

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

In the Statement of Net Position and the Statement of Activities, we divide the City into three kinds of activities:

- *Governmental activities* – Most of the City's basic services are reported here, including the police, fire, public works and parks departments, and general administration. Property taxes, charges for services and state sources fund most of these activities.
- *Business-type activities* – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system and marina activities are reported here.
- *Component units* – The City includes three separate legal entities in its report – the Downtown Development Authority, the Landfill Authority, and the Munising Housing Commission. Although legally separate, these "component units" are important because the City is financially accountable for them.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on the pages below. The fund financial statements begin as listed in the table of contents and provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Commission establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using taxes, grants, and other money. The City's two kinds of funds - *governmental* and *proprietary* - use different accounting approaches.

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

City of Munising, Michigan

COMPONENT UNITS

COMBINING STATEMENT OF NET POSITION

June 30, 2018

	Downtown Development Authority	Landfill Authority	Housing Commission	Total
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 184,393	\$ 9,603	\$ 219,584	\$ 413,580
Investments	-	-	-	-
Receivables, net	20,683	-	3,628	24,311
Prepaid expenses	-	-	7,107	7,107
Non-current Assets:				
Cash and cash equivalents - restricted	3,754	1,094	33,090	37,938
Loan receivable	-	-	-	-
Advance from other funds	260,000	-	-	260,000
Capital Assets:				
Land and construction in progress	81,050	-	60,147	141,197
Other capital assets, net	316,995	-	583,801	900,796
TOTAL ASSETS	866,875	10,697	907,357	1,784,929
DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-
LIABILITIES				
Current Liabilities:				
Accounts payable	-	-	6,444	6,444
Accrued liabilities	369	-	17,536	17,905
Due to other governments	-	-	13,586	13,586
Tenant security deposits	-	-	28,094	28,094
Unearned revenue	-	-	470	470
Non-current Liabilities:				
Portion due or payable within one year:				
Bond payable	55,000	-	-	55,000
Employee benefits	-	-	12,971	12,971
Portion due or payable after one year:				
Bond payable	388,000	-	-	388,000
Employee benefits	-	-	12,034	12,034
TOTAL LIABILITIES	443,369	-	91,135	534,504
DEFERRED INFLOWS OF RESOURCES	-	-	-	-
NET POSITION				
Net investment in capital assets	138,045	-	643,948	781,993
Restricted	260,000	-	4,996	264,996
Unrestricted	25,461	10,697	167,278	203,436
TOTAL NET POSITION	\$ 423,506	\$ 10,697	\$ 816,222	\$ 1,250,425

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

City of Munising, Michigan

COMPONENT UNITS

COMBINING STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2018

Function / 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	Landfill Authority	Housing Commission	Total
Downtown Development Authority Operations	\$ 302,475	\$ -	\$ 12,256	\$ -	\$ (290,219)	\$ -	\$ -	\$ (290,219)
Landfill Authority Operations	13,720	13,690	-	-	-	(30)	-	(30)
Housing Commission Operations	610,328	306,076	167,740	1,575	-	-	(134,937)	(134,937)
TOTAL COMPONENT UNITS	\$ 926,523	\$ 319,766	\$ 179,996	\$ 1,575	(290,219)	(30)	(134,937)	(425,186)
General Revenues:								
Property taxes					312,787	-	-	312,787
Interest and investment earnings					357	25	1,385	1,767
Gain / (loss) on sale of assets					-	-	(774)	(774)
Miscellaneous					29,328	58	47,303	76,689
TOTAL GENERAL REVENUES					342,472	83	47,914	390,469
CHANGE IN NET POSITION					52,253	53	(87,023)	(34,717)
Net position, beginning of year					371,253	10,644	903,245	1,285,142
NET POSITION, END OF YEAR					\$ 423,506	\$ 10,697	\$ 816,222	\$ 1,250,425

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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 one item that qualifies for reporting in this category.

The government reports deferred inflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension plan.

Property Taxes

Property taxes attach as an enforceable lien on property as of July 1. Taxes are levied not later than July 1 and are payable by August 20 without penalty.

The City bills and collects its own property taxes and also the taxes for the local school district, the intermediate school district, and the county. Collections of local school taxes, intermediate school district taxes, and county taxes and remittance of them are accounted for in the Trust and Agency Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City of Munising because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through December 26, 2018, the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

NOTE B – INDIVIDUAL COMPONENT UNIT DISCLOSURES:

Discretely Presented Component Units

The component unit column in the Statement of Net Position includes the financial data for the Downtown Development Authority/TIF District, the Landfill Authority, and the Munising Housing Commission. They are reported in a separate column to emphasize that they are legally separate from the City. The purpose of the Downtown Development Authority/TIF entity is to foster development of the Downtown Business District. The purpose of the Landfill Authority is to control revenues and incur expenditures in connection with the Munising Landfill Closure. The purpose of the Munising Housing Commission is to provide low income housing programs to City residents.

NOTE B – INDIVIDUAL COMPONENT UNIT DISCLOSURES (Continued):

The presentation of the financial statements of the Downtown Development Authority/TIF district and the Landfill Authority are complete, and there is no separately issued report for these entities.

A complete financial statement for the Munising Housing Commission can be obtained directly from the Administrative Office at 200 City Park Drive OFC, Munising, Michigan, 49862.

In accordance with the provisions of GASB Statement 14, certain other governmental organizations are not considered to be part of the reporting entity for financial reporting purposes. The criteria established for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, the financial statements of Munising Public Schools are not included in the financial statements of the City.

NOTE C – DEPOSITS AND INVESTMENTS:

The composition of cash and equivalents reported on the statement of net position are as follows:

	Primary Government	Component Units	Fiduciary Funds	Total
Cash and cash equivalents:				
Unrestricted	\$3,006,831	\$413,580	\$47,181	\$3,467,592
Restricted	2,018,333	37,938	-	2,056,271
Subtotal	<u>5,025,164</u>	<u>451,518</u>	<u>47,181</u>	<u>5,523,863</u>
Investments				
Unrestricted	-	-	-	-
Restricted	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$5,025,164</u>	<u>\$451,518</u>	<u>\$47,181</u>	<u>\$5,523,863</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State law does not require and the City does not have a deposit policy for custodial credit risk. The carrying amount of the primary government, component units, and fiduciary funds deposits with financial institutions was \$5,523,863 and the bank balance was \$5,560,101. The bank balance is categorized as follows:

Amount insured by the FDIC or uncollateralized with securities held by the City in its name	\$524,593
Amount uninsured and collateralized with securities held by the pledging financial institutions trust department in the City's name	3,735,508
Amount uninsured and collateralized with securities held by the pledging financial institutions trust department not in the City's name	<u>1,300,000</u>
Total	<u>\$5,560,101</u>

NOTE I – LONG-TERM DEBT (Continued):

Description	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
PRIMARY GOVERNMENT:					
BUSINESS-TYPE ACTIVITIES (Continued):					
2013 Energy Bond maturing serially to 2028 in annual variable amounts and bearing interest 4.40%	\$172,500	\$-	(\$10,350)	\$162,150	\$10,350
Sewage Disposal System Junior Lien Revenue Bond, Series 2014 – Construction Draw Downs	1,555,000	-	(24,000)	1,531,000	24,000
Water Supply System Junior Lien Revenue Bond, Series 2014 – Construction Draw Downs	774,000	-	(13,000)	761,000	14,000
Subtotal	14,899,800	-	(320,850)	14,578,950	335,750
Employee Benefits:					
Accrued vacation	12,362	4,232	(5,907)	10,687	-
Accrued sick leave	19,662	10,219	(15,905)	13,976	-
Subtotal	32,024	14,451	(21,812)	24,663	-
TOTAL BUSINESS-TYPE ACTIVITIES	\$14,931,824	\$14,451	(\$342,662)	\$14,603,613	\$335,750
COMPONENT UNITS:					
Downtown Development Authority:					
2013 Downtown Development Bonds maturing serially to 2029 in annual variable amounts and bearing interest 3.70%	\$280,000	\$-	(\$20,000)	\$260,000	\$20,000
2015 Downtown Development Bonds maturing serially to 2023 in annual variable amounts and bearing interest 2.09%	218,000	-	(35,000)	183,000	35,000
Subtotal	498,000	-	(55,000)	443,000	55,000
Landfill Authority:					
None	-	-	-	-	-
Housing Commission:					
Employee Benefits	21,285	3,720	-	25,005	12,971
TOTAL COMPONENT UNITS	\$519,285	\$3,720	(\$55,000)	\$468,005	\$67,971

Debt Service Requirements

The annual requirements to pay principal and interest based on debt outstanding at June 30, 2018 (exclusive of employee benefits) for the City are as follows:

Fiscal Year	Governmental Activities		Business-Type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$150,358	\$99,448	\$335,750	\$547,793	\$55,000	\$12,709
2020	121,548	94,179	301,650	534,725	56,000	11,227
2021	127,475	89,615	318,550	523,628	52,000	9,817
2022	130,731	84,908	332,000	512,054	57,000	8,395
2023	128,100	79,770	347,900	499,956	58,000	6,872

NOTE I – LONG-TERM DEBT (Continued):

Fiscal Year	Governmental Activities		Business-Type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
2024-2028	\$696,300	\$325,882	\$2,032,700	\$2,290,529	\$110,000	\$20,536
2029-2033	618,600	198,839	2,093,400	1,890,416	55,000	2,127
2034-2038	474,350	88,264	2,229,000	1,497,898	-	-
2039-2043	175,000	10,600	2,694,000	1,032,213	-	-
2044-2048	-	-	3,258,000	466,722	-	-
2049-2053	-	-	452,000	51,807	-	-
2054-2058	-	-	184,000	4,689	-	-
Totals	<u>\$2,622,462</u>	<u>\$1,071,505</u>	<u>\$14,578,950</u>	<u>\$9,852,430</u>	<u>\$443,000</u>	<u>\$71,683</u>

Employee Benefits

The City's employment policies provide for vacation and sick leave benefits to be earned in varying amounts depending on the employee's years of service.

The following is a summary of employee benefits:

	Governmental Activities	Business-type Activities	Component Unit
Employee Benefits:			
Current portion	\$-	\$-	\$12,971
Long-term portion	135,150	24,663	12,034
Total employee benefits	<u>\$135,150</u>	<u>\$24,663</u>	<u>\$25,005</u>

NOTE J – LONG-TERM PAYABLE TO DDA:

During fiscal year 2014, the DDA secured a bond in the amount of \$315,000 to be used to finance a portion of the City's Energy Project that is within the DDA's development area. The City's Capital Project's fund recorded \$315,000 in funds from the DDA. Upon completion of the project in fiscal year 2017 the amount owed to the DDA was split among the applicable funds affected by the Energy Improvement Project. As appropriate, an advance from the DDA is shown as a liability in the applicable funds. The amounts outstanding as of June 30, 2018 are as follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
Governmental Activities:					
General Fund	\$67,200	\$-	(\$4,800)	\$62,400	\$4,800
Municipal Building	5,600	-	(400)	5,200	400
Motor Pool	14,000	-	(1,000)	13,000	1,000
Subtotal	<u>86,800</u>	<u>-</u>	<u>(6,200)</u>	<u>80,600</u>	<u>6,200</u>
Business-type Activities:					
Sewer Fund	114,800	-	(8,200)	106,600	8,200
Water Fund	78,400	-	(5,600)	72,800	5,600
Subtotal	<u>193,200</u>	<u>-</u>	<u>(13,800)</u>	<u>179,400</u>	<u>13,800</u>
Total	<u>\$280,000</u>	<u>\$-</u>	<u>(\$20,000)</u>	<u>\$260,000</u>	<u>\$20,000</u>

NOTE J – LONG-TERM PAYABLE TO DDA (Continued):

The advance to/from other funds will be reduced in conjunction with the DDA's principal payments on the debt. As of June 30, 2018, the amount recorded as an advance from to the DDA (the outstanding principal on the DDA's bonds) was \$260,000.

NOTE K – FUND BALANCES – GOVERNMENTAL FUNDS:

Fund balances of the governmental funds are classified as follows:

Non-spendable — amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed — amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

Assigned — amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the City's adopted policy, only the City Manager or the City Council may assign amounts for specific purposes.

Unassigned — all other spendable amounts.

As of June 30, 2018, fund balances are composed of the following:

	General Fund	Major Special Revenue Funds	Capital Projects Funds	Other Governmental Funds	Total Governmental Funds
Non-spendable:					
Prepays	\$16,771	\$-	\$-	\$85,000	\$101,771
Restricted:					
Landfill Post Closure	91,071	-	-	-	91,071
Playground Project	10,291	-	-	-	10,291
Transportation Funds	-	245,695	-	-	245,695
Capital Projects	-	-	73,638	-	73,638
Police Training	-	-	-	4,110	4,110
Debt Service	-	-	-	-	-
Brownfield	-	-	-	10,036	10,036
Cemetery Trust	-	-	-	35,126	35,126
Subtotal	101,362	245,695	73,638	49,272	469,967
Committed	-	-	-	-	-
Assigned					
Major Street	-	177,965	-	-	177,965
Local Street	-	50,582	-	-	50,582
Capital Projects	-	-	139,181	-	139,181
Subtotal	-	228,547	139,181	-	367,728
Unassigned	938,662	-	-	-	938,662
Total fund balances	\$1,056,795	\$474,242	\$212,819	\$134,272	\$1,878,128