

CITY OF PINCONNING
BAY COUNTY
STATE OF MICHIGAN

FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
FISCAL YEAR END JUNE 30, 2019

CITY OF PINCONNING
BAY COUNTY
STATE OF MICHIGAN

CITY OFFICIALS - As of June 30, 2019

Mayor	Jason Brazeau
Council Member	Lorcie Ford
Council Member	Sherri Boettcher
Council Member	Brian Saha
Council Member	Rebecca Coyer
Council Member	Gerald Gibson
Council Member	Ann LaPorte
Treasurer	Dawn Hoder
Clerk	Yvonne Broderick

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CERTIFIED PUBLIC ACCOUNTANTS

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BAY CITY, MICHIGAN 48708
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Partners:
Timothy J. Quast, C.P.A.
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Members:
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INDEPENDENT AUDITORS' REPORT

To the City Council
The City of Pinconning
208 Manitou Street
Pinconning, MI 48650

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pinconning, State of Michigan, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pinconning, State of Michigan’s basic financial statements. The component unit statements, schedules and balance sheet, the general fund statements of revenues, expenditures and changes in fund balances, and detail of expenditures and the debt schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

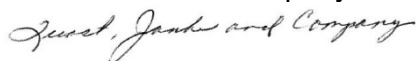
The component unit statements, schedules and balance sheet, the general fund statements of revenues, expenditures and changes in fund balances, and detail of expenditures and the debt schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the component unit statements, schedules and balance sheet, the general fund statements of revenues, expenditures and changes in fund balances, and detail of expenditures and the debt schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2019, on our consideration of the City of Pinconning, State of Michigan’s, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Pinconning, State of Michigan’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pinconning, State of Michigan’s internal control over financial reporting and compliance.

Sincerely,

Quast, Janke and Company



Certified Public Accountants, P.C.
December 23, 2019



CERTIFIED PUBLIC ACCOUNTANTS

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

To the City Council
The City of Pinconning
208 Manitou Street
Pinconning, MI 48650

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pinconning, State of Michigan, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Pinconning, State of Michigan's basic financial statements and have issued our report thereon dated December 23, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Pinconning, State of Michigan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Pinconning, State of Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Pinconning, State of Michigan's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2019-002 and 2019-003 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as item 2019-004 and 2019-005 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pinconning, State of Michigan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2019-001.

City of Pinconning, State of Michigan's Response to Findings

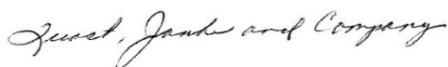
City of Pinconning, State of Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Pinconning, State of Michigan's response was not subjected to the auditing procedures applied in the audit of the financial statements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

Purpose of this Report

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

Sincerely,

Quast, Janke and Company



Certified Public Accountants, P.C.
December 23, 2019

CITY OF PINCONNING

Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

This section of the City of Pinconning's annual Financial Report presents the Management's Discussion and Analysis (MD&A) of the City's financial activities during the fiscal year ended June 30, 2019. The analysis focuses on the City's financial performance as a whole. Please read it in conjunction with the City's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

*The assets of the City of Pinconning exceeded liabilities at June 30, 2019, by \$ 3,254,116. Of this amount \$ (32,888) is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

*The City's net position increased by \$ 520,012 during the year. Of this amount, the net position of our governmental activities increased by \$ 36,071 and the net position of our business-type activities increased by \$ 483,942.

USING THIS REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

Government-Wide Financial Statements consists of a Statement of Net Position and a Statement of Activities. These provide information about the activities of the City as a whole and represent an overall view of the City's finances.

Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statements report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.

CITY OF PINCONNING

Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information, other than MD&A, provides information about the required budgetary comparison information and pension funding progress.

Other Supplemental Information provides detailed information about the General Fund and Debt Schedules.

REPORTING THE CITY AS A WHOLE

The Statement of Net Position, the Statement of Activities, and the Government-Wide Statements report information about the City as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

One of the most important questions asked about the City's finances is: Is the City as a whole better or worse off as a result of the year's activities? The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by most private sector companies. The two statements report the City's net position, which are the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. Additional factors such as changes in the City's property tax base and the condition of the City's infrastructure are also important in making this decision. The following paragraphs are intended to assist in making this overall assessment.

CITY OF PINCONNING

Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

REPORTING THE CITY'S MAJOR ACTIVITIES

In the Statement of Net Position and the Statement of Activities, we have divided the City into two kinds of activities:

***Governmental Activities** - Most of the City's basic services are reported here, such as public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

***Business-Type Activities** - This activity includes the water and sewer operations. These activities are financed primarily by user charges.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

The Fund Financial Statements provide detailed information about individual, significant funds, not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City can establish other funds to control and manage money for particular purposes (such as construction or street projects) and to show that it is properly using certain revenues (such as tax increment financing revenues). The City has three kinds of funds: governmental, proprietary and fiduciary.

Governmental Funds

The Governmental Funds account for most of the City's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental Funds include the General Fund; Special Revenue Funds such as Major Street, Local Street, and a discretely presented component unit, the Downtown Development Authority. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash.

CITY OF PINCONNING

Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

The Government Fund Statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The financial statements required for Governmental Funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

Propriety Funds

Proprietary Funds account for the City's Enterprise Funds. These funds report services for which the City charges customers for the service it provides. Proprietary Funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. The major difference between the Proprietary Fund and the Business-Type Activities included in the Government-Wide Statement is the detail and additional information, such as cash flows, provided in the Proprietary Fund Statements. The Enterprise Fund includes the Water and Sewer Funds, and are considered to be major funds of the City. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The financial statements required for Proprietary Funds include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position and a Statement of Cash Flows.

Fiduciary Funds

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and, therefore, are not available to support City programs. The reporting focus is on net position and changes in net position, and is reported using accounting principles similar to Proprietary Funds. The City's Fiduciary Funds are presented in the Fiduciary Fund financial statements by type, which is the Tax Collection Fund. Because by definition these assets are being held for the benefit of a third party, pension participants and other local governments, and cannot be used to address activities or obligations of the government, these funds are not incorporated into the Government-Wide Statements.

CITY OF PINCONNING
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. The following analysis shows the City's total change in net position at June 30, 2019 and 2018.

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
ASSETS						
Current and other assets	\$ 1,190,263	\$ 1,059,209	\$ 465,619	\$ 548,253	\$ 1,655,882	\$ 1,607,462
Capital assets net of accumulated depreciation	605,900	667,167	4,281,147	3,950,322	4,887,047	4,617,489
Total Assets	1,796,163	1,726,376	4,746,766	4,498,575	6,542,929	6,224,951
DEFERRED OUTFLOWS OF RESOURCES	111,230	18,353	12,360	2,039	123,590	20,392
LIABILITIES						
Current liabilities	81,169	93,734	102,775	259,665	183,944	353,399
Long-term liabilities	953,514	814,356	2,274,945	2,343,484	3,228,459	3,157,840
Total Liabilities	1,034,683	908,090	2,377,720	2,603,149	3,412,403	3,511,239
DEFERRED INFLOWS OF RESOURCES	0	0	0	0	0	0
NET POSITION						
Invested in capital assets net of related debt	605,899	667,167	2,028,148	958,257	2,634,047	1,625,424
Restricted	452,061	325,075	200,896	206,822	652,957	531,897
Unrestricted	(185,250)	(155,603)	152,363	732,385	(32,887)	576,783
Total Net Position	\$ 872,710	\$ 836,640	\$ 2,381,407	\$ 1,897,464	\$ 3,254,117	\$ 2,734,104

The largest portion of the City's net position is invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Total unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements is approximately \$ (269,340).

CITY OF PINCONNING
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019

The following analysis provides the changes in the net position for the City's governmental and business-type activities:

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Program Revenues						
Charges for services	\$ 39,394	\$ 34,402	\$ 667,771	\$ 728,685	\$ 707,165	\$ 763,087
Operating grants and contributions	235,651	331,225	0	0	235,651	331,225
Capital grants and contributions	114,210	0	586,294	1,059,278	700,504	1,059,278
General Revenues						
Property taxes	394,900	459,774	0	0	394,900	459,774
State revenue sharing	199,574	137,218	0	0	199,574	137,218
Unrestricted investment earnings	5,770	1,873	909	1,891	6,679	3,764
Transfers	0	(222,637)	0	222,637	0	0
Total Revenues	989,499	741,855	1,254,974	2,012,491	2,244,473	2,754,346
Program Expenses						
Legislative	12,018	13,564	0	0	12,018	13,564
General government	230,322	241,868	0	0	230,322	241,868
Public safety	151,379	151,255	0	0	151,379	151,255
Health and welfare	72,261	0	0	0	72,261	0
Public works and streets	365,508	428,641	0	0	365,508	428,641
Recreation and culture	38,201	19,758	0	0	38,201	19,758
Unallocated	83,739	0	0	0	83,739	0
Water and sewer	0	0	771,032	1,213,380	771,032	1,213,380
Total Expenses	953,428	855,086	771,032	1,213,380	1,724,460	2,068,466
INCREASE/DECREASE IN NET POSITION	\$ 36,071	\$ (113,231)	\$ 483,942	\$ 799,111	\$ 520,013	\$ 685,880

CITY OF PINCONNING
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Pinconning completed its year, its Governmental Funds reported a total fund balance of \$ 1,109,095 which is more than the \$ 965,476 total fund balance at June 30, 2018.

- The General Fund, the operating fund for the City, ended fiscal year 2019 with a \$657,034 balance compared to the prior year ending fund balance of \$640,400.
- The Major Street Fund Balance increased by \$ 89,921.
- The Local Street Fund Balance increased by \$37,065.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

As the City of Pinconning completed its year, its Business-Type Funds reported total net position of \$ 2,381,406 which is more than the \$ 1,897,464 total net position at June 30, 2018.

BUDGETARY HIGHLIGHTS

During the year ended June 30, 2019, the City amended the budget three (3) times. The amendment was done to cover unbudgeted expenditures.

CITY OF PINCONNING
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019

CAPITAL ASSETS AND DEBT ADMINISTRATION

The City's investment in capital assets, including land, buildings and improvements, equipment, water systems, sewer systems, lighting systems, traffic signals and other infrastructure represents the value of the resources utilized to provide services to citizens. Capital assets for governmental activities totaled \$ 605,900 (net of accumulated depreciation) at June 30, 2019. Capital assets for business-type activities totaled \$4,281,147 (net of accumulated depreciation) at June 30, 2019. The notes to the financial statements contain more detailed information about the City's capital assets.

At year end, the City had \$ 2,253,000 in outstanding revenue bonds. All debt is in the business-type activities and is detailed below:

Sewer Fund

Revenue Bond issued to improve, enlarge and extend the City's water and sewer system.

Original issue 1996 - Series A	\$	2,511,000
Balance June 30, 2018		1,820,000
Balance June 30, 2019		1,750,000
Original issue 2002 - Series A		544,000
Balance June 30, 2018		480,000
Balance June 30, 2019		474,000
Original issue 2002 - Series B		47,000
Balance June 30, 2018		30,000
Balance June 30, 2019		29,000

CITY OF PINCONNING

Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

ECONOMIC FACTORS

Our elected officials consider many factors when setting the City's 2019 fiscal year budget. One of the most important factors affecting the City's budget is the State of Michigan's economy. The City's Council has tried to spend conservatively. Cost for health care, insurance and utilities continue to rise. The City maintains its facilities but struggles to provide services to its citizens at the same level as past years. Growth in the City has been slow but the City hopes for new business and industry. Expanding our tax base past single-family homes and increasing water and sewer users is a prime objective.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to present citizens, taxpayers, customers, investors, creditors and other interested parties with a general overview of the City's finances and operating activities. If you have any questions or require additional information, please contact Administration at the City of Pinconning, 208 Manitou, P.O. Box 628, Pinconning, MI 48650.

CITY OF PINCONNING
Bay County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET POSITION
June 30, 2019

	Primary Government			Component Unit
	Governmental Activities	Business -Type Activities	Total	
ASSETS:				
Cash	\$ 1,042,640.44	\$ 300,386.52	\$ 1,343,026.96	\$ 76,971.56
Delinquent taxes receivable	0.00	0.00	0.00	0.00
Other receivables	55,300.00	161,060.43	216,360.43	0.00
Due from component unit	7,578.62	0.00	7,578.62	0.00
Inventory	0.00	4,171.69	4,171.69	0.00
Receivable from state	52,578.69	0.00	52,578.69	0.00
Overpaid withholding taxes	32,165.96	0.00	32,165.96	0.00
Capital assets:				
Land	25,000.00	50,000.00	75,000.00	5,000.00
Buildings and improvements	955,204.00	3,452,333.64	4,407,537.64	140,015.91
Construction in progress	0.00	1,128,323.46	1,128,323.46	0.00
Infrastructure	637,852.91	0.00	637,852.91	0.00
Equipment	745,352.91	213,779.45	959,132.36	3,100.00
Water and sewer systems	0.00	2,897,948.90	2,897,948.90	0.00
Accumulated depreciation	<u>(1,757,510.32)</u>	<u>(3,461,237.62)</u>	<u>(5,218,747.94)</u>	<u>(73,808.59)</u>
Total Assets	1,796,163.21	4,746,766.47	6,542,929.68	151,278.88
DEFERRED OUTFLOWS OF RESOURCES	111,230.00	12,360.00	123,590.00	0.00
LIABILITIES:				
Accounts payable	16,166.16	8,286.38	24,452.54	0.00
Accrued expenses	9,802.73	10,489.06	20,291.79	0.00
Due to other funds	0.00	0.00	0.00	0.00
Due to primary government	0.00	0.00	0.00	7,578.62
Customer deposits	55,200.00	0.00	55,200.00	0.00
Net pension liability	953,514.00	105,945.00	1,059,459.00	0.00
Notes and bonds payable				
Amount due within one year	0.00	84,000.00	84,000.00	0.00
Amount due more than one year	<u>0.00</u>	<u>2,169,000.00</u>	<u>2,169,000.00</u>	<u>0.00</u>
Total Liabilities	1,034,682.89	2,377,720.44	3,412,403.33	7,578.62
DEFERRED INFLOWS OF RESOURCES	0.00	0.00	0.00	0.00
NET POSITION:				
Investment in capital assets net of related debt	605,899.50	2,028,147.83	2,634,047.33	74,307.32
Restricted major and local streets	452,061.13	0.00	452,061.13	0.00
Restricted for debt service	0.00	200,895.57	200,895.57	0.00
Unrestricted	<u>(185,250.31)</u>	<u>152,362.63</u>	<u>(32,887.68)</u>	<u>69,392.94</u>
Total Net Position	<u>\$ 872,710.32</u>	<u>\$ 2,381,406.03</u>	<u>\$ 3,254,116.35</u>	<u>\$ 143,700.26</u>

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

CITY OF PINCONNING
Bay County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants/Contributions	Capital Grants/Contributions	Governmental Activities	Business-Type Activities	Total	
PRIMARY GOVERNMENT:								
GOVERNMENTAL ACTIVITIES:								
Legislative	\$ 12,018.31	\$ 0.00	\$ 0.00	\$ 0.00	\$ (12,018.31)	\$ 0.00	\$ (12,018.31)	\$ 0.00
General government	230,321.62	3,438.25		114,210.28	(112,673.09)	0.00	(112,673.09)	0.00
Public safety	151,378.96	21,522.73	1,661.55	0.00	(128,194.68)	0.00	(128,194.68)	0.00
Health and Welfare	72,260.53	14,433.30	53,782.06	0.00	(4,045.17)	0.00	(4,045.17)	0.00
Streets and highways	73,493.14	0.00	180,206.87	0.00	106,713.73	0.00	106,713.73	0.00
Public works	292,014.80	0.00	0.00	0.00	(292,014.80)	0.00	(292,014.80)	0.00
Unallocated fringes	83,739.43	0.00	0.00	0.00	(83,739.43)	0.00	(83,739.43)	0.00
Recreation and cultural	38,201.64	0.00	0.00	0.00	(38,201.64)	0.00	(38,201.64)	0.00
Total governmental activities	953,428.43	39,394.28	235,650.48	114,210.28	(564,173.39)	0.00	(564,173.39)	0.00
BUSINESS-TYPE ACTIVITIES								
Water	259,198.84	211,222.28	0.00	0.00	0.00	(47,976.56)	(47,976.56)	0.00
Sewer	511,832.39	456,548.21	0.00	586,294.18	0.00	531,010.00	531,010.00	0.00
Total Business-Type Activities	771,031.23	667,770.49	0.00	586,294.18	0.00	483,033.44	483,033.44	0.00
Total Primary Government	\$ 1,724,459.66	\$ 707,164.77	\$ 235,650.48	\$ 700,504.46	(564,173.39)	483,033.44	(81,139.95)	0.00
COMPONENT UNIT:								
Downtown Development Authority	118,084.98	680.00	0.00	0.00				(117,404.98)
GENERAL PURPOSE REVENUES:								
Property taxes - operating					318,132.30	0.00	318,132.30	51,388.29
Property taxes - refuse					76,028.00	0.00	76,028.00	0.00
State shared revenues					199,573.55	0.00	199,573.55	0.00
Unrestricted investment earnings					5,769.79	908.29	6,678.08	212.94
Mobile home taxes					740.50	0.00	740.50	0.00
Transfers					0.00	0.00	0.00	0.00
Total General Purpose Revenues and Transfers					600,244.14	908.29	601,152.43	51,601.23
Change in Net Position					36,070.75	483,941.73	520,012.48	(65,803.75)
Net Position - Beginning of Year					836,639.57	1,897,464.30	2,734,103.87	209,504.01
Net Position - End of Year					\$ 872,710.32	\$ 2,381,406.03	\$ 3,254,116.35	\$ 143,700.26

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

CITY OF PINCONNING
Bay County, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2019

	<u>GENERAL</u>	<u>MAJOR STREETS</u>	<u>LOCAL STREETS</u>	<u>TOTAL</u>
ASSETS:				
Cash	\$ 618,534.73	\$ 325,168.26	\$ 98,937.45	\$ 1,042,640.44
Delinquent taxes receivable	0.00	0.00	0.00	0.00
Other receivables	55,200.00	0.00	0.00	55,200.00
Current tax fund receivable	100.00	0.00	0.00	100.00
Due from Component Unit	7,578.62	0.00	0.00	7,578.62
Due from state	<u>24,511.00</u>	<u>20,969.11</u>	<u>7,098.58</u>	<u>52,578.69</u>
Total Assets	\$ <u>705,924.35</u>	\$ <u>346,137.37</u>	\$ <u>106,036.03</u>	\$ <u>1,158,097.75</u>
LIABILITIES:				
Accounts payable	\$ 16,157.89	\$ 8.27	\$ 0.00	\$ 16,166.16
Unearned revenue	55,200.00	0.00	0.00	55,200.00
Accrued expenses	9,698.73	52.00	52.00	9,802.73
Overpaid withholding taxes	(32,165.96)	0.00	0.00	(32,165.96)
Due to other funds	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Liabilities	48,890.66	60.27	52.00	49,002.93
FUND BALANCES:				
Nonspendable	0.00	0.00	0.00	0.00
Restricted for capital projects	0.00	0.00	0.00	0.00
Restricted for streets	0.00	346,077.10	105,984.03	452,061.13
Assigned	0.00	0.00	0.00	0.00
Unassigned	<u>657,033.69</u>	<u>0.00</u>	<u>0.00</u>	<u>657,033.69</u>
Total Fund Balances	<u>657,033.69</u>	<u>346,077.10</u>	<u>105,984.03</u>	<u>1,109,094.82</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>705,924.35</u>	\$ <u>346,137.37</u>	\$ <u>106,036.03</u>	\$ <u>1,158,097.75</u>

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

CITY OF PINCONNING
Bay County, Michigan

GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO STATEMENT
OF NET POSITION
June 30, 2019

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	1,109,094.82
Amounts reported for Governmental Activities in the Statement of Net Position are different because -		
Capital assets used in Governmental Activities are not financial resources and therefore are not reported in the Governmental Funds Balance Sheet:		
Capital assets at cost		2,363,409.82
Accumulated depreciation		(1,757,510.32)
Deferred outflow of resources related to pensions		111,230.00
Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds		
Net pension liability		(953,514.00)
Deferred inflows of resources related to pensions		<u>0.00</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$	<u><u>872,710.32</u></u>

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

CITY OF PINCONNING
Bay County, Michigan

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
June 30, 2019

	GENERAL	MAJOR STREETS	LOCAL STREETS	TOTAL
REVENUES:				
Taxes	\$ 408,593.60	\$ 0.00	\$ 0.00	\$ 408,593.60
State and federal grants	141,761.00	120,468.83	59,738.04	321,967.87
Intergovernmental other	227,466.44	0.00	0.00	227,466.44
License and permits	740.50	0.00	0.00	740.50
Charges for services	21,522.73	0.00	0.00	21,522.73
Interest and fines	9,208.04	0.00	0.00	9,208.04
Other revenue	0.00	0.00	0.00	0.00
	809,292.31	120,468.83	59,738.04	989,499.18
Total Revenues				
EXPENDITURES:				
Legislative	12,018.31	0.00	0.00	12,018.31
General government	196,413.69	0.00	0.00	196,413.69
Public safety	132,392.04	0.00	0.00	132,392.04
Health and welfare	72,260.53	0.00	0.00	72,260.53
Public works	263,855.11	30,547.70	22,673.18	317,075.99
Cultural and recreation	31,979.97	0.00	0.00	31,979.97
Capital outlay	0.00	0.00	0.00	0.00
Unallocated	83,739.43	0.00	0.00	83,739.43
	792,659.08	30,547.70	22,673.18	845,879.96
Total Expenditures				
EXCESS OF REVENUES OVER EXPENDITURES	16,633.23	89,921.13	37,064.86	143,619.22
OTHER FINANCING SOURCES (USES):				
Transfer from other funds	0.00	0.00	0.00	0.00
Transfer to other funds	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
Total Other Financing Sources (Uses)				
NET CHANGE IN FUND BALANCES	16,633.23	89,921.13	37,064.86	143,619.22
FUND BALANCE - July 1, 2018	640,400.46	256,155.97	68,919.17	965,475.60
FUND BALANCE - June 30, 2019	\$ 657,033.69	\$ 346,077.10	\$ 105,984.03	\$ 1,109,094.82

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

CITY OF PINCONNING
Bay County, Michigan

GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 143,619.22
Amounts reported for Governmental Activities in the Statement of Activities are different because -	
Governmental Funds report capital outlays as expenditures while in the statement of activities, these costs are allocated over their estimated lives as depreciation expense.	
Depreciation expense	(61,267.47)
Capital asset purchases capitalized	0.00
Changes in liability components related to pensions is not an expense or reduction of expenses in the fund statements	
Pension expense	(46,281.00)
Repayment of debt principal is an expenditure in the Governmental Funds, the repayment does not have an effect in the Statement of Activities but does reduce the debt balance in the Statement of Net Position.	
Principal payments on long-term debt	0.00
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	\$ <u>36,070.75</u>

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

CITY OF PINCONNING
Bay County, Michigan

PROPRIETARY FUNDS
STATEMENT OF NET POSITION
WATER AND SEWER FUNDS
June 30, 2019

<u>ASSETS:</u>	Major Enterprise Funds		Business-Type
	Water Fund	Sewer Fund	Activities Total
Current Assets:			
Common cash account	\$ 21,836.61	\$ (42,335.32)	\$ (20,498.71)
Cash and cash equivalents	0.00	119,989.66	119,989.66
Accounts receivable	43,635.79	117,424.64	161,060.43
Grants receivable	0.00	0.00	0.00
Inventory	0.00	4,171.69	4,171.69
Prepays	0.00	0.00	0.00
Total Current Assets	65,472.40	199,250.67	264,723.07
Noncurrent Assets:			
USDA RD 1996 Bond reserve	0.00	145,125.93	145,125.93
USDA RD 1996 RRI	0.00	298.62	298.62
USDA RD 2002 bond reserve	0.00	36,011.74	36,011.74
USDA RD 2002 RRI	0.00	19,459.28	19,459.28
Capital Assets:			
Construction in progress	0.00	1,128,323.46	1,128,323.46
Buildings and Improvements	0.00	3,502,333.64	3,502,333.64
Equipment	11,138.05	202,641.40	213,779.45
Water and sewer systems	1,143,647.65	1,754,301.25	2,897,948.90
Accumulated depreciation	(751,866.34)	(2,709,371.28)	(3,461,237.62)
Total Capital Assets	402,919.36	3,878,228.47	4,281,147.83
Total Noncurrent Assets	402,919.36	4,079,124.04	4,482,043.40
Total Assets	468,391.76	4,278,374.71	4,746,766.47
DEFERRED OUTFLOW OF RESOURCES	3,090.00	9,270.00	12,360.00
LIABILITIES:			
Current Liabilities:			
Accounts payable	\$ 24.50	\$ 8,261.88	\$ 8,286.38
Due to General Fund	0.00	0.00	0.00
Accrued expenses	792.60	9,696.46	10,489.06
Revenue bonds payable	0.00	84,000.00	84,000.00
Total Current Liabilities	817.10	101,958.34	102,775.44
Noncurrent Liabilities:			
Net pension liability	26,486.00	79,459.00	105,945.00
Revenue bonds payable	0.00	2,169,000.00	2,169,000.00
Total Noncurrent Liabilities	26,486.00	2,248,459.00	2,274,945.00
Total Liabilities	27,303.10	2,350,417.34	2,377,720.44
DEFERRED INFLOW OF RESOURCES	0.00	0.00	0.00
NET POSITION:			
Invested in capital assets net of related debt	402,919.36	1,625,228.47	2,028,147.83
Restricted for debt retirement	0.00	200,895.57	200,895.57
Unrestricted	41,259.30	111,103.33	152,362.63
Total Net Position	\$ 444,178.66	\$ 1,937,227.37	\$ 2,381,406.03
Reconciliation of Government-Wide Statement of Net Position:			2,381,406.03

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

CITY OF PINCONNING
Bay County, Michigan

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
WATER AND SEWER FUNDS
Year Ended June 30, 2019

OPERATING REVENUES:	Major Enterprise Funds		Business-Type
	Water Fund	Sewer Fund	Activities Total
Charges for Services -			
Water charges	\$ 206,624.90	\$ 0.00	\$ 206,624.90
Sewer charges	0.00	451,511.99	451,511.99
Septage income	0.00	0.00	0.00
Local Grants	0.00	0.00	0.00
Late payment fees	4,452.38	4,896.22	9,348.60
Miscellaneous	145.00	140.00	285.00
Total Operating Revenues	211,222.28	456,548.21	667,770.49
OPERATING EXPENSES:			
Salaries	41,927.95	61,673.09	103,601.04
Fringes and taxes	24,095.99	39,469.03	63,565.02
Water - cost of goods sold	125,082.04	0.00	125,082.04
Contractual services	3,399.32	10,606.27	14,005.59
Supplies	2,221.19	31,642.62	33,863.81
Repairs and maintenance	21,116.80	39,812.77	60,929.57
Utilities	979.84	97,324.30	98,304.14
Meters	5,200.00	0.00	5,200.00
Insurance	2,260.96	11,369.21	13,630.17
Other	2,090.47	8,779.80	10,870.27
Depreciation	30,824.28	104,607.97	135,432.25
Total Operating Expenses	259,198.84	405,285.06	664,483.90
Operating Income	(47,976.56)	51,263.15	3,286.59
NONOPERATING REVENUES(EXPENSES)			
Interest income	0.00	908.29	908.29
Federal grants	0.00	0.00	0.00
State grants	0.00	586,294.18	586,294.18
Loss on sale of capital asset	0.00	0.00	0.00
Interest expense	0.00	(106,547.33)	(106,547.33)
Total Nonoperating Revenues (Expenses)	0.00	480,655.14	480,655.14
Income before contributions and transfers	(47,976.56)	531,918.29	483,941.73
Transfers in	0.00	0.00	0.00
Transfers out	0.00	0.00	0.00
Total transfers in (out)	0.00	0.00	0.00
Change in Net Position	(47,976.56)	531,918.29	483,941.73
Net Position Beginning of Year	492,155.22	1,405,309.08	1,897,464.30
Net Position End of Year	\$ 444,178.66	\$ 1,937,227.37	\$ 2,381,406.03

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

CITY OF PINCONNING
Bay County, Michigan

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
WATER AND SEWER FUNDS
Year Ended June 30, 2019

	Major Enterprise Funds		Business-Type
	Water	Sewer	Activities
	Fund	Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 220,938.56	\$ 340,648.57	\$ 561,587.13
Other operating cash receipts	145.00	140.00	285.00
Cash payments to suppliers for goods and services	(192,231.82)	(176,761.3)	(368,993.07)
Cash payments to employees for services	(41,927.95)	(60,822.1)	(102,750.04)
Net cash provided (used) by operating activities	(13,076.21)	103,205.23	90,129.02
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES:			
Transfers from other funds	0.00	0.00	0.00
Transfers to other funds	0.00	0.00	0.00
Net cash provided (used) by noncapital financing activities	0.00	0.00	0.00
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	0.00	(466,258.18)	(466,258.18)
Capital grants	0.00	586,294.18	586,294.18
Proceeds from sale of capital assets	0.00	0.00	0.00
Interest paid on bonds	0.00	(106,547.33)	(106,547.33)
Principal payments on bonds	0.00	(77,000.00)	(77,000.00)
Change in net pension liability	3,865.00	11,596.00	15,461.00
Net cash provided (used) by capital and related financing activities	3,865.00	(51,915.33)	(63,511.33)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on investments	0.00	908.29	908.29
Net increase (decrease) in cash	(9,211.21)	52,198.19	27,525.98
Cash beginning of year	31,047.82	226,351.72	257,399.54
Cash end of year	\$ 21,836.61	\$ 278,549.91	\$ 284,925.52
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Income (loss) from operations	\$ (47,976.56)	51,263.15	\$ 3,286.59
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:			
Depreciation	30,824.28	104,607.97	135,432.25
Change in assets and liabilities:			
(Increase) decrease in accounts/grant receivable	9,861.28	115,759.64	125,620.92
(Increase) decrease in deferred outflows	(2,580.00)	(8,831.00)	(11,411.00)
Increase (decrease) in accounts payable	(1,235.51)	(157,515.47)	(158,750.98)
Increase (decrease) in deferred inflows	0.00	0.00	0.00
Increase (decrease) in accrued expenses	(1,969.70)	(3,169.06)	(5,138.76)
	34,900.35	50,852.08	85,752.43
Net Cash Provided (Used) in Operating Activities	\$ (13,076.21)	\$ 102,115.23	\$ 89,039.02

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

CITY OF PINCONNING
Bay County, Michigan

STATEMENT OF NET POSITION
 FIDUCIARY FUND
June 30, 2019

	TAX COLLECTION AGENCY FUND	CITY RESTITUTION AND FORFEITURE FUND
<u>ASSETS</u>		
Cash in bank	\$ <u>100.00</u>	\$ <u>0.00</u>
<u>LIABILITIES</u>		
Due to Downtown Development Authority	\$ 0.00	\$ 0.00
Due to General Fund	100.00	0.00
Due to Others	<u>0.00</u>	<u>0.00</u>
Total Liabilities	\$ <u>100.00</u>	\$ <u>0.00</u>

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

CITY OF PINCONNING
Bay County, Michigan

COMPONENT UNIT
STATEMENT OF NET POSITION
DOWNTOWN DEVELOPMENT AUTHORITY
June 30, 2019

<u>ASSETS:</u>	
Current Assets:	
Cash	\$ 76,971.56
Due from other funds	0.00
Other receivables	0.00
Total Current Assets	<u>76,971.56</u>
Noncurrent Assets:	
Land	5,000.00
Construction in progress	0.00
Equipment	3,100.00
Buildings and improvements	140,015.91
Accumulated depreciation	<u>(73,808.59)</u>
Total Noncurrent Assets	<u>74,307.32</u>
Total Assets	151,278.88
<u>LIABILITIES:</u>	
Current Liabilities:	
Accounts payable	0.00
Due to General Fund	7,578.62
Building authority bond	<u>0.00</u>
Total Current Liabilities	7,578.62
Noncurrent Liabilities:	
Building authority bond	<u>0.00</u>
Total Noncurrent Liabilities	<u>0.00</u>
Total Liabilities	7,578.62
<u>NET POSITION:</u>	
Invested in capital assets net of related debt	74,307.32
Unrestricted	<u>69,392.94</u>
Total Net Position	\$ <u><u>143,700.26</u></u>

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

CITY OF PINCONNING
Bay County, Michigan

COMPONENT UNIT - DDA
STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants/ Contributions</u>	<u>Capital Grants/ Contributions</u>	<u>Downtown Development Authority</u>
DOWNTOWN DEVELOPMENT AUTHORITY					
Economic development	\$ 118,084.98	\$ 680.00	\$ 0.00	\$ 0.00	\$ (117,404.98)
Interest on long-term debt	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Governmental Activities	<u><u>118,084.98</u></u>	<u><u>680.00</u></u>	<u><u>0.00</u></u>	<u><u>0.00</u></u>	<u>(117,404.98)</u>
 GENERAL REVENUES:					
Property taxes					51,388.29
Transfer from General Fund					0.00
Net Loss on sale of assets					0.00
Unrestricted investment earnings					<u>212.94</u>
Total General Purpose Revenues and Transfers					<u>51,601.23</u>
Change in Net Position					(65,803.75)
Net Position - Beginning of Year					<u>209,504.01</u>
Net Position - End of Year					<u>\$ 143,700.26</u>

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

CITY OF PINCONNING
Bay County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. DESCRIPTION OF REPORTING ENTITY:

The City of Pinconning is located in Bay County and operates under an elected Board of Council Members (6 members) and an elected Mayor, and provides services to its residents in many areas. The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

B. REPORTING ENTITY:

Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Pinconning has one component unit, the Downtown Development Authority. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, and promote growth within the district. The Authority's governing body, which consists of nine (9) individuals, is appointed by the Mayor and approved by the City Council.

Joint Fire Authority -

The City of Pinconning, Pinconning Township and the Township of Fraser participate jointly in the operation of the Pinconning Fraser Fire Department Authority. The funding formula requires that each municipality share the operational costs of the department. All the financial operations of the fire department are recorded in the Pinconning Fraser Fire Department Authority and separate financial information is available from the Authority. The City's portion contributed for the fiscal year was \$ 30,788.

CITY OF PINCONNING
Bay County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

C. BASIS OF PRESENTATION:

Government-Wide Statements

The Government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information on all of the activities of City. The effect of the interfund activity, within the Governmental and Business-type Activities columns, 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.

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

D. FUND FINANCIAL STATEMENTS:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for Governmental Funds and Proprietary Funds. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental Funds are those funds through which most governmental functions typically are financed. The measurement focus of Governmental Funds is on the sources, uses and balance of current financial resources. The City has presented the following Major Governmental Funds:

CITY OF PINCONNING
Bay County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

Major Governmental Funds

General Fund -

General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Major Street Fund -

Major Street Fund is a legally mandated fund to account for specific proceeds of revenue from the Michigan Department of Transportation and to account for the legally restricted expenditures of those funds related to the maintenance and construction of major roads within the City.

Local Street Fund -

Local Street Fund is a legally mandated fund to account for specific proceeds of revenue from the Michigan Department of Transportation and to account for the legally restricted expenditures of those funds related to the maintenance and construction of local roads within the City.

Propriety Funds

Proprietary Funds distinguish operating revenues and expenses from non-operating 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. Operating expenses for the Proprietary Funds include the cost of personal and contractual services, supplies, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following Major Proprietary Funds:

Water Fund -

Water Fund is used to account for the provisions of water to the residents of the City. Activities of the fund include administration, operation and maintenance of the water system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt. Costs are financed through charges to customers.

CITY OF PINCONNING
Bay County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

Sewer Fund -

Sewer Fund is used to account for sewage disposal for the residents of the City. Activities of the fund include administration, operation and maintenance of the sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt. Costs are financed through charges to customers.

Fiduciary Funds

Tax Collection Fund and City Restitution and Forfeiture Fund -

The Tax Collections Agency Fund accounts for assets held by the City in a trustee capacity. Tax Collections are custodial in nature and do not involve the measurement of results of operations. The City Restitution and Forfeiture Fund accounts for assets held by the City in a trustee capacity, which are custodial in nature and do not involve measurement of operating results.

E: MEASUREMENT FOCUS/BASIS OF ACCOUNTING:

Measurement focus refers to what is being measured. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The Government-Wide Statements and Fund Financial Statements for Proprietary Funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the Statement of Net Position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

F. FIXED ASSETS/DEPRECIATION:

Buildings, equipment, land improvements and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	40 - 50 years
Land improvements	15 - 20 years
Vehicles	5 - 10 years
Furniture and other equipment	3 - 10 years
Water and sewer transmission lines	40 years

CITY OF PINCONNING
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

G: 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 unrestricted fund balance represent tentative management plans that are subject to change.

H: PROPERTY TAXES:

Properties are assessed as of December 31; the related property taxes are billed on July 1 and become a lien on December 31 of the following year. These taxes are due without penalty during the period from July 1 through August 15 with a final collection date of February 29 before they are added to the county tax rolls.

The 2019 taxable valuation of City properties totaled \$ 23,321,516. The taxes levied and the resulting revenue by fund and component unit was as follows:

	<u>Millage Rate</u>		<u>Gross Levy/Revenue</u>		<u>DDA Capture</u>		<u>Net Taxes</u>
Operating millage-net of portion captured by DDA	14.6736	\$	339,696	\$	29,079	\$	310,617
Special Assessment-Refuse collection	N/A		76,028		N/A		76,028
Special Assessment-Ambulance	N/A		14,433		N/A		14,433
			<u>430,157</u>	\$	<u>29,079</u>	\$	<u>401,078</u>
Total Governmental Funds		\$		\$		\$	
Capture from other units					<u>22,309</u>		
Component Unit							
Downtown Development Authority	N/A			\$	<u>51,388</u>		

I. RESTRICTED CASH:

The City's 1996 series A & B and 2002 series water and sewer bonds require that the City maintain a bond reserve account. The 1996 series A & B bond reserve account is designated for bond principal and interest payments requires \$3,625 deposited into the account each quarter until there is accumulated a sum of \$145,000. The 2002 series bond reserve account is designated for bond principal and interest payments requires \$900 deposited into the account each quarter until there is accumulated a sum of \$36,000. Total funds in the 1996 series A & B and 2002 bond reserve accounts at June 30, 2019 are \$157,225 and \$36,006. These funds are restricted to be used for future debt payments. Additionally each bond requires a repair and replacement reserve account be established to fund future repairs. As noted in findings and responses the City has not fully funded the repair accounts. The combined required reserve is \$210,450 and the City has fund only \$19,758.

CITY OF PINCONNING

Bay County, Michigan

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

J. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES:

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

K. PENSIONS:

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the City to have its budget in place by April 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits entities to amend their budgets during the year. There were no significant amendments during the year.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETED FUNDS:

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not incur expenditures in excess of budgeted amounts.

CITY OF PINCONNING
Bay County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 3. LONG-TERM DEBT:

Long-term obligation activity can be summarized as follows:

BUSINESS - TYPE ACTIVITIES

	<u>Interest Rate</u>	<u>Principal Monthly Ranges</u>	<u>Beg. Balances</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
1996 Revenue Bond B	4.5	5,000- 155,500/yr	\$ 1,820,000	\$ 70,000	\$ 1,750,000	\$ 75,000
2002 Revenue Bond B	4.75	3,000- 50,000/yr	480,000	6,000	474,000	8,000
2002 Revenue Bond B	4.75	1,000- 3,000/yr	<u>30,000</u>	<u>1,000</u>	<u>29,000</u>	<u>1,000</u>
Total Business-type Activities			<u>\$ 2,330,000</u>	<u>\$ 77,000</u>	<u>\$ 2,253,000</u>	<u>\$ 84,000</u>

Annual debt service principal and interest requirements are summarized as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>
2020	\$ 84,000	106,412
2021	89,000	102,953
2022	91,000	99,173
2023	96,000	92,749
2024	101,000	88,516
2025-2029	608,000	369,283
2030-2034	785,000	220,965
2035-2039	310,000	63,841
2040-2041	89,000	5,012
Total	<u>\$ 2,253,000</u>	<u>1,148,904</u>

CITY OF PINCONNING
Bay County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 4. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
<i>Capital assets not being depreciated:</i>				
Land	\$ 25,000	\$ 0	\$ 0	\$ 25,000
<i>Capital assets being depreciated:</i>				
Building and improvements	955,204	0	0	955,204
Furniture and equipment	745,353	0	0	745,353
Infrastructure	637,853	0	0	637,853
Subtotal	2,338,410	0	0	2,338,410
<i>Less accumulated depreciation</i>	1,696,242	61,268		1,757,510
Net capital assets	\$ 667,168	\$ (61,268)	\$ 0	\$ 605,900
Business-type Activities				
<i>Capital assets not being depreciated:</i>				
Land	\$ 50,000	\$ 0	\$ 0	\$ 50,000
Construction in progress	662,065	466,258	0	1,128,323
<i>Capital assets being depreciated:</i>				
Building and improvements	3,452,334	0	0	3,452,334
Water and sewer distribution systems	2,897,948	0	0	2,897,948
Furniture and equipment	213,779	0	0	213,779
Subtotal	6,564,061	0	0	6,564,061
Less accumulated depreciation	3,325,804	135,434		3,461,238
Net capital assets	\$ 3,950,322	\$ 330,824	\$ 0	\$ 4,281,146
Component Units				
<i>Capital assets not being depreciated:</i>				
Land	\$ 5,000	\$ 0	\$ 0	\$ 5,000
<i>Capital assets being depreciated:</i>				
Building and improvements	143,116	0		143,116
Less accumulated depreciation	63,975	9,834	0	73,809
Net capital assets being depreciated	0	0	0	0
Net Capital Assets	\$ 84,141	\$ (9,834)	\$ 0	\$ 74,307

CITY OF PINCONNING
Bay County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

Depreciation expense was charged to programs of the primary government and component unit as follows:

Governmental Activities		
Legislative	\$	0
General government		7,991
Public safety		9,731
Streets		20,272
Public works		17,052
Recreation and culture		<u>6,222</u>
 Total Depreciation Expense - Governmental Activities	 \$	 <u><u>61,268</u></u>
 Business-type Activities		
Water		30,825
Sewer		<u>104,609</u>
Total Water and Sewer	\$	<u><u>135,434</u></u>
 Component Unit:		
DDA	\$	<u>9,834</u>

NOTE 5. INTERFUND BALANCES AND TRANSFERS:

The City had no interfund transfers. Receivables and payables are detailed below:

<u>FUND</u>	<u>PAYABLE</u>	<u>FUND</u>	<u>RECEIVABLE</u>	<u>Purpose</u>
DDA	\$ <u>7,579</u>	Fund	\$ <u>7,579</u>	Expenses paid by general fund for DDA
Total	<u>\$ 7,579</u>		<u>\$ 7,579</u>	

CITY OF PINCONNING

Bay County, Michigan

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 6. CUSTODIAL CREDIT RISK:

Michigan Compiled Laws, §129.91, authorizes local governmental units to deposit and invest in the accounts of federally insured banks, credit unions and savings and loan associations that have offices 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; repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated five financial agencies for the deposit of local unit funds. The investment policy adopted by the City in accordance with *Public Act 196 of 1997* has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The City's deposits and investment policy are in accordance with statutory authority. The following is total cash:

<u>Governmental Activities</u>	<u>Business Type</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
\$ 1,042,640	\$ 300,387	\$ 1,343,027	\$ 76,972

The breakdown between deposits and investments for the City is as follows:

Deposits	\$ 1,419,799
Investments	0
Petty Cash	200
Total	\$ <u>1,419,999</u>

Risk categories are classified in one of three categories of credit risk. These categories are:

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agency in the entity's name.
3. Uncollateralized - This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name. Bank deposits including certificates of deposit:

Category 1	1,106,174
Category 2	0
Category 3	313,825
Total	\$ <u>1,419,999</u>

CITY OF PINCONNING

Bay County, Michigan

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 7. DEFINED BENEFIT PENSION PLAN:

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member retirement board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided

Benefits provided include plans with multipliers of 1.50% to 2.25%. Vesting period is 10 years. Normal retirement age is 60 with early retirement at 55 with 15 years of service for unreduced benefits and early retirement at 50 with 25 years of service for reduced benefits. Final average compensation is calculated based on 5 years. Member contributions range from 5% to 7.50%.

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	15
Inactive employees entitled to but not yet receiving benefits	1
Active Employees	<u>5</u>
Total	<u><u>21</u></u>

CITY OF PINCONNING
Bay County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

Contributions

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

Employer contributions range from 1.46% to 39.06% based on annual payroll for open divisions.

Net Pension Liability

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

Actuarial Assumptions

The total pension liability in the December 31, 2018 annual actuarial valuation was determined using the following actuarial assumptions, applied to all period included in the measurement include: 1) Inflation 2.5%; 2) Salaries increases 3.75% in the long-term; 3) Investment rate of return 7.75%, net of investment expense, including inflation.

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

Mortality rates used were based on the 1994 Group Annuity Mortality Table of 50% male and 50% female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long -term Expected Real Rate of Return</u>
Global Equity	55.50%	3.41%
Global Fixed Income	18.50%	0.23%
Real Assets	13.50%	0.97%
Diversifying Strategies	12.50%	0.63%

CITY OF PINCONNING
Bay County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

Discount Rate

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

Changes in net pension liability during the measurement year were as follows:

		2019
Total Pension Liability		
Service cost	\$	16,596
Interest on the total pension liability		170,595
Difference in expected and actual experience		(5,822)
Changes in assumptions		0
Other changes		(1)
Benefits payments and refunds		(197,884)
 Net change in total pension liability		 (16,516)
Total pension liability - beginning		2,223,083
 Total pension liability - ending (a)	 \$	 2,206,567
 Plan Fiduciary Net Postion		
Employer contributions	\$	67,354
Employee contributions		9,124
Pension plan net investment income		(47,277)
Benefit payment and refunds		(197,884)
Pension plan administrative expense		(2,452)
 Net change in plan fiduciary net position		 (171,135)
 Plan fiduciary net position - beginning		 1,318,243
 Plan fiduciary net position - ending (b)		 1,147,108
 Net Pension liability (a-b)	 \$	 1,059,459

CITY OF PINCONNING
Bay County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the employer, calculated using the discount rate of 8.0%, as well as what the employer's net pension liability would be using a discount rate that is 1 percentage point lower (7.0%) or 1 percentage point higher (9.0%) than the current rate.

	1% Decrease 7.0%	Current Discount Rate 8.0 %	1% Increase 9.0%
Change in Net Pension Liability	\$ 193,785	0	\$ (168,101)
Calculated Net Pension Liability	\$ 1,253,244	\$ 1,059,459	\$ 891,358

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

For the year ended June 30, 2019, the employer recognized pension expense of \$116,626. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in Experience	0	0
Differences in Assumptions	0	0
Excess (Deficit) Investment Returns	88,663	0
Total to be smoothed over 5 yrs		
Contributions Subsequent to the Measurement Date*	34,927	0
Total	\$ 123,590	0

*The amount reports as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending 2019.

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

Year Ended	
2020	33,906
2021	8,452
2022	16,747
2023	29,556
2024	2
Total	88,663

CITY OF PINCONNING
Bay County, Michigan

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 8. RISK MANAGEMENT:

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages its liability and property risk by participating in Michigan Township Participant Plan, a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to Michigan Municipal Risk Management Authority for its insurance coverage.

NOTE 9. MANAGEMENT REVIEW:

Management has evaluated subsequent events and transactions for potential recognition and disclosure through December 23, 2019, the date the financial statement were available to be issued. No such significant events or transactions were identified.

NOTE 10. FUND BALANCE CLASSIFICATIONS:

Beginning with the year ended June 30, 2011, the City implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". The Statement provided more clearly defined fund balance categories to make the nature and extent of the constraints placed upon a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which the resources can be used:

Non-spendable – The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form, such as inventories, or are legally or contractually required to be maintained intact.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, or laws or regulations of other governments or is imposed through constitutional provisions or enabling legislation.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purpose imposed by formal City Council resolutions.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed.

CITY OF PINCONNING

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from the overspending for specific purposes for which amounts have been restricted, committed or assigned.

Net Position Flow Assumption – Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumption – Sometime a government will fund outlays for a particular purpose from both restricted and unrestricted resources (including committed and assigned). In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unapplied fund balance is applied last.

The City uses the Industrial Facilities Tax exemption (PA 198 of 1974) to enter into agreements with local businesses to construct new industrial facilities or rehabilitate historical facilities. Under the program, the City grants reductions of 50% of the property tax bill for the new property (or it can freeze taxable values of the year previous to the rehabilitation for rehabilitation properties) for up to 12 years.

As of June 30, 2019 The City's property tax revenue was reduced by \$2,149 under these programs.

Required Supplementary Information

CITY OF PINCONNING
Bay County, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended June 30, 2019

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Taxes	\$ 280,000.00	\$ 280,000.00	\$ 318,872.80	\$ 38,872.80
Special assessment solid waste	76,000.00	76,000.00	76,028.00	28.00
Special assessment ambulance	14,000.00	14,000.00	14,433.30	433.30
State revenue sharing	130,000.00	130,000.00	141,761.00	11,761.00
Intergovernmental other	0.00	0.00	227,466.44	227,466.44
Charges for services	67,200.00	67,200.00	21,522.73	(45,677.27)
License and permits	0.00	0.00	0.00	0.00
Interest and fines	1,500.00	1,500.00	9,208.04	7,708.04
Other revenue	16,000.00	16,000.00	0.00	(16,000.00)
	584,700.00	584,700.00	809,292.31	224,592.31
Total Revenues				
EXPENDITURES:				
Legislative	12,668.00	12,668.00	12,018.31	649.69
General Government -				
City Manager	41,960.00	41,960.00	41,564.43	395.57
Elections	2,360.00	3,200.00	3,111.99	88.01
Assessor	18,000.00	15,525.00	15,014.04	510.96
Accounting	0.00	0.00	0.00	0.00
Board of Review	1,700.00	1,150.00	753.37	396.63
Treasurer	17,715.00	25,900.00	25,830.08	69.92
Clerk	36,700.00	36,700.00	36,261.97	438.03
City Hall	76,000.00	74,000.00	73,877.81	122.19
Public Safety -				
Fire	34,000.00	31,000.00	30,787.88	212.12
Police	119,350.00	102,350.00	101,604.16	745.84
Health and Welfare-				
Ambulance	15,000.00	73,000.00	72,260.53	739.47
Public Works -				
Sanitation	76,000.00	79,103.00	79,102.77	0.23
Street lighting	20,000.00	25,400.00	25,315.56	84.44
Planning	0.00	0.00	0.00	0.00
Department of public works	88,100.00	160,100.00	159,436.78	663.22
Cultural and Recreation -				
Parks	13,200.00	32,000.00	31,979.97	20.03
Unallocated	119,010.00	85,000.00	83,739.43	1,260.57
	691,763.00	799,056.00	792,659.08	6,396.92
Total Expenditures				
OTHER FINANCING SOURCES (USES):				
Transfer from other funds	0.00	0.00	0.00	0.00
Transfer to other funds	0.00	0.00	0.00	0.00
Net Other Financing Sources (Uses)	0.00	0.00	0.00	0.00
NET CHANGE IN FUND BALANCE				
	(107,063.00)	(214,356.00)	16,633.23	230,989.23
FUND BALANCE - Beginning of Year				
	777,566.78	640,400.46	640,400.46	
FUND BALANCE - End of Year				
	\$ 670,503.78	\$ 426,044.46	\$ 657,033.69	

CITY OF PINCONNING
Bay County, Michigan

MAJOR STREET FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended June 30, 2019

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
REVENUES:				
Taxes	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
State grants	80,000.00	80,000.00	120,468.83	40,468.83
Local contribution	0.00	0.00	0.00	0.00
Interest and rentals	0.00	0.00	0.00	0.00
Total Revenues	80,000.00	80,000.00	120,468.83	40,468.83
EXPENDITURES:				
Public Works-				
Routine maintenance	20,000.00	20,000.00	18,410.35	1,589.65
Signals and signs	1,800.00	1,800.00	1,428.83	371.17
Equipment rental	12,900.00	12,900.00	0.00	12,900.00
Snow removal	30,000.00	30,000.00	3,320.52	26,679.48
Non-Motorized	3,000.00	3,000.00	5,132.00	(2,132.00)
Administration	3,000.00	3,000.00	2,256.00	744.00
Total Expenditures	70,700.00	70,700.00	30,547.70	40,152.30
EXCESS REVENUES OVER EXPENDITURE	9,300.00	9,300.00	89,921.13	80,621.13
OTHER FINANCING SOURCES (USES):				
Transfer in Local Street Fund	0.00	0.00	0.00	0.00
Transfer out Local Street Fund	(20,000.00)	(20,000.00)	0.00	20,000.00
Total Other Sources (Uses)	(20,000.00)	(20,000.00)	0.00	20,000.00
Excess (deficiency) of revenues over expenditures and other uses	(10,700.00)	(10,700.00)	89,921.13	100,621.13
FUND BALANCE - Beginning of Year	309,729.00	256,155.97	256,155.97	
FUND BALANCE - End of Year	\$ <u>299,029.00</u>	\$ <u>245,455.97</u>	\$ <u>346,077.10</u>	

CITY OF PINCONNING
Bay County, Michigan

LOCAL STREET FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended June 30, 2019

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
REVENUES:				
Taxes	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
State grants	41,000.00	41,000.00	59,738.04	18,738.04
Interest and rentals	0.00	0.00	0.00	0.00
Total Revenues	41,000.00	41,000.00	59,738.04	18,738.04
EXPENDITURES:				
Public Works-				
Routine maintenance	11,800.00	11,800.00	16,309.66	(4,509.66)
Signals and signs	200.00	200.00	404.00	(204.00)
Snow removal	36,000.00	36,000.00	3,320.52	32,679.48
Administration	3,000.00	3,000.00	2,256.00	744.00
Equipment rental	10,000.00	10,000.00	0.00	10,000.00
Nonmotorized	1,000.00	1,000.00	383.00	617.00
Total Expenditures	62,000.00	62,000.00	22,673.18	39,326.82
EXCESS REVENUES OVER EXPENDITURE	(21,000.00)	(21,000.00)	37,064.86	58,064.86
OTHER FINANCING SOURCES (USES):				
Transfer to Major Street	0.00	0.00	0.00	0.00
Transfer from General	0.00	0.00	0.00	0.00
Transfer from Major Street	20,000.00	20,000.00	0.00	(20,000.00)
Total Other Sources (Uses)	20,000.00	20,000.00	0.00	(20,000.00)
Excess (deficiency) of revenues over expenditures and other uses	(1,000.00)	(1,000.00)	37,064.86	38,064.86
FUND BALANCE - Beginning of Year	41,072.39	68,919.17	68,919.17	
FUND BALANCE - End of Year	\$ 40,072.39	\$ 67,919.17	\$ 105,984.03	

CITY OF PINCONNING
Bay County, Michigan

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPAL EMPLOYEES RETIREMENT SYSTEM OF MICHIGAN
SCHEDULE OF CHANGES IN NET POSITION LIABILITY AND RELATED RATIOS
June 30, 2019

	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	\$ 16,596	\$ 16,734	\$ 20,955	\$ 31,092	\$ 28,324
Interest on the total pension liability	170,595	178,759	172,687	167,686	165,520
Difference between expected and actual experience	(5,822)	(104,887)	64,516	13,798	0
Changes in assumptions	0	0	0	95,300	0
Other changes	(1)	(1)	0	(230)	(1)
Benefits payments and refunds	(197,884)	(187,290)	(172,994)	(180,111)	(157,826)
Net change in total pension liability	(16,516)	(96,685)	85,164	127,535	36,017
Total pension liability - beginning	2,223,083	2,319,768	2,234,604	2,107,069	2,071,052
Total pension liability - ending (a)	<u>\$ 2,206,567</u>	<u>\$ 2,223,083</u>	<u>\$ 2,319,768</u>	<u>\$ 2,234,604</u>	<u>\$ 2,107,069</u>
Plan Fiduciary Net Position					
Employer contributions	\$ 67,354	\$ 51,543	\$ 68,101	\$ 52,445	\$ 39,475
Employee contributions	9,124	10,599	18,539	16,444	15,121
Pension plan net investment income	(47,277)	161,671	136,855	(18,997)	85,917
Benefit payment and refunds	(197,884)	(187,290)	(172,994)	(180,111)	(157,826)
Pension plan administrative expense	(2,452)	(2,574)	(2,707)	(2,897)	(3,133)
Net change in plan fiduciary net position	(171,135)	33,949	47,794	(133,116)	(20,446)
Plan fiduciary net position - beginning	1,318,243	1,284,294	1,236,500	1,369,616	1,390,062
Plan fiduciary net position - ending (b)	1,147,108	1,318,243	1,284,294	1,236,500	1,369,616
Net pension liability (a-b)	<u>\$ 1,059,459</u>	<u>\$ 904,840</u>	<u>\$ 1,035,474</u>	<u>\$ 998,104</u>	<u>\$ 737,453</u>
Plan fiduciary net position as a percentage of total pension liability	51.99%	59.30%	55.36%	55.33%	65.00%
Covered employee payroll	\$ 167,034	\$ 218,444	\$ 231,284	\$ 273,808	\$ 260,761
Net pension liability as a percentage of covered employee payroll	634.28%	414.22%	447.71%	364.53%	282.81%

This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF PINCONNING
Bay County, Michigan

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPAL EMPLOYEES RETIREMENT SYSTEM OF MICHIGAN
SCHEDULE OF EMPLOYER'S CONTRIBUTIONS
June 30, 2019

MERS Plan Year End December 31	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarial Determined Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 67,354	\$ 51,543	\$ 68,101	\$ 52,445	\$ 39,476
Determined contribution						67,354	51,543	68,101	52,445	39,476
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Employee Payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 167,034	\$ 218,444	\$ 231,284	\$ 273,808	\$ 260,761
Contributions as a percentage of covered employee payroll						40%	24%	29%	19%	15%

Notes to Schedule

This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Actuarially determined contribution rates are calculated as of December 31, each year, which is 6 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	24 years
Asset valuation method	10 year smoothed
Inflation	3.5%
Salary Increases	4.5%
Investment rate of return	8.0%
Retirement age	60
Mortality	50% Female/50% Male 1994 Group Annuity Mortality Table

Other Supplementary Information

CITY OF PINCONNING
Bay County, Michigan

DOWNTOWN DEVELOPMENT AUTHORITY FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended June 30, 2019

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Taxes	\$ 50,000.00	\$ 50,000.00	\$ 51,388.29	\$ 1,388.29
Sale of assets	0.00	0.00	0.00	0.00
Other income	0.00	0.00	680.00	680.00
Interest	<u>75.00</u>	<u>75.00</u>	<u>212.94</u>	<u>137.94</u>
Total Revenues	50,075.00	50,075.00	52,281.23	2,206.23
EXPENDITURES:				
Economic Development:				
Building maintenance	14,400.00	7,400.00	7,825.97	(425.97)
Administrative fees	1,500.00	1,500.00	0.00	1,500.00
Project activities	150,775.00	138,775.00	100,425.16	38,349.84
Debt - principal	0.00	0.00	0.00	0.00
Debt- interest	0.00	0.00	0.00	0.00
Capital outlay	0.00	0.00	0.00	0.00
Other	<u>0.00</u>	<u>7,400.00</u>	<u>0.00</u>	<u>7,400.00</u>
Total Expenditures	166,675.00	155,075.00	108,251.13	45,749.84
EXCESS REVENUES OVER EXPENDITURE	(116,600.00)	(105,000.00)	(55,969.90)	49,030.10
OTHER FINANCING SOURCES (USES):				
Transfer in	<u>105,000.00</u>	<u>105,000.00</u>	<u>0.00</u>	<u>(105,000.00)</u>
Excess (deficiency) of revenues over expenditures and other uses	(11,600.00)	0.00	(55,969.90)	<u>(55,969.90)</u>
FUND BALANCE - Beginning of Year	<u>108,987.20</u>	<u>125,362.84</u>	<u>125,362.84</u>	
FUND BALANCE - End of Year	\$ <u><u>97,387.20</u></u>	\$ <u><u>125,362.84</u></u>	\$ <u><u>69,392.94</u></u>	

CITY OF PINCONNING
Bay County, Michigan

COMPONENT UNIT - DDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

NET CHANGE IN FUND BALANCE \$ (55,969.90)

Amounts reported for Governmental Activities in the Statement
of Activities are different because -

Governmental Funds report capital outlays as expenditures
while in the Statement of Activities, these costs are allocated
over their estimated lives as depreciation expense.

Depreciation expense (9,833.85)
Capital asset purchases capitalized 0.00

Repayment of debt principal is an expenditure in the Governmental
Funds, the repayment does not have an effect in the Statement
of Activities but does reduce the debt balance in the Statement
of Net Position.

Principal payments on long-term debt 0.00

CHANGE IN NET POSITION - COMPONENT UNIT ACTIVITIES \$ (65,803.75)

CITY OF PINCONNING
Bay County, Michigan

COMPONENT UNIT
DOWNTOWN DEVELOPMENT AUTHORITY
BALANCE SHEET
June 30, 2019

ASSETS:

Current Assets:

Cash	\$	76,971.56
Due from other funds		0.00
Taxes receivable		<u>0.00</u>

Total Current Assets \$ 76,971.56

LIABILITIES:

Current Liabilities:

Accounts payable	\$	0.00
Due to General Fund		<u>7,578.62</u>

Total Current Liabilities 7,578.62

Fund Balance

Unrestricted		<u>69,392.94</u>
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Total Liabilities and Fund Balance \$ 76,971.56

CITY OF PINCONNING
Bay County, Michigan

COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY
RECONCILIATION OF BALANCE SHEET TO STATEMENT OF NET POSITION
June 30, 2019

FUND BALANCES ON BALANCE SHEET	\$	69,392.94
Amounts reported for Governmental Activities in the Statement of Net Position are different because -		
Capital assets used in Governmental Activities are not financial resources and therefore are not reported in the Governmental Funds Balance Sheet:		
Capital assets at cost		148,115.91
Accumulated depreciation		(73,808.59)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds		0.00
TOTAL NET POSITION - COMPONENT UNIT	\$	<u>143,700.26</u>

CITY OF PINCONNING
Bay County, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended June 30, 2019

REVENUES:	
Taxes -	
Current tax levy	\$ 310,360.32
Special assessment solid waste	76,028.00
Ambulance	14,433.30
Penalties and interest	657.98
Collection fee	<u>7,114.00</u>
Total taxes	408,593.60
State and Local Grants -	
State revenue sharing	141,761.00
Liquor license fees	1,661.55
Local grants	167,992.34
Stabilization	<u>57,812.55</u>
	369,227.44
Licenses and permits -	
Mobile home park	<u>740.50</u>
Total licenses and permits	740.50
Charges for Services -	
Police services	<u>21,522.73</u>
Total charges for services	21,522.73
Interest and Fines -	
Fines	3,438.25
Interest	<u>5,769.79</u>
Total interest and fines	<u>9,208.04</u>
Total Revenues	809,292.31
EXPENDITURES	792,659.08
OTHER FINANCING SOURCES (USES)	
Transfer to Sewer	0.00
Total other uses	<u>0.00</u>
NET CHANGE IN FUND BALANCE	16,633.23
FUND BALANCE - July 1, 2018	<u>640,400.46</u>
FUND BALANCE - June 30, 2019	<u>\$ 657,033.69</u>

CITY OF PINCONNING
Bay County, Michigan

GENERAL FUND
DETAIL OF EXPENDITURES
Year Ended June 30, 2019

EXPENDITURES:

LEGISLATIVE:

Mayor and City Council -

Salaries	\$	9,860.00
Fringes and taxes		754.31
Membership dues		1,274.00
Audit		0.00
Supplies and other		<u>130.00</u>

Total Legislative 12,018.31

GENERAL GOVERNMENT:

City Manager -

Wages		37,670.47
Fringes and taxes		3,393.96
Telephone		0.00
Mileage and other		<u>500.00</u>

Total Manager 41,564.43

Elections -

Wages		2,314.40
Supplies		75.77
Printing and publication		<u>721.82</u>

Total Elections 3,111.99

Assessor -

Contracted service		11,440.00
County tax roll service		2,224.19
Supplies and other costs		<u>1,349.85</u>

Total Assessor 15,014.04

Board of Review -

Fees		418.83
Other costs		<u>334.54</u>

Total Board of Review 753.37

CITY OF PINCONNING
Bay County, Michigan

GENERAL FUND
DETAIL OF EXPENDITURES (Continued)
Year Ended June 30, 2019

EXPENDITURES (CONT.):

GENERAL GOVERNMENT (CONT.):

Treasurer -	
Salaries	\$ 24,347.95
Fringes and taxes	1,432.13
Mileage	50.00
Meetings	0.00
Supplies and other	0.00
Total Treasurer	25,830.08
Clerk -	
Salaries	33,169.96
Fringes and taxes	2,899.95
Mileage	72.06
Meetings	120.00
Supplies and other	0.00
Total Clerk	36,261.97
City Hall and Grounds -	
Other	1,798.59
Custodial	2,400.00
Supplies	1,707.25
Office	611.60
Legal	2,782.98
Insurance	14,113.21
Utilities	9,653.97
Misc	33,363.53
Telephone	3,795.12
Repairs and maint	3,651.56
Total City Hall	73,877.81
Total General Government	196,413.69
PUBLIC SAFETY:	
Fire Department -	
Contracted fire protection	30,787.88
Hydrant rental	0.00
Capital outlay	0.00
Total Fire Department	30,787.88

CITY OF PINCONNING
Bay County, Michigan

GENERAL FUND
DETAIL OF EXPENDITURES (Continued)
Year Ended June 30, 2019

EXPENDITURES (CONT.):
PUBLIC SAFETY (CONT.)

Police -	
Salaries	\$ 77,859.43
Fringes and taxes	12,599.87
Office	30.23
Gas and oil	2,510.15
Legal	0.00
Supplies	173.04
Uniforms	1,792.20
Contracted services	444.03
Telephone	1,648.96
Training	2,070.68
Insurance	0.00
Capital outlay	0.00
Vehicle maintenance	1,914.65
Other costs	<u>560.92</u>
Total Police	<u>101,604.16</u>
Total Public Safety	132,392.04

HEALTH AND WELFARE

Ambulance -	
Grant	53,782.06
Contracted service	<u>18,478.47</u>
	72,260.53

PUBLIC WORKS:

Sanitation -	
Refuse contract	79,102.77
Street Lighting	25,315.56

Department of Public Works -

Salaries	56,104.73
Fringes and taxes	4,336.40
Supplies	7,217.20
Uniforms	2,478.56
Gas and oil	8,186.05
Telephone	724.58
Insurance	11,369.21
Utilities	5,276.11
Maintenance and repairs	17,517.82
Capital outlay	<u>46,226.12</u>

Total DPW 159,436.78

Planning and Zoning - 0.00

Total Public Works 263,855.11

CITY OF PINCONNING
Bay County, Michigan

GENERAL FUND
DETAIL OF EXPENDITURES (Continued)
Year Ended June 30, 2019

RECREATION AND CULTURAL:

Parks and Recreation -

Utilities	\$ 2,712.50
Repairs and maintenance	18,439.62
Insurance	6,661.25
Supplies and other	4,166.60
Capital outlay	<u>0.00</u>

Total Recreation and Cultural 31,979.97

UNALLOCATED

Health insurance and other fringes	29,245.17
Retirement	<u>54,494.26</u>
Total Unallocated	<u>83,739.43</u>

Total Expenditures \$ 792,659.08

CITY OF PINCONNING
Bay County, Michigan

2002 WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BOND SERIES A
SCHEDULE OF INDEBTEDNESS
June 30, 2019

TYPE OF ISSUE: Revenue Bond
PURPOSE OF ISSUE: Water and Sewage System Improvements
INTEREST RATE: 4.75%
TOTAL AUTHORIZED ISSUE: 544,000

<u>Date</u>	<u>June 1</u>		<u>December 1</u>		<u>Total</u>
	<u>Interest</u>	<u>Principal</u>	<u>Interest Only</u>		
2019	\$ -	\$ -	\$ 11,257	\$ 11,257	
2020	11,257	8,000	11,067		30,324
2021	11,067	8,000	10,877		29,944
2022	10,877	10,000	10,640		31,517
2023	10,640	10,000	10,402		31,042
2024	10,402	10,000	10,165		30,567
2025	10,165	15,000	9,809		34,974
2026	9,809	15,000	9,453		34,262
2027	9,453	15,000	9,096		33,549
2028	9,096	15,000	8,740		32,836
2029	8,740	18,000	8,313		35,053
2030	8,313	20,000	7,838		36,151
2031	7,838	20,000	7,363		35,201
2032	7,363	20,000	6,888		34,251
2033	6,888	20,000	6,413		33,301
2034	6,413	20,000	5,938		32,351
2035	5,938	20,000	5,463		31,401
2036	5,463	40,000	4,513		49,976
2037	4,513	40,000	3,563		48,076
2038	3,563	50,000	2,375		55,938
2039	2,375	50,000	1,188		53,563
2040	1,188	50,000	0		51,188
	\$ <u>161,361</u>	\$ <u>474,000</u>	\$ <u>161,361</u>	\$ <u>796,722</u>	

CITY OF PINCONNING
Bay County, Michigan

2002 WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BOND SERIES B
SCHEDULE OF INDEBTEDNESS
June 30, 2019

TYPE OF ISSUE: REVENUE BOND
PURPOSE OF ISSUE: WATER AND SEWAGE SYSTEM IMPROVEMENTS
INTEREST RATE: 4.75%
ORIGINAL ISSUE: 47,000

Date	June 1		December 1		Total
	Principal	Interest	Interest Only		
2019	\$ -	\$ -	\$ 689	\$ 689	
2020	1,000	689	665		2,354
2021	1,000	665	641		2,306
2022	1,000	641	617		2,258
2023	1,000	617	594		2,211
2024	1,000	594	570		2,164
2025	1,000	570	546		2,116
2026	1,000	546	523		2,069
2027	1,000	523	499		2,022
2028	1,000	499	475		1,974
2029	1,000	475	451		1,926
2030	1,000	451	428		1,879
2031	1,000	428	404		1,832
2032	1,000	404	380		1,784
2033	1,000	380	356		1,736
2034	2,000	356	309		2,665
2035	2,000	309	261		2,570
2036	2,000	261	214		2,475
2037	2,000	214	166		2,380
2038	2,000	166	119		2,285
2039	2,000	119	71		2,190
2040	3,000	71	0		3,071
	\$ <u>29,000</u>	\$ <u>8,978</u>	\$ <u>8,978</u>	\$ <u>46,956</u>	

CITY OF PINCONNING
Bay County, Michigan

1996 WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS - SERIES A
WATER AND SEWER FUND
SCHEDULE OF INDEBTEDNESS
June 30, 2019

TYPE OF ISSUE: Revenue Bonds
PURPOSE OF ISSUE: Water Supply System and Sewage Disposal
INTEREST RATE: 4.5%
ORIGINAL ISSUE: 2,511,000

<u>Date</u>	<u>June 1</u>		<u>December 1</u>		<u>Totals</u>
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>		
2019	\$ -	\$ -	\$ 39,375	\$	39,375
2020	39,375	75,000	37,687		152,062
2021	37,687	80,000	35,888		153,575
2022	35,887	80,000	34,087		149,974
2023	34,088	85,000	32,175		151,263
2024	32,175	90,000	30,150		152,325
2025	30,150	95,000	28,013		153,163
2026	28,013	100,000	25,762		153,775
2027	25,762	105,000	23,400		154,162
2028	23,400	110,000	20,925		154,325
2029	20,925	115,000	18,338		154,263
2030	18,338	120,000	15,637		153,975
2031	15,637	125,000	12,825		153,462
2032	12,825	135,000	9,788		157,613
2033	9,788	135,000	6,750		151,538
2034	6,750	145,000	3,487		155,237
2035	3,487	155,000	0		158,487
	<u>\$ 374,287</u>	<u>\$ 1,750,000</u>	<u>\$ 374,287</u>	<u>\$</u>	<u>2,498,574</u>

CITY OF PINCONNING
Bay County, Michigan

SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2019

Non-Compliance

FINDING 2019-001: Noncompliance with USDA Reserve Requirements

- Condition:** As detailed in Note 1 Section I - restricted cash of the financial statements, the City is required to make annual deposits into separately maintained bank accounts as required as a condition of the Sewage Disposal Bond agreement and the Water Supply System Bond agreement.
- Criteria:** The City did not make the required deposit into the reserve and repair accounts as of June 30, 2019. However, in meeting with Rural Development officials the City will continue to fund the reserves.
- Cause:** Due to other fiscal year end closing activities and other responsibilities there was an oversight in not making the required June 30 transfer of funds into the appropriate reserve and repair accounts.
- Effect:** Noncompliance with provisions of the loan agreement with U.S. Department of Agriculture Rural Development could cause loans to be in default.
- Recommendation:** City should establish a checklist of compliance items to be monitored on a periodic basis.
- City's Response:** The City has budgeted additional funds to properly fund the required reserve accounts and should have the required reserve in compliance by next year end.

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SCHEDULE OF FINDINGS AND RESPONSES
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Material Weaknesses

FINDING 2019-002- Material Audit Adjustments (repeat)

- Condition:** Material audit adjustments were necessary to adjust cash, accounts receivable, capital assets, accounts payable, current and long-term debt, tax revenues, local contributions and transfers in and out to appropriate balances at year end.
- Criteria:** Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).
- Cause:** The City incurred turnover of all staff during the year causing many transactions and processes to go unrecorded. Corrections to various accounts were not completed until after year end and upon auditor discovery.
- Effect:** Without identification by independent, external auditors, and subsequent adjustment, the financial statements of the City would be materially misstated.
- Recommendation:** We recommend that management record all accounting transactions as they occur for completeness and evaluate all accounting entries to be made into the general ledger for appropriateness as well as accuracy. Reconciling bank statements and posting all transactions accurately, as well as analyzing each journal entry, specifically, for compliance with GAAP and for recording accuracy, would help to alleviate these issues.
- City's Response:** The City believes many accounting issues are related to change in personel and understaffing in the accounting department and new and additional staff should resolve this issue.

CITY OF PINCONNING
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SCHEDULE OF FINDINGS AND RESPONSES
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Material Weaknesses

FINDING 2019-003- Bank Reconciliations (repeat)

- Condition:** Bank reconciliations were not performed timely and balances did not accurately reflect the balance noted in the general ledger. As a result, a significant amount of transactions related to ACH receipts and payments, as well as grant monies were unrecorded.
- Criteria:** Management is responsible for maintaining accountings records and appropriate support, such as bank reconciliations. Each reconciliation should be performed, timely (within six weeks of month end) and the balance should be reconciled to the general ledger.
- Cause:** The City incurred turnover of all staff during the year causing many transactions and processes to go unrecorded. Reconciliations were not done timely and, in some cases, no reconciliations were done, further, resulting balances were not being compared to the general ledger for accuracy and bank statements were not regularly reviewed for completeness in recording.
- Effect:** The City could be misstating its cash balance or have misappropriated cash that is not discovered through traditional risk prevention techniques such as bank reconciliations. Without auditor identification, the financial statements would have been materially misstated.
- Recommendation:** All bank accounts should be reconciled monthly, without exception. We recommend that management strengthen internal controls by directly supervising the bank reconciliation process and checking for details and accuracy in the reconciliation. Further, the reconciled balances should be checked back to the general ledger to ensure balancing accuracy.

CITY OF PINCONNING
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SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2019

City's Response: The City believes many accounting issues are related to change in personell and understaffing in the accounting department and new and additional staff should resolve this issue.

Significant Deficiencies

FINDING 2019-004: Financial Statement Preparation (repeat)

Condition: As in 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 the financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements 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.

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the government'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).

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

CITY OF PINCONNING
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SCHEDULE OF FINDINGS AND RESPONSES
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- Effect:** As a result of this condition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP, instead relying in part, on external auditors for assistance with this task.
- Recommendation:** The City's decision to rely, in part, on its auditors, for the preparation of external financial statements is allowable provided the City accepts responsibility for the financial statements and that it is disclosed as part of the report. Therefore, no specific corrective action is required at this time.
- City's Response:** Council will continue to monitor the financial statements and rely on the auditor for preparation.

Significant Deficiencies

FINDING 2019-005: Segregation of Duties (repeat)

- Condition:** During the course of our audit, we noted several instances where multiple key financial duties were being performed by the same individual and the mitigating controls in place were not sufficient to ensure effective internal controls. Specifically, we found that the following incompatible functions are being performed by the same individual:
1. The individual who prepares the bank reconciliations also handles cash receipts and disbursements.
 2. The individual who initiates transfers between bank accounts also prepares the bank reconciliations.
 3. The individual who has access to the unused check stock also has access to the general ledger.

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- Criteria:** Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the City's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.
- Cause:** The condition is a result of the City's limited financial resources, the turnover and the small size of its accounting staff.
- Effect:** As a result of this condition, the City is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely basis.
- Recommendation:** While there are no easy solutions to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management or the Council as possible.
- City's Response:** The City plans to hire additional staff to separate some duties.