

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Manistee	County Manistee
Fiscal Year End June 30, 2007	Opinion Date November 1, 2007	Date Audit Report Submitted to State November 1, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

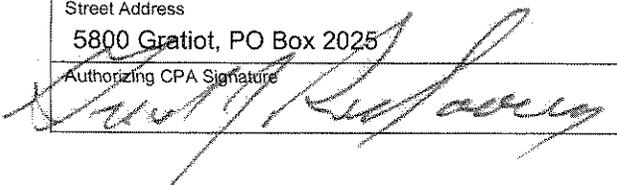
YES NO

Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input type="checkbox"/>	No comments and recommendations for current year.
Other (Describe)	<input type="checkbox"/>	
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 989-799-9580
Street Address 5800 Gratiot, PO Box 2025		City Saginaw
		State MI
		Zip 48605
Authorizing CPA Signature 	Printed Name Gerald J. Desloover, CPA	License Number 1101007126



Manistee, Michigan

FINANCIAL STATEMENTS

**For the Fiscal Year Ended
June 30, 2007**



REHMANN ROBSON

Certified Public Accountants

CITY OF MANISTEE, MICHIGAN

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CITY OF MANISTEE, MICHIGAN

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

November 1, 2007

The Honorable Mayor and
Members of the City Council
City of Manistee
Manistee, Michigan

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* (the "City"), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the discretely presented component unit financial statements of the City of Manistee Housing Commission and Downtown Development Authority, which represents 89% and 10% of the assets and 88% and 11% of the revenues, respectively, of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar, as they relate to the amounts included for the City of Manistee's Housing Commission and Downtown Development Authority, are based on the reports 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports 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, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General, Major Street and Oil & Gas Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2007, on our consideration of the City's internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed on pages 3-11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. The combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lehmann Johnson".

Management's Discussion and Analysis

The management of the *City of Manistee, Michigan* (the "City"), presents 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, 2007. This analysis is intended to assist the reader in focusing on significant financial issues and to provide a general overview of the City's financial activity.

Financial Highlights

- The assets of the City (primary government) exceeded its liabilities at the close of the most recent fiscal year by \$27,662,255 (net assets). Of this amount, \$5,363,609 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$1,500,940 or 6%.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$9,777,558, an increase of \$117,193 or 1% from the prior year.
- At the end of the current fiscal year, the total General Fund balance was \$861,622; and unreserved, undesignated fund balance was \$816,060 or 15% percent of total General Fund expenditures and transfers out.
- The City's total governmental activities long-term debt decreased by \$1,103,560. This decrease was due to the issuance of notes payable in the amount of \$410,470 less scheduled principal payments of \$551,493 and the forgiveness of debt from the Michigan Economic Development Corporation in the amount of \$962,537.

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 three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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 assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Overtime, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 only 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 legislative, general government, public safety, public works, and recreation and culture. The business-type activities of the City include water and sewer, marina and boat ramp operations.

The government-wide financial statements include not only the City (known as the primary government), but also legally separate entities - the Downtown Development Authority, Manistee Housing Commission, and the Ramsdell Theatre Restoration Project; which are *discretely presented component units* of the City. Financial information for these *component units* are reported separately from the financial information presented for the primary government.

The government-wide financial statements can be found on pages 12-14 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 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 twenty-four 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 Street, and Oil & 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 non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 15-21 of this report.

Proprietary Funds are also maintained by the City. There are two different types of proprietary funds. *Enterprise Funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, 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 these services benefit 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 City maintains four individual proprietary funds. Information is presented separately in the proprietary fund balance sheet and in the proprietary fund statement of revenues, expenses and changes in net assets for the Water and Sewer Fund, which is considered to be a major fund of the City. Data from the other proprietary funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major 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 22-27 of this report and in the business-type activities in the government-wide financial statements.

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 28 of this report.

Notes to the 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. They should be read thoroughly as part of any review of the City's financial statements. The notes to the financial statements can be found on pages 29-47 of this report.

Other Information. The combining statements referred to earlier in connection with non-major governmental funds and component units are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 48-85 of this report.

Government-Wide Financial Analysis

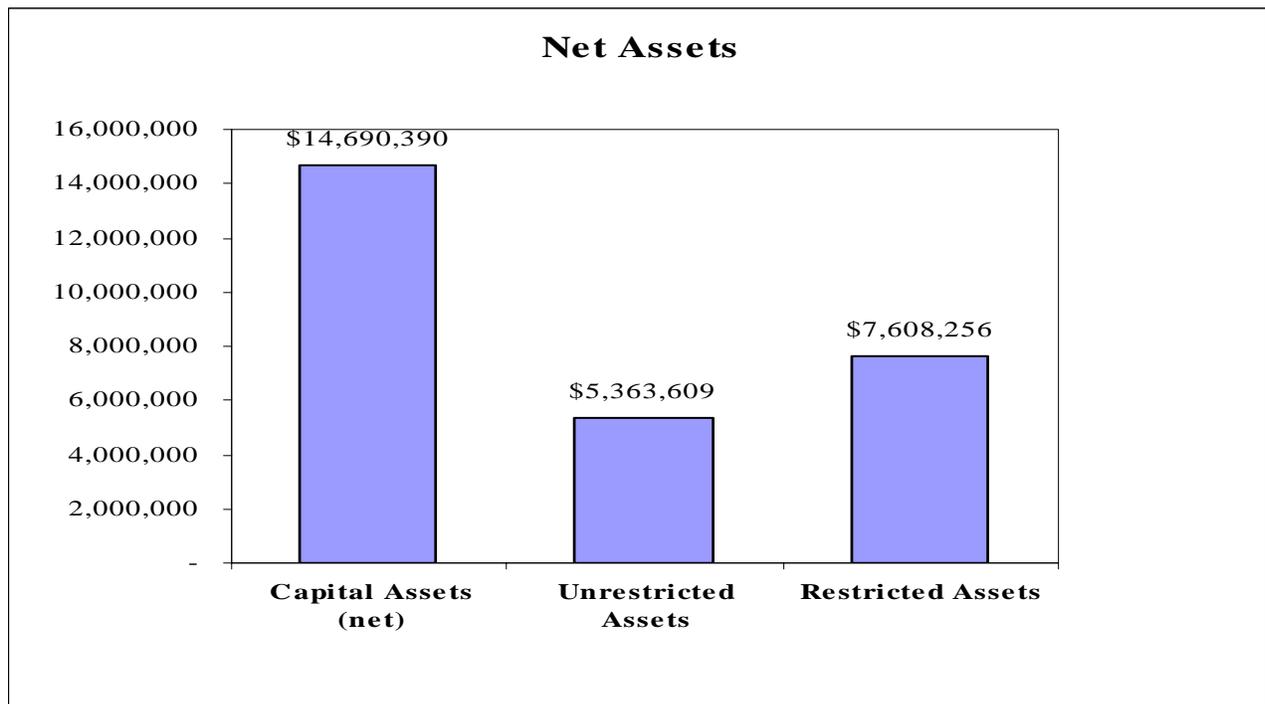
As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$27,662,255 at the close of the most recent fiscal year.

The largest portion of the City's net assets (53%) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure); less any related debt used to acquire those assets that is 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 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 themselves cannot be used to liquidate these liabilities.

City of Manistee
Net Assets as of June 30, 2007

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 10,564,587	\$ 10,590,099	\$ 3,414,509	\$ 2,905,262	\$ 13,979,096	\$ 13,495,361
Capital assets	<u>15,355,007</u>	<u>14,842,739</u>	<u>18,505,453</u>	<u>16,773,758</u>	<u>33,860,460</u>	<u>31,616,497</u>
Total assets	<u>25,919,594</u>	<u>25,433,738</u>	<u>21,919,962</u>	<u>19,679,020</u>	<u>47,839,556</u>	<u>45,112,758</u>
Long-term liabilities						
outstanding	6,079,102	7,144,227	13,409,206	11,187,548	19,488,308	18,331,775
Other liabilities	<u>503,725</u>	<u>484,099</u>	<u>185,268</u>	<u>135,659</u>	<u>689,993</u>	<u>619,668</u>
Total liabilities	<u>6,582,827</u>	<u>7,628,236</u>	<u>13,594,474</u>	<u>11,323,207</u>	<u>20,177,301</u>	<u>18,951,443</u>
Net assets						
Invested in capital assets, net of related debt	9,534,903	9,005,383	5,155,487	5,647,420	14,690,390	14,652,803
Restricted	6,612,717	6,494,534	995,539	1,271,533	7,608,256	7,765,917
Unrestricted	<u>3,189,147</u>	<u>2,305,585</u>	<u>2,174,462</u>	<u>1,436,860</u>	<u>5,363,609</u>	<u>3,742,595</u>
Total net assets	<u>\$19,336,767</u>	<u>\$17,805,502</u>	<u>\$8,325,488</u>	<u>\$8,355,813</u>	<u>\$27,662,255</u>	<u>\$26,161,315</u>

A portion of the City's net assets (28%) 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 assets* reflects the charter-protected Oil & Gas Fund and the City's Bond Debt reserve. The remaining balance of *unrestricted net assets* (19%) may be used to meet the City's ongoing obligations to citizens and creditors.



Financial Analysis of the City's Funds

The following table illustrates and summarizes the changes in Net Assets for the City and was derived from the Government-Wide Statement of Activities:

City of Manistee's Change in Net Assets For the Fiscal Year Ended June 30, 2007

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Program Revenue						
Charges for services	\$ 1,248,688	\$ 1,357,653	\$2,848,689	\$ 2,976,571	\$ 4,097,377	\$ 4,334,224
Operating grants and contributions	1,210,088	1,035,302	34,500	-	1,244,588	1,035,302
Capital grants and contributions	263,683	227,812	-	29,361	263,683	257,173
General Revenue						
Property taxes	3,467,500	3,671,590	-	-	3,467,500	3,671,590
Grants and contributions not restricted to specific programs	745,911	764,699	-	-	745,911	764,699
Contributions to permanent endowment	110,720	80,153	-	-	110,720	80,153
Special item – MEDC loan forgiveness	962,538	-	-	-	962,538	-
Other	547,441	401,599	201,025	69,383	748,466	470,982
Total Revenues	<u>8,556,569</u>	<u>7,538,808</u>	<u>3,084,214</u>	<u>3,075,315</u>	<u>11,640,783</u>	<u>10,614,123</u>
Expenses						
Legislative	39,101	48,898	-	-	39,101	48,898
General government	2,173,910	1,762,651	-	-	2,173,910	1,762,351
Highway & streets	455,853	461,446	-	-	455,853	461,446
Public safety	1,777,525	1,909,451	-	-	1,777,525	1,909,451
Public works	1,526,388	1,585,879	-	-	1,526,388	1,585,879
Community development	132,405	493,847	-	-	132,405	493,847
Recreation and culture	449,189	523,053	-	-	449,189	523,053
Interest on long-term debt	271,449	187,390	-	-	271,449	187,390
Water & sewer utility	-	-	3,095,803	2,748,395	3,095,803	2,748,395
Marina & boat ramp	-	-	218,220	228,922	218,220	228,922
Total Expenses	<u>6,825,820</u>	<u>6,972,615</u>	<u>3,314,023</u>	<u>2,977,317</u>	<u>10,139,843</u>	<u>9,949,932</u>
Increase (decrease) in net assets before transfers	1,730,749	566,193	(229,809)	97,998	1,500,940	664,191
Transfers	(199,484)	(182,779)	199,484	182,779	-	-
Increase (decrease) in net assets	1,531,265	383,414	(30,325)	280,777	1,500,940	664,191
Net assets – beginning of year	<u>17,805,502</u>	<u>17,422,088</u>	<u>8,355,813</u>	<u>8,075,036</u>	<u>26,161,315</u>	<u>25,497,124</u>
Net assets – end of year	<u>\$19,336,767</u>	<u>\$17,805,502</u>	<u>\$8,325,488</u>	<u>\$ 8,355,813</u>	<u>\$27,662,255</u>	<u>\$ 26,161,315</u>

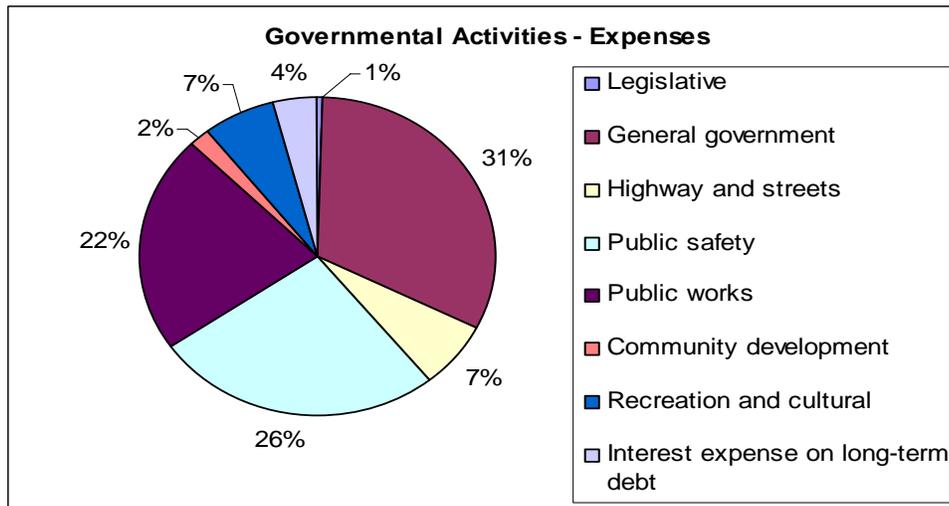
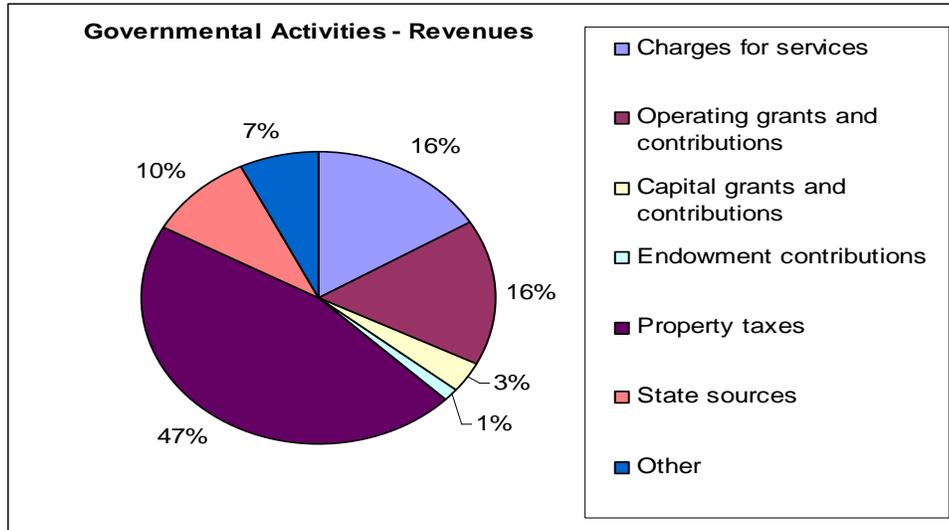
Governmental Activities Governmental activities increased the City’s net assets by \$1,531,265, or 8.5%. Key elements of this performance are as follows:

- Greatly increased grant revenue, due to loan forgiveness by the MEDC
- Increased oil royalties

Business-Type Activities Business-type activities decreased the City’s net assets by \$(30,325) or .3%. Key elements of this performance are as follows:

- Typical fluctuations in business activity

The following charts depict the breakdown of Government Activity revenues and expenses.



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, *unreserved fund balance* may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$9,777,558, an increase of \$117,193 or 1% in comparison with the prior year. The increase was due to a variety of normal operating activities and budget to actual fluctuations.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance of the General Fund was \$861,622, and it had a balance of \$816,060 that was unreserved and undesignated. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures, including transfers out. Unreserved fund balance represents 15% percent of total General Fund expenditures including transfers out. Exclusive of transfers to the capital improvement fund, this represents 16% of general fund expenditures.

The General Fund balance decreased by \$(345,036) during the current fiscal year. This was the result of several items. The largest component was transferring \$190,000 to the Capital Improvement Fund based on the 2006 audit results. Other significant items were a \$35,000 transfer to the Ramsdell Theatre to address deferred maintenance, \$24,500 grant match for the Cool City grant, \$41,000 in wages and overtime and \$20,000 in increased health insurance due to employee status changes.

The Major Street Fund balance increased by \$369,366 during the current fiscal year. This is primarily attributable to the receipt of grant revenues for a paving project.

The Oil & Gas Fund has a total fund balance of \$6,612,717, which increased by \$118,183 during the year. This increase is due entirely to oil & gas royalties received. Higher crude oil prices during the year, coupled with increased production, allowed revenue to significantly increase. The City Charter prevents the principal of this fund to be spent without a vote of the people.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of Water and Sewer, Municipal Marina and the Boat Ramps Funds at the end of the year amounted to \$2,150,594, restricted assets of \$995,539 and capital assets net of related debt of \$5,155,487. The Water and Sewer Fund had a decrease in net assets for the year of \$(47,584), the Municipal Marina and Boat Ramp had an increase of \$35,022. The Water and Sewer Fund did not generate sufficient revenue to fully fund depreciation, thus leading to the decrease in net assets. Cash flow was slightly negative because of the purchase of capital assets and slightly reduced water and sewer sales. In addition, the fund is in the middle of a process of weaning itself from a subsidy from the oil and gas fund.

General Fund Budgetary Highlights

During the year, General Fund revenues were over amended budgetary estimates by \$44,054 while other financing sources, namely net transfers, were under by \$(30,835) for a total revenue variance of \$13,219. Actual expenditures were also over amended budgetary estimates by \$42,575. As a result, the fund balance decreased by \$(345,036) which was less than the budgeted estimate of \$(315,680).

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2007, amounted to \$33,860,460 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads, highways, bridges and construction in progress. The total net increase in the City's investment in capital assets for the current fiscal year was \$2,243,963. Major capital asset events during the current fiscal year included the following:

- WWTP expansion
- Fifth Avenue Beach House
- Acquired a street sweeper, vactor, snowplow, beach cleaner and police cruisers.

City of Manistee's Capital Assets (net of depreciation)

	Governmental Activities	Business-type Activities	Total
Land	\$ 1,494,429	\$ 51,974	\$ 1,546,403
Land improvements	4,085,439	63,026	4,148,465
Buildings and structures	4,221,733	139,859	4,361,592
Furniture and equipment	591,782	228,273	820,055
Vehicles	1,301,711	-	1,301,711
Infrastructure	3,659,913	18,022,321	21,682,234
Total	\$ 15,355,007	\$ 15,505,453	\$ 33,860,460

Additional information on the City's capital assets can be found in Note III.C on pages 38-40 of this report.

Long-Term Debt. At the end of the current fiscal year, the City had total bonded debt and lease payables of \$19,170,070. Of this amount, \$8,805,000 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt represents capital leases, loans and bonds secured solely by specified revenue sources (i.e., revenue bonds).

City of Manistee's Outstanding Debt General Obligation and Revenue Bonds

	Governmental Activities	Business-type Activities	Total
General obligation bonds	\$ 5,055,000	\$ 3,750,000	\$ 8,805,000
Leases payable	681,333	-	681,333
MEDC Loan	83,771	-	83,771
SRF bonds	-	2,574,966	2,574,966
Revenue bonds	-	7,025,000	7,025,000
Total	\$ 5,820,104	\$ 13,349,966	\$ 19,170,070

The City's total debt (excluding compensated absences) increased by \$866,406.

The City has a “AA” rating from Standard & Poor’s for its Michigan Transportation Fund Bonds, and a low investment grade rating indicator on its Water & Sewer debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% percent of its total assessed valuation. The current debt limitation for the City is \$18,921,837, which is significantly in excess of the City’s outstanding general obligation debt.

Additional information on the City’s long-term debt can be found in Note III.E on pages 42-44 of this report.

Economic Factors and Next Year’s Budgets and Rates

The following significant factors were considered in preparing the City’s budget for the 2007-08 fiscal year:

- Full-time employment stable at 61.5.
- Reduced rate of increase in health care costs due to reform measures implemented.
- No reduction in State Revenue Sharing funds.
- Increased spending on streets because of grants received

Requests for Information

This discussion and analysis is designed to provide a general overview of the City’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Finance Director, PO Box 358, Manistee, Michigan 49660 or via email at ebradford@ci.manistee.mi.us or by visiting our website.

CITY OF MANISTEE

STATEMENT OF NET ASSETS

JUNE 30, 2007

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 3,451,099	\$ 771,907	\$ 4,223,006
Investments	6,781,630	512,925	7,294,555
Receivables	107,684	441,729	549,413
Due from other governments	418,860	1,955	420,815
Internal balances	(323,352)	323,352	-
Prepaid items	45,562	10,149	55,711
Inventory	-	10,520	10,520
Restricted cash	-	695,539	695,539
Restricted investments	-	300,000	300,000
Deferred charges	83,104	346,433	429,537
Land	1,494,429	51,974	1,546,403
Construction in progress	-	-	-
Capital assets, net	13,860,578	18,453,479	32,314,057
TOTAL ASSETS	25,919,594	21,919,962	47,839,556
LIABILITIES			
Accounts payable	265,230	94,692	359,922
Accrued liabilities	49,611	10,487	60,098
Accrued interest payable	79,297	54,560	133,857
Customer deposits	109,587	25,529	135,116
Unearned Revenues	-	-	-
Long-term liabilities			
Due within one year	465,688	750,000	1,215,688
Due in more than one year	5,613,414	12,659,206	18,272,620
TOTAL LIABILITIES	6,582,827	13,594,474	20,177,301
NET ASSETS			
Invested in capital assets, net of related debt	9,534,903	5,155,487	14,690,390
Restricted for			
Debt service	-	995,539	995,539
Expendable portion of Public Improvement Fund	58,281	-	58,281
Nonexpendable portion of Public Improvement Fund	6,554,436	-	6,554,436
Unrestricted	3,189,147	2,174,462	5,363,609
TOTAL NET ASSETS	\$ 19,336,767	\$ 8,325,488	\$ 27,662,255

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

COMPONENT UNITS		
RAMSDELL THEATRE RESTORATION PROJECT	HOUSING COMMISSION (12/31/06)	DOWNTOWN DEVELOPMENT AUTHORITY
\$ 30,022	\$ 644,768	\$ 390,087
-	-	-
4,000	25,022	45,998
-	-	-
-	-	-
-	56,694	-
-	-	-
-	-	-
-	-	-
-	312,216	-
-	16,312	-
19,651	2,812,655	-
<u>53,673</u>	<u>3,867,667</u>	<u>436,085</u>
2,572	60,452	4,179
-	62,128	-
-	-	-
-	45,666	-
-	3,448	-
-	-	-
-	-	-
<u>2,572</u>	<u>171,694</u>	<u>4,179</u>
-	3,141,183	-
-	-	-
-	-	-
-	-	-
51,101	554,790	431,906
<u>\$ 51,101</u>	<u>\$ 3,695,973</u>	<u>\$ 431,906</u>

CITY OF MANISTEE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
PRIMARY GOVERNMENT					
Governmental activities					
Legislative	\$ 39,101	\$ -	\$ -	\$ -	\$ (39,101)
General government	2,173,910	901,740	241,879	-	(1,030,291)
Highway and streets	455,853	158,616	690,579	263,683	657,025
Police	1,067,611	-	-	-	(1,067,611)
Fire	657,097	-	-	-	(657,097)
Public safety	52,817	47,857	-	-	(4,960)
Public works	1,526,388	123,800	53,867	-	(1,348,721)
Community development	132,405	16,675	223,763	-	108,033
Recreation and cultural	449,189	-	-	-	(449,189)
Interest expense on long-term debt	271,449	-	-	-	(271,449)
TOTAL GOVERNMENTAL ACTIVITIES	6,825,820	1,248,688	1,210,088	263,683	(4,103,361)
Business-type activities					
Water and sewer	3,095,803	2,633,675	-	-	(462,128)
Boat ramp	25,781	38,685	-	-	12,904
Marina	192,439	176,329	34,500	-	18,390
TOTAL BUSINESS-TYPE ACTIVITIES	3,314,023	2,848,689	34,500	-	(430,834)
TOTAL PRIMARY GOVERNMENT	\$ 10,139,843	\$ 4,097,377	\$ 1,244,588	\$ 263,683	\$ (4,534,195)
COMPONENT UNITS					
Ramsdell theatre restoration project	11,255	-	47,490	-	36,235
Housing commission (12/31/06)	2,094,619	563,467	413,692	39,492	(1,077,968)
Downtown development authority	243,092	-	-	-	(243,092)
TOTAL COMPONENT UNITS	\$ 2,348,966	\$ 563,467	\$ 461,182	\$ 39,492	\$ (1,284,825)

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

CITY OF MANISTEE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

FUNCTIONS/PROGRAMS	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
CHANGE IN NET ASSETS			
Net (expense) revenue	\$ (4,103,361)	\$ (430,834)	\$ (4,534,195)
General revenues			
Property taxes	3,467,500	-	3,467,500
Grants and contributions not restricted to specific programs	745,911	-	745,911
Unrestricted investment earnings	493,993	147,082	641,075
Other revenues	53,448	53,943	107,391
Special item - MEDC loan forgiveness	962,538	-	962,538
Special item - fraud recovery	-	-	-
Contribution to permanent endowment	110,720	-	110,720
Internal transfers	(199,484)	199,484	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS CONTRIBUTIONS AND TRANSFERS	5,634,626	400,509	6,035,135
CHANGE IN NET ASSETS	1,531,265	(30,325)	1,500,940
NET ASSETS, BEGINNING OF YEAR	17,805,502	8,355,813	26,161,315
NET ASSETS, END OF YEAR	\$ 19,336,767	\$ 8,325,488	\$ 27,662,255

Continued...

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

**COMPONENT
UNITS**

RAMSDELL THEATRE RESTORATION PROJECT	HOUSING COMMISSION (12/31/06)	DOWNTOWN DEVELOPMENT AUTHORITY
\$ 36,235	\$ (1,077,968)	\$ (243,092)
-	-	274,609
-	-	-
1,655	26,244	21,160
-	22,075	1,375
-	-	-
-	1,299,960	-
-	-	-
-	-	-
1,655	1,348,279	297,144
37,890	270,311	54,052
13,211	3,425,662	377,854
\$ 51,101	\$ 3,695,973	\$ 431,906

Concluded

CITY OF MANISTEE

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2007

	General Fund	Major Street Fund	Oil & Gas Fund	Nonmajor Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 470,866	\$ 492,838	\$ 1,153,050	\$ 1,189,826	\$ 3,306,580
Investments	434,970	-	5,751,632	368,132	6,554,734
Receivables					
Accounts	54,064	-	-	14,948	69,012
Taxes	3,865	-	-	26,046	29,911
Interest	1,242	-	7,519	-	8,761
Due from other governments	289,559	91,000	-	38,301	418,860
Due from other funds	-	-	-	193,000	193,000
Prepaid items	45,562	-	-	-	45,562
TOTAL ASSETS	<u>\$ 1,300,128</u>	<u>\$ 583,838</u>	<u>\$ 6,912,201</u>	<u>\$ 1,830,253</u>	<u>\$ 10,626,420</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 76,308	\$ 11,674	\$ -	\$ 82,843	\$ 170,825
Accrued liabilities	49,611	-	-	-	49,611
Deposits held	109,587	-	-	-	109,587
Due to other funds	193,000	-	299,484	-	492,484
Deferred revenue	10,000	-	-	16,355	26,355
Total liabilities	<u>438,506</u>	<u>11,674</u>	<u>299,484</u>	<u>99,198</u>	<u>848,862</u>
Fund balances					
Reserved					
Prepaid items	45,562	-	-	-	45,562
Public improvement	-	-	6,554,436	-	6,554,436
Debt retirement	-	-	-	7,841	7,841
Capital projects	-	-	-	509,034	509,034
Unreserved					
Unreserved	816,060	572,164	58,281	-	1,446,505
Unreserved, reported in nonmajor Special revenue funds	-	-	-	1,214,180	1,214,180
Total fund balances	<u>861,622</u>	<u>572,164</u>	<u>6,612,717</u>	<u>1,731,055</u>	<u>9,777,558</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,300,128</u>	<u>\$ 583,838</u>	<u>\$ 6,912,201</u>	<u>\$ 1,830,253</u>	<u>\$ 10,626,420</u>

Continued...

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

CITY OF MANISTEE

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2007

**Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets**

Fund balances - total governmental funds \$ 9,777,558

Amounts reported for governmental activities in the statement of net assets are different because:

Certain assets used in governmental activities, such as capital assets, are not financial resources, and therefore not reported in the funds.

Add: capital assets	17,539,556
Subtract: accumulated depreciation	(3,809,914)
Add: deferred charges	100,733
Subtract: accumulated amortization	(17,629)

Other long-term assets are not available to pay for current period expenditures, and therefore, are deferred in the funds. 26,355

An internal service fund is used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	1,212,838
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Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds.

Subtract: bonds payable	(5,055,000)
Subtract: notes payable	(30,843)
Subtract: accrued interest on long-term liabilities	(64,118)
Subtract: Michigan Economic Development Corporation Loan	(83,771)
Subtract: accrued compensated absences	(258,998)

Net assets of governmental activities \$ 19,336,767

Concluded

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

CITY OF MANISTEE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	Major Street Fund	Oil & Gas Fund	Nonmajor Governmental Funds	Total
REVENUES					
Taxes	\$ 3,190,936	\$ -	\$ -	\$ 276,564	\$ 3,467,500
Federal sources	21,805	-	-	132,205	154,010
State sources	753,257	639,614	-	317,773	1,710,644
Charges for services	779,767	151,475	-	263,515	1,194,757
Licenses and permits	900	-	-	-	900
Fines and forfeits	63,659	-	-	-	63,659
Interest revenue	73,333	12,500	307,002	81,738	474,573
Reimbursement	-	-	-	147,560	147,560
Miscellaneous	51,397	-	110,720	159,444	321,561
TOTAL REVENUES	4,935,054	803,589	417,722	1,378,799	7,535,164
EXPENDITURES					
Current operations					
Legislative	39,101	-	-	-	39,101
General government	1,600,956	-	55	519,591	2,120,602
Public safety	1,668,489	-	-	45,637	1,714,126
Highways and streets	-	290,778	-	352,915	643,693
Public works	1,047,689	-	-	442,468	1,490,157
Community development	-	-	-	86,845	86,845
Recreation and cultural	348,909	-	-	-	348,909
Appropriations and other	163,455	-	-	-	163,455
Debt service					
Principal	-	-	-	295,000	295,000
Interest expense	-	-	-	229,561	229,561
Capital outlay	-	-	-	135,428	135,428
TOTAL EXPENDITURES	4,868,599	290,778	55	2,107,445	7,266,877
REVENUES OVER (UNDER) EXPENDITURES	66,455	512,811	417,667	(728,646)	268,287
OTHER FINANCING SOURCES (USES)					
Transfers in	75,065	-	-	946,391	1,021,456
Transfers out	(486,556)	(143,445)	(299,484)	(243,065)	(1,172,550)
TOTAL OTHER FINANCING SOURCES (USES)	(411,491)	(143,445)	(299,484)	703,326	(151,094)
NET CHANGE IN FUND BALANCES	(345,036)	369,366	118,183	(25,320)	117,193
FUND BALANCES, BEGINNING OF YEAR	1,206,658	202,798	6,494,534	1,756,375	9,660,365
FUND BALANCES, END OF YEAR	\$ 861,622	\$ 572,164	\$ 6,612,717	\$ 1,731,055	\$ 9,777,558

Continued...

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

CITY OF MANISTEE

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

Net change in fund balances - total governmental funds	\$	117,193
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report long-term receivables as deferred revenue. However, in the statement of activities, those receivables are recognized as revenue when they are initially recorded.

Add: increase in deferred receivables		4,580
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay		719,055
Subtract: net carrying value of disposed items		(21,902)
Subtract: depreciation expense		(443,559)

Governmental funds report bond issuance costs as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as amortization expense.

Subtract: amortization expense		(5,037)
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities		311,309
Add: forgiveness of a portion of the Michigan Economic Development Corporation Loan		962,538

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 governmental funds.

Subtract: increase in accrued interest on long-term liabilities		(270)
Subtract: increase in the accrual of compensated absences		(38,438)

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

Add: interest revenue from governmental internal service fund		19,420
Add: other revenue from governmental internal service fund		34,869
Subtract: interest expense from governmental internal service fund		(41,618)
Subtract: transfers from internal service fund to governmental funds		(48,390)
Subtract: net operating loss of certain activities of the internal service fund reported with governmental activities		(38,485)

Change in net assets of governmental activities	\$	<u>1,531,265</u>
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Concluded

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

CITY OF MANISTEE

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Taxes	\$ 3,131,731	\$ 3,204,909	\$ 3,190,936	\$ (13,973)
Federal sources	-	-	21,805	21,805
State sources	772,700	772,700	753,257	(19,443)
Charges for services	761,787	761,787	779,767	17,980
Licenses and permits	500	500	900	400
Fines and forfeits	55,000	55,000	63,659	8,659
Interest revenue	40,000	40,000	73,333	33,333
Miscellaneous	56,104	56,104	51,397	(4,707)
TOTAL REVENUES	<u>4,817,822</u>	<u>4,891,000</u>	<u>4,935,054</u>	<u>44,054</u>
EXPENDITURES				
Current operations				
Legislative	42,657	42,657	39,101	(3,556)
General government	1,457,655	1,620,656	1,600,956	(19,700)
Public safety	1,619,176	1,640,176	1,668,489	28,313
Public works	974,399	997,001	1,047,689	50,688
Recreation and cultural	362,535	362,534	348,909	(13,625)
Appropriations	158,333	163,000	163,455	455
TOTAL EXPENDITURES	<u>4,614,755</u>	<u>4,826,024</u>	<u>4,868,599</u>	<u>42,575</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>203,067</u>	<u>64,976</u>	<u>66,455</u>	<u>1,479</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	75,000	75,000	75,065	65
Transfers out	(274,056)	(455,656)	(486,556)	(30,900)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(199,056)</u>	<u>(380,656)</u>	<u>(411,491)</u>	<u>(30,835)</u>
NET CHANGE IN FUND BALANCE	<u>4,011</u>	<u>(315,680)</u>	<u>(345,036)</u>	<u>(29,356)</u>
FUND BALANCE, BEGINNING OF YEAR	1,206,658	1,206,658	1,206,658	-
FUND BALANCE, END OF YEAR	<u>\$ 1,210,669</u>	<u>\$ 890,978</u>	<u>\$ 861,622</u>	<u>\$ (29,356)</u>

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

CITY OF MANISTEE

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
MAJOR STREET**

NONMAJOR SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Federal sources	\$ -	\$ -	\$ -	\$ -
State sources	350,000	640,000	639,614	(386)
Charge for services	130,000	145,000	151,475	6,475
Interest revenue	5,000	5,000	12,500	7,500
TOTAL REVENUES	485,000	790,000	803,589	13,589
EXPENDITURES				
Highways and streets	456,000	296,555	290,778	(5,777)
REVENUES OVER (UNDER) EXPENDITURES	29,000	493,445	512,811	19,366
OTHER FINANCING USES				
Transfers out	(143,445)	(143,445)	(143,445)	-
NET CHANGE IN FUND BALANCE	(114,445)	350,000	369,366	19,366
FUND BALANCE, BEGINNING OF YEAR	202,798	202,798	202,798	-
FUND BALANCE, END OF YEAR	\$ 88,353	\$ 552,798	\$ 572,164	\$ 19,366

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

CITY OF MANISTEE

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
OIL & GAS FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Interest revenue	\$ 275,000	\$ 275,000	\$ 307,002	\$ 32,002
Miscellaneous	75,000	105,000	110,720	5,720
TOTAL REVENUES	350,000	380,000	417,722	37,722
EXPENDITURES				
General government	15,500	15,500	55	(15,445)
REVENUES OVER (UNDER) EXPENDITURES	334,500	364,500	417,667	53,167
OTHER FINANCING USES				
Transfers out	(275,000)	(294,500)	(299,484)	(4,984)
NET CHANGE IN FUND BALANCE	59,500	70,000	118,183	48,183
FUND BALANCE, BEGINNING OF YEAR	6,494,534	6,494,534	6,494,534	-
FUND BALANCE, END OF YEAR	\$ 6,554,034	\$ 6,564,534	\$ 6,612,717	\$ 48,183

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

CITY OF MANISTEE

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

JUNE 30, 2007

	Water and Sewer Fund	Nonmajor Enterprise Funds	Total	Internal Service Fund
ASSETS				
Current assets				
Cash and cash equivalents	\$ 656,287	\$ 115,620	\$ 771,907	\$ 144,519
Accounts receivable	438,020	3,709	441,729	-
Due from other governments	1,955	-	1,955	-
Due from other funds	299,484	-	299,484	-
Prepaid items	9,870	279	10,149	-
Inventory	-	10,520	10,520	-
Total current assets	1,405,616	130,128	1,535,744	144,519
Restricted assets				
Cash and cash equivalents	695,539	-	695,539	-
Investments	300,000	-	300,000	-
Total restricted assets	995,539	-	995,539	-
Long-term assets				
Investments	512,281	644	512,925	226,896
Capital assets (net of accumulated depreciation)	18,080,433	425,020	18,505,453	1,625,365
Deferred charges	346,433	-	346,433	-
Total long-term assets	18,939,147	425,664	19,364,811	1,852,261
TOTAL ASSETS	21,340,302	555,792	21,896,094	1,996,780
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	86,552	8,140	94,692	94,405
Accrued liabilities	8,949	1,538	10,487	-
Accrued interest	54,560	-	54,560	15,179
Customer deposits	25,529	-	25,529	-
Current portion of long-term debt	750,000	-	750,000	197,221
Total current liabilities	925,590	9,678	935,268	306,805
Long-term liabilities				
Accrued compensated absences	59,240	-	59,240	-
Long-term debt less current portion	12,599,966	-	12,599,966	453,269
Total long-term liabilities	12,659,206	-	12,659,206	453,269
TOTAL LIABILITIES	13,584,796	9,678	13,594,474	760,074
NET ASSETS				
Invested in capital assets, net of related debt	4,730,467	425,020	5,155,487	974,875
Restricted for debt service	995,539	-	995,539	-
Unrestricted	2,029,500	121,094	2,150,594	261,831
TOTAL NET ASSETS	\$ 7,755,506	\$ 546,114	\$ 8,301,620	\$ 1,236,706

Continued...

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

CITY OF MANISTEE

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2007

**Reconciliation of Net Assets on the Statement of Net Assets for Enterprise Funds
to Net Assets of Business-Type Activities on the Statement of Net Assets**

Net assets - total enterprise funds \$ 8,301,620

Amounts reported for business-type activities in the statement of net assets are different because:

An internal service fund is used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of the internal service fund are included in business-type activities in the statement of net assets.

Add: net assets of business-type accounted for in the internal service fund 23,868

Net assets of business-type activities \$ 8,325,488

Concluded

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

CITY OF MANISTEE

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	Water and Sewer Fund	Nonmajor Enterprise Funds	Total	Internal Service Fund
OPERATING REVENUES				
State revenue	\$ -	\$ 34,500	\$ 34,500	\$ -
Charges for services	2,633,675	215,014	2,848,689	285,000
TOTAL OPERATING REVENUES	2,633,675	249,514	2,883,189	285,000
OPERATING EXPENSES				
Water operations	395,502	-	395,502	-
Sewer WWTP	713,394	-	713,394	-
Sewer collection - streets	419,735	-	419,735	-
Boat ramp operations	-	21,217	21,217	-
Marina operations	-	165,794	165,794	-
Motor pool operations	-	-	-	32,215
Depreciation and amortization	849,541	31,209	880,750	309,033
TOTAL OPERATING EXPENSES	2,378,172	218,220	2,596,392	341,248
OPERATING INCOME (LOSS)	255,503	31,294	286,797	(56,248)
NON-OPERATING (EXPENSE) REVENUE				
Interest revenue	143,354	3,728	147,082	19,420
Miscellaneous	53,943	-	53,943	34,869
Interest expense	(699,868)	-	(699,868)	(41,618)
TOTAL NON-OPERATING REVENUE (EXPENSE)	(502,571)	3,728	(498,843)	12,671
Net (loss) income before transfers	(247,068)	35,022	(212,046)	(43,577)
TRANSFERS				
Transfers in	299,484	-	299,484	-
Transfers out	(100,000)	-	(100,000)	(48,390)
TOTAL TRANSFERS	199,484	-	199,484	(48,390)
CHANGE IN NET ASSETS	(47,584)	35,022	(12,562)	(91,967)
NET ASSETS, BEGINNING OF YEAR	7,803,090	511,092	8,314,182	1,328,673
NET ASSETS, END OF YEAR	\$ 7,755,506	\$ 546,114	\$ 8,301,620	\$ 1,236,706

Continued...

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

CITY OF MANISTEE

**STATEMENT OF REVENUES, EXPENSES
AND CHANGE IN NET ASSETS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

**Reconciliation of the Statement of Revenues, Expenses and Changes in Net
Assets of Enterprise Funds to the Statement of Activities**

Change in net assets - total enterprise funds **\$ (12,562)**

Amounts reported for business-type activities in the statement of activities are different because:

An internal service fund is used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of the internal service fund is reported with business-type activities.

Subtract: net operating loss from business-type activities accounted for in the internal service fund. (17,763)

Change in net assets of business-type activities **\$ (30,325)**

Concluded

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

CITY OF MANISTEE

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	Water and Sewer Fund	Nonmajor Enterprise Funds	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 2,652,988	\$ 215,014	\$ 2,868,002	\$ -
Cash received from state grants	-	34,500	34,500	
Cash received from interfund services provided	-	-	-	285,000
Cash payments to employees	(612,705)	(38,912)	(651,617)	-
Cash payments to suppliers for goods and services	(858,854)	(151,794)	(1,010,648)	(45,687)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,181,429</u>	<u>58,808</u>	<u>1,240,237</u>	<u>239,313</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Miscellaneous income	53,943	-	53,943	34,869
Transfers in from other funds	299,484	-	299,484	-
Transfers out to other funds	(100,000)	-	(100,000)	(48,390)
NET CASH PROVIDED BY (USED IN) NON-CAPITAL FINANCING ACTIVITIES	<u>253,427</u>	<u>-</u>	<u>253,427</u>	<u>(13,521)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	(2,588,133)	(6,933)	(2,595,066)	(67,327)
Bond proceeds	2,574,966	-	2,574,966	-
Bond issuance costs and premium on refunding	17,379	-	17,379	-
Principal payments	(605,000)	-	(605,000)	(240,184)
Interest payments	(691,538)	-	(691,538)	(26,439)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,292,326)</u>	<u>(6,933)</u>	<u>(1,299,259)</u>	<u>(333,950)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(76,148)	(645)	(76,793)	(226,897)
Interest revenue	(107,531)	3,728	(103,803)	19,420
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(183,679)</u>	<u>3,083</u>	<u>(180,596)</u>	<u>(207,477)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(41,149)</u>	<u>54,958</u>	<u>13,809</u>	<u>(315,635)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,392,975</u>	<u>60,662</u>	<u>1,453,637</u>	<u>460,154</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,351,826</u>	<u>\$ 115,620</u>	<u>\$ 1,467,446</u>	<u>\$ 144,519</u>
STATEMENT OF NET ASSETS CLASSIFICATION OF CASH AND CASH EQUIVALENTS				
Cash and cash equivalents	\$ 656,287	\$ 115,620	\$ 771,907	\$ 144,519
Restricted assets	695,539	-	695,539	-
	<u>\$ 1,351,826</u>	<u>\$ 115,620</u>	<u>\$ 1,467,446</u>	<u>\$ 144,519</u>

Continued...

CITY OF MANISTEE

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	Water and Sewer Fund	Nonmajor Enterprise Funds	Total	Internal Service Fund
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 255,503	\$ 31,294	\$ 286,797	\$ (56,248)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation and amortization	849,541	31,209	880,750	309,033
Changes in assets and liabilities				
Accounts receivable	18,484	(3,194)	15,290	-
Prepaid items	273	1	274	-
Inventory	-	1,423	1,423	-
Accounts payable	40,303	(1,641)	38,662	(13,472)
Accrued liabilities	2,073	(284)	1,789	-
Accrued compensated absences	14,423	-	14,423	-
Customer deposits	829	-	829	-
Net cash provided by operating activities	<u>\$ 1,181,429</u>	<u>\$ 58,808</u>	<u>\$ 1,240,237</u>	<u>\$ 239,313</u>
Non-cash capital and related financing activities				
Acquisition of capital assets through notes payable	\$ -	\$ -	\$ -	\$ 390,936
Acquisition of capital assets through accounts payable	-	-	-	89,910
Total non-cash capital and related financing activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 480,846</u>

Concluded

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

CITY OF MANISTEE
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2007

	<u>Agency</u>
ASSETS	
Cash and cash equivalents	\$ 110,528
Due from other governments	<u>39,499</u>
TOTAL ASSETS	<u><u>\$ 150,027</u></u>
LIABILITIES	
Accrued liabilities	\$ 38,243
Due to other governments	<u>111,784</u>
TOTAL LIABILITIES	<u><u>\$ 150,027</u></u>

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

CITY OF MANISTEE, MICHIGAN

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Notes to the Financial Statements

June 30, 2007

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CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The *City of Manistee* ("City") is directed by a City Council elected by the community at large. This 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. 39, regarding the definition of the reporting entity.

Discretely Presented Component Units

Ramsdell Theatre Restoration Project— In accordance with GASB Statement No. 39, the financial statements of the Ramsdell Theatre Restoration Project are included as a discretely presented component unit in the financial statements of the City. A complete financial statement of the Ramsdell Theatre Restoration is included within these financial statements.

The Ramsdell Theatre Restoration 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 Ramsdell Theatre Restoration's 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, 2006. 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.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets 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 certain legally separate *component units* for which the primary government is financially accountable.

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function 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 enterprise funds are reported as separate columns in the fund financial statements.

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 money received from the State of Michigan under the revenue sharing guidelines of Public Act 51.

The *Oil & Gas Fund* accounts for the use of money derived from oil and gas royalties, which was endowed in a permanent fund. The income from the endowment is used to subsidize the water and sewer operations. The City is starting to phase out the subsidy so the water and sewer operations will become self-sufficient, and interest from this fund can be used for capital improvements .

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.

Additionally, the City reports the following fund types:

The *Internal Service Fund* accounts for fleet and equipment management to other departments or agencies of the City, or to other governments, on a cost reimbursement basis.

The *Agency Funds* account for assets held for other governments in an agency capacity, including tax collections.

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function, cost of building rent and various other functions of the government. 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, 2) operating grants and contributions, and 3) capital 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 Water and Sewer Enterprise Fund and of the government's

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

Motor Pool Internal Service Fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenues 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.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then use unrestricted resources as they are needed.

D. Assets, liabilities and equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are stated at fair market value.

2. Restricted Assets

Cash and investments are restricted by bond debt requirements in the amount of \$995,539.

3. Receivables and payables

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

4. Inventory

Inventory (if held) by the enterprise funds is valued at cost on the first-in, first-out basis. Inventory of expendable supplies in other funds have not been recorded and the amount of any such inventories is not considered material. The cost value of such inventories has been treated as an expenditure at the time of purchase.

5. Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$3,000 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

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

that do not add to the value of the asset or materially extend asset 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 and component units are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Public domain infrastructure	50
System infrastructure	50
Vehicles	3-20
Equipment	5-10

Capital assets of the Housing Commission with a cost to acquire or construct of \$600 or more are capitalized and depreciated over their useful lives. Depreciation is provided on a straight-line basis using the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings - dwellings	40
Buildings - nondwellings	20
Equipment - dwellings	7
Equipment - nondwellings	5-7
Building improvements	5-40

6. *Compensated absences*

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.

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- Vacation leave with pay granted annually shall be used within eighteen months after qualifying for the same. Vacation leave not used shall be forfeited.
- Each employee shall be granted one day for each month of employment for sick leave, not to exceed twelve days per year. Employees may accumulate up to 180 sick leave days.
- Each employee who has two or more years of service shall be granted three days per year for personal business not to be deducted from sick leave. Employees with less than two years of service shall be granted one day off per year for personal business not to be deducted from sick leave.

7. *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 assets. Bond premiums and discounts, as well as issuance costs, are deferred 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 deferred charges and amortized over the term of the related debt.

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.

8. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. *Current Vulnerability due to Certain Concentrations*

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or administrative changes mandated by HUD. Such changes may occur with little notice and inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

Not later than May 15th of each year, the Council shall by resolution adopt a budget for the next fiscal year, shall appropriate the money needed for municipal purposes during the next fiscal year of the City and shall provide for a levy of the amount necessary to be raised by taxes upon real and personal property for municipal purposes subject to limitations.

The budget document presents information by fund, department, and line items. The legal level of budgetary control adopted by the City Council is the department level, which is the level at which expenditures may not legally exceed appropriations. A City Council resolution may approve transfers of appropriations between departments.

B. Excess of expenditures over appropriations

For the year ended June 30, 2007, the General Fund had activities in which expenditures exceeded appropriations. The Public Safety, Public Works and Appropriations activities were over budget by \$28,313, \$50,688 and \$455, respectively. These over expenditures were funded by greater than anticipated revenues in that fund and the use of prior year fund balance.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Michigan Compiled Laws, Section 129.91 authorizes the local government unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations, which have an office in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the state of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City Council has designated six banks for the deposit of City funds. The investment policy adopted by the Council in accordance with Public Act 20 of 1943 has authorized all allowable investments except repurchase agreements.

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

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

Cash and cash equivalents, investments and restricted assets are reported in the financial statements as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and cash equivalents	\$ 3,451,099	\$ 771,907	\$ 4,223,006	\$ 110,528	\$1,064,877
Investments	6,781,630	512,925	7,294,555	-	-
Restricted					
Cash and cash equivalents	-	695,539	695,539	-	-
Investments	-	300,000	300,000	-	-
Total	<u>\$10,232,729</u>	<u>\$ 2,280,371</u>	<u>\$12,513,100</u>	<u>\$ 110,528</u>	<u>\$1,064,877</u>

Cash and cash equivalents reported above include \$1,500 of cash on hand that is not considered deposits or investments for footnote purposes.

Footnote presentation	
Deposits	\$ 12,018,608
Investments	<u>1,669,397</u>
Total	<u>\$ 13,688,005</u>

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Federal home loan bond	04/15/2009	\$ 99,250	AAA
Federal home loan bond	06/12/2013	300,000	AAA
Federal home loan bond	08/11/2008	250,000	AAA
Federal home loan bond	02/27/2009	199,850	AAA
Federal home loan bond	10/30/2008	300,000	AAA
Federal home loan mortgage corporation bond	10/17/2013	300,600	AAA
Fannie Mae bond	08/11/2014	19,697	AAA
Fannie Mae bond	12/28/2007	<u>200,000</u>	AAA
Total		<u>\$1,669,397</u>	

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the 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 to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year-end.

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 as identified above. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

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. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$9,985,075 of the City's bank balance of \$10,485,075 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. Of the above \$1,669,397 of investments, the City has a custodial credit risk exposure of \$1,669,397 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified on the previous page. The City's investment policy also does not have specific limits in concentration of credit risk. Each of the investments held by the City exceeds 5 percent of the City's total investments.

B. Receivables

Receivables in the City's governmental activities consist of 5% special assessments, 1% taxes receivable, 2% interest receivable, 12% due from customers, and 80% due from other governments. Receivables in the business-type activities consist of 98% due from customers, 1% interest receivable and 1% due from other governments.

Special assessments receivable are not expected to be collected within one year.

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

C. Capital assets

Primary Government

Capital assets recorded in the governmental activities of the primary government includes all sidewalk and streetscape improvements since the fiscal year ended June 30, 1997, streetlight improvements since the fiscal year ended June 30, 2003 and current fiscal year street improvements. All other infrastructure is not included in these financial statements.

Capital assets activity in the governmental and business-type activities was as follows:

	July 1, 2006	Increases	Decreases	June 30, 2007
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,516,331	\$ -	\$ (21,902)	\$ 1,494,429
Capital assets being depreciated				
Land improvements	5,082,606	173,163	-	5,255,769
Infrastructure	4,020,899	227,735	-	4,248,634
Buildings and structures	5,707,594	288,547	-	5,996,141
Vehicles	2,155,591	569,476	(390,909)	2,334,158
Furniture and equipment	1,534,927	49,145	-	1,584,072
Total capital assets being depreciated	18,501,617	1,308,066	(390,909)	19,418,774
Less accumulated depreciation				
Land improvements	(1,036,268)	(134,062)	-	1,170,330
Infrastructure	(484,566)	(104,155)	-	588,721
Buildings and structures	(1,646,690)	(127,718)	-	1,774,408
Vehicles	(1,093,020)	(309,033)	369,606	1,032,447
Furniture and equipment	(914,665)	(77,625)	-	992,290
Total accumulated depreciation	(5,175,209)	(752,593)	369,606	5,558,196
Total capital assets being depreciated, net	13,326,408	555,473	(21,303)	13,860,578
Governmental activities capital assets, net	\$14,842,739	\$ 555,473	\$ (43,205)	\$15,355,007

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

	July 1, 2006	Increases	Decreases	June 30, 2007
Business-type activities				
Capital assets not being depreciated				
Land	\$ 51,974	\$ -	\$ -	\$ 51,974
Capital assets being depreciated				
Land improvements	64,989	6,933	-	71,922
Buildings and structures	264,082	-	-	264,082
Infrastructure	25,436,192	2,588,133	-	28,024,325
Equipment	477,893	-	-	477,893
Total capital assets being depreciated	26,243,156	2,595,066	-	28,838,222
Less accumulated depreciation				
Land improvements	(4,333)	(4,563)	-	(8,896)
Buildings and structures	(113,160)	(11,063)	-	(124,223)
Infrastructure	(9,180,367)	(821,637)	-	(10,002,004)
Equipment	(223,512)	(26,108)	-	(249,620)
Total accumulated depreciation	(9,521,372)	(863,371)	-	(10,384,743)
Total capital assets being depreciated, net	16,721,784	1,731,695	-	18,453,479
Business-type activities capital assets, net	\$16,773,758	\$ 1,731,695	\$ -	\$18,505,453

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 127,719
Public safety - police	22,362
Public safety - fire	13,049
Public works	148,078
Community development	42,213
Recreation and culture	90,139
Capital assets held by the City's internal service fund charged to the various functions based on their usage of the assets	309,033
Total depreciation expense – governmental activities	\$ 752,593

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

Business-type activities

Water and sewer	\$ 832,162
Boat ramp	4,564
Marina	<u>26,645</u>

Total depreciation expense – business-type activities **\$ 863,371**

Discretely presented component units

Capital asset activity in the Ramsdell Theatre Restoration Project component unit was as follows:

	<u>July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2007</u>
Ramsdell Theatre Restoration Project				
Capital assets being depreciated				
Furniture and equipment	\$ -	\$ 19,651	\$ -	\$ 19,651

Capital asset activity in the Housing Commission component unit was as follows:

	<u>January 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31, 2006</u>
Housing Commission				
Capital assets not being depreciated				
Land	\$ 312,216	\$ -	\$ -	\$ 312,216
Construction in progress	<u>-</u>	<u>16,312</u>	<u>-</u>	<u>16,312</u>
Total capital assets not being depreciated	<u>312,216</u>	<u>16,312</u>	<u>-</u>	<u>328,528</u>
Capital assets being depreciated				
Land improvements	72,192	-	-	72,192
Buildings	4,650,792	-	-	4,650,792
Furniture and equipment	411,801	64,229	(1,100)	474,930
Building improvements	<u>2,596,871</u>	<u>23,323</u>	<u>-</u>	<u>2,620,194</u>
Total capital assets being depreciated	7,731,656	87,552	(1,100)	7,818,108
Less accumulated depreciation	<u>(4,741,071)</u>	<u>(265,482)</u>	<u>1,100</u>	<u>(5,005,453)</u>
Total capital assets being depreciated, net	<u>2,990,585</u>	<u>(177,930)</u>	<u>-</u>	<u>2,812,655</u>
Housing Commission capital assets, net	<u>\$ 3,302,801</u>	<u>\$ (161,618)</u>	<u>\$ -</u>	<u>\$ 3,141,183</u>

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

D. Interfund receivables, payables and transfers

The composition of interfund balances is as follows as of June 30, 2007:

	Due To Other Funds		Total
	General Fund	Public Improvement Fund	
<u>Due From Other Funds</u>			
Nonmajor Governmental Funds	\$ 193,000	\$ -	\$ 193,000
Water and Sewer Fund	-	299,484	299,484
Total	<u>\$ 193,000</u>	<u>\$ 299,484</u>	<u>\$ 492,484</u>

Interfund balances represent (1) short-term borrowings between funds for cash flow purposes, (2) to record a receivable for the year end transfer of interest revenue from the Oil & Gas Fund to the Water and Sewer Fund, and (3) to transfer expenses to funds where they should have been recorded.

The composition of interfund transfers is as follows:

	Transfers in			Total
	General Fund	Nonmajor Governmental Funds	Water and Sewer Fund	
<u>Transfers out</u>				
General Fund	\$ -	\$ 486,556	\$ -	\$ 486,556
Major Street Fund	-	143,445	-	143,445
Oil & Gas Fund	-	-	299,484	299,484
Nonmajor Governmental Funds	75,065	168,000	-	243,065
Motor Pool Fund	-	48,390	-	48,390
Water and Sewer Fund	-	100,000	-	100,000
Total	<u>\$ 75,065</u>	<u>\$ 946,391</u>	<u>\$ 299,484</u>	<u>\$ 1,320,940</u>

Transfers are used to (1) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, (2) transfer amounts to debt service funds to make bond payments and (3) to transfer interest revenue to the Water and Sewer Fund from the Oil & Gas Fund.

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

E. Long-term debt

General obligation debt. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital projects. These are direct obligations of the City and the City has pledged the full faith and credit. The City obtains notes payable to provide funds for the acquisition of other capital assets, mostly vehicles and other related equipment.

Included in the governmental activities general obligation debt is a Michigan Economic Development Corporation (MEDC) Loan which was granted by the MEDC to assist in the funding of the construction of the City of Manistee Renaissance Park. Under the original terms of the loan, the City was to be credited \$20,000 against the original principal amount (\$1,100,000) for each new qualifying job created within the Renaissance Park up to a maximum of fifty (50) jobs. The City, in previous years, had been credited with thirty-four (34) qualifying jobs, but as of June 30, 2006, the City had only 15 qualifying jobs. During fiscal 2007, the terms of the loan changed such that the City only needed to reach a national objective of 26 qualifying jobs for 90% of the original loan balance of \$1,100,000 to be forgiven. The City met this objective during fiscal 2007 and accordingly only \$110,000 was owed to the MEDC. As the City had already made principal payments under the loan amounting to \$26,229 prior to June 30, 2006, the balance on the loan at June 30, 2007 is \$83,771.

During fiscal 2007, the MEDC adopted a new policy regarding industrial parks which indicated that no interest would be charged on the repayment of loans given to local municipalities to finance the construction of industrial parks. Thus, no accrued interest has been recorded for this loan in the accompanying statement of net assets at June 30, 2007.

The business-type activities have both revenue and general obligation bonds. The revenue bonds' principal and interest are to be paid from the net revenues from the respective water supply system and sewer supply system. The general obligation bonds have the City's limited tax obligation.

During fiscal 2006, the City issued \$6,285,000 of Water and Sewer Revenue Refunding Bonds, Series 2005. The proceeds were used to refund and defease portions of the 1997A revenue bond issue, the 1998A revenue bond issue and the 1999A revenue bond issue maturing at varying amounts through 2028 in the amount of \$5,920,000. The outstanding balance for these defeased bonds is \$5,880,000 as of June 30, 2007.

The DDA component unit's bond payable is also a general obligation of the City. The component unit's payable was issued by the component unit on behalf of the primary government. No debt agreements were issued by the component unit during the year ended June 30, 2007.

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

Following is a summary of bonds and notes payable of the City for the year ending June 30, 2007:

<u>Purpose</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities			
2003 General Obligation Bond	2024	2.50-4.40%	\$ 2,760,000
1999 DDA Limited Tax General Obligation Bond	2020	4.75-5.38%	1,370,000
1999 Michigan Transportation Fund Limited Tax General Obligation Bond	2015	4.70-5.20%	925,000
Note payable – Victorian street lighting	2008	7.63%	12,690
Note payable – Copier	2008	4.25%	502
Note payable – Manager’s office copier	2011	4.25%	11,089
Note payable – DPW copier	2011	4.25%	6,562
Note payable – 2004 Skid steer	2008	4.25%	1,728
Note payable – 2003 Wheel loader	2009	4.00%	21,015
Note payable – 2004 Sterling plow truck	2009	4.02%	23,746
Note payable – 2003 Snow blower	2009	4.02%	24,263
Note payable – Pierce pumper	2014	3.49%	152,002
Note payable – 2 Plow trucks	2009	3.75%	132,122
Note payable – Vactor	2010	3.95%	127,616
Note payable – Street sweeper	2011	4.875%	113,963
Note payable – Police cars	2009	4.39%	54,035
Michigan Economic Development Corporation Loan	2022	0.00%	<u>83,771</u>
			<u>\$ 5,820,104</u>
Business-type activities			
1997 Water and Sewer Revenue Bonds	2009	5.15-5.20%	\$ 60,000
1997 General Obligation Bonds	2017	2.25%	305,000
1998 Disposal System and Refunding Revenue Bonds	2009	4.55-4.60%	390,000
1998 General Obligation Bonds	2019	2.25%	1,730,000
1999 Water Supply and Sewage Disposal System Revenue Bonds	2010	4.65-4.85%	330,000
1999 General Obligation Bonds	2021	2.50%	1,715,000
2005 Water and Sewer Refunding Bonds	2028	3.25-4.25%	6,245,000
2006 SRF Water and Sewer Bonds	2027	1.625%	<u>2,574,966</u>
			<u>\$13,349,966</u>

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

Annual debt service requirements to maturity for governmental activities and business-type activities are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 465,688	\$ 244,437	\$ 750,000	\$ 401,099
2009	440,259	225,832	770,000	375,989
2010	418,693	207,803	805,000	351,068
2011	389,522	189,955	815,000	327,448
2012	348,036	172,828	840,000	303,510
2013-2017	1,710,293	624,644	4,630,000	1,098,558
2018-2022	1,487,613	274,459	3,770,000	351,035
2023-2027	560,000	25,080	904,966	66,494
2028	-	-	65,000	1,381
Total	<u>\$ 5,820,104</u>	<u>\$ 1,965,038</u>	<u>\$ 13,349,966</u>	<u>\$ 3,276,582</u>

Changes in long-term liabilities. Long-term liability activity was as follows:

	<u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2007</u>	<u>Due Within One Year</u>
Primary Government					
Governmental activities					
General obligation					
Bonds	\$ 5,350,000	\$ -	\$ (295,000)	\$ 5,055,000	\$ 245,000
Notes payable	527,356	410,470	(256,493)	681,333	215,072
MEDC Loan	1,046,308	-	(962,537)	83,771	5,616
Compensated absences	220,563	206,247	(167,812)	258,998	-
	<u>\$ 7,144,227</u>	<u>\$ 616,717</u>	<u>\$ (1,681,842)</u>	<u>\$ 6,079,102</u>	<u>\$ 465,688</u>
Business-type activities					
General obligation					
bonds	\$ 4,000,000	\$ -	\$ (250,000)	\$ 3,750,000	\$ 260,000
Revenue bonds	7,380,000	-	(355,000)	7,025,000	370,000
SRF bonds	-	2,574,966	-	2,574,966	120,000
Compensated absences	44,817	38,923	(24,500)	59,240	-
	<u>\$ 11,424,817</u>	<u>\$ 2,613,889</u>	<u>\$ (629,500)</u>	<u>\$ 13,409,206</u>	<u>\$ 750,000</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. During the year ended June 30, 2007, the City carried insurance through various commercial carriers, to cover all risks of loss. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

B. 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 20; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Manistee County.

Assessed values as 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 2006 levy were assessed and equalized at \$189,639,514 (not including properties subject to Industrial Facilities Tax Exemption), representing 50% of estimated current market value.

The government's general operating tax rate for fiscal year 2007 was 16.95 mills, with an additional 1.5 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 arrangement, 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.

C. Pension Plans

Defined Benefit Pension Plan

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

of Michigan, 447 N. Canal Road, Lansing, MI 48917 or by calling (800) 767-6377.

Funding Policy

The City is required to contribute at actuarially determined rates; the current rates are 6.86%, 9.07% and 1.61% of annual covered payroll for COAM, IAFF and general employees, respectively, and 0% for all other employees. General, Supervisory, USWA, POAM and COAM employees are required to contribute 4%; and IAFF employees are required to contribute 5%. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adopted by the City.

Annual Pension Cost

For the year ended June 30, 2007, the City's annual pension cost of \$22,350 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the initial actuarial valuation using the entry age actuarial cost method. The actuarial assumption included (a) a rate of return on the investment of present and future assets of 8.0%, (b) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to seniority/merit and (c) projected salary increases of 4.5% per year, compounded annually, attributable to inflation. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at initial valuation was 30 years.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/05	\$ -	100%	\$ -
6/30/06	22,141	100%	-
6/30/07	22,350	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Payroll Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued 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 Percentage of Covered ((b-a)/c)</u>
12/31/05	\$ 13,463,901	\$ 12,288,934	\$ (1,174,967)	110%	\$ 2,627,302	0%

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

Housing Commission

The Housing Commission participates in a multiple-employer public employee pension plan, under the Municipal Employees' Retirement System of Michigan (MERS). At December 31, 2006, the date of the last completed actuarial evaluation, the Housing Commission's termination liability for retirement benefits was \$415,820 (employer and employee combined). Valuation assets available to meet this obligation were \$317,826. The Housing Commission's estimated monthly contributions for the fiscal year beginning January 1, 2007 is \$214. There are seven active employees, one vested former member and one retiree and/or beneficiary. There is an over-funded balance of \$95,711 as of December 31, 2006. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual actuarial valuation.

D. Other post-employment benefits

In addition to the pension benefits described in Note IV.C., 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. The City paid approximately \$22,000 in health insurance premiums for 6 participants for the year ended June 30, 2007. The benefit is funded by assets in the City's General Fund and Water and Sewer Fund depending on what department the employee was employed in.

Housing Commission

The Housing Commission also provides post-retirement health care benefits to all employees and their dependents. The group premium is payable 75 percent by the employer and 25 percent by the employee or spouse. The total amount of post-employment health care expense for the year ended December 31, 2006 was \$22,766.

E. Fraud Recovery

The prior Executive Director of the Housing Commission was prosecuted and found guilty of defrauding the Commission in the amount of \$1,299,960. The prior Executive Director signed a plea agreement with the U.S. District Court agreeing to refund this amount.

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CITY OF MANISTEE

**SCHEDULE OF REVENUES
BUDGET TO ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Taxes				
Real and personal property taxes	\$ 3,081,731	\$ 3,141,731	\$ 3,110,027	\$ (31,704)
Interest on delinquent taxes	50,000	63,178	80,909	17,731
Federal sources	-	-	21,805	21,805
State sources				
State revenue sharing	772,700	772,700	745,911	(26,789)
State grants	-	-	7,346	7,346
Charges for services				
Water and sewer	95,000	95,000	105,300	10,300
Major street	15,000	15,000	40,000	25,000
Local street	2,000	2,000	2,000	-
City refuse	5,300	5,300	14,370	9,070
Other administrative charges	282,200	282,200	294,691	12,491
Charges for sales	362,287	362,287	323,406	(38,881)
Licenses and permits	500	500	900	400
Fines and forfeits	55,000	55,000	63,659	8,659
Interest revenue	40,000	40,000	73,333	33,333
Miscellaneous				
Refunds	-	-	14,554	14,554
Refunds - workers comp	15,000	15,000	716	(14,284)
Other	41,104	41,104	36,127	(4,977)
TOTAL REVENUES	<u>\$ 4,817,822</u>	<u>\$ 4,891,000</u>	<u>\$ 4,935,054</u>	<u>\$ 44,054</u>

CITY OF MANISTEE

**SCHEDULE OF EXPENDITURES
BUDGET TO ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
LEGISLATIVE				
Personnel services	\$ 27,957	\$ 27,957	\$ 27,856	\$ (101)
Supplies	8,200	8,200	7,012	(1,188)
Travel and training	6,500	6,500	4,233	(2,267)
TOTAL LEGISLATIVE	42,657	42,657	39,101	(3,556)
GENERAL GOVERNMENT				
Manager				
Personnel services	163,552	163,552	163,101	(451)
Supplies	6,050	6,050	3,778	(2,272)
Repair and maintenance	1,100	1,100	1,649	549
Training and travel	14,900	14,900	16,465	1,565
Capital outlay	2,800	2,800	2,977	177
Total manager	188,402	188,402	187,970	(432)
Finance				
Personnel services	154,635	154,635	150,783	(3,852)
Supplies	5,545	5,545	8,255	2,710
Contractual services	38,800	38,800	42,307	3,507
Training and travel	3,835	3,835	3,667	(168)
Repair and maintenance	7,500	7,500	-	(7,500)
Capital outlay	2,126	2,126	2,172	46
Total finance	212,441	212,441	207,184	(5,257)

Continued...

CITY OF MANISTEE

**SCHEDULE OF EXPENDITURES
BUDGET TO ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Assessor				
Personnel services	\$ 137,700	\$ 137,702	\$ 140,635	\$ 2,933
Supplies	7,485	7,485	8,530	1,045
Contractual services	11,242	11,242	10,169	(1,073)
Training and travel	3,915	3,915	3,951	36
Capital outlay	990	990	674	(316)
Total assessor	161,332	161,334	163,959	2,625
Attorney				
Contractual services	87,500	87,500	80,998	(6,502)
Clerk				
Personnel services	125,028	125,028	126,561	1,533
Supplies	11,465	11,465	8,747	(2,718)
Contractual services	8,100	8,100	5,179	(2,921)
Training and travel	5,810	5,810	2,522	(3,288)
Printing and publishing	8,300	8,300	8,922	622
Capital outlay	3,000	3,000	2,940	(60)
Total clerk	161,703	161,703	154,871	(6,832)
Community development				
Personnel services	213,651	213,651	205,712	(7,939)
Supplies	5,200	5,200	4,454	(746)
Training and travel	2,200	2,200	1,620	(580)
Transportation	2,300	2,300	3,600	1,300
Total community development	223,351	223,351	215,386	(7,965)

Continued...

CITY OF MANISTEE

**SCHEDULE OF EXPENDITURES
BUDGET TO ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	Original Budget	Amended Budget	Actual	Over (Under) Budget
General service board and administration				
Harbor commission	\$ 250	\$ 250	\$ -	\$ (250)
Board of review	1,800	1,800	1,789	(11)
Tree commission	300	300	473	173
Zoning board	700	700	517	(183)
Beautification committee	500	500	9,743	9,243
Planning commission	5,776	5,776	4,617	(1,159)
	<u>9,326</u>	<u>9,326</u>	<u>17,139</u>	<u>7,813</u>
Total general service board and administration				
Municipal building				
Personnel services	5,000	5,000	9,344	4,344
Contractual services	38,000	38,000	36,036	(1,964)
Utilities	93,300	93,300	88,941	(4,359)
Repairs and maintenance	27,000	27,000	27,414	414
	<u>163,300</u>	<u>163,300</u>	<u>161,735</u>	<u>(1,565)</u>
Total municipal building				
Other general government				
Professional services	20,000	35,000	34,559	(441)
Electric street lights	88,000	101,000	100,249	(751)
Insurance	76,000	81,000	80,595	(405)
Postage	23,000	23,000	25,059	2,059
Rent	4,000	4,000	4,588	588
Miscellaneous	28,300	73,300	70,300	(3,000)
Capital outlay	11,000	95,999	96,364	365
	<u>250,300</u>	<u>413,299</u>	<u>411,714</u>	<u>(1,585)</u>
Total other general government				
TOTAL GENERAL GOVERNMENT	<u>1,457,655</u>	<u>1,620,656</u>	<u>1,600,956</u>	<u>(19,700)</u>

Continued...

CITY OF MANISTEE

**SCHEDULE OF EXPENDITURES
BUDGET TO ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
PUBLIC SAFETY				
Police				
Personnel services	\$ 880,393	\$ 880,393	\$ 902,802	\$ 22,409
Supplies	23,986	23,986	32,402	8,416
Contractual services	7,615	7,615	8,909	1,294
Transportation	4,200	4,200	4,200	-
Uniform allowance	7,300	7,300	6,590	(710)
Repairs and maintenance	37,000	37,000	29,486	(7,514)
Training and travel	39,600	39,600	43,731	4,131
Other services and charges	-	-	2,220	2,220
Capital outlay	2,022	2,022	2,584	562
Total police	1,002,116	1,002,116	1,032,924	30,808
Fire				
Personnel services	503,900	510,900	519,528	8,628
Supplies	16,220	16,220	20,889	4,669
Uniform and food allowance	12,830	12,830	3,709	(9,121)
Training and travel	36,250	36,250	34,512	(1,738)
Repairs and maintenance	17,750	17,750	27,300	9,550
Hydrant rent	21,600	21,600	21,600	-
Other services and charges	1,400	1,400	50	(1,350)
Capital outlay	7,110	21,110	7,977	(13,133)
Total fire	617,060	638,060	635,565	(2,495)
TOTAL PUBLIC SAFETY	1,619,176	1,640,176	1,668,489	28,313

Continued...

CITY OF MANISTEE

**SCHEDULE OF EXPENDITURES
BUDGET TO ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
PUBLIC WORKS				
Engineering				
Contractual services	\$ 37,000	\$ 37,000	\$ 36,667	\$ (333)
General public works				
Personnel services	668,199	681,199	707,049	25,850
Supplies	17,700	17,700	17,983	283
Contractual services	33,000	33,000	33,805	805
Repairs and maintenance	134,000	143,602	166,465	22,863
Training and travel	84,500	84,500	85,720	1,220
Total general public works	937,399	960,001	1,011,022	51,021
TOTAL PUBLIC WORKS	974,399	997,001	1,047,689	50,688
RECREATION AND CULTURAL				
Parks and recreation				
Personnel services	236,035	236,034	198,621	(37,413)
Supplies	-	-	2,311	2,311
Repair and maintenance	63,000	63,000	85,710	22,710
Training and travel	40,000	40,000	40,081	81
Utilities	23,500	23,500	18,186	(5,314)
Capital outlay	-	-	4,000	4,000
TOTAL RECREATION AND CULTURAL	362,535	362,534	348,909	(13,625)

Continued...

CITY OF MANISTEE

**SCHEDULE OF EXPENDITURES
BUDGET TO ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
APPROPRIATIONS				
Manistee recreation association	\$ 30,000	\$ 30,000	\$ 30,000	\$ -
Veterans/memorial day	1,000	1,000	1,000	-
A.A.Y.	43,000	47,667	47,253	(414)
Economic development	26,333	26,333	27,202	869
Ramsdell restoration	25,000	25,000	25,000	-
SSCENT	30,000	30,000	30,000	-
PEG studio	3,000	3,000	3,000	-
TOTAL APPROPRIATIONS	<u>158,333</u>	<u>163,000</u>	<u>163,455</u>	<u>455</u>
TOTAL EXPENDITURES	<u>\$ 4,614,755</u>	<u>\$ 4,826,024</u>	<u>\$ 4,868,599</u>	<u>\$ 42,575</u>

Concluded

CITY OF MANISTEE

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2007

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 855,435	\$ 7,841	\$ 326,550	\$ 1,189,826
Investments	338,311	-	29,821	368,132
Receivables				
Accounts	14,948	-	-	14,948
Taxes	26,046	-	-	26,046
Due from other funds	3,000	-	190,000	193,000
Due from other governments	38,301	-	-	38,301
TOTAL ASSETS	\$ 1,276,041	\$ 7,841	\$ 546,371	\$ 1,830,253
LIABILITIES				
Accounts payable	\$ 45,506	\$ -	\$ 37,337	\$ 82,843
Deferred revenue	16,355	-	-	16,355
TOTAL LIABILITIES	61,861	-	37,337	99,198
FUND BALANCES				
Unreserved	1,214,180	-	-	1,214,180
Reserved for debt retirement	-	7,841	-	7,841
Reserved for capital projects	-	-	509,034	509,034
TOTAL FUND BALANCES	1,214,180	7,841	509,034	1,731,055
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,276,041	\$ 7,841	\$ 546,371	\$ 1,830,253

CITY OF MANISTEE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ 275,934	\$ 630	\$ -	\$ 276,564
Federal sources	132,205	-	-	132,205
State sources	317,773	-	-	317,773
Charge for services	263,515	-	-	263,515
Interest revenue	54,527	359	26,852	81,738
Reimbursement	-	147,560	-	147,560
Miscellaneous	145,425	-	14,019	159,444
TOTAL REVENUES	1,189,379	148,549	40,871	1,378,799
EXPENDITURES				
Current operations				
General government	243,040	850	275,701	519,591
Public safety	45,637	-	-	45,637
Highways and streets	352,915	-	-	352,915
Public works	442,468	-	-	442,468
Community development	86,845	-	-	86,845
Capital outlay	-	-	135,428	135,428
Debt service				
Principal	-	295,000	-	295,000
Interest expense	-	229,561	-	229,561
TOTAL EXPENDITURES	1,170,905	525,411	411,129	2,107,445
REVENUES OVER (UNDER) EXPENDITURES	18,474	(376,862)	(370,258)	(728,646)
OTHER FINANCING SOURCES (USES)				
Transfers in	152,500	363,891	430,000	946,391
Transfers out	(83,000)	(65)	(160,000)	(243,065)
TOTAL OTHER FINANCING SOURCES (USES)	69,500	363,826	270,000	703,326
NET CHANGE IN FUND BALANCES	87,974	(13,036)	(100,258)	(25,320)
FUND BALANCES, BEGINNING OF YEAR	1,126,206	20,877	609,292	1,756,375
FUND BALANCES, END OF YEAR	\$ 1,214,180	\$ 7,841	\$ 509,034	\$ 1,731,055

CITY OF MANISTEE

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS**

JUNE 30, 2007

	<u>Building Inspector</u>	<u>Local Street</u>	<u>Street Improvement</u>
ASSETS			
Cash and cash equivalents	\$ 8,526	\$ 440,765	\$ 39,999
Investments	-	-	-
Receivables			
Accounts	-	-	411
Taxes	-	-	-
Due from other funds	-	-	-
Due from other governments	-	22,000	-
TOTAL ASSETS	<u><u>\$ 8,526</u></u>	<u><u>\$ 462,765</u></u>	<u><u>\$ 40,410</u></u>
LIABILITIES			
Accounts payable	\$ 288	\$ -	\$ -
Deferred revenue	-	-	-
Due to other funds	-	-	-
TOTAL LIABILITIES	<u>288</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Unreserved (deficit)	<u>8,238</u>	<u>462,765</u>	<u>40,410</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 8,526</u></u>	<u><u>\$ 462,765</u></u>	<u><u>\$ 40,410</u></u>

City Refuse	EPA Brownfield Assessment Phase 2	Criminal Justice	Local Revenue Sharing
\$ 168,916	\$ -	\$ 2,114	\$ 31,170
255,338	-	-	-
14,537	-	-	-
638	-	-	-
-	-	-	-
12,310	3,991	-	-
\$ 451,739	\$ 3,991	\$ 2,114	\$ 31,170
\$ 24,373	\$ 4,009	\$ -	\$ -
-	-	-	-
-	-	-	-
24,373	4,009	-	-
427,366	(18)	2,114	31,170
\$ 451,739	\$ 3,991	\$ 2,114	\$ 31,170

Continued...

CITY OF MANISTEE

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS**

JUNE 30, 2007

	<u>Maple Street Bridge</u>	<u>Riverwalk Maintenance</u>	<u>Special Assessment</u>	<u>Central Business District Grant</u>
ASSETS				
Cash and cash equivalents	\$ 1,227	\$ 9,703	\$ 1,167	\$ -
Investments	-	82,973	-	-
Receivables				
Accounts	-	-	-	-
Taxes	-	-	25,408	-
Due from other funds	-	-	-	-
Due from other governments	-	-	-	-
TOTAL ASSETS	<u><u>\$ 1,227</u></u>	<u><u>\$ 92,676</u></u>	<u><u>\$ 26,575</u></u>	<u><u>\$ -</u></u>
LIABILITIES				
Accounts payable	\$ -	\$ 11,869	\$ -	\$ -
Deferred revenue	-	-	16,355	-
Due to other funds	-	-	-	-
TOTAL LIABILITIES	-	11,869	16,355	-
FUND BALANCES				
Unreserved	<u>1,227</u>	<u>80,807</u>	<u>10,220</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>1,227</u></u>	<u><u>92,676</u></u>	<u><u>26,575</u></u>	<u><u>-</u></u>

Ramsdell Theatre	State of Michigan Fire Insurance Fund	Cool Cities Blueprint Grant Fund	Man Made Lake Fund	Total
\$ 6,423	\$ -	\$ -	\$ 145,425	\$ 855,435
-	-	-	-	338,311
-	-	-	-	14,948
-	-	-	-	26,046
3,000	-	-	-	3,000
-	-	-	-	38,301
\$ 9,423	\$ -	\$ -	\$ 145,425	\$ 1,276,041
\$ 4,967	\$ -	\$ -	\$ -	\$ 45,506
-	-	-	-	16,355
-	-	-	-	-
4,967	-	-	-	61,861
4,456	-	-	145,425	1,214,180
9,423	-	-	145,425	1,276,041

Concluded

CITY OF MANISTEE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Building Inspector</u>	<u>Local Street</u>	<u>Street Improvement</u>
REVENUES			
Taxes	\$ -	\$ -	\$ -
Federal sources	-	-	-
State sources	-	135,787	23,604
Charge for services	47,857	-	2,041
Interest revenue	1,078	13,347	3,646
Miscellaneous revenue	-	-	-
TOTAL REVENUES	<u>48,935</u>	<u>149,134</u>	<u>29,291</u>
EXPENDITURES			
Current operations			
General government	-	-	-
Public safety	43,636	-	-
Highways and streets	-	97,581	67,329
Public works	-	-	-
Community development	-	-	-
TOTAL EXPENDITURES	<u>43,636</u>	<u>97,581</u>	<u>67,329</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>5,299</u>	<u>51,553</u>	<u>(38,038)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	8,000
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>8,000</u>
NET CHANGE IN FUND BALANCE	5,299	51,553	(30,038)
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	<u>2,939</u>	<u>411,212</u>	<u>70,448</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 8,238</u>	<u>\$ 462,765</u>	<u>\$ 40,410</u>

<u>City Refuse</u>	<u>EPA Brownfield Assessment Phase 2</u>	<u>Criminal Justice</u>	<u>Local Revenue Sharing</u>
\$ 275,934	\$ -	\$ -	\$ -
-	53,867	-	-
-	-	3,125	-
123,800	-	-	43,000
31,026	-	64	-
-	-	-	-
430,760	53,867	3,189	43,000
-	-	-	74,983
-	-	2,000	-
-	-	-	-
388,583	53,885	-	-
-	-	-	-
388,583	53,885	2,000	74,983
42,177	(18)	1,189	(31,983)
-	-	-	-
(75,000)	-	-	-
(75,000)	-	-	-
(32,823)	(18)	1,189	(31,983)
460,189	-	925	63,153
\$ 427,366	\$ (18)	\$ 2,114	\$ 31,170

Continued...

CITY OF MANISTEE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Maple Street Bridge</u>	<u>Riverwalk Maintenance</u>	<u>Special Assessment</u>	<u>Central Business District Grant</u>
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	78,338
State sources	155,257	-	-	-
Charge for services	5,100	-	6,810	16,657
Interest revenue	411	4,714	-	-
Miscellaneous	-	-	-	-
TOTAL REVENUES	160,768	4,714	6,810	94,995
EXPENDITURES				
Current operations				
General government	-	26,637	-	-
Public safety	-	-	-	-
Highways and streets	188,005	-	-	-
Public works	-	-	-	-
Community development	-	-	-	86,845
TOTAL EXPENDITURES	188,005	26,637	-	86,845
REVENUES OVER (UNDER) EXPENDITURES	(27,237)	(21,923)	6,810	8,150
OTHER FINANCING SOURCES (USES)				
Transfers in	20,000	-	-	-
Transfers out	-	-	(8,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	20,000	-	(8,000)	-
NET CHANGE IN FUND BALANCE	(7,237)	(21,923)	(1,190)	8,150
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	8,464	102,730	11,410	(8,150)
FUND BALANCE (DEFICIT), END OF YEAR	\$ 1,227	\$ 80,807	\$ 10,220	\$ -

Ramsdell Theatre	State of Michigan Fire Insurance Fund	Cool Cities Blueprint Grant Fund	Man Made Lake Fund	Total
\$ -	\$ -	\$ -	\$ -	\$ 275,934
-	-	-	-	132,205
-	-	-	-	317,773
18,250	-	-	-	263,515
241	-	-	-	54,527
-	-	-	145,425	145,425
18,491	-	-	145,425	1,189,379
116,920	-	24,500	-	243,040
-	1	-	-	45,637
-	-	-	-	352,915
-	-	-	-	442,468
-	-	-	-	86,845
116,920	1	24,500	-	1,170,905
(98,429)	(1)	(24,500)	145,425	18,474
100,000	-	24,500	-	152,500
-	-	-	-	(83,000)
100,000	-	24,500	-	69,500
1,571	(1)	-	145,425	87,974
2,885	1	-	-	1,126,206
\$ 4,456	\$ -	\$ -	\$ 145,425	\$ 1,214,180

Concluded

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
BUILDING INSPECTOR
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	Original Budget	Amended Budget	Actual	Over (Under) Budget
REVENUES				
Charge for services	\$ 23,500	\$ 49,950	\$ 47,857	\$ (2,093)
Interest revenue	50	50	1,078	1,028
TOTAL REVENUES	23,550	50,000	48,935	(1,065)
EXPENDITURES				
Public safety	23,550	51,000	43,636	(7,364)
NET CHANGE IN FUND BALANCE	-	(1,000)	5,299	6,299
FUND BALANCE, BEGINNING OF YEAR	2,939	2,939	2,939	-
FUND BALANCE, END OF YEAR	\$ 2,939	\$ 1,939	\$ 8,238	\$ 6,299

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
LOCAL STREET
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
State sources	\$ 125,000	\$ 139,000	\$ 135,787	\$ (3,213)
Interest revenue	7,000	7,000	13,347	6,347
TOTAL REVENUES	132,000	146,000	149,134	3,134
EXPENDITURES				
Highways and streets	116,500	108,000	97,581	(10,419)
NET CHANGE IN FUND BALANCE	15,500	38,000	51,553	13,553
FUND BALANCE, BEGINNING OF YEAR	411,212	411,212	411,212	-
FUND BALANCE, END OF YEAR	\$ 426,712	\$ 449,212	\$ 462,765	\$ 13,553

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
STREET IMPROVEMENT
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	Original Budget	Amended Budget	Actual	Over (Under) Budget
REVENUES				
State sources	\$ 25,000	\$ 25,000	\$ 23,604	\$ (1,396)
Charge for services	7,500	2,500	2,041	(459)
Interest revenue	1,500	1,500	3,646	2,146
TOTAL REVENUES	34,000	29,000	29,291	291
EXPENDITURES				
Highways and streets	55,000	70,000	67,329	(2,671)
REVENUES OVER (UNDER) EXPENDITURES	(21,000)	(41,000)	(38,038)	2,962
OTHER FINANCING SOURCES				
Transfers in	8,000	8,000	8,000	-
NET CHANGE IN FUND BALANCE	(13,000)	(33,000)	(30,038)	2,962
FUND BALANCE, BEGINNING OF YEAR	70,448	70,448	70,448	-
FUND BALANCE, END OF YEAR	\$ 57,448	\$ 37,448	\$ 40,410	\$ 2,962

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
CITY REFUSE
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Taxes	\$ 285,000	\$ 285,000	\$ 275,934	\$ (9,066)
Charge for services	127,500	127,500	123,800	(3,700)
Interest revenue	12,000	12,000	31,026	19,026
TOTAL REVENUES	424,500	424,500	430,760	6,260
EXPENDITURES				
Public works	412,000	412,000	388,583	(23,417)
REVENUES OVER (UNDER) EXPENDITURES	12,500	12,500	42,177	29,677
OTHER FINANCING SOURCES				
Transfers out	(75,000)	(75,000)	(75,000)	-
NET CHANGE IN FUND BALANCE	(62,500)	(62,500)	(32,823)	29,677
FUND BALANCE, BEGINNING OF YEAR	460,189	460,189	460,189	-
FUND BALANCE, END OF YEAR	\$ 397,689	\$ 397,689	\$ 427,366	\$ 29,677

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
EPA BROWNFIELD ASSESSMENT PHASE 2
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Federal sources	\$ 195,000	\$ 75,000	\$ 53,867	\$ (21,133)
EXPENDITURES				
Public works	<u>195,000</u>	<u>75,000</u>	<u>53,885</u>	<u>(21,115)</u>
NET CHANGE IN FUND BALANCE	-	-	(18)	(18)
FUND BALANCE, BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE (DEFICIT) , END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (18)</u></u>	<u><u>\$ (18)</u></u>

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
CRIMINAL JUSTICE
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	Original Budget	Amended Budget	Actual	Over (Under) Budget
REVENUES				
State sources	\$ 2,900	\$ 2,900	\$ 3,125	\$ 225
Interest revenue	75	75	64	(11)
TOTAL REVENUES	2,975	2,975	3,189	214
EXPENDITURES				
Public safety	2,900	2,900	2,000	(900)
NET CHANGE IN FUND BALANCE	75	75	1,189	1,114
FUND BALANCE, BEGINNING OF YEAR	925	925	925	-
FUND BALANCE, END OF YEAR	\$ 1,000	\$ 1,000	\$ 2,114	\$ 1,114

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
LOCAL REVENUE SHARING
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Charge for services	\$ -	\$ 43,000	\$ 43,000	\$ -
EXPENDITURES				
General government	-	75,000	74,983	(17)
NET CHANGE IN FUND BALANCE	-	(32,000)	(31,983)	17
FUND BALANCE, BEGINNING OF YEAR	<u>63,153</u>	<u>63,153</u>	<u>63,153</u>	-
FUND BALANCE, END OF YEAR	<u>\$ 63,153</u>	<u>\$ 31,153</u>	<u>\$ 31,170</u>	<u>\$ 17</u>

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
MAPLE STREET BRIDGE
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	Original Budget	Amended Budget	Actual	Over (Under) Budget
REVENUES				
State sources	\$ 345,000	\$ 197,000	\$ 155,257	\$ (41,743)
Charge for services	3,000	3,000	5,100	2,100
Interest revenue	5,000	5,000	411	(4,589)
TOTAL REVENUES	353,000	205,000	160,768	(44,232)
EXPENDITURES				
Highways and streets	400,000	225,000	188,005	(36,995)
REVENUES OVER (UNDER) EXPENDITURES	(47,000)	(20,000)	(27,237)	(7,237)
OTHER FINANCING SOURCES				
Transfers in	20,000	20,000	20,000	-
NET CHANGE IN FUND BALANCE	(27,000)	-	(7,237)	(7,237)
FUND BALANCE, BEGINNING OF YEAR	8,464	8,464	8,464	-
FUND BALANCE, END OF YEAR	\$ (18,536)	\$ 8,464	\$ 1,227	\$ (7,237)

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
RIVERWALK MAINTENANCE
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	Original Budget	Amended Budget	Actual	Over (Under) Budget
REVENUES				
Interest revenue	\$ 4,000	\$ 4,000	\$ 4,714	\$ 714
EXPENDITURES				
General government	11,500	16,000	26,637	10,637
NET CHANGE IN FUND BALANCE	(7,500)	(12,000)	(21,923)	(9,923)
FUND BALANCE, BEGINNING OF YEAR	102,730	102,730	102,730	-
FUND BALANCE, END OF YEAR	\$ 95,230	\$ 90,730	\$ 80,807	\$ (9,923)

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
SPECIAL ASSESSMENT
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Charge for services	\$ 7,500	\$ 12,000	\$ 6,810	\$ (5,190)
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(7,500)</u>	<u>(8,000)</u>	<u>(8,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	4,000	(1,190)	(5,190)
FUND BALANCE, BEGINNING OF YEAR	<u>11,410</u>	<u>11,410</u>	<u>11,410</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 11,410</u>	<u>\$ 15,410</u>	<u>\$ 10,220</u>	<u>\$ (5,190)</u>

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
CENTRAL BUSINESS DISTRICT GRANT
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Federal sources	\$ -	\$ 70,000	\$ 78,338	\$ 8,338
Charge for services	-	-	16,657	16,657
TOTAL REVENUES	-	70,000	94,995	24,995
EXPENDITURES				
Community development	-	75,000	86,845	11,845
NET CHANGE IN FUND BALANCE	-	(5,000)	8,150	13,150
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	(8,150)	(8,150)	(8,150)	-
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ (8,150)</u>	<u>\$ (13,150)</u>	<u>\$ -</u>	<u>\$ 13,150</u>

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
RAMSDELL THEATRE
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Charge for services	\$ 15,000	\$ 15,000	\$ 18,250	\$ 3,250
Interest revenue	500	500	241	(259)
TOTAL REVENUES	15,500	15,500	18,491	2,991
EXPENDITURES				
General government	79,570	110,000	116,920	6,920
REVENUES OVER (UNDER) EXPENDITURES	(64,070)	(94,500)	(98,429)	(3,929)
OTHER FINANCING SOURCES (USES)				
Transfers in	65,000	94,500	100,000	5,500
NET CHANGE IN FUND BALANCE	930	-	1,571	1,571
FUND BALANCE, BEGINNING OF YEAR	2,885	2,885	2,885	-
FUND BALANCE, END OF YEAR	\$ 3,815	\$ 2,885	\$ 4,456	\$ 1,571

CITY OF MANISTEE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
STATE OF MICHIGAN FIRE INSURANCE
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
EXPENDITURES				
Public safety	\$ -	\$ -	\$ 1	\$ 1
FUND BALANCE, BEGINNING OF YEAR	<u>1</u>	<u>1</u>	<u>1</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ (1)</u>

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
COOL CITIES BLUEPRINT GRANT
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
EXPENDITURES				
General government	\$ -	\$ 24,500	\$ 24,500	\$ -
OTHER FINANCING SOURCES				
Transfers in	-	24,500	24,500	-
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE, BEGINNING OF YEAR	-	-	-	-
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
MAN MADE LAKE
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
General government	\$ -	\$ 145,000	\$ 145,425	\$ 425
FUND BALANCE, BEGINNING OF YEAR	-	-	-	-
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ 145,000</u>	<u>\$ 145,425</u>	<u>\$ 425</u>

CITY OF MANISTEE

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS**

JUNE 30, 2007

	<u>Debt Service Fund</u>	<u>Fire Truck</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents (equal to fund balance reserved for debt retirement)	<u>\$ 7,841</u>	<u>\$ -</u>	<u>\$ 7,841</u>

CITY OF MANISTEE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	Debt Service Fund	Fire Truck	Total
REVENUES			
Taxes	\$ -	\$ 630	\$ 630
Reimbursement	147,560	-	147,560
Interest revenue	235	124	359
TOTAL REVENUES	147,795	754	148,549
EXPENDITURES			
General government	850	-	850
Debt service			
Principal	235,000	60,000	295,000
Interest expense	228,061	1,500	229,561
TOTAL EXPENDITURES	463,911	61,500	525,411
REVENUES OVER (UNDER) EXPENDITURES	(316,116)	(60,746)	(376,862)
OTHER FINANCING SOURCES			
Transfers in	315,501	48,390	363,891
Transfers out	-	(65)	(65)
TOTAL OTHER FINANCING SOURCES (USES)	315,501	48,325	363,826
NET CHANGE IN FUND BALANCES	(615)	(12,421)	(13,036)
FUND BALANCES, BEGINNING OF YEAR	8,456	12,421	20,877
FUND BALANCES, END OF YEAR	\$ 7,841	\$ -	\$ 7,841

CITY OF MANISTEE

**COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS**

JUNE 30, 2007

	<u>Industrial Park</u>	<u>Renaissance Park</u>	<u>Capital Improvement</u>	<u>Capital Improvement Bonds</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents (equal to reserved fund balances for capital projects.)	\$ 4,765	\$ 9,888	\$ 271,856	\$ 40,041	\$ 326,550
Investments	29,821	-	-	-	29,821
Due from other funds	-	-	190,000	-	190,000
Total Assets	<u>\$ 34,586</u>	<u>\$ 9,888</u>	<u>\$ 461,856</u>	<u>\$ 40,041</u>	<u>\$ 546,371</u>
LIABILITIES					
Accounts Payable	\$ -	\$ -	\$ 37,337	\$ -	\$ 37,337
FUND BALANCES					
Unreserved	<u>34,586</u>	<u>9,888</u>	<u>424,519</u>	<u>40,041</u>	<u>509,034</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 34,586</u>	<u>\$ 9,888</u>	<u>\$ 461,856</u>	<u>\$ 40,041</u>	<u>\$ 546,371</u>

CITY OF MANISTEE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECT FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	Industrial Park	Renaissance Park	Capital Improvement	Capital Improvement Bonds	Total
REVENUES					
Interest revenue	\$ 8,336	\$ 2,384	\$ 14,021	\$ 2,111	\$ 26,852
Miscellaneous	-	19	14,000	-	14,019
TOTAL REVENUES	8,336	2,403	28,021	2,111	40,871
EXPENDITURES					
General government	15,494	228,425	74	31,708	275,701
Capital outlay	-	-	135,428	-	135,428
TOTAL EXPENDITURES	15,494	228,425	135,502	31,708	411,129
REVENUES OVER (UNDER) EXPENDITURES	(7,158)	(226,022)	(107,481)	(29,597)	(370,258)
OTHER FINANCING (USES)					
Transfers in	-	140,000	290,000	-	430,000
Transfers out	(140,000)	-	(20,000)	-	(160,000)
TOTAL OTHER FINANCING SOURCES (USES)	(140,000)	140,000	270,000	-	270,000
NET CHANGE IN FUND BALANCES	(147,158)	(86,022)	162,519	(29,597)	(100,258)
FUND BALANCES, BEGINNING OF YEAR	181,744	95,910	262,000	69,638	609,292
FUND BALANCES, END OF YEAR	\$ 34,586	\$ 9,888	\$ 424,519	\$ 40,041	\$ 509,034

CITY OF MANISTEE

**COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS**

JUNE 30, 2007

	Boat Ramp Fund	Marina Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 40,942	\$ 74,678	\$ 115,620
Accounts receivables	-	3,709	3,709
Prepaid items	64	215	279
Inventory	-	10,520	10,520
Total current assets	41,006	89,122	130,128
Long-term assets			
Investments	644	-	644
Capital assets (net of accumulated depreciation)	63,026	361,994	425,020
TOTAL ASSETS	104,676	451,116	555,792
LIABILITIES			
Accounts payable	23	8,117	8,140
Accrued liabilities	488	1,050	1,538
TOTAL LIABILITIES	511	9,167	9,678
NET ASSETS			
Invested in capital assets	63,026	361,994	425,020
Unrestricted	41,139	79,955	121,094
TOTAL NET ASSETS	\$ 104,165	\$ 441,949	\$ 546,114

CITY OF MANISTEE

**COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
NONMAJOR ENTERPRISE FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Boat Ramp</u>	<u>Marina</u>	<u>Total</u>
OPERATING REVENUES			
State revenue	\$ -	\$ 34,500	\$ 34,500
Charges for services	38,685	176,329	215,014
TOTAL OPERATING REVENUES	38,685	210,829	249,514
OPERATING EXPENSES			
Boat ramp operations	21,217	-	21,217
Marina operations	-	165,794	165,794
Depreciation	4,564	26,645	31,209
TOTAL OPERATING EXPENSES	25,781	192,439	218,220
OPERATING INCOME	12,904	18,390	31,294
NON-OPERATING REVENUE			
Interest revenue	1,902	1,826	3,728
CHANGE IN NET ASSETS	14,806	20,216	35,022
NET ASSETS, BEGINNING OF YEAR	89,359	421,733	511,092
NET ASSETS, END OF YEAR	\$ 104,165	\$ 441,949	\$ 546,114

CITY OF MANISTEE

**COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	Boat Ramp	Marina	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 38,685	\$ 176,329	\$ 215,014
Cash received from state grants	-	34,500	34,500
Cash payments to employees	(12,789)	(26,123)	(38,912)
Cash payments to suppliers for goods and services	(8,351)	(143,443)	(151,794)
NET CASH PROVIDED BY OPERATING ACTIVITIES	17,545	41,263	58,808
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(6,933)	-	(6,933)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(645)	-	(645)
Interest revenue	1,902	1,826	3,728
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,257	1,826	3,083
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,869	43,089	54,958
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	29,073	31,589	60,662
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 40,942	\$ 74,678	\$ 115,620
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	\$ 12,904	\$ 18,390	\$ 31,294
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	4,564	26,645	31,209
Changes in assets and liabilities			
Accounts receivable	-	(3,194)	(3,194)
Prepaid items	(3)	4	1
Inventory	-	1,423	1,423
Accounts payable	-	(1,641)	(1,641)
Accrued liabilities	80	(364)	(284)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 17,545	\$ 41,263	\$ 58,808

CITY OF MANISTEE, MICHIGAN

**COMBINING BALANCE SHEET
AGENCY FUNDS**

JUNE 30, 2007

	<u>Tax Collection</u>	<u>Payroll</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 68,571	\$ 41,957	\$ 110,528
Due from other governments	38,894	605	39,499
TOTAL ASSETS	<u>\$ 107,465</u>	<u>\$ 42,562</u>	<u>\$ 150,027</u>
LIABILITIES			
Accrued liabilities	\$ -	\$ 38,243	\$ 38,243
Due to other governments	107,465	4,319	111,784
TOTAL LIABILITIES	<u>\$ 107,465</u>	<u>\$ 42,562</u>	<u>\$ 150,027</u>

CITY OF MANISTEE

**STATEMENT OF NET ASSETS
COMPONENT UNIT - RAMSDELL THEATRE RESTORATION PROJECT**

JUNE 30, 2007

ASSETS

Cash and cash equivalents	\$	30,022
Accounts receivable		<u>4,000</u>

TOTAL CURRENT ASSETS

34,022

Capital assets, net

19,651

TOTAL ASSETS

53,673

LIABILITIES

Accounts payable		<u>2,572</u>
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NET ASSETS

Unrestricted	\$	<u><u>51,101</u></u>
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CITY OF MANISTEE

**STATEMENT OF ACTIVITIES
COMPONENT UNIT - RAMSDELL THEATRE RESTORATION PROJECT**

FOR THE YEAR ENDED JUNE 30, 2007

REVENUES AND SUPPORT	
State revenue	\$ 7,500
Contributions	39,990
Interest earned	<u>1,655</u>
TOTAL REVENUE AND SUPPORT	<u>49,145</u>
EXPENSES	
Program services	<u>11,255</u>
CHANGE IN NET ASSETS	37,890
NET ASSETS, BEGINNING OF YEAR	<u>13,211</u>
NET ASSETS, END OF YEAR	<u><u>\$ 51,101</u></u>



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' 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***

November 1, 2007

The Honorable Mayor and
Members of the City Council
City of Manistee
Manistee, Michigan

We have audited the financial statements of the *City of Manistee, Michigan* as of and for the year ended June 30, 2007, and have issued our report thereon dated November 1, 2007. Our report was modified to include a reference to 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. The financial statements of the Downtown Development Authority, a discretely presented component unit of the City of Manistee, were not audited in accordance with auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *City of Manistee, Michigan's* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the *City of Manistee, Michigan's* internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-1 and 2007-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that significant deficiency 2007-1 as described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Manistee, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The *City of Manistee, Michigan's* responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the *City of Manistee, Michigan's* responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of City Council, management, others within the City, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A – 133**

November 1, 2007

The Honorable Mayor and
Members of the City Council
City of Manistee
Manistee, Michigan

Compliance

We have audited the compliance of the *City of Manistee, Michigan* with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The *City of Manistee, Michigan's* major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the *City of Manistee, Michigan's* management. Our responsibility is to express an opinion on the *City of Manistee, Michigan's* compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the *City of Manistee, Michigan's* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the *City of Manistee, Michigan's* compliance with those requirements.

In our opinion, the *City of Manistee, Michigan* complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of *City of Manistee, Michigan* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered *City of Manistee, Michigan's* internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in a City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City Council, management, others within the City, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Lehmann Johnson".

**CITY OF MANISTEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Awards Expended
U.S. Environmental Protection Agency			
<i>Passed-Through Michigan Department of Environmental Quality</i>			
State Revolving Fund	66.458	5242-01	\$ 777,489
Brownfield Assessment Phase II	66.818	BF-96594601-0	<u>53,867</u>
Total U.S. Environmental Protection Agency			<u>831,356</u>
U.S. Department of Housing and Urban Development			
<i>Passed-Through Michigan State Housing Development Authority</i>			
Community Development Block Grant/State's Program - Michigan Community Development Block Grant Housing Program	14.228	MSC-2004-0082-MDC	56,150
<i>Passed-Through Michigan Strategic Fund</i>			
Fifth Avenue Infrastructure Project	14.228	MSC-203078-PW	<u>22,188</u>
Total U.S. Department of Housing and Urban Development			<u>78,338</u>
U.S. Department of Justice			
<i>Passed-Through Michigan Office of Highway Safety Planning</i>			
Spotlight Grant	16.727	OHSP 2006-JJ-06-10	6,256
Spotlight Grant	16.727	OHSP 2006-JJ-07-10	<u>15,549</u>
Total U.S. Department of Justice			<u>21,805</u>
Total federal financial assistance			<u>\$ 931,499</u>
Reconciliation to financial statements			
Amount recorded as federal revenue			\$ 154,010
Amount recorded as bonds payable within the Water and Sewer Enterprise Fund			<u>777,489</u>
Total federal expenditures			<u>\$ 931,499</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1) Basis of presentation-

The schedule of expenditures of federal awards includes the federal grant activity of the City of Manistee and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

- 2) The Michigan Department of Transportation (MDOT) acts as the agent of the Federal Highway Administration (FHWA) in the administration of federal funds provided to the City of Manistee for the improvement of road systems in the City of Manistee. These funds cover projects under the certification of acceptance procedures or the secondary road plan procedures approved by FHWA. Although these funds are provided for the improvement of road systems in the City of Manistee, MDOT, as the agency of FHWA, is responsible for controlling the receipts and disbursements related to the funds. In this capacity, MDOT also awards construction contracts and in some instances, contracts for other services. The City of Manistee receives interim and final accounting of projects receipts and disbursements from MDOT. Since all project administration is performed by MDOT, the amounts are not included in the City's schedule of expenditures of federal awards.

CITY OF MANISTEE, MICHIGAN

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

SECTION I - SUMMARY OF AUDITORS RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	Yes
Non-compliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) ?	No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Program</u>
66.458	State Revolving Fund

Dollar threshold to distinguish between type A and type B programs:	\$300,000
Auditee qualified as a low risk auditee?	Yes

CITY OF MANISTEE, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED JUNE 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2007-1 – Preparation of Financial Statements in Accordance with Accounting Principles Generally Accepted in the United States of America.

Criteria: All Michigan governments are required to prepare financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). This is a responsibility of the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the City's *internal* controls.

Cause: This condition was caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

Effect: As a result of this condition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The City has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

CITY OF MANISTEE, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded) FOR THE YEAR ENDED JUNE 30, 2007

Finding 2007-2 – Inadequate segregation of duties within a significant account or process.

Criteria: All significant accounts or processes for local governments are required to have adequate segregation of duties over the account or process.

Condition: As is the case with many smaller and medium-sized entities, the City's number of staff results in limited segregation of duties over billing and collection of utility receipts.

Cause: This condition was caused by the City's decision that it is more cost effective to have inadequate segregation of duties than to incur the expense of additional staff required to segregate these duties.

Effect: As a result of this condition, the City lacks adequate segregation of duties over the billing and collection of utility receipts.

View of Responsible Officials: The City has evaluated the cost vs. benefit of establishing adequate segregation of duties over the billing and collection of utility receipts, and determined that it is in the best interests of the City to continue to implement procedures where possible to improve the segregation of duties within the limitations of the current staffing levels.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No federal award findings or questioned costs are reported.