (\$866,917) exceeded capital outlay \$70,300 in the current period. (796,617)

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

Principal payments 641,800
Lease proceeds (8,142)

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. 49,394

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 10,718
OPEB liability (22,876)
Change in pension Liability 282,510
Accrued interest 4,813

Changes in net position of governmental activities \$ (145,738)

**Statement of Net Position
Proprietary Funds
June 30, 2015**

	Business - type Activities Enterprise Funds				Governmental Activities
	Ramsdell Theatre	Water and Sewer	Nonmajor Enterprise Funds	Total	Internal Service Fund
ASSETS:					
Cash and Equivalents - Unrestricted	\$ 97,644	\$ 342,699	\$ 32,946	\$ 473,289	\$ 526,858
Cash and Equivalents - Restricted	-	42,200	-	42,200	-
Investments - Restricted	-	3,215,187	-	3,215,187	-
Accounts Receivable	1,470	673,849	11,870	687,189	-
Due from Other Funds	-	4,500	-	4,500	-
Due from Others	-	2,817	-	2,817	-
Prepaid Items	1,273	10,709	1,011	12,993	2,750
Inventory	-	-	12,114	12,114	-
Capital Assets (Not Depreciated)	8,233	296,557	46,974	351,764	-
Capital Assets (Net of Accumulated Depreciation)	1,872,290	17,701,641	1,393,805	20,967,736	1,651,433
TOTAL ASSETS	\$ 1,980,910	\$ 22,290,159	\$ 1,498,720	\$ 25,769,789	\$ 2,181,041
DEFERRED OUTFLOWS:					
Investments & Employer Contributions	\$ 6,141	\$ 6,141	\$ -	\$ 12,282	\$ -
LIABILITIES:					
Accounts Payable	\$ 4,431	\$ 268,113	\$ 15,004	\$ 287,548	\$ -
Security Deposits	-	42,200	-	42,200	-
Accrued Payroll and Related Liabilities	1,308	8,301	1,267	10,876	-
Accrued Interest Payable	16,221	48,559	3,194	67,974	7,681
Long-term Advance to Other Funds	-	-	368,489	368,489	-
Vested Employee Benefits - Due in more than one year	7,193	50,934	-	58,127	-
Net Pension Obligation	36,267	36,267	-	72,534	-
Capital Lease - Due within one year	-	-	-	-	21,634
Capital Lease - Due in more than one year	-	-	-	-	181,200
Installment Loans Payable - Due within one year	139,270	-	22,805	162,075	53,162
Installment Loans Payable - Due in more than one year	978,783	-	272,867	1,251,650	243,311
Bonds Payable - Due within one year	-	1,085,000	-	1,085,000	-
Bonds Payable - Due in more than one year	-	10,971,674	-	10,971,674	-
TOTAL LIABILITIES	1,183,473	12,511,048	683,626	14,378,147	506,988
NET POSITION:					
Net Investment in Capital Assets	762,470	5,941,524	776,618	7,480,612	1,448,599
Restricted for Debt Service	-	42,200	-	42,200	-
Unrestricted	41,108	3,801,528	38,476	3,881,112	225,454
TOTAL NET POSITION	\$ 803,578	\$ 9,785,252	\$ 815,094	\$ 11,403,924	\$ 1,674,053

**Statement of Revenues, Expenses, and
Changes in Net Position - Proprietary Funds
For the Year Ended June 30, 2015**

	Business - type Activities Enterprise Funds				Governmental Activities
	Ramsdell Theatre	Water and Sewer	Nonmajor Enterprise Funds	Total	Internal Service Fund
OPERATING REVENUES:					
Charges for Services	\$ 54,654	\$ 3,491,127	\$ 198,075	\$ 3,743,856	\$ 315,000
Refunds and Reimbursements	-	52,990	-	52,990	-
Other Revenue	60,854	7,457	2,400	70,711	-
Total Operating Revenues	<u>115,508</u>	<u>3,551,574</u>	<u>200,475</u>	<u>3,867,557</u>	<u>315,000</u>
OPERATING EXPENSES:					
Personal Services	78,754	575,740	23,426	677,920	-
Contracted Services	4,362	73,944	-	78,306	-
Insurance	3,814	23,904	1,517	29,235	28,918
Administration	-	301,292	14,380	315,672	-
Equipment Rental	-	105,000	-	105,000	-
Supplies	4,820	153,812	107,228	265,860	-
Utilities	31,328	215,277	22,823	269,428	-
Events	48,932	-	-	48,932	-
Repair and Maintenance	25,563	236,547	14,855	276,965	-
Depreciation	105,787	1,142,257	91,570	1,339,614	236,884
Miscellaneous	4,019	278,646	7,138	289,803	-
Total Operating Expenses	<u>307,379</u>	<u>3,106,419</u>	<u>282,937</u>	<u>3,696,735</u>	<u>265,802</u>
OPERATING INCOME (LOSS)	<u>(191,871)</u>	<u>445,155</u>	<u>(82,462)</u>	<u>170,822</u>	<u>49,198</u>
NON-OPERATING REVENUES (EXPENSES):					
Interest and Rents	37	104,282	35	104,354	196
State Grants	1,540	-	-	1,540	-
Bond Issuance Costs	-	(60,924)	-	(60,924)	-
Interest Expense	(42,812)	(334,352)	(17,731)	(394,895)	-
Total Non-Operating Revenues (Expenses)	<u>(41,235)</u>	<u>(290,994)</u>	<u>(17,696)</u>	<u>(349,925)</u>	<u>196</u>
Income (Loss) Before Transfers	(233,106)	154,161	(100,158)	(179,103)	49,394
Operating Transfers In	278,830	358,543	40,000	677,373	-
Operating Transfers Out	-	(646,351)	-	(646,351)	-
CHANGES IN NET POSITION	<u>45,724</u>	<u>(133,647)</u>	<u>(60,158)</u>	<u>(148,081)</u>	<u>49,394</u>
NET POSITION, JULY 1	793,866	9,954,911	875,252	11,624,029	1,624,659
Prior Period Adjustment	(36,012)	(36,012)	-	(72,024)	-
NET POSITION, JULY 1 (Restated)	<u>757,854</u>	<u>9,918,899</u>	<u>875,252</u>	<u>11,552,005</u>	<u>1,624,659</u>
NET POSITION, JUNE 30	<u>\$ 803,578</u>	<u>\$ 9,785,252</u>	<u>\$ 815,094</u>	<u>\$ 11,403,924</u>	<u>\$ 1,674,053</u>

**Statement of Cash Flows
Proprietary Fund Types
For the Year Ended June 30, 2015**

	Business - type Activities Enterprise Funds			Governmental Activities	
	Ramsdell Theatre	Water and Sewer	Nonmajor Enterprise Funds	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Customers	\$ 117,332	\$ 3,489,052	\$ 252,762	\$ 3,859,146	\$ 315,000
Payments to Suppliers	(132,320)	(1,155,897)	(154,653)	(1,442,870)	(22,812)
Payments to Employees	(76,813)	(591,331)	(24,971)	(693,115)	-
Internal Activity - Payments/Receipts with Other Funds	69	(11,257)	(115,888)	(127,076)	-
Net Cash Provided (Used) by Operating Activities	<u>(91,732)</u>	<u>1,730,567</u>	<u>(42,750)</u>	<u>1,596,085</u>	<u>292,188</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:					
Operating Transfers In	278,830	358,543	40,000	677,373	-
Operating Transfers Out	-	(646,351)	-	(646,351)	-
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>278,830</u>	<u>(287,808)</u>	<u>40,000</u>	<u>31,022</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of Capital Assets	-	(310,053)	-	(310,053)	(140,910)
State Grants	1,540	-	-	1,540	-
Bond Costs	-	(60,924)	-	(60,924)	-
Bond Proceeds	-	2,770,000	-	2,770,000	-
Interest Payments	(42,812)	(334,352)	(17,731)	(394,895)	-
Principal Payments	(134,089)	(1,055,000)	(22,133)	(1,211,222)	(50,511)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(175,361)</u>	<u>1,009,671</u>	<u>(39,864)</u>	<u>794,446</u>	<u>(191,421)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net increase/(decrease) in investments	-	(2,726,313)	-	(2,726,313)	-
Interest Income	37	104,282	35	104,354	196
Net Cash Provided (Used) by Investing Activities	<u>37</u>	<u>(2,622,031)</u>	<u>35</u>	<u>(2,621,959)</u>	<u>196</u>
Net Increase (Decrease) in Cash and Equivalents	11,774	(169,601)	(42,579)	(200,406)	100,963
Balances - Beginning of the Year	85,870	554,500	75,525	715,895	425,895
Balances - End of the Year	<u>\$ 97,644</u>	<u>\$ 384,899</u>	<u>\$ 32,946</u>	<u>\$ 515,489</u>	<u>\$ 526,858</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ (191,871)	\$ 445,155	\$ (82,462)	\$ 170,822	\$ 49,198
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	105,787	1,142,257	91,570	1,339,614	236,884
Pension Obligations	(5,886)	(5,886)	-	(11,772)	-
Change in Assets and Liabilities:					
(Increase) Decrease in Assets:					
Accounts Receivable	1,824	(68,522)	52,287	(14,411)	-
Prepaid Items and Inventory	13	2,469	4,776	7,258	6,295
Due from Other Funds	77	(3,693)	-	(3,616)	-
Increase (Decrease) in Liabilities:					
Accounts Payable	(3,609)	235,942	8,512	240,845	(189)
Accrued Liabilities	(192)	(1,497)	(1,545)	(3,234)	-
Due to Other Funds	(8)	(7,564)	(115,888)	(123,460)	-
Customer Deposits	-	6,000	-	6,000	-
Vested Employee Benefits	2,133	(14,094)	-	(11,961)	-
Net Cash Provided (Used) by Operating Activities	<u>\$ (91,732)</u>	<u>\$ 1,730,567</u>	<u>\$ (42,750)</u>	<u>\$ 1,596,085</u>	<u>\$ 292,188</u>

Statement of Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2015

	Delinquent Tax	Payroll Clearing	Current Tax Collection	Totals
ASSETS:				
Cash and Equivalents - Unrestricted	\$ 4,869	\$ 54,041	\$ -	\$ 58,910
TOTAL ASSETS	<u>\$ 4,869</u>	<u>\$ 54,041</u>	<u>\$ -</u>	<u>\$ 58,910</u>
LIABILITIES:				
Due to Other	\$ 4,869	\$ -	\$ -	\$ 4,869
Due to Other Funds	-	51,297	-	51,297
Accrued Liabilities	-	2,744	-	2,744
TOTAL LIABILITIES	<u>\$ 4,869</u>	<u>\$ 54,041</u>	<u>\$ -</u>	<u>\$ 58,910</u>

Notes to Financial Statements

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, 2014. 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 Mayor, 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, PO Box 358, 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 statutes 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.

The *Ramsdell Theatre Fund* accounts for the activities of the Ramsdell Theatre.

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. Rent from the Ramsdell Theatre is also considered operating revenue. 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 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 20th; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Manistee County.

Assess 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 2014 levy were assessed and equalized at \$192,050,904 (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 2015 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 consumed rather than when purchased. 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 Plan and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by MERS. 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 related 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 no 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. Issuance 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 and Oil and Gas Principal plus royalties as being Nonspendable as these items are not expected to be converted to cash within the next year. The City has \$7,483,159 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 \$539,394 in restricted fund balance for Major and Local Streets, City Refuse, Brownfield Redevelopment Authority, and Grant Management funds.
- **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 \$370,283 for vested employee benefits and 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 \$2,704,565.
- **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 and liabilities 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.

Budget Violations

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. Expenditures that exceeded appropriations by material amounts are listed on page 52 and 54.

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	\$ 2,365,251	\$ 473,289	\$ 2,838,540	\$ 58,910	\$ 632,222
Cash and Equivalents – Restricted		42,200	42,200	-	58,042
Investments – Restricted	<u>9,260,756</u>	<u>3,215,187</u>	<u>12,475,943</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 11,626,007</u>	<u>\$ 3,730,676</u>	<u>\$ 15,356,683</u>	<u>\$ 58,910</u>	<u>\$ 690,264</u>

Cash and investments of the Water and Sewer Fund are restricted by bond debt requirements and for future construction in the amount of \$3,257,387. Investments in the Oil and Gas Fund are restricted by the related trust agreement.

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)	\$ 2,877,839	\$ 58,910	\$ 689,964
Petty Cash and Cash on Hand	2,901	-	300
Investments	<u>12,475,943</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 15,356,683</u>	<u>\$ 58,910</u>	<u>\$ 690,264</u>

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments

	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More Than 10</u>	<u>Ratings</u>
Investments:						
US Treasury Bills	\$ 295,594	\$ -	\$ 148,688	\$ 146,906	\$ -	AAA
Equity Securities	6,361,196	-	-	-	6,361,196	N/A
Asset Backed Securities	621,919	88,847	175,489	101,125	256,458	AAA
Bond Funds	1,724,285	232,218	915,020	577,047	-	AA+
Money Market Certificates of Deposits	3,272,417	3,272,417	-	-	-	N/A
	<u>200,532</u>	<u>200,532</u>	<u>-</u>	<u>-</u>	<u>-</u>	N/A
Total Investments	<u>\$ 12,475,943</u>	<u>\$ 3,794,014</u>	<u>\$ 1,239,197</u>	<u>\$ 825,078</u>	<u>\$ 6,617,654</u>	

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, \$2,079,012 of the City’s bank balance of \$2,678,024 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.

Statutory Authority:

Public Act 20 of 1943, entitled “An act relative to the investment of funds of public corporations of the state; and to validate certain investments,” by amending section 1 (MCL 129.91), as amended by 2009 PA 21.

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

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

NOTE 3 - CASH AND INVESTMENTS (Continued)

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

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

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>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 4,715,697	\$ -	\$ -	\$ 4,715,697
Construction in Progress	<u>-</u>	<u>19,330</u>	<u>-</u>	<u>19,330</u>
Subtotal	<u>4,715,697</u>	<u>19,330</u>	<u>-</u>	<u>4,735,027</u>

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets being depreciated:</i>				
Land Improvements	5,276,592	-	-	5,276,592
Infrastructure	10,660,348	-	-	10,660,348
Buildings and Improvements	6,503,614	21,947	-	6,525,561
Vehicles	2,610,202	26,252	(21,995)	2,614,459
Furniture and Equipment	<u>2,746,964</u>	<u>143,681</u>	<u>(50,000)</u>	<u>2,840,645</u>
Subtotal	<u>27,797,720</u>	<u>191,880</u>	<u>(71,995)</u>	<u>27,917,605</u>
<i>Less accumulated depreciation for:</i>				
Land Improvements	(1,955,838)	(120,713)	-	(2,076,551)
Infrastructure	(2,558,991)	(474,159)	-	(3,033,150)
Buildings and Improvements	(2,909,552)	(195,814)	-	(3,105,366)
Vehicles	(1,709,734)	(140,892)	21,995	(1,828,631)
Furniture and Equipment	<u>(1,511,814)</u>	<u>(172,223)</u>	<u>50,000</u>	<u>(1,634,037)</u>
Subtotal	<u>(10,645,929)</u>	<u>(1,103,801)</u>	<u>71,995</u>	<u>(11,677,735)</u>
Net Capital Assets Being Depreciated	<u>17,151,791</u>	<u>(911,921)</u>	<u>-</u>	<u>16,239,870</u>
Capital Assets – Net	<u>\$ 21,867,488</u>	<u>\$ (892,591)</u>	<u>\$ -</u>	<u>\$ 20,974,897</u>

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

Governmental Activities

General Government	\$ 122,838
Public Safety	39,457
Public Works	522,602
Recreation and Culture	182,020
Internal Service	<u>236,884</u>

**Total Depreciation Expense -
Governmental Activities**

\$ 1,103,801

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 60,207	\$ -	\$ -	\$ 60,207
Construction in Progress	<u>123,516</u>	<u>168,041</u>	<u>-</u>	<u>291,557</u>
Subtotal	<u>183,723</u>	<u>168,041</u>	<u>-</u>	<u>351,764</u>
<i>Capital assets being depreciated:</i>				
Land Improvements	424,960	-	-	424,960
Building and Improvements	3,843,094	-	-	3,843,094
Infrastructure	35,113,330	60,187	-	35,173,517
Equipment	<u>1,119,459</u>	<u>81,825</u>	<u>-</u>	<u>1,201,284</u>
Subtotal	<u>40,500,843</u>	<u>142,012</u>	<u>-</u>	<u>40,642,855</u>

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Less accumulated depreciation for:</i>				
Land Improvements	(101,318)	(22,092)	-	(123,410)
Building and Improvements	(720,084)	(157,005)	-	(877,089)
Infrastructure	(16,901,351)	(1,082,140)	-	(17,983,491)
Equipment	(612,752)	(78,377)	-	(691,129)
Subtotal	<u>(18,335,505)</u>	<u>(1,339,614)</u>	-	<u>(19,675,119)</u>
Net Capital Assets Being Depreciated	<u>22,165,338</u>	<u>(1,197,602)</u>	-	<u>20,967,736</u>
Capital Assets – Net	<u>\$ 22,349,061</u>	<u>\$ (1,029,561)</u>	<u>\$ -</u>	<u>\$ 21,319,500</u>

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

Business-type Activities

Water and Sewer	\$ 1,142,257
Boat Ramp	24,475
Marina	67,095
Ramsdell Theatre	<u>105,787</u>

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

\$ 1,339,614

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Manistee Housing Commission:				
<i>Capital assets not being depreciated:</i>				
Land	<u>\$ 360,272</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 360,272</u>
<i>Capital assets being depreciated:</i>				
Buildings	9,904,652	55,031	-	9,959,683
Furniture and Equipment – Dwell	241,030	3,794	-	244,824
Furniture and Equipment – Admin.	<u>500,043</u>	<u>13,851</u>	-	<u>513,894</u>
Subtotal	<u>10,645,725</u>	<u>72,676</u>	-	<u>10,718,401</u>
<i>Less accumulated depreciation:</i>				
Buildings	(6,746,193)	(275,859)	-	(7,022,052)
Furniture and Equipment – Dwell	(212,556)	(5,613)	-	(218,169)
Furniture and Equipment – Admin.	<u>(445,585)</u>	<u>(25,895)</u>	-	<u>(471,480)</u>
Subtotal	<u>(7,404,334)</u>	<u>(307,367)</u>	-	<u>(7,711,701)</u>
Net Capital Assets Being Depreciated	<u>3,241,391</u>	<u>(234,691)</u>	-	<u>3,006,700</u>
Capital Assets - Net	<u>\$ 3,601,663</u>	<u>\$ (234,691)</u>	<u>\$ -</u>	<u>\$ 3,366,972</u>

Depreciation expense for the year ended December 31, 2014 was \$307,367.

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

		DUE FROM OTHER FUNDS					
DUE TO OTHER FUNDS		General	Major Streets	Local Streets	Nonmajor Governmental	Water and Sewer	Total
	General	\$ 4,000	\$ -	\$ -	\$ -	\$ -	\$ -
Nonmajor Governmental	17,472	10,000	10,000	13,128	-	-	50,600
Fiduciary	46,797	-	-	-	4,500	-	51,297
Total	\$ 68,269	\$ 10,000	\$ 10,000	\$ 13,128	\$ 4,500	\$ -	\$ 105,897

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.

		LONG-TERM ADVANCES FROM OTHER FUNDS	
LONG-TERM ADVANCES TO OTHER FUNDS		<u>Oil and Gas</u>	
	Boat Ramp	\$ 94,007	
Marina	274,482		
Total	\$ 368,489		

		TRANSFERS (OUT)						
TRANSFERS IN		General	Major Street	Local Street	Oil and Gas	Nonmajor Governmental	Water and Sewer	Total
	General	\$ -	\$ -	\$ 80,697	\$ -	\$ 71,963	\$ 272,576	\$ 425,236
Major Street	23,212	-	-	-	10,000	-	33,212	
Local Street	71,502	80,697	-	-	10,000	-	162,199	
Nonmajor Governmental	8,663	-	-	-	12,197	373,775	394,635	
Ramsdell Theatre	100,000	-	-	-	178,830	-	278,830	
Water and Sewer	-	-	-	358,543	-	-	358,543	
Nonmajor Enterprise	-	-	-	-	40,000	-	40,000	
Total	\$ 203,377	\$ 80,697	\$ 80,697	\$ 358,543	\$ 322,990	\$ 646,351	\$ 1,692,655	

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>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>							
Bonds:							
2010 DDA Limited Tax General Obligation Bond	2.00 to 4.00%	2020	745,000	\$ -	\$ 115,000	\$ 630,000	\$ 120,000
1999 Michigan Transportation Fund Limited Tax General Obligation Bond	4.40 to 5.20%	2015	140,000	-	140,000	-	-
2010 Tax General Obligation 2013 General Obligation Refunding Bond	2.00 to 4.65%	2031	5,165,000	-	220,000	4,945,000	230,000
	2.00 to 2.50%	2024	2,075,000	-	155,000	1,920,000	165,000
Installment Loan:							
Michigan Economic Development Corporation Loan	0.0%	2022	44,928	-	5,616	39,312	5,616
Notes Payable:							
Braun Ambulance	2.70%	2022	205,878	-	-	205,878	23,364
Plow Truck	1.33%	2018	120,000	-	29,405	90,595	29,798
Subtotal			8,495,806	-	665,021	7,830,785	573,778
Vested Employee Benefits			269,667	-	10,718	258,949	-
Total Governmental Activities – Long-Term Debt			<u>8,765,473</u>	<u>-</u>	<u>675,739</u>	<u>8,089,734</u>	<u>573,778</u>
<u>Business-type Activities</u>							
Bonds:							
1997 General Obligation Revenue Bonds	2.25%	2017	95,000	-	30,000	65,000	30,000
1998 General Obligation Bonds	2.25%	2019	780,000	-	150,000	630,000	150,000
1999 General Obligation Bonds	2.50%	2021	935,000	-	125,000	810,000	125,000
2005 Water & Sewer Refunding Bonds	3.25 to 4.25%	2028	4,105,000	-	490,000	3,615,000	515,000

NOTE 6 - LONG-TERM DEBT (Continued)

	Interest Rate	Principal Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Business-type Activities (Continued)</u>							
Bonds: (Continued)							
2006 SRF Water & Sewer Bonds	1.63%	2027	1,882,270	-	135,000	1,747,270	135,000
2010 SRF Water & Sewer Bonds	2.50%	2031	581,075	-	30,000	551,075	30,000
2010 DWRF Water & Sewer Bonds	2.50%	2031	405,000	-	20,000	385,000	20,000
2011 DWRF Water & Sewer Bonds	2.50%	2031	392,555	-	20,000	372,555	20,000
2011 SRF Water & Sewer Bonds	2.50%	2031	1,165,774	-	55,000	1,110,774	60,000
2015 Water & Sewer Revenue Bonds			-	2,770,000	-	2,770,000	-
Installment Loans:							
Marina Debt	3.24%	2026	317,805	-	22,133	295,672	22,805
Ramsdell Theatre – Roof	3.99%	2017	166,367	-	64,142	102,225	66,732
Ramsdell Theatre -- HVAC	3.64%	2027	<u>1,085,775</u>	-	<u>69,947</u>	<u>1,015,828</u>	<u>72,538</u>
Subtotal			11,911,621	2,770,000	1,211,222	13,470,399	1,247,075
Vested Employee Benefits			<u>70,088</u>	-	<u>11,961</u>	<u>58,127</u>	-
Total Business-type Activities – Long-Term Debt			<u>11,981,709</u>	<u>2,770,000</u>	<u>1,223,183</u>	<u>13,528,526</u>	<u>1,247,075</u>
Total Long-Term Debt – Primary Government			<u>\$20,747,182</u>	<u>\$ 2,770,000</u>	<u>\$ 1,898,922</u>	<u>\$21,618,260</u>	<u>\$ 1,820,853</u>

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

	Governmental Activities		Business-type Activities	
	Bonds/Installment Notes Payable		Bonds/Installment Notes Payable	
	Principal	Interest	Principal	Interest
Fiscal:				
2016	\$ 573,778	\$ 266,183	\$ 1,247,075	\$ 390,065
2017	589,803	250,890	1,254,246	350,949
2018	615,876	235,047	1,252,285	312,221
2019	610,951	217,275	1,295,945	272,605
2020	636,645	197,294	1,349,735	229,548
2021-2025	2,553,732	715,830	3,108,016	816,288
2026-2030	1,830,000	310,309	2,322,022	414,525
2031-2035	420,000	9,765	1,376,075	143,082
2036	-	-	265,000	4,306
TOTALS	<u>\$ 7,830,785</u>	<u>\$ 2,202,593</u>	<u>\$ 13,470,399</u>	<u>\$ 2,933,589</u>

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, 2014 was \$69,084.

Note obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Beginning Balance</u>	<u>Due Within One Year</u>
Housing Commission					
Mortgage 1 MSHDA	\$ 166,000	\$ -	\$ -	\$ 166,000	\$ -
Mortgage 2 MSHDA	160,000	-	-	160,000	-
Mortgage 3 MSHDA	<u>174,000</u>	<u>-</u>	<u>-</u>	<u>174,000</u>	<u>-</u>
Total Notes Payable	500,000	-	-	500,000	-
Compensated Absences	<u>25,029</u>	<u>14,861</u>	<u>7,430</u>	<u>32,460</u>	<u>14,625</u>
Total Component Unit Long-Term Debt	<u>\$ 525,029</u>	<u>\$ 14,861</u>	<u>\$ 7,430</u>	<u>\$ 532,460</u>	<u>\$ 14,625</u>

Since the MSHDA mortgage payables are forgivable over 40 years there are no future debt service requirements as of December 31, 2014.

NOTE 7 - LEASES

Capital Leases – The City has entered into a two lease agreements with US Bancorp and one with Team Financial for the purchase of three Kyocera TASK Alpha copiers. The City entered into another lease agreement with PNC for a Vactor Truck. The lease agreements qualify as capital leases for accounting purposes and, therefore have been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value is as follows:

<u>Year Ended June 30</u>	
2016	\$ 31,142
2017	30,252
2018	164,888
2019	1,888
2020	<u>314</u>
Total Minimum Lease Payments	228,484
Less: Amount Representing Interest	<u>(15,600)</u>
Present Value	<u>\$ 212,884</u>

NOTE 7 - LEASES (Continued)

Capital Lease – Housing Commission – In November 2010, 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 \$1,287,635, which began in January 2013 and was all committed as of December 31, 2014. Principal payments commenced March 2014. Interest from inception to March 2014 in the amount of \$19,981 was added to principal. The agreement ends in July 2030.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Beginning Balance</u>	<u>Due Within One Year</u>
EPC Capital Lease	\$ 1,195,753	\$ -	\$ 16,500	\$ 1,179,253	\$ 20,988

Payments under the agreement are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 20,988	\$ 74,862	\$ 95,850
2016	25,892	73,378	99,270
2017	31,244	71,568	102,812
2018	37,079	69,400	106,479
2019	43,432	66,845	110,277
2020-2030	<u>1,020,618</u>	<u>416,302</u>	<u>1,436,920</u>
Total	<u>\$ 1,179,253</u>	<u>\$ 772,355</u>	<u>\$ 1,951,608</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, 2014.

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.

01 – Non-Union: Open Division	
	<u>2014 Valuation</u>
Benefit Multiplier:	2.00% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	8 Years
Early Retirement (Unreduced):	55/30
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
Employee Contributions	4%
Act 88:	Yes (Adopted 1/1/2005)
02 – POAM: Open Division	
	<u>2014 Valuation</u>
Benefit Multiplier:	2.80% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/25
	50/15
Early Retirement (Reduced):	-
Final Average Compensation:	3 years
Employee Contributions	4%
Act 88:	Yes (Adopted 1/1/2005)
05 – IAFF: Open Division	
	<u>2014 Valuation</u>
Benefit Multiplier:	2.80% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	50/25
Early Retirement (Reduced):	50/15
Final Average Compensation:	3 years
Employee Contributions	4%
D-2:	D-2 (25%)
Act 88:	Yes (Adopted 1/1/2005)

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

10 – USWA: Close to new hires, linked to Division 11	
	2014 Valuation
Benefit Multiplier:	2.00% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/30
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
Employee Contributions	4%
Act 88:	Yes (Adopted 1/1/2005)
11 – USWA hired after 7/1/2011: Open Division, linked to Division 10	
	2014 Valuation
Benefit Multiplier:	1.50% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/30
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
Employee Contributions	4%
Act 88:	Yes (Adopted 1/1/2005)
20 – COAM: Open Division	
	2014 Valuation
Benefit Multiplier:	2.80% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	50/25
	55/15
Early Retirement (Reduced):	-
Final Average Compensation:	3 years
Employee Contributions	4%
Act 88:	Yes (Adopted 1/1/2005)

Employees Covered by Benefit Terms

At June 30, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	45
Inactive employees entitled to but not yet receiving benefits	2
Active employees	53
	<hr/> 100

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 at June 30, 2015 is as follows:

Non-Union	9.12%
POAM	13.13%
IAFF	21.94%
USWA	0.0%
USWA hired after 7/1/11	4.46%
COAM	5.82%

Net Pension Liability

The City’s net pension liability was measured as of December 31, 2014, 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, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 to 4.0 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	8.0 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 in 2008. (MERS Retirement Board is currently conducting an 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 8.25% for 2014 and will be 8.0% in 2015 and thereafter. 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:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2013	\$ 16,203,122	\$ 14,311,333	\$ 1,891,789
Service cost	290,722	-	290,722
Interest on total pension liability	1,309,986	-	1,309,986
Changes in benefits	-	-	-
Difference between expected and actual experience	-	-	-
Changes in assumptions	-	-	-
Employer contributions	-	196,069	(196,069)
Employee contributions	-	603,192	(603,192)
Net investment income	-	913,523	(913,523)
Benefit payments, including employee refunds	(939,727)	(939,727)	-
Administrative expense	-	(33,619)	33,619
Net changes	660,981	739,438	(78,457)
Balances as of June 30, 2015	\$ 16,864,103	\$ 15,050,771	\$ 1,813,332

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

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 8.25% , as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.25%) or 1-percentage-point higher (9.25%) than the current rate:

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City’s net pension liability	\$1,791,418	\$-	\$1,536,311

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

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

For the year ended June 30, 2015, the City recognized pension expense of (\$90,372). At June 30, 2015, 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	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	207,987	-
Contributions subsequent to the measurement date	99,032	-
Total	\$ 307,019	\$ -

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

Year Ended June 30:

2016	\$ 51,996
2017	51,996
2018	51,996
2019	51,999

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Annual Pension Cost

During the year ended June 30, 2015, the City's contributions totaling \$203,909 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2014. 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 26 years.

Housing Commission (Under GASB 27)

The Housing Commission participates in the Municipal Employees' Retirement System, (MERS). MERS is a defined benefit pension plan within the Michigan Department of Management and Budget, Bureau of Retirement systems that provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. Statistical information concerning the plan can be obtained from MERS which is contained in their annual report. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917-9755.

The Commission is invoiced by MERS on a monthly basis for its required contributions. For the fiscal year ended December 31, the Commission was invoiced at 6% gross wages. Commission employees are required to contribute \$0 or 0% of their annual compensation, depending on the employee group. The contribution requirements of plan members are established and may be amended by City Council.

For the year ended December 31, 2014, the Commission contributed \$0 for MERS was equal to the Commission's invoiced and actual contributions.

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS

Plan Description

In the fiscal year ending June 30, 2010, the City adopted the provision of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting for Postretirement Benefits Other Than Pension Plans on a prospective basis. The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. 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.

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS (Continued)

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 \$17,750 in health insurance premiums for participants for the year ended June 30, 2015. 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.

Annual OPEB Cost

The City’s annual other post employment benefit (OPEB) cost (expense) is calculated based on the actual required contribution of the employer. The City is not pre-funding their obligation, choosing to meet the requirements on a pay-as-you-go basis.

Annual required contribution	\$ 32,535
Interest on net OPEB obligation	<u>8,091</u>
Annual OPEB cost (expense)	40,626
Contributions made	<u>(17,750)</u>
increase in net OPEB obligation	22,876
Net OPEB obligation – beginning of year	<u>101,145</u>
Net OPEB obligation – end of year	<u>\$ 124,021</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2013, 2014 and 2015 are as follows:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$ 40,596	43%	\$ 72,974
2014	46,171	40%	101,145
2015	40,626	44%	124,021

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the personnel policy currently in place. In the June 30, 2015, actuarial valuation, the alternative valuation method was used. The actuarial assumptions include: (a) a rate of return on investments of 4.50%; (b) projected healthcare benefit increases of 0.0%. The City’s unfunded actuarial accrued liability will be amortized over 30 years in level dollar amounts. There are no assets as the City is funding OPEB on a “pay-as-you-go” basis.

NOTE 11 - LOCAL COMMUNITY STABILIZATION AUTHORITY ACT

PA 86 of 2014, was enacted as an Act for municipalities to create a metropolitan authority; to prescribe the powers, duties, and jurisdictions of the metropolitan authority; to prescribe the powers and duties of certain state officials; to levy, collect, and distribute a tax; and to repeal acts and parts of acts.

The Act requires each municipality’s comprehensive annual financial report for the municipality’s fiscal year ending in 2014 to include a calculation of the municipality’s percentage of general operating revenues used to fund essential services in the municipality’s fiscal year ending in 2015. The calculation of this is as follows:

Fire	\$	736,526
Police		<u>950,072</u>
Total Essential Services	\$	1,686,598
Total General Operating Revenues	\$	5,455,307
Percentage		31%

NOTE 12 - PRIOR PERIOD ADJUSTMENT

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Beginning net position as previously reported at June 30, 2014	\$ 25,257,998	\$ 11,624,029
Prior period adjustment – implementation of GASB 68: Net pension liability (measurement date) and Contributions to beginning of fiscal year	<u>(1,728,573)</u>	<u>(72,024)</u>
Net position as restated, July 1, 2014	<u>\$ 23,529,425</u>	<u>\$ 11,552,005</u>

Required Supplementary Information

Health Plan:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percent of Covered Payroll ((b - a) / c)</u>
<i>Primary Government</i>						
2014	\$ -	\$ 466,025	\$ 466,025	0.0%	Not Available	-
2015	\$ -	\$ 455,482	\$ 455,482	0.0%	Not Available	-

**Employee Retirement and Benefit Systems
Schedule of Funding Progress
For the Year Ended June 30, 2015**

	2015
Total pension liability	
Service cost	\$ 290,722
Interest	1,309,986
Difference between expected and actual experience	-
Benefit payments, including refund of member contributions	(939,727)
Net change in total pension liability	660,981
Total pension liability - beginning	16,203,122
Total pension liability - ending	\$ 16,864,103
Plan fiduciary net position	
Contributions - employer	\$ 196,069
Contributions - employee	603,192
Net investment income	913,523
Benefit payments, including refunds of member contributions	(939,727)
Administrative expense	(33,619)
Net change in plan fiduciary net position	739,438
Plan fiduciary net position - beginning	14,311,333
Plan fiduciary net position - ending	\$ 15,050,771
City's net pension liability - ending	\$ 1,813,332
Plan fiduciary net position as a percentage of the total pension liability	89%
Covered - employee payroll	\$ 2,760,014
City's net pension liability as a percentage of covered-employee payroll	66%
Annual money-weighted rate of return, net of investment expense	6%

**Employee Retirement and Benefit Systems
Schedule of Funding Progress
For the Year Ended June 30, 2015**

	<u>2015</u>
Actuarially determined contribution	\$ 196,069
Contributions in relation to the actuarially determined contribution	<u>196,069</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered - employee payroll	\$ 2,760,014
Contributions as a percentage of covered-employee payroll	7%

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	26 years
Asset valuation method	5-years smoothed market
Inflation	4.50%
Salary increases	4.5%, average, including inflation
Investment rate of return	8.00%
Retirement age	In the 2014 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience
Mortality	Assumptions were based on the 1994 Group Annuity Mortality Table - Blended 50% Male / 50% Female

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 3,273,509	\$ 3,273,509	\$ 3,332,162	\$ 58,653
Licenses and Permits	112,000	112,000	112,704	704
State Sources	672,065	672,065	665,667	(6,398)
Charges for Services	1,204,866	1,204,866	1,347,095	142,229
Interest and Rents	26,899	26,899	26,353	(546)
Other Revenue	174,763	174,763	364,202	189,439
TOTAL REVENUES	5,464,102	5,464,102	5,848,183	384,081
EXPENDITURES:				
Legislative:				
City Council	47,867	47,867	39,496	8,371
General Government:				
Manager	214,549	327,049	333,703	(6,654)
Clerk	199,054	199,054	184,684	14,370
Attorney	80,000	140,000	151,774	(11,774)
Engineer	12,000	12,000	13,000	(1,000)
Finance/Treasurer	200,053	200,053	196,665	3,388
Building and Grounds	118,850	118,850	134,401	(15,551)
Assessor	119,864	126,864	126,991	(127)
Boards and Commissions	13,230	13,230	10,354	2,876
Total General Government	957,600	1,137,100	1,151,572	(14,472)
Public Safety:				
Police Department	1,040,161	1,046,161	1,060,230	(14,069)
Fire Department	936,782	936,782	950,998	(14,216)
Total Public Safety	1,976,943	1,982,943	2,011,228	(28,285)
Public Works:				
Public Works	1,125,397	1,132,397	1,118,880	13,517
Total Public Works	1,125,397	1,132,397	1,118,880	13,517
Community and Economic Development:				
Community Development	217,088	217,088	172,284	44,804
Total Community and Economic Development	217,088	217,088	172,284	44,804
Recreation and Culture:				
Parks and Recreation	339,297	361,297	393,214	(31,917)
Total Recreation and Culture	339,297	361,297	393,214	(31,917)
Debt Service	761,983	761,983	761,974	9
Other Expenditures:				
Street Lighting	120,000	120,000	114,363	5,637
Other	86,146	95,146	90,896	4,250
Insurance	78,000	78,000	82,005	(4,005)
Appropriations	177,518	177,518	177,518	-
Total Other Expenditures	461,664	470,664	464,782	5,882
TOTAL EXPENDITURES	5,887,839	6,111,339	6,113,430	(2,091)

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(423,737)	(647,237)	(265,247)	381,990
OTHER FINANCING SOURCES (USES):				
Capital Lease Proceeds	-	-	8,142	8,142
Operating Transfers In	425,235	425,235	425,236	1
Operating Transfers Out	(100,000)	(100,000)	(203,377)	(103,377)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (98,502)</u>	<u>\$ (322,002)</u>	(35,246)	<u>\$ 286,756</u>
FUND BALANCE, JULY 1			<u>1,087,038</u>	
FUND BALANCE, JUNE 30			<u>\$ 1,051,792</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 370,000	\$ 370,000	\$ 413,083	\$ 43,083
Charges for Services	185,000	185,000	145,160	(39,840)
Interest	100	100	197	97
Other Revenue	120,000	120,000	3,581	(116,419)
TOTAL REVENUES	675,100	675,100	562,021	(113,079)
EXPENDITURES:				
Debt Service	143,640	143,640	143,640	-
Public Works	492,000	492,000	317,556	174,444
TOTAL EXPENDITURES	635,640	635,640	461,196	174,444
EXCESS (DEFICINECY) OF REVENUES OVER EXPENDITURES	39,460	39,460	100,825	61,365
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	10,000	10,000	33,212	23,212
Operating Transfers Out	(80,648)	(80,648)	(80,697)	(49)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (31,188)</u>	<u>\$ (31,188)</u>	53,340	<u>\$ 84,528</u>
FUND BALANCE, JULY 1			<u>261,396</u>	
FUND BALANCE, JUNE 30			<u>\$ 314,736</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 132,000	\$ 132,000	\$ 154,745	\$ 22,745
Interest	80	80	60	(20)
TOTAL REVENUES	<u>132,080</u>	<u>132,080</u>	<u>154,805</u>	<u>22,725</u>
EXPENDITURES:				
Public Works	<u>149,500</u>	<u>209,500</u>	<u>227,808</u>	<u>(18,308)</u>
EXCESS (DEFICINECY) OF REVENUES OVER EXPENDITURES	(17,420)	(77,420)	(73,003)	4,417
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	90,648	90,648	162,199	71,551
Operating Transfers out	<u>(80,648)</u>	<u>(80,648)</u>	<u>(80,697)</u>	<u>(49)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (7,420)</u>	<u>\$ (67,420)</u>	8,499	<u>\$ 75,919</u>
FUND BALANCE, JULY 1			<u>53,640</u>	
FUND BALANCE, JUNE 30			<u>\$ 62,139</u>	

Other Information

	Special Revenue Funds					Capital Project Funds			Totals
	City Refuse	Peg Commission	Brownfield Redevelopment Authority	Building Inspector	Street Improvement	Grant Management Fund	Capital Improvement	Renaissance Park	
ASSETS:									
Cash and Equivalents - Unrestricted	\$ 140,821	\$ 4,188	\$ 31,495	\$ -	\$ 35,782	\$ 48,588	\$ 103,498	\$ 1,100	\$ 365,472
Receivables	26,079	1,380	-	-	4,607	-	-	-	32,066
Prepaid Items	-	-	-	186	-	-	-	-	186
Due from Other Governmental Units	9,678	-	-	-	20,950	-	-	-	30,628
Due from Other Funds	-	-	-	-	-	-	13,128	-	13,128
TOTAL ASSETS	<u>\$ 176,578</u>	<u>\$ 5,568</u>	<u>\$ 31,495</u>	<u>\$ 186</u>	<u>\$ 61,339</u>	<u>\$ 48,588</u>	<u>\$ 116,626</u>	<u>\$ 1,100</u>	<u>\$ 441,480</u>
LIABILITIES:									
Accounts Payable	\$ 61,890	\$ -	\$ 1,445	\$ -	\$ -	\$ 207	\$ 6,392	\$ -	\$ 69,934
Unearned Revenue	-	-	-	-	4,607	-	-	-	4,607
Due to Other Funds	17,472	-	-	-	20,000	13,128	-	-	50,600
TOTAL LIABILITIES	<u>79,362</u>	<u>-</u>	<u>1,445</u>	<u>-</u>	<u>24,607</u>	<u>13,335</u>	<u>6,392</u>	<u>-</u>	<u>125,141</u>
FUND BALANCES:									
Nonspendable	-	-	-	186	-	-	-	-	186
Restricted	97,216	-	30,050	-	-	35,253	-	-	162,519
Committed	-	-	-	-	-	-	110,234	1,100	111,334
Assigned	-	5,568	-	-	36,732	-	-	-	42,300
TOTAL FUND BALANCES	<u>97,216</u>	<u>5,568</u>	<u>30,050</u>	<u>186</u>	<u>36,732</u>	<u>35,253</u>	<u>110,234</u>	<u>1,100</u>	<u>316,339</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 176,578</u>	<u>\$ 5,568</u>	<u>\$ 31,495</u>	<u>\$ 186</u>	<u>\$ 61,339</u>	<u>\$ 48,588</u>	<u>\$ 116,626</u>	<u>\$ 1,100</u>	<u>\$ 441,480</u>

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2015**

	Special Revenue Funds					Capital Project Funds			Totals
	City Refuse	Peg Commission	Brownfield Redevelopment Authority	Building Inspector	Street Improvement	Grant Management Fund	Capital Improvement	Renaissance Park	
REVENUES:									
Taxes	\$ 207,267	\$ -	\$ -	\$ -	\$ 1,411	\$ -	\$ -	\$ -	\$ 208,678
State Sources	-	-	-	-	-	23,409	-	-	23,409
Charges for Services	224,406	-	-	8,362	20,741	-	-	-	253,509
Local Sources	-	39,846	-	-	-	-	-	-	39,846
Other Revenues	-	1,000	9,140	-	7,144	-	-	-	17,284
Interest and Rents	133	6	-	1	331	-	73	1	545
TOTAL REVENUES	431,806	40,852	9,140	8,363	29,627	23,409	73	1	543,271
EXPENDITURES:									
General Government	-	41,041	-	-	-	-	-	-	41,041
Public Safety	-	-	14,853	13,931	-	13,594	-	-	42,378
Public Works	473,038	-	-	-	11,653	-	-	-	484,691
Recreation and Culture	-	-	-	-	-	-	-	5,616	5,616
Capital Outlay	-	-	-	-	-	22,020	21,656	-	43,676
TOTAL EXPENDITURES	473,038	41,041	14,853	13,931	11,653	35,614	21,656	5,616	617,402
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(41,232)	(189)	(5,713)	(5,568)	17,974	(12,205)	(21,583)	(5,615)	(74,131)
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	-	-	-	-	-	30,476	358,543	5,616	394,635
Operating Transfers Out	-	-	-	-	(25,860)	-	(297,130)	-	(322,990)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	(25,860)	30,476	61,413	5,616	71,645
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(41,232)	(189)	(5,713)	(5,568)	(7,886)	18,271	39,830	1	(2,486)
FUND BALANCES, JULY 1	138,448	5,757	35,763	5,754	44,618	16,982	70,404	1,099	318,825
FUND BALANCES, JUNE 30	\$ 97,216	\$ 5,568	\$ 30,050	\$ 186	\$ 36,732	\$ 35,253	\$ 110,234	\$ 1,100	\$ 316,339

**Combining Statement of Net Position
Nonmajor Enterprise Funds
June 30, 2015**

	Boat Ramp	Marina	Totals
ASSETS:			
Cash and Investments - Unrestricted	\$ 20,772	\$ 12,174	\$ 32,946
Receivables	-	11,870	11,870
Prepaid Items	-	1,011	1,011
Inventory	-	12,114	12,114
Capital Assets Not Depreciated	-	46,974	46,974
Capital Assets Net of Accumulated Depreciation	309,908	1,083,897	1,393,805
TOTAL ASSETS	\$ 330,680	\$ 1,168,040	\$ 1,498,720
LIABILITIES:			
Accounts Payable	\$ 156	\$ 14,848	\$ 15,004
Accrued Payroll and Related Liabilities	-	1,267	1,267
Accrued Interest Payable	-	3,194	3,194
Long-term Advance to Other Funds	94,007	274,482	368,489
Installment Loans Payable - Due within one year	-	22,805	22,805
Installment Loans Payable - Due in more than one year	-	272,867	272,867
TOTAL LIABILITIES	94,163	589,463	683,626
NET POSITION:			
Net Investment in Capital Assets	215,901	560,717	776,618
Unrestricted	20,616	17,860	38,476
TOTAL NET POSITION	236,517	578,577	815,094
TOTAL LIABILITIES AND NET POSITION	\$ 330,680	\$ 1,168,040	\$ 1,498,720

**Combining Statement of Revenues, Expenses, and
Changes in Net Position - Nonmajor Enterprise Funds
For the Year Ended June 30, 2015**

	<u>Boat Ramp</u>	<u>Marina</u>	<u>Totals</u>
OPERATING REVENUES:			
Charges for Services	\$ 33,939	\$ 164,136	\$ 198,075
Other Revenue	-	2,400	2,400
TOTAL OPERATING REVENUES	<u>33,939</u>	<u>166,536</u>	<u>200,475</u>
OPERATING EXPENSES:			
Personal Services	-	23,426	23,426
Administration	2,102	12,278	14,380
Insurance	-	1,517	1,517
Supplies	1,036	106,192	107,228
Utilities	6,067	16,756	22,823
Repair and Maintenance	87	14,768	14,855
Depreciation	24,475	67,095	91,570
Miscellaneous	679	6,459	7,138
Total Operating Expenses	<u>34,446</u>	<u>248,491</u>	<u>282,937</u>
OPERATING INCOME (LOSS)	<u>(507)</u>	<u>(81,955)</u>	<u>(82,462)</u>
NON-OPERATING REVENUES (EXPENSES):			
Interest on Investments	7	28	35
Interest Expense	(2,148)	(15,583)	(17,731)
Total Non-Operating Revenues (Expenses)	<u>(2,141)</u>	<u>(15,555)</u>	<u>(17,696)</u>
Income (Loss) Before Transfers	<u>(2,648)</u>	<u>(97,510)</u>	<u>(100,158)</u>
Operating Transfers In	-	40,000	40,000
CHANGES IN NET POSITION	<u>(2,648)</u>	<u>(57,510)</u>	<u>(60,158)</u>
NET POSITION, JULY 1	<u>239,165</u>	<u>636,087</u>	<u>875,252</u>
NET POSITION, JUNE 30	<u>\$ 236,517</u>	<u>\$ 578,577</u>	<u>\$ 815,094</u>

**Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2015**

	Boat Ramp	Marina	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from Customers	\$ 33,939	\$ 218,823	\$ 252,762
Payments to Suppliers	(9,927)	(144,726)	(154,653)
Payments to Employees	-	(24,971)	(24,971)
Internal Activity - Payments/Receipts with Other Funds	(12,388)	(103,500)	(115,888)
Net Cash Provided (Used) by Operating Activities	11,624	(54,374)	(42,750)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:			
Operating Transfers In	-	40,000	40,000
Net Cash Provided (Used) by Noncapital and Related Financing Activities	-	40,000	40,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Paid on Capital Debt	-	(22,133)	(22,133)
Interest Paid on Capital Debt	(2,148)	(15,583)	(17,731)
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,148)	(37,716)	(39,864)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest Income	7	28	35
Net Cash Provided (Used) by Investing Activities	7	28	35
Net Increase (Decrease) in Cash and Cash Equivalents	9,483	(52,062)	(42,579)
Balances - Beginning of the Year	11,289	64,236	75,525
Balances - End of the Year	\$ 20,772	\$ 12,174	\$ 32,946
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ (507)	\$ (81,955)	\$ (82,462)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	24,475	67,095	91,570
Change in Assets and Liabilities:			
(Increase) Decrease in Assets:			
Receivables	-	52,287	52,287
Inventory	-	4,837	4,837
Prepaid Items	-	(61)	(61)
Increase (Decrease) in Liabilities:			
Accounts Payable	44	8,468	8,512
Accrued Payroll and Related Liabilities	-	(1,545)	(1,545)
Due to Other Funds	(12,388)	(103,500)	(115,888)
Net Cash Provided (Used) by Operating Activities	\$ 11,624	\$ (54,374)	\$ (42,750)

**Combining Balance Sheet
Component Units
June 30, 2015**

	Downtown Development Authority	Friends of the Ramsdell	Manistee Housing Commission	Totals
ASSETS:				
Cash and Equivalents - Unrestricted	\$ 128,626	\$ 3,075	\$ 500,521	\$ 632,222
Cash and Equivalents - Restricted	-	-	58,042	58,042
Accounts Receivable	6,541	-	18,381	24,922
Notes Receivable	202,500	-	-	202,500
Due from Other Governmental Units	-	-	13,956	13,956
Other Assets	2,774	-	22,858	25,632
Capital Assets Not Depreciated	-	-	360,272	360,272
Capital Assets Net of Accumulated Depreciation	-	-	3,006,700	3,006,700
TOTAL ASSETS	\$ 340,441	\$ 3,075	\$ 3,980,730	\$ 4,324,246
LIABILITIES:				
Accounts Payable	\$ 6,883	\$ -	\$ 38,444	45,327
Accrued Liabilities	1,789	-	6,035	7,824
Due to Other Governmental Units	-	-	39,830	39,830
Security Deposits	-	-	58,042	58,042
Unearned Revenue	9,000	-	3,189	12,189
Capital Leases - Due within one year	-	-	20,988	20,988
Capital Leases - Due in more than one year	-	-	1,158,265	1,158,265
Note Payable - Due in more than one year	-	-	500,000	500,000
Compensated Absences - Due within one year	-	-	14,625	14,625
Compensated Absences - Due in more than one year	-	-	17,835	17,835
TOTAL LIABILITIES	17,672	-	1,857,253	1,874,925
NET POSITION:				
Net Investment in Capital Assets	-	-	1,687,719	1,687,719
Unrestricted	322,769	3,075	435,758	761,602
TOTAL NET POSITION	322,769	3,075	2,123,477	2,449,321
TOTAL LIABILITIES AND NET POSITION	\$ 340,441	\$ 3,075	\$ 3,980,730	\$ 4,324,246

**Combining Statement of Revenues, Expenditures
and Changes in Net Position
Component Units
For the Year Ended June 30, 2015**

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
Public Works:								
Manistee Housing Commission	\$ 1,587,754	\$ 624,766	\$ 568,952	\$ 59,324	\$ -	\$ -	\$ (334,712)	\$ (334,712)
Recreation and Culture:								
Friends of the Ramsdell	7,266	-	6,267	-	-	(999)	-	(999)
Economic Development:								
Downtown Development Authority	365,536	57,212	-	-	(308,324)	-	-	(308,324)
Total Component Units	<u>\$ 1,960,556</u>	<u>\$ 681,978</u>	<u>\$ 575,219</u>	<u>\$ 59,324</u>	<u>(308,324)</u>	<u>(999)</u>	<u>(334,712)</u>	<u>(644,035)</u>
General Revenues:								
Property Taxes					277,137	-	-	277,137
Interest Expense					-	-	(76,047)	(76,047)
Interest Income					1,654	1	1,224	2,879
Other Revenue					-	-	204,737	204,737
Total General Revenues					<u>278,791</u>	<u>1</u>	<u>129,914</u>	<u>408,706</u>
Changes in Net Position					<u>(29,533)</u>	<u>(998)</u>	<u>(204,798)</u>	<u>(235,329)</u>
Net Position - Beginning					352,302	4,073	2,327,061	2,683,436
Prior Period Adjustment					-	-	1,214	1,214
Restated Net Position - Beginning					<u>352,302</u>	<u>4,073</u>	<u>2,328,275</u>	<u>2,684,650</u>
Net Position - Ending					<u>\$ 322,769</u>	<u>\$ 3,075</u>	<u>\$ 2,123,477</u>	<u>\$ 2,449,321</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
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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, 2015, 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 14, 2015. Our report includes a reference to other auditors who audited the financial statements of the Manistee Housing Commission, as described in or 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency listed as 2015-001.

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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as items 2015-001.

City of Manistee, Michigan's Response to Findings

The City of Manistee, Michigan's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City of Manistee, Michigan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 14, 2015

Internal Control Over Financial Reporting and Compliance and Other Matters

Significant Deficiency – Noncompliance with State Statutes

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 2015-001

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

Condition: Our examination of procedures used by the City to adopt and maintain operating budgets for the City’s budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The City’s 2015 General Appropriations Act (budget) provided for expenditures of the General Fund and Local Street Fund to be controlled to the Departmental and Fund level, respectively. As detailed, some actual 2015 expenditures exceeded the Council’s approved budget allocations for some departments in the general fund and the local street fund.

During the fiscal year ended June 30, 2015, expenditures were incurred in excess of amounts appropriated in the amended budgets by certain functions for the General Fund and Local Street Fund as listed on pages 52 and 54 of the financial statements.

Effect: Condition’s violate State Statutes.

Cause: The City tries to estimate what year-end expenditures will be at June 30, and prepares a budget amendment for Council in mid-June. Although administration tries to accurately anticipate where expenditures will come in at year-end, there are always a few areas where we underestimate the needed budget amendment amount.

Recommendation: We recommend that the Council personnel responsible for administering the activities of the various funds of the City, develop budgetary control procedures for the General Fund and Local Street Fund which will assure that expenditures do not exceed amounts authorized by function or fund level in the General Appropriations Act, or amendments thereof.

Planned Corrective Action: The CFO will continue to work closely with the responsible department heads to refine year-end budget estimates.

- *Contact Person(s) Responsible for Correction:*
Edward Bradford, Chief Financial Officer



ANDERSON, TACKMAN & COMPANY, PLC
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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, 2015, and have issued our report thereon dated October 14, 2015. 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 20, 2015, 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 20, 2015.

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. One new accounting policy was adopted regarding the implementation of GASB Statements 68 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 of the Annual Required Contribution 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 14, 2015.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Comments and Recommendations

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

Policies (Prior Year)

During testing it was noted that the City did not have the following policies adopted: capitalization of assets, fraud and conflict of interest. We recommend that the City adopt these policies to help ensure sound accounting practices.

Status: Corrected.

Uniform Administrative Requirements

During December 2013, the Office of Management and Budget released its final version of the “*Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*.” The guidance is applicable to federal grants and cooperative agreements and provides a comprehensive consolidation and revision of OMB Circulars which currently govern Federal and some non-Federal entities. The guidance combines A-110 and A-102 into a single set of administrative rules, combines A-21, A-87 and A-122 into a single set of consolidated cost principles and revises the language of A-133. This publication is designed to provide a single document which will serve as a “one-stop shop” for financial assistance regulatory requirements for all awarding agencies. The new requirements will be effective and applicable for audits of years beginning on or after December 26, 2014.

Revisions Related to Single Audit Requirements

The Office of Management and Budget set forth new consolidated audit standards for entities receiving Federal financial assistance awards and replaces OMB Circular A-133. The changes within the final guidance primarily combine the guidance in OMB A-133 and A-50 on audit follow-up. The guidance reflects a movement to focus these audits and oversight efforts on higher dollar, higher risk awards and focus oversight on improper payments, waste, fraud, and abuse.

Most significantly, the threshold triggering a single audit or program-specific audit requirements is increased to \$750,000 or more in annual Federal awards. These requirements apply equally to recipients and sub-recipients under Federal programs. The final guidelines incorporate an exception to these audit requirements for non-U.S.-based entities expending Federal awards.

Further, the final guidance increases the minimum threshold for reporting questioned costs from \$10,000 to \$25,000 to focus on the audit findings presenting the greatest risk. OMB believes this will eliminate smaller-dollar audit findings, which require utilization of resources for follow-up audits that are unlikely to indicate significant weaknesses in internal controls.

These changes necessitate a careful review and analysis of an organization’s current business practices. Although OMB has raised certain thresholds for audit and materiality, it has also improved mechanisms of oversight related to mandatory disclosures, pre-award review of risks, standards for financial and program management, sub-recipient monitoring, and remedies for noncompliance. The revisions are effective for audits of years beginning on or after December 26, 2014.

Public Act 298 of 2012 “Performance Audit”

Public Act 298 of 2012 allows the Department of Transportation to request the local agency (road commission, county, city or village expending Act 51 monies) to engage an auditor to conduct a “performance audit” of whether it has expended funds in compliance with Act 51 of 1951, as amended (Act 51). A “performance audit” is different in scope than a “financial audit”. A “performance audit” by definition is an independent examination of a program, function, operation or the management systems and procedures of a governmental entity to assess whether the entity is achieving economy, efficiency, and effectiveness in the employment of available resources. All local agencies will be required to have a Performance Audit for periods beginning October 1, 2015. The performance audit under Public Act 298 of 2012 must be performed by an independent certified public accountant that is currently licensed to practice in the State of Michigan or by an employee of the Department of Transportation. We recommend the City arrange to either have an independent CPA or MDOT employee be engaged to perform this “Performance Audit”.

Fair Value of Investments

The Governmental Accounting Standards Board has issued final guidance on accounting and financial reporting issues related to fair value measurements, which primarily apply to investments made by state and local governments. GASB Statement No. 72 – *Fair Value Measurement and Application* defines fair value and describes how fair value should be determined and recorded, what assets and liabilities should be measured by fair value and presented in the government’s statement of net position or balance sheet and required disclosures of fair value in the footnotes to the financial statements. Management should be aware of the requirements and valuation techniques as applicable to the governmental entity. The statement is effective for periods beginning after June 15, 2015.

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.



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

October 14, 2015