

CITY OF LUNA PIER
Monroe County, Michigan

ANNUAL FINANCIAL REPORT

June 30, 2019

CITY OF LUNA PIER

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June 30, 2019

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COOLEY HEHL SABO & CALKINS

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

Honorable Mayor and
Members of City Council
City of Luna Pier
Luna Pier, Michigan 48157

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United State 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 to error.

Auditor's 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. 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 reasonable basis for our opinions.

Honorable Mayor and Members of City Council
City of Luna Pier

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, each major fund, and the aggregate remaining fund information of the City of Luna Pier, Monroe County, 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, budgetary comparison information, and pension and OPEB schedules on pages 3 through 10, 52 through 61, and 62 through 64, respectfully, 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 the 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 Luna Pier, Monroe County, Michigan's basic financial statements. The individual fund financial statements are presented for purposes of additional analysis and is not a required part of the financial statements.

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

Cowley Hehl Sabo & Calkins

December 11, 2019

CITY OF LUNA PIER

Management's Discussion and Analysis Year Ended June 30, 2019

This section of the City of Luna Pier's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2019. Please read it in conjunction with the City's financial statements, which immediately follow this section. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all of the City's revenues and expenditures by program for the General Fund, the Special Revenue Funds, and the Proprietary Fund.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Luna Pier financially as a whole. The ***Government-Wide Financial Statements***, which include the Statement of Net Position and the Statement of Activities, provide information about the activities of the City as a whole and presents both a short-term and a long-term view of those finances. The ***Fund Financial Statements*** provide the next level of detail. For governmental activities, these statements explain how services were financed in the short-term as well as what remains for future spending. The ***Fund Financial Statements*** report the City's operations in more detail than the ***Government-Wide Financial Statements*** by providing information about the City's most significant funds - the General Fund, the Major Street Fund, the Local Street Fund, the Police Millage Fund, the Garbage and Rubbish Collection Fund, the Downtown Development Authority Fund, the Community Development Fund, the Flood Control Facilities Fund, the Fire Millage Fund, and the Waste Water Treatment Plant Fund. The remaining statement, the Statement of Fiduciary Net Position, presents financial information about activities for which the City acts solely as an agent for the benefit of the public. The following summary illustrates how the various parts of this annual report are arranged:

*Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)*

Basic Financial Statements

Government-Wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

Budgetary Information for Major Funds

Required Pension Schedules

Required OPEB Schedule

(Required Supplemental Information)

Other Supplemental Information

CITY OF LUNA PIER

Management's Discussion and Analysis Year Ended June 30, 2019

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities (pages 11-13), which appear first in the City's financial statements, report information on the City as a whole and its activities. These statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses, regardless of when cash is received or paid.

These two statements report the City's net position and changes in net position. The change in net position provides the reader a tool to assist in determining whether the City's financial health is improving or deteriorating. The relationship between revenues and expenses indicates the City's operating results. However, the City's goal is to provide services to our residents, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the services provided and the safety of the public to assess the overall health of the City.

The Statement of Net Position and Statement of Activities report the governmental and business-type activities for the City, which encompass all of the City's services, including general government services, public safety, public works, community and economic development, recreation and culture, and waste water services. Property taxes, federal and state grants, charges for services, and rentals finance most of these activities.

Fund Financial Statements

The City's Fund Financial Statements (pages 14-19) provide detailed information about the most significant or "major" funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes other funds to control and manage money for particular purposes or to show that it is properly using revenues. The City's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as described below:

Governmental funds - Many of the City's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the City and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation format in the financial section on pages 16 and 19.

Proprietary fund - A proprietary fund is used to account for business-type activities of the City which consists of the Waste Water Treatment Plant Fund. This fund accounts for services provided by the City where the City charges customers for the services it provides. This fund uses accrual accounting; the same method used by private sector business.

Fiduciary fund - An agency fund is used to account for assets held by the City as an agent for the collection and disbursement of property taxes.

CITY OF LUNA PIER

*Management's Discussion and Analysis
Year Ended June 30, 2019*

Financial Highlights

The following are some of the financial highlights for the 2018-19 fiscal year:

- ❖ A USDA loan was awarded for Waste Water Treatment Plant upgrades
- ❖ Brett Ansel was hired as the part-time police chief
- ❖ The City sponsored the Luna Pier Freedom Festival
- ❖ 6th year for the Veteran's Day parade
- ❖ Purchased 2 police vehicles
- ❖ Purchased a new phone system
- ❖ New lights were installed on the pier
- ❖ Participated in a Water Safety Program with jet skis

CITY OF LUNA PIER

*Management's Discussion and Analysis
Year Ended June 30, 2019*

Government–Wide Financial Analysis

Recall that the Statement of Net Position provides the perspective of the City as a whole. The City has a bi-annual audit, so the tables do not provide comparative information. Table 1 provides a summary of the City's net position as of June 30, 2019:

Table 1:

Statement of Net Position

| | Governmental Activities | Business-Type Activities | Total |
|--------------------------------------|----------------------------|-----------------------------|--------------------|
| | 2019 | 2019 | 2019 |
| Current and other assets | \$1,791,041 | \$262,781 | \$2,053,822 |
| Capital assets, net | 2,208,840 | 4,592,896 | 6,801,736 |
| Total Assets | 3,999,881 | 4,855,677 | 8,855,558 |
| Deferred outflows related to pension | 155,266 | 103,511 | 258,777 |
| Current and other liabilities | 146,702 | 53,432 | 200,134 |
| Long-term liabilities | 3,088,933 | 3,988,193 | 7,077,126 |
| Total Liabilities | 3,235,635 | 4,041,625 | 7,277,260 |
| Net Position | | | |
| Net investment in capital assets | 1,462,892 | 1,821,896 | 3,284,788 |
| Restricted for highways and streets | 283,502 | 0 | 283,502 |
| Restricted for rubbish collection | 7,556 | 0 | 7,556 |
| Restricted for flood control | 198,703 | 0 | 198,703 |
| Restricted for fire protection | 133 | 0 | 133 |
| Restricted for police protection | 12,485 | 0 | 12,485 |
| Unrestricted | (1,045,759) | (904,333) | (1,950,092) |
| Total Net Position | \$919,512 | \$917,563 | \$1,837,075 |

As depicted in Table 1, the City's net position was \$1.8 million at June 30, 2019. Of this amount, the unrestricted net position was a deficit of \$1,950,092. The unrestricted net position balance is used for working capital and cash flow needs as well as to provide for future uncertainties. The operating results of the General Fund and changes in the net pension and OPEB liabilities will have a significant impact on the change in unrestricted net position from year to year.

CITY OF LUNA PIER

*Management's Discussion and Analysis
Year Ended June 30, 2019*

Government–Wide Financial Analysis - Continued

The results of this year’s operations for the City as a whole are reported in the Statement of Activities (Table 2), which shows the change in net position for the fiscal year ended June 30, 2019.

Table 2:

Statement of Changes in Net Position

| | Governmental Activities <u>2019</u> | Business-Type Activities <u>2019</u> | Total <u>2019</u> |
|--|---|--|----------------------|
| Revenues | | | |
| Program revenues | | | |
| Charges for services | \$126,360 | \$471,104 | \$597,464 |
| Federal, state, and local grants | 447,396 | 0 | 447,396 |
| | <u>573,756</u> | <u>471,104</u> | <u>1,044,860</u> |
| General revenues | | | |
| Property taxes | 589,735 | 0 | 589,735 |
| Special assessments | 67,390 | 0 | 67,390 |
| State grants | 154,771 | 0 | 154,771 |
| Other general revenues and transfers | 57,969 | 973 | 58,942 |
| | <u>869,865</u> | <u>973</u> | <u>870,838</u> |
| Total Revenues | 1,443,621 | 472,077 | 1,915,698 |
| Functions/Program Expenses | | | |
| Legislative | 7,786 | 0 | 7,786 |
| General government | 180,919 | 0 | 180,919 |
| Public safety | 240,666 | 0 | 240,666 |
| Public works | 355,746 | 0 | 355,746 |
| Community/economic development | 48,100 | 0 | 48,100 |
| Recreation and cultural | 50,563 | 0 | 50,563 |
| Interest on long term-term debt | 27,015 | 0 | 27,015 |
| Waste Water Treatment Plant | 0 | 550,149 | 550,149 |
| Total Expenses | <u>910,795</u> | <u>550,149</u> | <u>1,460,944</u> |
| Increase (Decrease) in Net Position | <u>\$532,826</u> | <u>(\$78,072)</u> | <u>\$454,754</u> |

As indicated in Table 2, the cost of *all governmental* activities this year was \$1.5 million. Of this amount, \$1.0 million was subsidized with revenue generated from charges for services and grants with the remaining costs financed with general revenues.

CITY OF LUNA PIER

*Management's Discussion and Analysis
Year Ended June 30, 2019*

Government-Wide Financial Analysis – Concluded

The City experienced an increase in net position of \$454,754. The increase in net position differs from the change in fund balance. A reconciliation of the change in fund balances for the governmental funds to the change in net position appears on page 19.

Fund Financial Analysis

As noted earlier, the City uses funds to help control and manage money for particular purposes. Looking at funds helps the reader consider whether the City of Luna Pier is being held accountable for the resources taxpayers and others provide to it and may give more insight into the City's overall financial health.

As the City completed this year, the funds accounting for the governmental activities reported a combined fund balance of \$1,767,969, which is an increase of \$325,162 from last year. The changes by fund types are as follows:

| | <u>General Fund</u> | <u>Special Revenue Funds</u> | <u>Capital Projects Funds</u> | <u>Total</u> |
|---|-------------------------|--------------------------------------|---------------------------------------|--------------------|
| Fund balances- Beginning of year | \$980,706 | \$275,354 | \$186,747 | \$1,442,807 |
| Increase (decrease) | <u>220,366</u> | <u>92,707</u> | <u>12,089</u> | <u>325,162</u> |
| Fund balances- End of year | <u>\$1,201,072</u> | <u>\$368,061</u> | <u>\$198,836</u> | <u>\$1,767,969</u> |

The City's General Fund balance increase is due to many factors. The tables that follow assist in illustrating the financial activities of the General Fund.

| | <u>June 30, 2019</u> |
|-----------------------|----------------------|
| Revenues | |
| Property taxes | \$474,296 |
| Licenses and permits | 53,570 |
| Federal grants | 38,852 |
| State grants | 153,666 |
| Local grants | 223,277 |
| Charges for services | 20,310 |
| Fines and forfeits | 3,641 |
| Interest income | 2,469 |
| Rentals | 59,006 |
| Other revenue | <u>34,184</u> |
| Total Revenues | <u>\$1,063,271</u> |

CITY OF LUNA PIER

*Management's Discussion and Analysis
Year Ended June 30, 2019*

Fund Financial Analysis – Concluded

| | <u>June 30, 2019</u> |
|------------------------------------|-------------------------|
| Expenditures | |
| Legislative | \$7,786 |
| General government | 173,286 |
| Public safety | 99,938 |
| Public works | 132,825 |
| Community and economic development | 34,680 |
| Recreation and cultural | 35,272 |
| Debt service | 62,573 |
| Other | <u>256,545</u> |
| | <u><u>\$802,905</u></u> |

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires the City Council to adopt the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. Over the course of the year, the City revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule illustrating the City's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements. Revisions to the General Fund original budget were as follows:

Revenues – The original budget of \$754,031 was not amended during the 2018-19 fiscal year. The City relies heavily on property taxes and state shared revenue to fund General Fund expenditures. Property taxes and state shared revenue make up 57% of the General Fund revenues. Consumers Power Company pays approximately 10% of the property taxes.

Expenditures - The original budgeted total of \$850,436 was not amended during the 2018-19 fiscal year.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2019, the City had \$13.3 million invested in a broad range of capital assets, including land, roads, land improvements, building and building improvements, machinery and equipment, vehicles, a waste water treatment plant, and sewer lines. This year's additions of \$52,306 included a parking box smart meter, a light pole replacement, construction on the lighthouse, a rescue saw, and treatment plant construction. Depreciation for governmental activities totaled \$171,008, and depreciation for business-type activities totaled \$170,953. Detailed information regarding capital assets is included in Note 7 to the financial statements.

CITY OF LUNA PIER

Management's Discussion and Analysis Year Ended June 30, 2019

Debt Administration

At June 30, 2019, the City had \$382,759 in special assessment drainage district bonds payable, \$530,000 in 2016 General Obligation Judgment Bonds, and \$340,444 in a Michigan State Infrastructure Bank Loan. The City had accrued a liability for unused vacation and personal days of \$31,326 at June 30, 2019. The City had \$2,680,000 of 2012A Waste Water Treatment System Revenue Bonds and \$91,000 of 2012B Waste Water Treatment System Revenue Bonds. Detailed information regarding the City's debt is included in Note 8 to the financial statements.

Postretirement Healthcare Benefits

During the fiscal year ended June 30, 2019, the City completed an actuarial valuation of the retiree healthcare benefits offered to eligible employees. As indicated in Note 15 to the financial statements, the actuarial accrued liability is \$284,520. This benefit is not currently funded and is recognized on a "pay-as-you-go" basis.

Development of the 2019-20 Fiscal Year Budget

Our elected officials considered many factors when setting the City's 2019-20 fiscal year budget. The City has taken several measures to help control the rising cost of the governmental services and the ongoing decline of property taxes and state revenue sharing. For 2019-20, the City anticipates General Fund revenues of \$723,629 and expenditures of \$811,703, which results in a decrease of \$88,074 to the carryover fund balance.

Contacting the City of Luna Pier

This financial report is designed to provide the City's citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate their accountability for the money it receives. If you have questions about this report or need additional information, contact the City Clerk, City of Luna Pier, 4357 Buckeye Street, Luna Pier, MI 48157.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF LUNA PIER

*Statement of Net Position
June 30, 2019*

| | Governmental Activities | Business-type Activities | Total |
|---------------------------------------|----------------------------|-----------------------------|--------------------|
| Assets | | | |
| Cash and cash equivalents | \$942,845 | \$147,111 | \$1,089,956 |
| Certificates of deposit | 521,336 | 0 | 521,336 |
| Accounts/loans receivable | 89,276 | 166,511 | 255,787 |
| Due from other governmental units | 55,074 | 0 | 55,074 |
| Internal balances | 171,667 | (171,667) | 0 |
| Prepaid expenses | 10,843 | 7,657 | 18,500 |
| Restricted cash | 0 | 113,169 | 113,169 |
| Capital assets, net | 2,208,840 | 4,592,896 | 6,801,736 |
| Total Assets | 3,999,881 | 4,855,677 | 8,855,558 |
| Deferred Outflows of Resources | | | |
| Deferred outflows related to pension | 155,266 | 103,511 | 258,777 |
| Liabilities | | | |
| Accounts payable | 23,072 | 432 | 23,504 |
| Other liabilities | 22,745 | 0 | 22,745 |
| Long-term liabilities: | | | |
| Due within one year | 100,885 | 53,000 | 153,885 |
| Due in more than one year | 1,183,644 | 2,718,000 | 3,901,644 |
| Net pension liability | 1,734,577 | 1,156,385 | 2,890,962 |
| Net OPEB liability | 170,712 | 113,808 | 284,520 |
| Total Liabilities | 3,235,635 | 4,041,625 | 7,277,260 |
| Net Position | | | |
| Net investment in capital assets | 1,462,892 | 1,821,896 | 3,284,788 |
| Restricted: | | | |
| Restricted for highways and streets | 283,502 | 0 | 283,502 |
| Restricted for rubbish collection | 7,556 | 0 | 7,556 |
| Restricted for flood control | 198,703 | 0 | 198,703 |
| Restricted for fire protection | 133 | 0 | 133 |
| Restricted for police protection | 12,485 | 0 | 12,485 |
| Unrestricted | (1,045,759) | (904,333) | (1,950,092) |
| Total Net Position | \$919,512 | \$917,563 | \$1,837,075 |

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

*Statement of Activities
Year Ended June 30, 2019*

| | Program Revenues | | | |
|------------------------------------|------------------|-------------------------|--|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Functions/Programs | | | | |
| Primary government - | | | | |
| Governmental activities: | | | | |
| Legislative | \$7,786 | \$0 | \$0 | \$0 |
| General government | 180,919 | 33,702 | 0 | 0 |
| Public safety | 240,666 | 59,461 | 14,939 | 0 |
| Public works | 355,746 | 28,696 | 183,605 | 0 |
| Community and economic development | 48,100 | 4,501 | 0 | 0 |
| Recreation and cultural | 50,563 | 0 | 38,852 | 210,000 |
| Interest on long-term debt | 27,015 | 0 | 0 | 0 |
| | | | | |
| Total Governmental Activities | 910,795 | 126,360 | 237,396 | 210,000 |
| Business-type activities: | | | | |
| Waste water treatment plant | 550,149 | 471,104 | 0 | 0 |
| | | | | |
| Total business type activities | 550,149 | 471,104 | 0 | 0 |
| | | | | |
| Total primary government | \$1,460,944 | \$597,464 | \$237,396 | \$210,000 |

General Revenues:

Property taxes
 Special assessments
 State grants
 Interest and investment earnings
 Gain on sale of property
 Other

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and
Changes in Net Position
Primary Government

| <u>Governmental</u> <u>Activities</u> | <u>Business-type</u> <u>Activities</u> | <u>Total</u> |
|--|---|--------------------|
| (\$7,786) | \$0 | (\$7,786) |
| (147,217) | 0 | (147,217) |
| (166,266) | 0 | (166,266) |
| (143,445) | 0 | (143,445) |
| (43,599) | 0 | (43,599) |
| 198,289 | 0 | 198,289 |
| <u>(27,015)</u> | <u>0</u> | <u>(27,015)</u> |
| (337,039) | 0 | (337,039) |
| <u>0</u> | <u>(79,045)</u> | <u>(79,045)</u> |
| <u>0</u> | <u>(79,045)</u> | <u>(79,045)</u> |
| (337,039) | (79,045) | (416,084) |
| 589,735 | 0 | 589,735 |
| 67,390 | 0 | 67,390 |
| 154,771 | 0 | 154,771 |
| 4,796 | 0 | 4,796 |
| 22,500 | 0 | 22,500 |
| <u>30,673</u> | <u>973</u> | <u>31,646</u> |
| <u>869,865</u> | <u>973</u> | <u>870,838</u> |
| 532,826 | (78,072) | 454,754 |
| <u>386,686</u> | <u>995,635</u> | <u>1,382,321</u> |
| <u>\$919,512</u> | <u>\$917,563</u> | <u>\$1,837,075</u> |

FUND FINANCIAL STATEMENTS

CITY OF LUNA PIER

Governmental Funds

Balance Sheet

June 30, 2019

| | Special Revenue Funds | | | | |
|--------------------------------------|-----------------------|----------------------|----------------------|---------------------------|--|
| | General Fund | Major Street Fund | Local Street Fund | Police Millage Fund | Garbage and Rubbish Collection Fund |
| Assets | | | | | |
| Cash and cash equivalents | \$546,913 | \$159,769 | \$186,757 | \$4,852 | \$2,033 |
| Certificates of deposit | 354,418 | 0 | 0 | 0 | 0 |
| Accounts/loans/taxes receivable | 30,728 | 0 | 0 | 5,950 | 0 |
| Due from other governmental units | 26,481 | 18,764 | 9,829 | 0 | 0 |
| Due from other funds | 263,284 | 0 | 0 | 1,779 | 0 |
| Prepaid expenditures | 5,320 | 0 | 0 | 0 | 5,523 |
| Total Assets | \$1,227,144 | \$178,533 | \$196,586 | \$12,581 | \$7,556 |
| Liabilities and Fund Balances | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$22,976 | \$0 | \$0 | \$96 | \$0 |
| Due to other funds | 3,096 | 46,014 | 45,603 | 0 | 0 |
| Unearned revenue | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | 26,072 | 46,014 | 45,603 | 96 | 0 |
| Fund Balances | | | | | |
| Nonspendable: | | | | | |
| Prepaid expenditures | 5,320 | 0 | 0 | 0 | 5,523 |
| Restricted for: | | | | | |
| Streets and highways | 0 | 132,519 | 150,983 | 0 | 0 |
| Garbage and rubbish collection | 0 | 0 | 0 | 0 | 2,033 |
| Flood control | 0 | 0 | 0 | 0 | 0 |
| Fire protection | 0 | 0 | 0 | 0 | 0 |
| Police department | 0 | 0 | 0 | 12,485 | 0 |
| Assigned to: | | | | | |
| Special projects | 208,330 | 0 | 0 | 0 | 0 |
| Lighthouse project | 198,803 | 0 | 0 | 0 | 0 |
| Community/economic development | 0 | 0 | 0 | 0 | 0 |
| Unassigned | 788,619 | 0 | 0 | 0 | 0 |
| Total Fund Balances | 1,201,072 | 132,519 | 150,983 | 12,485 | 7,556 |
| Total Liabilities and Fund Balances | \$1,227,144 | \$178,533 | \$196,586 | \$12,581 | \$7,556 |

See accompanying notes to the basic financial statements.

| <u>Downtown Development Authority Fund</u> | <u>Community Development Fund</u> | <u>Flood Control Facilities Fund</u> | <u>Fire Millage Fund</u> | <u>Total Governmental Funds</u> |
|--|---|--|------------------------------|---|
| \$576 | \$12,831 | \$28,981 | \$133 | \$942,845 |
| 0 | 0 | 166,918 | 0 | 521,336 |
| 0 | 51,111 | 1,487 | 0 | 89,276 |
| 0 | 0 | 0 | 0 | 55,074 |
| 0 | 0 | 1,317 | 0 | 266,380 |
| 0 | 0 | 0 | 0 | 10,843 |
| <u>\$576</u> | <u>\$63,942</u> | <u>\$198,703</u> | <u>\$133</u> | <u>\$1,885,754</u> |
| \$0 | \$0 | \$0 | \$0 | \$23,072 |
| 0 | 0 | 0 | 0 | 94,713 |
| 0 | 0 | 0 | 0 | 0 |
| <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>117,785</u> |
| 0 | 0 | 0 | 0 | 10,843 |
| 0 | 0 | 0 | 0 | 283,502 |
| 0 | 0 | 0 | 0 | 2,033 |
| 0 | 0 | 198,703 | 0 | 198,703 |
| 0 | 0 | 0 | 133 | 133 |
| 0 | 0 | 0 | 0 | 12,485 |
| 0 | 0 | 0 | 0 | 208,330 |
| 0 | 0 | 0 | 0 | 198,803 |
| 576 | 63,942 | 0 | 0 | 64,518 |
| 0 | 0 | 0 | 0 | 788,619 |
| <u>576</u> | <u>63,942</u> | <u>198,703</u> | <u>133</u> | <u>1,767,969</u> |
| <u>\$576</u> | <u>\$63,942</u> | <u>\$198,703</u> | <u>\$133</u> | <u>\$1,885,754</u> |

CITY OF LUNA PIER

*Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
Year Ended June 30, 2019*

| | | |
|---|--------------------|--------------------------------|
| Total Fund Balances - Governmental Funds | | \$1,767,969 |
| 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 are not reported in the funds: | | |
| Cost of the capital assets | \$5,509,934 | |
| Accumulated depreciation | <u>(3,301,094)</u> | 2,208,840 |
| Deferred outflows of resources resulting from net pension liability | | 155,266 |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds: | | |
| Loan payable | (1,253,203) | |
| Net pension liability | (1,734,577) | |
| Net OPEB liability | (170,712) | |
| Compensated absences | (31,326) | |
| Accrued interest | <u>(22,745)</u> | <u>(3,212,563)</u> |
| Total Net Position - Governmental Activities | | <u><u>\$919,512</u></u> |

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

*Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2019*

| | Special Revenue Funds | | | | |
|--|-----------------------|-------------------|-------------------|----------------|-------------------------------------|
| | General Fund | Major Street Fund | Local Street Fund | Police Fund | Garbage and Rubbish Collection Fund |
| Revenues | | | | | |
| Taxes | \$474,296 | \$0 | \$0 | \$92,365 | \$0 |
| Special assessments | 0 | 0 | 0 | 0 | 67,390 |
| Licenses and permits | 53,570 | 0 | 0 | 0 | 0 |
| Federal grants | 38,852 | 0 | 0 | 0 | 0 |
| State grants | 153,666 | 120,473 | 63,132 | 1,779 | 0 |
| Local grants | 223,277 | 0 | 0 | 0 | 0 |
| Charges for services | 20,310 | 0 | 0 | 0 | 0 |
| Fines and forfeits | 3,641 | 0 | 0 | 0 | 0 |
| Interest income | 2,469 | 0 | 0 | 0 | 0 |
| Rentals | 59,006 | 0 | 0 | 0 | 0 |
| Other revenue | 34,184 | 3,821 | 0 | 500 | 0 |
| Total Revenues | 1,063,271 | 124,294 | 63,132 | 94,644 | 67,390 |
| Expenditures | | | | | |
| Legislative | 7,786 | 0 | 0 | 0 | 0 |
| General government | 173,286 | 0 | 0 | 0 | 0 |
| Public safety | 99,938 | 0 | 0 | 0 | 0 |
| Public works | 132,825 | 30,254 | 25,664 | 0 | 66,374 |
| Community and economic development | 34,680 | 0 | 0 | 0 | 0 |
| Recreation and cultural | 35,272 | 0 | 0 | 0 | 0 |
| Debt service | 62,573 | 34,202 | 0 | 0 | 0 |
| Other | 256,545 | 0 | 0 | 0 | 0 |
| Total Expenditures | 802,905 | 64,456 | 25,664 | 0 | 66,374 |
| Excess (Deficiency) of Revenues Over Expenditures | 260,366 | 59,838 | 37,468 | 94,644 | 1,016 |
| Other Financing Sources (Uses) | | | | | |
| Operating transfers in | 0 | 0 | 0 | 40,000 | 0 |
| Operating transfers out | (40,000) | 0 | 0 | 0 | 0 |
| Total Other Financing Sources (Uses) | (40,000) | 0 | 0 | 40,000 | 0 |
| Net Change in Fund Balances | 220,366 | 59,838 | 37,468 | 134,644 | 1,016 |
| Fund Balances - Beginning of year | 980,706 | 72,681 | 113,515 | 9,267 | 6,540 |
| Fund Balances - End of year | \$1,201,072 | \$132,519 | \$150,983 | \$143,911 | \$7,556 |

See accompanying notes to the basic financial statements.

Capital Projects Funds

| Downtown Development Authority Fund | Community Development Fund | Flood Control Facilities Fund | Fire Millage Fund | Total Governmental Funds |
|---|----------------------------------|-------------------------------------|----------------------|--------------------------------|
| \$0 | \$0 | \$23,074 | \$0 | \$589,735 |
| 0 | 0 | 0 | 0 | 67,390 |
| 0 | 0 | 0 | 0 | 53,570 |
| 0 | 0 | 0 | 0 | 38,852 |
| 0 | 0 | 988 | 0 | 340,038 |
| 0 | 0 | 0 | 0 | 223,277 |
| 0 | 0 | 0 | 0 | 20,310 |
| 0 | 0 | 0 | 0 | 3,641 |
| 0 | 86 | 2,241 | 0 | 4,796 |
| 0 | 0 | 0 | 0 | 59,006 |
| 4,501 | 0 | 0 | 0 | 43,006 |
| 4,501 | 86 | 26,303 | 0 | 1,443,621 |
| 0 | 0 | 0 | 0 | 7,786 |
| 0 | 0 | 0 | 0 | 173,286 |
| 0 | 0 | 0 | 1,793 | 101,731 |
| 0 | 0 | 12,421 | 0 | 267,538 |
| 5,960 | 7,460 | 0 | 0 | 48,100 |
| 0 | 0 | 0 | 0 | 35,272 |
| 0 | 0 | 0 | 0 | 96,775 |
| 0 | 0 | 0 | 0 | 256,545 |
| 5,960 | 7,460 | 12,421 | 1,793 | 987,033 |
| (1,459) | (7,374) | 13,882 | (1,793) | 456,588 |
| 0 | 0 | 0 | 0 | 40,000 |
| 0 | 0 | 0 | 0 | (40,000) |
| 0 | 0 | 0 | 0 | 0 |
| (1,459) | (7,374) | 13,882 | (1,793) | 456,588 |
| 2,035 | 71,316 | 184,821 | 1,926 | 1,442,807 |
| \$576 | \$63,942 | \$198,703 | \$133 | \$1,899,395 |

CITY OF LUNA PIER

*Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2019*

| | |
|---|------------------|
| Total Net Change in Fund Balances - Governmental Funds | \$456,588 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation: | |
| Depreciation expense | (\$171,008) |
| Capital outlay | 30,939 |
| | <hr/> |
| | (140,069) |
| Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid. | 1,470 |
| Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | 100,186 |
| The statement of net position reports the net pension liability and deferred outflows of resources related to the net pension liability and pension expense. However, the amount recorded on the governmental fund equals actual pension contributions. | |
| Net change in pension liability. | (233,240) |
| Net change in deferred outflows of resources related to the net pension liability. | 85,281 |
| Net change in deferred inflows of resources related to the net pension liability. | 21,567 |
| Increase in net retiree healthcare obligation reported in the statement of activities does not require the use of current resources, and therefore is not reported in the fund statements until it comes due for payment. | 343,244 |
| Decreases in the liability for compensated absences are reported as expenditures in the statement of activities; but not in the governmental funds. | 29,225 |
| | <hr/> |
| Change in Net Position of Governmental Activities | \$664,252 |
| | <hr/> <hr/> |

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

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

| | Business-type Activities Enterprise Fund <u>Waste Water Treatment Plant Fund</u> |
|---------------------------------------|---|
| Assets | |
| Current Assets: | |
| Cash | \$147,111 |
| Receivables | 166,511 |
| Due from other funds | 6,551 |
| Prepaid expenses | 7,657 |
| Total Current Assets | <u>327,830</u> |
| Restricted Assets: | |
| Cash | 113,169 |
| Capital Assets | 7,754,505 |
| Less: Allowance for depreciation | <u>(3,161,609)</u> |
| Total Capital Assets | <u>4,592,896</u> |
| Total Assets | <u>5,033,895</u> |
| Deferred Outflows of Resources | |
| Deferred outflows related to pension | <u>103,511</u> |
| Liabilities | |
| Current Liabilities: | |
| Accounts payable | 432 |
| Due to other funds | 178,218 |
| Bonds payable - current portion | 53,000 |
| Total Current Liabilities | <u>231,650</u> |
| Non-current Liabilities: | |
| Bonds payable | |
| Non-current portion | 2,718,000 |
| Net pension liability | 1,156,385 |
| Net OPEB Liability | 113,808 |
| Total Non-current Liabilities | <u>3,988,193</u> |
| Total Liabilities | <u>4,219,843</u> |
| Net Position | |
| Net investment in capital assets | 1,821,896 |
| Unrestricted | <u>(904,333)</u> |
| Total Net Position | <u><u>\$917,563</u></u> |

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

Proprietary Fund
Statement of Revenues, Expenses, and Changes in Fund Net Position
Year Ended June 30, 2019

| | Business-type Activities Enterprise Fund Waste Water Treatment Plant Fund |
|--|--|
| Operating Revenues | |
| Charges for services | \$471,104 |
| Other revenue | 973 |
| Total Operating Revenues | 472,077 |
| Operating Expenses | |
| Sewer processing and maintenance | 451,040 |
| Administration | 21,477 |
| Total Operating Expenses | 472,517 |
| Net Operating Income (Loss) | (440) |
| Non-Operating Revenues (Expenses) | |
| Interest | (77,632) |
| Change in Net Position | (78,072) |
| Net Position - Beginning of year, restated | 995,635 |
| Net Position - End of year | \$917,563 |

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

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

| | Business-type Activities <u>Enterprise Fund</u> Waste Water Treatment Plant Fund |
|--|---|
| Cash Flows from Operating Activities | |
| Receipts from customers | \$456,623 |
| Payments to suppliers | (185,900) |
| Payments to employees | (123,949) |
| Net cash provided by operating activities | <u>146,774</u> |
| Cash Flows from Capital and Related Financing Activities | |
| Purchase of capital assets | (21,367) |
| Principal payments on bonds payable | (52,000) |
| Interest paid | (77,632) |
| Net cash provided (used) for capital and related financing activities | <u>(150,999)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (4,225) |
| Cash and Cash Equivalents - Beginning of Year | <u>264,505</u> |
| Cash and Cash Equivalents - End of Year | <u><u>\$260,280</u></u> |
| Balance Sheet Classification of Cash and Cash Equivalents | |
| Cash | \$161,991 |
| Restricted Cash | <u>98,289</u> |
| Total Cash and Cash Equivalents | <u><u>\$260,280</u></u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | |
| Operating income (loss) | (\$440) |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | |
| Depreciation | 170,953 |
| Changes in operating assets and liabilities | |
| Receivables | (15,454) |
| Due from other funds | (4,273) |
| Prepaid expenses | (815) |
| Payables | 1,755 |
| Due to other funds | (9,138) |
| Net pension liability | 84,261 |
| Net OPEB liability | <u>(80,075)</u> |
| Net Cash Provided by Operating Activities | <u><u>\$146,774</u></u> |

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

*Agency Fund
Statement of Fiduciary Net Position
June 30, 2019*

| | <u>Tax Collection Agency Fund</u> |
|---------------------------|---------------------------------------|
| Assets | |
| Cash | <u>\$1,001</u> |
| Liabilities | |
| Due to other taxing units | <u>\$1,001</u> |

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

Notes to Financial Statements
Year Ended June 30, 2019

Note 1 Description of the City and Reporting Entity

The City operates under a locally elected seven member Council form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, recreation and culture, public improvements, planning and zoning, waste water treatment, and general administrative services.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, Councils, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. Component units may also include organizations that are fiscally dependent on the City in that the City approves their budget, the issuance of their debt, or the levying of taxes. The City has the following blended component unit:

Downtown Development Authority

This entity was established to promote economic growth and revitalization of the City's Downtown District. The DDA board is appointed by the City Council and the annual budget and any modifications require the approval of the City Council. The DDA has a June 30 fiscal year end.

The following entities are not included herein as they operate as autonomous units:

Luna Pier Housing Commission

This entity is responsible for the public housing project within the City. The Commission is responsible to the Department of Housing and Urban Development (HUD) for its fiscal management and HUD is responsible for the debt of the project which is not guaranteed by the City.

South County Water System

This is a joint venture between the City, LaSalle Township, Erie Township, Bedford Township, and the County of Monroe to provide water to these municipalities located within the County of Monroe.

Note 2 Summary of Significant Accounting Policies

The financial statements of the City of Luna Pier have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Council (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following are the more significant of the City's accounting policies.

CITY OF LUNA PIER

Notes to Financial Statements
Year Ended June 30, 2019

Note 2 Summary of Significant Accounting Policies (Continued)

Basis of Presentation

A. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. As a general rule, the effect of interfund activity has been eliminated from the government-wide 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 function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Amounts reported as program revenue include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. General revenue includes taxes, intergovernmental payments, sales of property, and other items not properly included among program revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and agency funds, even though the latter are excluded from the government-wide financial statements. Major governmental funds and the individual enterprise fund are reported as separate columns in the fund financial statements.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

On the governmental funds statements, property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

Agency fund statements also are reported using the economic resources measurement focus and the cash basis of accounting.

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2019*

Note 2 Summary of Significant Accounting Policies (Continued)
Basis of Presentation (Continued)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The City reports the following major governmental funds:

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

The Major Street Fund accounts for gas and weight tax monies from the State of Michigan and expenditures for construction and maintenance of all major streets.

The Local Street Fund accounts for gas and weight tax monies from the State of Michigan and expenditures for construction and maintenance of all local streets.

The Police Millage Fund accounts for proceeds from a tax millage for police protection.

The Garbage and Rubbish Collection Fund accounts for special assessment revenues and the payment of refuse charges.

The Downtown Development Authority Fund accounts for monies collected to be used for development within the downtown development authority district.

The Community Development Fund accounts for all monies received by the City from the block grant programs.

The Flood Control Facilities Fund accounts for revenues and expenditures used for constructing and maintaining flood control facilities.

The Fire Millage Fund accounts for proceeds from a tax millage for a pumper fire truck and fire protection equipment.

The City reports the following major proprietary fund:

The Waste Water Treatment Plant Fund accounts for the operation of the waste water treatment plant financed through user charges and transfers.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Waste Water Treatment Plant Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The City does not have any nonmajor governmental funds.

CITY OF LUNA PIER

Notes to Financial Statements
Year Ended June 30, 2019

Note 2 Summary of Significant Accounting Policies (Continued)
Basis of Presentation (Continued)

C. Assets, Liabilities, and Net Position or Equity

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Property Tax Receivable - Property taxes are assessed as of December 31 and the related property taxes become a lien on July 1 and December 1 of the following year. Summer taxes are considered delinquent July 31 and winter taxes are considered delinquent February 14 of the following year.

Prepaid Assets - Payments made to vendors for services that will benefit periods beyond June 30, 2019 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. sewer lines, road, etc.) are reported in the applicable governmental or business-type activities columns of the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost when actual cost information is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|--------------------------------------|------------------------|
| Roads | 20 years |
| Land Improvements | 20 years |
| Buildings and Buildings Improvements | 20-60 years |
| Machinery and Equipment | 3-30 years |
| Vehicles | 5-8 years |
| Sewer Lines | 60 years |

Interfund Balances - On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due to/from other funds." These amounts are eliminated in the governmental activities column of the statement of net position. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Accrued Liabilities and Long-Term Obligations - In the government-wide financial statements and proprietary fund financial statements, long-term debts, notes, and other obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund types statement of net position.

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2019*

Note 2 Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

C. Assets, Liabilities, and Net Position or Equity (Continued)

Accrued Liabilities and Long-Term Obligations (Concluded)

In general, payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Payments of long-term loans that are paid from governmental funds are recognized as an expenditure on the governmental fund financial statements when due.

Unearned Revenue – Governmental funds report unearned revenue in connection with resources that have been received but not yet earned.

Deferred Outflows of Resources - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category, which is deferred outflows of resources related to pension reported in the government-wide statement of net position and the Waste Water Treatment Plant Fund. A portion of the deferred outflows represent pension contributions made after the plan's measurement date, but before the fiscal year end. The amount is expensed in the plan year in which it applies.

Deferred Inflows of Resources - In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category, which is deferred inflows of resources related to pension. The deferred inflows are the future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary.

Other Postemployment Benefit Costs

The City offers retiree healthcare benefits to retirees. The City uses an alternative measurement method permitted by GASB Statement No. 47 to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, OPEB costs are recognized as expenses when made. For the government-wide statements, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "an adjustment to the ARC" on the beginning of year underpaid amount, if any.

Net Position - Net position represents the difference between assets plus deferred outflows and liabilities plus deferred inflows. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

CITY OF LUNA PIER

Notes to Financial Statements
Year Ended June 30, 2019

Note 2 Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

C. Assets, Liabilities, and Net Position or Equity (Concluded)

Interfund Transactions - Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

Fund Balance Non-spendable, Restricted, Committed, Assigned, and Unassigned - The fund balance is categorized as non-spendable, restricted, committed, assigned, or unassigned based on the relative strength of the spending constraints. The City has the authority to place funds under the committed and assigned categories. Restricted resources should be used first, followed by committed funds, assigned amounts, and then unassigned amounts. The City desired to maintain, in stable economic times, a fund balance of at least 15% of the City's General Fund annual operating expenditures.

Compensated Absences - City employees are granted vacation and personal days under formulas and conditions in the employee's contract. The vacation and personal pay is accrued in the government-wide financial statements. In the fund financial statements, these accounts are reported when paid.

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.

- D. Estimates - The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported on the financial statements and accompanying notes. Actual results may differ from those estimates.
- E. Extraordinary and Special Items - Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2019.
- F. Budgetary Policies - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The General Fund and all Special Revenue Funds are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the City Council at the function level. Any budgetary modifications may only be made by the City Council.

The City follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

CITY OF LUNA PIER

Notes to Financial Statements
Year Ended June 30, 2019

Note 2 Summary of Significant Accounting Policies (Concluded)
Basis of Presentation (Concluded)

F. Budgetary Policies (Concluded)

1. Prior to June 30, the fiscal officer submits to the City Council a proposed operating budget for the fiscal year commencing on July 1.
2. A public hearing is conducted during June to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of a resolution.
4. During the year the budget is monitored, and amendments to the budget deemed necessary are approved by the City Council.
5. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
6. Lapsing of Appropriations - At the close of each year all unspent appropriations revert to the respective funds from which they were appropriated and become subject to future appropriations.

G. Subsequent Events

The City's management evaluated subsequent events from June 30, 2019 through December 11, 2019, the date the financial statements were available to be issued.

Note 3 Stewardship, Accountability and Compliance

The City shall not incur expenditures in excess of the amount appropriated. Annual budgets are adopted on a basis that is consistent with generally accepted accounting principles and State Law for the General and Special Revenue Funds. Even though not required by State Law, the City adopts budgets for the Capital Projects Funds.

In the required supplemental information, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis, which is the adopted legal level of control.

For the year ended June 30, 2019, expenditures exceeded final budgeted amounts in the following funds:

| | <u>Final Budget</u> | <u>Actual Expenditures</u> | <u>Variance</u> |
|-------------------------------------|---------------------|----------------------------|-----------------|
| Police Millage Fund | \$126,100 | \$131,426 | (\$5,326) |
| Downtown Development Authority Fund | 2,035 | 5,960 | (3,925) |

CITY OF LUNA PIER

Notes to Financial Statements *Year Ended June 30, 2019*

Note 4 Deposits

Statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; commercial paper within the three highest rate classifications by at least two rating services; bankers' acceptances of U.S. banks, U.S. or agency repurchase agreements; savings accounts and certificates of deposit with banks and savings and loan associations, or credit unions which are insured with the applicable federal agency. Public funds of the City may not be deposited in financial institutions located in states other than Michigan.

Public Act 367 of 1982 (known as the Surplus Funds Investment Pool Act) enables municipalities to invest surplus operating funds in investment pools managed by qualified financial institutions. At June 30, 2019, the City of Luna Pier had invested in such a fund with a local bank. The City is able to retrieve these funds without restriction and, accordingly, this amount is considered to be available cash.

The local bank invests these funds in a variety of instruments including bonds and direct obligations of the United States, certificates of deposit, commercial paper rated within the three highest classifications by not less than two standard rating services, United States government or federal agency obligation repurchase agreements and bankers acceptances of the United States banks.

The City believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, and since State of Michigan legislation does not require that all deposits be collateralized, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk at each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The Council has adopted an investment policy authorizing certain types of investments and authorized two depositories: Monroe Bank and Trust and Monroe County Community Credit Union.

Interest rate risk. The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities listed in the City's investment policy.

Concentration of credit risk. The City does not place any limits on the amount the City may deposit or invest in any one issuer.

Custodial credit risk. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to the City. The City has \$1,762,657 invested in certificates of deposit, checking accounts, and money markets. The City's deposits are insured by the FDIC or NCUSIF in the amount of \$708,330. Uninsured deposits are \$1,054,327. The City Council approves and designates a list of authorized depository institutions. The City's investment policy does not address deposit risk.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2019*

Note 5 Interfund Payables and Receivables
Such balances at June 30, 2019 were:

| | <u>Interfund Receivable</u> | <u>Interfund Payable</u> |
|-----------------------------------|---------------------------------|------------------------------|
| General Fund: | | |
| Major Street Fund | \$41,077 | \$0 |
| Local Street Fund | 43,989 | 0 |
| Police Millage Fund | 0 | 1,779 |
| Flood Control Facility Fund | 0 | 1,317 |
| Waste Water Treatment Plant Fund | 178,218 | 0 |
| Major Street Fund: | | |
| General Fund | 0 | 41,077 |
| Waste Water Treatment Plant Fund | 0 | 4,937 |
| Local Street Fund: | | |
| General Fund | 0 | 43,989 |
| Waste Water Treatment Plant Fund | 0 | 1,614 |
| Police Millage Fund: | | |
| General Fund | 1,779 | 0 |
| Flood Control Facility Fund: | | |
| General Fund | 1,317 | 0 |
| Waste Water Treatment Plant Fund: | | |
| Major Street Fund | 4,937 | 0 |
| Local Street Fund | 1,614 | 0 |
| General Fund | 0 | 178,218 |
| | <u>\$272,931</u> | <u>\$272,931</u> |

Interfund balances reflect temporary loans and reimbursements due in the normal course of interfund activity.

Note 6 Interfund Transfers
Interfund transfers for the fiscal year ended June 30, 2019 consisted of the following:

| | <u>Transfer Out</u> |
|---------------------|-------------------------|
| | <u>General Fund</u> |
| <u>Transfer In:</u> | |
| Police Millage Fund | <u>\$40,000</u> |

The transfer from the General Fund to the Police Millage Fund was for normal operations of the police department.

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2019*

Note 7 Capital Assets

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

| | Balance July 1, 2018 | Additions | Deletions | Balance June 30, 2019 |
|-------------------------------------|-------------------------|-------------|-----------|--------------------------|
| Governmental Activities | | | | |
| Assets not being depreciated: | | | | |
| Land | \$3,100 | \$0 | \$0 | \$3,100 |
| Construction in progress | 0 | 11,197 | 0 | 11,197 |
| | 3,100 | 11,197 | 0 | 14,297 |
| Capital assets being depreciated: | | | | |
| Roads | 835,786 | 0 | 0 | 835,786 |
| Land improvements | 1,117,863 | 0 | 0 | 1,117,863 |
| Buildings and building improvements | 1,625,859 | 0 | 0 | 1,625,859 |
| Machinery and equipment | 1,113,497 | 19,742 | 0 | 1,133,239 |
| Vehicles | 782,890 | 0 | 0 | 782,890 |
| | 5,475,895 | 19,742 | 0 | 5,495,637 |
| Total capital assets | 5,478,995 | 30,939 | 0 | 5,509,934 |
| Less accumulated depreciation: | | | | |
| Roads | (186,057) | (41,789) | 0 | (227,846) |
| Land improvements | (596,000) | (43,089) | 0 | (639,089) |
| Buildings and building improvements | (611,091) | (36,682) | 0 | (647,773) |
| Machinery and equipment | (991,523) | (44,560) | 0 | (1,036,083) |
| Vehicles | (745,415) | (4,888) | 0 | (750,303) |
| | (3,130,086) | (171,008) | 0 | (3,301,094) |
| Total accumulated depreciation | (3,130,086) | (171,008) | 0 | (3,301,094) |
| Net capital assets | \$2,348,909 | (\$140,069) | \$0 | \$2,208,840 |

Depreciation expense was charged to governmental functions as follows:

| | |
|-------------------------------|-----------|
| General government | \$9,645 |
| Public safety | 11,394 |
| Public works | 123,481 |
| Recreation and cultural | 26,488 |
| Total governmental activities | \$171,008 |

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2019*

Note 7 Capital Assets (Concluded)

| | <u>Balance</u> | | | <u>Balance</u> |
|---|---------------------|--------------------|------------------|----------------------|
| | <u>July 1, 2018</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30, 2019</u> |
| Business-type Activities (Waste Water Treatment Plant Fund) | | | | |
| Assets not being depreciated: | | | | |
| Land | \$6,500 | \$0 | \$0 | \$6,500 |
| Construction in progress | 0 | 21,367 | 0 | 21,367 |
| | <u>6,500</u> | <u>21,367</u> | <u>0</u> | <u>27,867</u> |
| Capital assets being depreciated: | | | | |
| Treatment plant | 5,947,059 | 0 | 0 | 5,947,059 |
| Sewer lines | 1,051,208 | 0 | 0 | 1,051,208 |
| Machinery and equipment | 705,198 | 0 | 0 | 705,198 |
| Vehicles | 23,173 | 0 | 0 | 23,173 |
| | <u>7,726,638</u> | <u>0</u> | <u>0</u> | <u>7,726,638</u> |
| Total capital assets | 7,733,138 | 21,367 | 0 | 7,754,505 |
| Less accumulated depreciation: | | | | |
| Treatment plant | (1,722,136) | (147,491) | 0 | (1,869,627) |
| Sewer lines | (557,140) | (17,520) | 0 | (574,660) |
| Machinery and equipment | (688,206) | (5,942) | 0 | (694,148) |
| Vehicles | (23,174) | 0 | 0 | (23,174) |
| | <u>(2,990,656)</u> | <u>(170,953)</u> | <u>0</u> | <u>(3,161,609)</u> |
| Total accumulated depreciation | (2,990,656) | (170,953) | 0 | (3,161,609) |
| Net capital assets | <u>\$4,742,482</u> | <u>(\$149,586)</u> | <u>\$0</u> | <u>\$4,592,896</u> |

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2019*

Note 8 Long-Term Debt

The following is a summary of long-term debt outstanding as of June 30, 2019:

| | <u>Interest Rate</u> | <u>Date of Issue</u> | <u>Maturity Dates</u> | <u>Original Amount of Issue</u> | <u>Balance Outstanding</u> |
|--------------------------------------|--------------------------|--------------------------|---------------------------|---|--------------------------------|
| Governmental activities: | | | | | |
| Special Assessment Debt: | | | | | |
| 2011 Lakeside Drain | | | | | |
| Assessment | 4.92% | 09/14/2011 | 05/01/2031 | \$637,931 | \$382,759 |
| General Obligation Bonds: | | | | | |
| 2013 General Obligation | | | | | |
| Judgment Bonds | | | | | |
| (Limited Tax) | 0.95% - 4.20% | 06/18/2013 | 08/01/2028 | 720,000 | 530,000 |
| Michigan State Infrastructure | | | | | |
| Bank Loan | 3.00% | 9/1/2015 | 9/1/2030 | 408,298 | 340,444 |
| Other Liabilities: | | | | | |
| Compensated Absences | | | | | |
| Payable | | | | | <u>31,326</u> |
| Total governmental activities | | | | | <u>1,284,529</u> |
| Business-type activities: | | | | | |
| Waste Water Treatment | | | | | |
| System Revenue Bonds, | | | | | |
| Series 2012A | 2.75% | 07/03/2012 | 06/01/2052 | 3,000,000 | 2,680,000 |
| Waste Water Treatment | | | | | |
| System Revenue Bonds, | | | | | |
| Series 2012B | 2.75% | 07/03/2012 | 06/01/2052 | 103,000 | <u>91,000</u> |
| Total business-type activities | | | | | <u>2,771,000</u> |
| Total long-term debt | | | | | <u><u>\$4,055,529</u></u> |

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2019*

Note 8 Long-Term Debt (Continued)

Changes in principal during the 2018-19 fiscal year are summarized as follows:

| | <u>Balance</u> <u>6/30/2018</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>6/30/2019</u> | <u>Due Within</u> <u>One Year</u> |
|--|------------------------------------|------------------|-------------------|------------------------------------|--------------------------------------|
| Governmental activities: | | | | | |
| 2011 Lakeside Drain Assessment | \$414,655 | \$0 | \$31,896 | \$382,759 | \$31,897 |
| 2013 General Obligation Judgment Bonds (Limited Tax) | 575,000 | 0 | 45,000 | 530,000 | 45,000 |
| Michigan State Infrastructure Bank Loan | 363,734 | 0 | 23,290 | 340,444 | 23,988 |
| Compensated Absences Payable | <u>60,551</u> | <u>0</u> | <u>29,225</u> | <u>31,326</u> | <u>0</u> |
| Total governmental activities | <u>1,413,940</u> | <u>0</u> | <u>129,411</u> | <u>1,284,529</u> | <u>100,885</u> |
| Business-type activities: | | | | | |
| Waste Water Treatment System Revenue Bonds, Series 2012A | 2,730,000 | 0 | 50,000 | 2,680,000 | 51,000 |
| Waste Water Treatment System Revenue Bonds, Series 2012B | <u>93,000</u> | <u>0</u> | <u>2,000</u> | <u>91,000</u> | <u>2,000</u> |
| Total business-type activities | <u>2,823,000</u> | <u>0</u> | <u>52,000</u> | <u>2,771,000</u> | <u>53,000</u> |
| Total long-term debt | <u>\$4,236,940</u> | <u>\$0</u> | <u>\$181,411</u> | <u>\$4,055,529</u> | <u>\$153,885</u> |

Compensated absences payable represents vested benefits for unused vacation and personal days under formulas and conditions specified in the employee's contract.

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2019*

Note 8 Long-Term Debt (Continued)

The following is a summary of the annual principle and interest requirements for the City debt:

2011 Lakeside Drain Assessment – The County of Monroe issued \$1,850,000 in 2011 Drainage District Bonds (General Obligation Limited Tax) on September 14, 2011. The City of Luna Pier is obligated to pay \$842,644 to the County of Monroe in order to cover the City’s principle and interest requirements to retire this bond issue. Principal and interest payments are due on February 14.

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|--------------------|------------------|------------------|------------------|
| 2020 | \$31,897 | \$18,832 | \$50,729 |
| 2021 | 31,897 | 17,310 | 49,207 |
| 2022 | 31,897 | 15,693 | 47,590 |
| 2023 | 31,897 | 14,124 | 46,021 |
| 2024 | 31,897 | 12,554 | 44,451 |
| 2025 | 31,897 | 11,015 | 42,912 |
| 2026 | 31,897 | 9,416 | 41,313 |
| 2027 | 31,896 | 7,847 | 39,743 |
| 2028 | 31,896 | 6,277 | 38,173 |
| 2029 | 31,896 | 4,721 | 36,617 |
| 2030 | 31,896 | 3,139 | 35,035 |
| 2031 | 31,896 | 1,569 | 33,465 |
| | <u>\$382,759</u> | <u>\$122,497</u> | <u>\$505,256</u> |

2013 Judgment Bonds– The City of Luna Pier issued \$720,000 in 2013 Judgment Bonds (General Obligation Limited Tax) on June 18, 2013. Principal payments are due on August 1 and interest payments are due on February 1 and August 1.

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|--------------------|------------------|------------------|------------------|
| 2020 | \$45,000 | \$16,785 | \$61,785 |
| 2021 | 50,000 | 15,833 | 65,833 |
| 2022 | 50,000 | 14,708 | 64,708 |
| 2023 | 50,000 | 13,433 | 63,433 |
| 2024 | 50,000 | 12,045 | 62,045 |
| 2025 | 55,000 | 10,329 | 65,329 |
| 2026 | 55,000 | 8,253 | 63,253 |
| 2027 | 55,000 | 6,080 | 61,080 |
| 2028 | 60,000 | 3,750 | 63,750 |
| 2029 | 60,000 | 1,260 | 61,260 |
| | <u>\$530,000</u> | <u>\$102,476</u> | <u>\$632,476</u> |

CITY OF LUNA PIER

Notes to Financial Statements
Year Ended June 30, 2019

Note 8

Long-Term Debt (Continued)

Michigan State Infrastructure Bank Loan – Loan payable in the amount of \$408,298. The interest rate is 3 percent with repayment in fifteen years.

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|--------------------|------------------|-----------------|------------------|
| 2020 | \$23,988 | \$10,214 | \$34,202 |
| 2021 | 24,708 | 9,494 | 34,202 |
| 2022 | 25,449 | 8,753 | 34,202 |
| 2023 | 26,213 | 7,989 | 34,202 |
| 2024 | 26,999 | 7,203 | 34,202 |
| 2025 | 27,809 | 6,393 | 34,202 |
| 2026 | 28,643 | 5,559 | 34,202 |
| 2027 | 29,503 | 4,699 | 34,202 |
| 2028 | 30,388 | 3,813 | 34,201 |
| 2029 | 31,300 | 2,901 | 34,201 |
| 2030 | 32,238 | 1,963 | 34,201 |
| 2031 | 33,206 | 995 | 34,201 |
| | <u>\$340,444</u> | <u>\$69,976</u> | <u>\$410,420</u> |

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2019*

Note 8

Long-Term Debt (Continued)

2012 Waste Water Treatment System Revenue Bonds – The United States Department of Agriculture issued \$3,000,000 in Series 2012A Waste Water Treatment System Revenue Bonds on July 3, 2012. Principal payments are due on June 1 and interest payments are due on December 1 and June 1.

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|--------------------|--------------------|--------------------|--------------------|
| 2020 | \$51,000 | \$73,700 | \$124,700 |
| 2021 | 52,000 | 72,298 | 124,298 |
| 2022 | 54,000 | 70,868 | 124,868 |
| 2023 | 55,000 | 69,382 | 124,382 |
| 2024 | 57,000 | 67,870 | 124,870 |
| 2025 | 58,000 | 66,302 | 124,302 |
| 2026 | 60,000 | 64,708 | 124,708 |
| 2027 | 62,000 | 63,058 | 125,058 |
| 2028 | 63,000 | 61,352 | 124,352 |
| 2029 | 65,000 | 59,620 | 124,620 |
| 2030 | 67,000 | 57,832 | 124,832 |
| 2031 | 69,000 | 55,990 | 124,990 |
| 2032 | 71,000 | 54,092 | 125,092 |
| 2033 | 72,000 | 52,140 | 124,140 |
| 2034 | 74,000 | 50,160 | 124,160 |
| 2035 | 76,000 | 48,126 | 124,126 |
| 2036 | 79,000 | 46,036 | 125,036 |
| 2037 | 81,000 | 43,862 | 124,862 |
| 2038 | 83,000 | 41,636 | 124,636 |
| 2039 | 85,000 | 39,352 | 124,352 |
| 2040 | 88,000 | 37,014 | 125,014 |
| 2041 | 90,000 | 34,596 | 124,596 |
| 2042 | 92,000 | 32,120 | 124,120 |
| 2043 | 95,000 | 29,590 | 124,590 |
| 2044 | 98,000 | 26,978 | 124,978 |
| 2045 | 100,000 | 24,282 | 124,282 |
| 2046 | 103,000 | 21,532 | 124,532 |
| 2047 | 106,000 | 18,700 | 124,700 |
| 2048 | 109,000 | 15,784 | 124,784 |
| 2049 | 112,000 | 12,788 | 124,788 |
| 2050 | 115,000 | 9,708 | 124,708 |
| 2051 | 118,000 | 6,544 | 124,544 |
| 2052 | 120,000 | 3,300 | 123,300 |
| | <u>\$2,680,000</u> | <u>\$1,431,320</u> | <u>\$4,111,320</u> |

CITY OF LUNA PIER

Notes to Financial Statements
Year Ended June 30, 2019

Note 8 **Long-Term Debt (Continued)**

2012 Waste Water Treatment System Revenue Bonds – The United States Department of Agriculture issued \$103,000 in Series 2012B Waste Water Treatment System Revenue Bonds on July 3, 2012. Principal payments are due on June 1 and interest payments are due on December 1 and June 1.

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|--------------------|------------------|-----------------|------------------|
| 2020 | \$2,000 | \$2,502 | \$4,502 |
| 2021 | 2,000 | 2,448 | 4,448 |
| 2022 | 2,000 | 2,392 | 4,392 |
| 2023 | 2,000 | 2,338 | 4,338 |
| 2024 | 2,000 | 2,282 | 4,282 |
| 2025 | 2,000 | 2,228 | 4,228 |
| 2026 | 2,000 | 2,172 | 4,172 |
| 2027 | 2,000 | 2,118 | 4,118 |
| 2028 | 2,000 | 2,062 | 4,062 |
| 2029 | 2,000 | 2,008 | 4,008 |
| 2030 | 2,000 | 1,952 | 3,952 |
| 2031 | 2,000 | 1,898 | 3,898 |
| 2032 | 2,000 | 1,842 | 3,842 |
| 2033 | 2,000 | 1,788 | 3,788 |
| 2034 | 3,000 | 1,732 | 4,732 |
| 2035 | 3,000 | 1,650 | 4,650 |
| 2036 | 3,000 | 1,568 | 4,568 |
| 2037 | 3,000 | 1,486 | 4,486 |
| 2038 | 3,000 | 1,402 | 4,402 |
| 2039 | 3,000 | 1,320 | 4,320 |
| 2040 | 3,000 | 1,238 | 4,238 |
| 2041 | 3,000 | 1,156 | 4,156 |
| 2042 | 3,000 | 1,072 | 4,072 |
| 2043 | 3,000 | 990 | 3,990 |
| 2044 | 3,000 | 908 | 3,908 |
| 2045 | 3,000 | 826 | 3,826 |
| 2046 | 4,000 | 742 | 4,742 |
| 2047 | 4,000 | 632 | 4,632 |
| 2048 | 4,000 | 522 | 4,522 |
| 2049 | 4,000 | 412 | 4,412 |
| 2050 | 4,000 | 302 | 4,302 |
| 2051 | 4,000 | 192 | 4,192 |
| 2052 | 3,000 | 82 | 3,082 |
| | <u>\$91,000</u> | <u>\$48,262</u> | <u>\$139,262</u> |

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2019*

Note 8 **Long-Term Debt (Concluded)**

The annual requirements to pay principal and interest on long-term debt outstanding at June 30, 2019, excluding compensated absences, are as follows:

| Fiscal Year | Governmental Activities: | | |
|-------------|--------------------------|-----------|-------------|
| | Principal | Interest | Totals |
| 2020 | \$100,885 | \$45,831 | \$146,716 |
| 2021 | 106,605 | 42,637 | 149,242 |
| 2022 | 107,346 | 39,154 | 146,500 |
| 2023 | 108,110 | 35,546 | 143,656 |
| 2024 | 108,896 | 31,802 | 140,698 |
| 2025-2029 | 592,125 | 92,313 | 684,438 |
| 2030-2031 | 129,236 | 7,666 | 136,902 |
| | \$1,253,203 | \$294,949 | \$1,548,152 |

| Fiscal Year | Business-type Activities: | | |
|-------------|---------------------------|-------------|-------------|
| | Principal | Interest | Totals |
| 2020 | \$53,000 | \$76,202 | \$129,202 |
| 2021 | 54,000 | 74,746 | 128,746 |
| 2022 | 56,000 | 73,260 | 129,260 |
| 2023 | 57,000 | 71,720 | 128,720 |
| 2024 | 59,000 | 70,152 | 129,152 |
| 2025-2029 | 318,000 | 325,628 | 643,628 |
| 2030-2034 | 364,000 | 279,426 | 643,426 |
| 2035-2039 | 419,000 | 226,438 | 645,438 |
| 2040-2044 | 478,000 | 165,662 | 643,662 |
| 2045-2049 | 549,000 | 96,220 | 645,220 |
| 2050-2052 | 364,000 | 20,128 | 384,128 |
| | \$2,771,000 | \$1,479,582 | \$4,250,582 |

Note 9 **Property Taxes**

The City bills and collects its own property taxes and also taxes for the County of Monroe, State of Michigan, Monroe County Community College, Monroe County Intermediate School District, Mason Consolidated School District, and delinquent water bills for the South County Water System. Summer property taxes are billed on July 1 each year and collected by the City from July 1 to July 31. Winter property taxes are billed on December 1 each year and collected from December 1 to February 14.

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2019*

Note 9 Property Taxes (Concluded)

The taxable valuation for both real and personal property as of December 31, 2018, amounted to \$43,079,436 which was based on a percentage of the fair market value of the assessed property. The 2018 tax roll consisted of the following:

| | <u>General Operating</u> | <u>Flood Control</u> | <u>Police</u> | <u>Total</u> |
|-------|------------------------------|--------------------------|---------------|--------------|
| Mills | 9.8245 | 0.4997 | 2.0000 | 12.3242 |
| Levy | \$432,477 | \$21,993 | \$88,038 | \$542,508 |

Included within the boundaries of the City of Luna Pier is the former Consumers Power Company electric utility plant, a portion of which was sold to Monroe Investments I, LLC. A breakdown of the 2018 levy for the former Consumers Power Company property and other property is as follows:

| | <u>General Operating</u> | <u>Flood Control</u> | <u>Police</u> | <u>Total</u> |
|-------------------------|------------------------------|--------------------------|-----------------|------------------|
| Consumers Power Company | \$45,231 | \$2,301 | \$9,208 | \$56,740 |
| Other | <u>387,246</u> | <u>19,692</u> | <u>78,830</u> | <u>485,768</u> |
| | <u>\$432,477</u> | <u>\$21,993</u> | <u>\$88,038</u> | <u>\$542,508</u> |

Note 10 Sewer Use Charge

Ordinance No. 67, as amended by Ordinance No. 90, Ordinance No. 145, Ordinance No. 175, Ordinance No. 197, Resolution No. 830, and Resolution No. 852 established a charge to customers for use of the City of Luna Pier Waste Water Treatment System. The latest ordinance changed the customer charge from a flat-fee per residential unit to fees based on a fixed rate charge (depending on the size of the water meter) and volume charge (depending on the amount of water usage). The new rates per Resolution No. 852 vary from a fixed rate quarterly charge of \$40.62 for a 5/8 inch meter to \$1,284.35 for a 6 inch meter. The volume charge was established at \$10.17 per 1,000 gallons of water usage. These fees are in addition to fees required for connections and permits and other fees required by other ordinances.

Note 11 Employee's Defined Benefit Pension Plan
Plan Description

The City of Luna Pier'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.mersofmichigan.com.

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2019*

Note 11 Employee's Defined Benefit Pension Plan (Continued)
Benefits Provided

| | 01 - General: <u>Closed to new hires</u> <u>2018 Valuation</u> | 10 - Water Treatment: <u>Closed to new hires</u> <u>2018 Valuation</u> | 20 - Police Chief: <u>Open division</u> <u>2018 Valuation</u> |
|-------------------------------|--|--|--|
| Benefit Multiplier: | Bridged Benefit: 2.00% Multiplier (no max) Frozen FAC; to 1.50% Multiplier (no max) | Bridged Benefit: 2.00% Multiplier (no max) Frozen FAC; to 1.50% Multiplier (no max) | Bridged Benefit: 2.00% Multiplier (no max) Frozen FAC; to 1.50% Multiplier (no max) |
| Bridged Benefit Date: | 6/30/2013 | 6/30/2013 | 7/31/2014 |
| Normal Retirement Age: | 60 | 60 | 60 |
| Vesting: | 10 years | 10 years | 10 years |
| Early Retirement (unreduced): | 50/25 | 50/25 | 50/25 |
| Early Retirement (Reduced): | 55/15 | 55/15 | 55/15 |
| Final Average Compensation: | 3 years | 3 years | 3 years |
| COLA for Future Retirees: | 2.50% (Non-Compound) | 2.50% (Non-Compound) | 2.50% (Non-Compound) |
| COLA for Current Retirees: | 2.50% (Non-Compound) | n/a | n/a |
| Employee Contributions: | 5% | 5% | 5% |
| DC Plan for New Hires | 7/1/2013 | 7/1/2013 | n/a |
| Act 88: | No | No | No |

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 | 14 |
| Inactive employees entitled to but not yet receiving benefits | 6 |
| Active employees | <u>2</u> |
| Total employees covered by MERS | <u><u>22</u></u> |

Contributions

The City 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. All full time employees contribute 5% of their salary to the plan.

For the year ended June 30, 2019, the City's average contribution rate was 45.90 percent of annual payroll. The contribution requirements of plan members and the City are established by the City and by the MERS Council of Trustees.

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.

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2019*

Note 11 Employee's Defined Benefit Pension Plan (Continued)

Actuarial Assumptions

The total pension liability in the December 31, 2018 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increases: 3.75% in the long term

Investment rate of return: 7.75%, net of investment and administrative 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 RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in the valuation were based on the results of the most recent actuarial experience study of 2009-2013.

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Target Gross Rate of Return</u> | <u>Long-Term Expected Gross Rate of Return</u> | <u>Inflation Assumption</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-------------------------|--------------------------|------------------------------------|--|-----------------------------|---|
| Global Equity | 55.50% | 8.65% | 4.80% | 2.50% | 3.41% |
| Global Fixed Income | 18.50% | 3.76% | 0.70% | 2.50% | 0.23% |
| Real Assets | 13.50% | 9.72% | 1.31% | 2.50% | 0.97% |
| Diversifying Strategies | 12.50% | 7.50% | 0.94% | 2.50% | 0.63% |
| | <u>100.00%</u> | | <u>7.75%</u> | | <u>5.24%</u> |

Discount Rate

The discount rate used to measure the total pension liability is 8.00%. The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because, for GASB 68 purposes, it is gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2019*

Note 11 Employee's Defined Benefit Pension Plan (Continued)

Changes in Net Pension Liability

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

| <u>Changes in Net Pension Liability</u> | <u>Increase (Decrease)</u> | | |
|---|--------------------------------|------------------------------------|------------------------------|
| | <u>Total Pension Liability</u> | <u>Plan Fiduciary Net Position</u> | <u>Net Pension Liability</u> |
| Balances at 12/31/17 | \$4,853,149 | \$2,350,921 | \$2,502,228 |
| Service cost | 8,652 | 0 | 8,652 |
| Interest on total pension liability | 373,251 | 0 | 373,251 |
| Difference between expected and actual experience | 109,311 | 0 | 109,311 |
| Employer contributions | 0 | 184,521 | (184,521) |
| Employee contributions | 0 | 7,699 | (7,699) |
| Net investment income | 0 | (85,346) | 85,346 |
| Benefit payments, including employee refunds | (383,673) | (383,673) | 0 |
| Administrative expense | 0 | (4,394) | 4,394 |
| Net changes | <u>107,541</u> | <u>(281,193)</u> | <u>388,734</u> |
| Balances as of 12/31/18 | <u>\$4,960,690</u> | <u>\$2,069,728</u> | <u>\$2,890,962</u> |

Of the total net pension liability of \$2,890,962 at 12/31/18, \$1,734,577 has been allocated to governmental activities and \$1,156,385 has been allocated to the Waste Water Treatment Plant Fund.

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% higher (9.0%) than the current rate.

| | <u>Current</u> | | |
|-----------------------------------|-------------------------------|---------------------------------|-------------------------------|
| | <u>1% Decrease (7.0%)</u> | <u>Discount Rate (8.0%)</u> | <u>1% Increase (9.0%)</u> |
| Net pension liability of the City | <u>\$3,370,961</u> | <u>\$2,890,962</u> | <u>\$2,487,755</u> |

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because, for GASB 68 purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2019*

Note 11 Employee’s Defined Benefit Pension Plan (Concluded)
Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2019, the City recognized pension expense of \$402,951. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred (Inflows) of Resources |
|--|--------------------------------------|---------------------------------------|
| Net differences between projected and actual plan investments earnings | \$160,053 | \$0 |
| Employer contributions to the plan subsequent to the measurement date | 98,724 | 0 |
| | \$258,777 | \$0 |

Of the total net deferred outflows of resources, \$155,266 has been allocated to governmental activities and \$103,511 has been allocated to the Waste Water Treatment Plant Fund.

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability for the year ending June 30, 2020.

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

| Year ended June 30, | Amount |
|---------------------|----------|
| 2020 | \$60,929 |
| 2019 | 15,813 |
| 2020 | 30,194 |
| 2021 | 53,117 |

Note 12 Employee’s Defined Contribution Pension Plan
The City has a defined contribution retirement plan, which is offered through the Municipal Employees Retirement System of Michigan (MERS), administered by the State of Michigan. Five employees participate in the defined contribution pension plan. Contributions are 100% vested immediately. Employees contribute 5.0% of their wages to the plan. The city does not make contributions towards this plan.

Note 13 Contingent Liability
The City of Luna Pier is subject to the Michigan Employment Security Act and would be liable for valid unemployment claims on a reimbursement basis. No provision has been made for this potential liability.

CITY OF LUNA PIER

Notes to Financial Statements
Year Ended June 30, 2019

Note 14 Lake Front Sewer Projects

On March 11, 1988, the City of Luna Pier signed a contract with LaSalle Township which specified that the City of Luna Pier will provide the capacity for treatment of the Township's wastewater at the City of Luna Pier Wastewater Treatment Plant. The City of Luna Pier is responsible for the operation and maintenance of the system. The billing to LaSalle Township for LaSalle Township customers is based on actual usage at a rate equal to the City's customers.

Note 15 Other Post-Employment Benefits

The City provides retiree healthcare benefits to eligible employees upon retirement. Depending on hire date, employees either participate in the Municipal Employees Retirement System (MERS) of Michigan's Retiree Health Funding Vehicle (defined benefit OPEB plan) or Health Care Savings Program (defined contribution OPEB plan). MERS pools assets of the participating employers for investing purposes, but maintains separate accounts for each individual employer in the Retiree Health Funding Vehicle and each individual employee in the Health Care Savings Program. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the MERS website at www.mersofmich.com.

A. MERS Retiree Health Funding Vehicle

Plan Description

The MERS Retirement Health Funding Vehicle plan became operational in the fall of 2004 and was made available to all municipalities in Michigan. Participating municipalities can contribute monies to the Trust as desired and no contribution method is imposed. These funds constitute a health care fund, which enables municipalities to accumulate monies to provide or subsidize health care benefits and beneficiaries as defined by IRS Code Section 213. The Plan accounts are invested in the MERS portfolio choices and earnings are tax exempt as a result of the MERS Private Letter Ruling. The benefits are provided through a single-employer defined benefit OPEB plan. All investments are held by MERS.

Contributions

The City has no obligation to make contributions in advance of when the insurance premiums or benefits are due for payment; in other words, the plan may be financed on a pay-as-you-go basis. Administrative costs of the Plan are paid for by the City. Plan participants are not required to contribute to the Plan.

Benefits Provided

Retirees and their spouses may elect coverage under the City's health program for current active employees. Certain retirees have grandfathered benefit plans. The City pays a range of percentages for medical, dental, and optical coverage for retirees, and in certain instances, contributions toward spousal coverage, a portion of the coverage cost, depending on the retiree's hire date, years of service, and union affiliation, as applicable. Retirees must be at least 50 when separating from active employment and receiving pension benefits to be eligible. Retirees may elect for additional coverage at their cost. Retirees electing to opt out of the health care plan are eligible to a stipend for coverage under another plan. City employees hired on or after January 1, 2012 are not eligible to receive coverage under this plan.

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2019*

Note 15 Other Post-Employment Benefits (Continued)

A. MERS Retiree Health Funding Vehicle (Continued)

Employees Covered by Benefit Terms

At June 30, 2019, plan membership consisted of the following:

| | |
|----------------------|----|
| Retired participants | 8 |
| Active participants | 4 |
| Total employees | 12 |

Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|-----------------------------|---|
| Actuarial cost method | Entry age normal |
| Investment rate of return | 3.0% |
| Projected salary increases | 3.0% |
| Average retirement age | 60 |
| Healthcare cost trend rates | 4.6% for 2019, increasing to between 4.7% and 4.8% through 2028 |

Mortality rates of participants were based on the RP2000 Mortality Table for Males and Females Projected 18 years. This assumption does not include a margin for future improvements in longevity.

The long term expected rate of return on the OPEB plan investments was determined using a forward looking estimate of capital market returns model for each investment major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and investment expenses. The target allocation and best estimates of arithmetic real rates of return for each 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> | <u>Nominal Expected Return</u> |
|---------------------|--------------------------|---|--------------------------------|
| Global equity | 55.50% | 8.65% | 4.80% |
| Global fixed income | 18.50% | 3.76% | 0.70% |
| Private assets | 26.00% | 8.65% | 2.25% |
| | 100.00% | 21.06% | 7.75% |

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2019*

Note 15 Other Post-Employment Benefits (Continued)

A. MERS Retiree Health Funding Vehicle (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2019, was 3.0%. The projection of cash flows used to determine the discount rate assumes that City contributions will be made at the rates agreed upon for employees and the actuarially determined rates. Based on these assumptions, the OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability

The components of the changes in the net OPEB liability are summarized as follows:

| <u>Changes in Net OPEB Liability</u> | <u>Increase (Decrease)</u> | | |
|---|-----------------------------|------------------------------------|---------------------------|
| | <u>Total OPEB Liability</u> | <u>Plan Fiduciary Net Position</u> | <u>Net OPEB Liability</u> |
| Balances at June 30, 2018 | \$484,708 | \$0 | \$484,708 |
| Service cost | 20,897 | 0 | 20,897 |
| Interest on total pension liability | 1,479 | 0 | 1,479 |
| Changes in benefits | 0 | 0 | 0 |
| Difference between expected and actual experience | (149,000) | 0 | (149,000) |
| Changes in assumptions | (48,271) | 0 | (48,271) |
| Employer contributions | 0 | 25,293 | (25,293) |
| Employee contributions | 0 | 0 | 0 |
| Net investment income | 0 | 0 | 0 |
| Benefit payments, including employee refunds | (25,293) | (25,293) | 0 |
| Administrative expense | 0 | 0 | 0 |
| Net changes | <u>(200,188)</u> | <u>0</u> | <u>(200,188)</u> |
| Balances at June 30, 2019 | <u>\$284,520</u> | <u>\$0</u> | <u>\$284,520</u> |

Of the total net OPEB liability of \$284,520 at June 30, 2019, \$170,712 has been allocated to governmental activities and \$113,808 has been allocated to the Waste Water Treatment Plant Fund.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rates

The following presents the net OPEB liability of the City, calculated using the discount rate of 3.0%, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1.0% lower (2.0%) or 1.0% higher (4.0%) than the current rate:

| | <u>1% Decrease (2.0%)</u> | <u>Current Discount Rate (3.0%)</u> | <u>1% Increase (4.0%)</u> |
|--------------------------------|-------------------------------|---|-------------------------------|
| Net OPEB liability of the City | <u>\$300,626</u> | <u>\$284,520</u> | <u>\$270,130</u> |

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2019*

Note 15 Other Post-Employment Benefits (Concluded)

A. MERS Retiree Health Funding Vehicle (Concluded)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1.0% lower (2.0%) and 1.0% higher (4.0%) than the current healthcare cost trend rates:

| | 1% Decrease <u>(2.0%)</u> | Current Cost Trend Rate <u>(3.0%)</u> | 1% Increase <u>(4.0%)</u> |
|--------------------------------|------------------------------|---|------------------------------|
| Net OPEB liability of the City | <u>\$261,533</u> | <u>\$284,520</u> | <u>\$310,528</u> |

B. MERS Health Care Savings Program

Plan Description

The City's defined contribution OPEB plan (Health Care Savings Program) provides certain health care benefits to plan members upon termination of employment. The City participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent, multiple employer, statewide public employee defined benefit contribution OPEB plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the MERS website at www.mersofmich.com.

Contributions

The City contributes 2.0% of employee wages according to plan provisions. Employees do not make contributions toward this plan. Contribution rates are determined by the City and may be amended by the local governing body.

Benefit Terms

Employees become vested on the employer contributions after completing 90 days of creditable service to the employer, according to plan provisions.

Contribution Amounts

For the year ended June 30, 2019, the City contributed \$1,791 to the plan.

Forfeiture Amounts

Non-vested employer contributions are forfeited after a period of 5 years has passed from the date of termination. Such forfeitures are used to cover future employer contributions, be directed to the employer's Retiree Health Funding Vehicle, or be equally distributed among all remaining active participants in the plan. There were no forfeitures for the year ended June 30, 2019.

CITY OF LUNA PIER

Notes to Financial Statements
Year Ended June 30, 2019

Note 16 Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors, omissions and employee injuries (workman’s compensation). The City has purchased commercial insurance for property loss, torts, errors, omissions, and employee injuries.

Note 17 Joint Venture

The South County Water System is a joint venture with the County of Monroe and four municipalities: LaSalle Township, Bedford Township, Erie Township, and the City of Luna Pier. However, the municipalities do not have an equity interest in this joint venture. The City of Luna Pier and the other three municipalities entered into another contract with the County of Monroe whereby each municipality has pledged their full faith and credit to provide debt service payments on the \$2,610,000 bond issue dated August 11, 2016. The bond proceeds were used to acquire and construct improvements to the South County Water System and refund \$2,535,000 of the 2005 bond issue dated October 1, 2005. Each municipality is obligated for their share of the obligation based on the assessed property valuations which are computed annually. Currently, the South County Water System provides the debt retirement requirements on the \$2,610,000 bond issue which are paid from the system’s revenues.

As of June 30, 2019, the City of Luna Pier’s obligation for this bond issue is 2.8594%. The following is the financial information of the joint venture, obtained from the Monroe County Drain Commissioner, County Agency financial report as of December 31, 2018:

| | |
|-----------------------------------|--------------|
| Total assets | \$31,276,817 |
| Total deferred outflows | 512,208 |
| Total liabilities | 5,323,594 |
| Deferred inflows | 306,503 |
| Total net position | 26,158,928 |
| Total revenues | 9,149,323 |
| Total expenses | 8,607,195 |
| Total increase in system equity | 542,128 |
| | |
| Current portion of long-term debt | 280,000 |
| Long-term debt (net of discounts) | 1,795,000 |

Note 18 Governmental Regulation

Substantially all of the City’s facilities are subject to federal, state, and local provisions regulating the discharge of material into the environment. Compliance with these provisions has not had, nor does the City expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the City. Management believes that the current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF LUNA PIER

*General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2019*

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|-------------------------------|------------------|----------------|----------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Taxes: | | | | |
| Property taxes | \$423,233 | \$423,233 | \$452,924 | \$29,691 |
| Payment in lieu of taxes | 1,200 | 1,200 | 154 | (1,046) |
| Tax administration fee | 15,000 | 15,000 | 18,318 | 3,318 |
| Penalties and interest | 2,400 | 2,400 | 2,900 | 500 |
| | <u>441,833</u> | <u>441,833</u> | <u>474,296</u> | <u>32,463</u> |
| Licenses and permits: | | | | |
| Building permits | 10,000 | 10,000 | 11,229 | 1,229 |
| Plan review fee | 2,000 | 2,000 | 2,100 | 100 |
| Plumbing permits | 1,300 | 1,300 | 644 | (656) |
| Parking and launching permits | 2,500 | 2,500 | 3,414 | 914 |
| Parking - Pay and Display | 21,500 | 21,500 | 30,224 | 8,724 |
| Electrical permits | 2,400 | 2,400 | 3,204 | 804 |
| Mechanical permits | 2,200 | 2,200 | 2,755 | 555 |
| | <u>41,900</u> | <u>41,900</u> | <u>53,570</u> | <u>11,670</u> |
| Federal grant: | | | | |
| Grant Revenue | 40,000 | 40,000 | 38,852 | (1,148) |
| State grants: | | | | |
| State shared revenue | 128,198 | 128,198 | 134,558 | 6,360 |
| Local Community Stabilization | 0 | 0 | 17,446 | 17,446 |
| Liquor license fees | 1,100 | 1,100 | 1,162 | 62 |
| Police grants | 1,000 | 1,000 | 500 | (500) |
| | <u>130,298</u> | <u>130,298</u> | <u>153,666</u> | <u>23,368</u> |
| Local grants: | | | | |
| Consumers - Lighthouse | 0 | 0 | 210,000 | 210,000 |
| Fire training | 0 | 0 | 13,277 | 13,277 |
| | <u>0</u> | <u>0</u> | <u>223,277</u> | <u>223,277</u> |
| Charges for services: | | | | |
| Inspection fee | 3,000 | 3,000 | 2,250 | (750) |
| Cablevision fee | 12,000 | 12,000 | 12,952 | 952 |
| Bed tax | 3,000 | 3,000 | 1,716 | (1,284) |
| Trash administration fee | 1,000 | 1,000 | 1,000 | 0 |
| Fringe benefit recovery | 2,800 | 2,800 | 2,392 | (408) |
| | <u>21,800</u> | <u>21,800</u> | <u>20,310</u> | <u>(1,490)</u> |
| Fines and forfeits | 2,000 | 2,000 | 3,641 | 1,641 |
| Interest income | 1,600 | 1,600 | 2,469 | 869 |
| Rentals: | | | | |
| Equipment rental | 25,000 | 25,000 | 27,696 | 2,696 |
| Building rental | 8,000 | 8,000 | 9,660 | 1,660 |
| AT&T tower land lease | 21,600 | 21,600 | 21,650 | 50 |
| | <u>54,600</u> | <u>54,600</u> | <u>59,006</u> | <u>4,406</u> |
| Other revenue: | | | | |
| Donations | 5,000 | 5,000 | 1,735 | (3,265) |
| Sale of property | 0 | 0 | 22,500 | 22,500 |
| Other revenue | 15,000 | 15,000 | 9,949 | (5,051) |
| | <u>20,000</u> | <u>20,000</u> | <u>34,184</u> | <u>14,184</u> |
| Total Revenues | 754,031 | 754,031 | 1,063,271 | 310,388 |

CITY OF LUNA PIER

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

Year Ended June 30, 2019

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|------------------|------------------|--------------------|---|
| | Original | Final | | |
| Expenditures | | | | |
| Legislative: | | | | |
| Council | \$8,065 | \$8,065 | \$7,786 | \$279 |
| General government: | | | | |
| Mayor | 3,852 | 3,852 | 3,485 | 367 |
| Election | 3,275 | 3,275 | 2,996 | 279 |
| Finance | 7,000 | 7,000 | 4,000 | 3,000 |
| Assessor | 19,625 | 19,625 | 20,210 | (585) |
| Attorney | 10,000 | 10,000 | 22,297 | (12,297) |
| Clerk | 57,321 | 57,321 | 44,088 | 13,233 |
| Board of review | 500 | 500 | 475 | 25 |
| Treasurer | 51,234 | 51,234 | 47,643 | 3,591 |
| City hall and grounds | 22,600 | 22,600 | 28,092 | (5,492) |
| | <u>175,407</u> | <u>175,407</u> | <u>173,286</u> | <u>2,121</u> |
| Public safety: | | | | |
| Police department | 24,850 | 24,850 | 19,200 | 5,650 |
| Fire department | 42,917 | 42,917 | 48,874 | (5,957) |
| Building inspection | 30,039 | 30,039 | 31,864 | (1,825) |
| | <u>97,806</u> | <u>97,806</u> | <u>99,938</u> | <u>(2,132)</u> |
| Public works: | | | | |
| Public works | 63,034 | 63,034 | 52,825 | 10,209 |
| Drains | 52,299 | 52,299 | 52,298 | 1 |
| Streetlights | 25,212 | 25,212 | 27,702 | (2,490) |
| | <u>140,545</u> | <u>140,545</u> | <u>132,825</u> | <u>7,720</u> |
| Community and economic development: | | | | |
| Economic development | 48,000 | 48,000 | 34,680 | 13,320 |
| Recreation and cultural: | | | | |
| Recreation | 19,430 | 19,430 | 21,594 | (2,164) |
| Water tower park | 10,220 | 10,220 | 9,648 | 572 |
| Library | 4,290 | 4,290 | 4,030 | 260 |
| | <u>33,940</u> | <u>33,940</u> | <u>35,272</u> | <u>(1,332)</u> |
| Debt service | 62,573 | 62,573 | 62,573 | 0 |
| Other: | | | | |
| Insurance and bonds | 20,000 | 20,000 | 16,274 | 3,726 |
| Hospital and dental insurance | 30,000 | 30,000 | 27,264 | 2,736 |
| Pension | 194,000 | 194,000 | 191,832 | 2,168 |
| Tax tribunal refunds | 0 | 0 | 20,382 | (20,382) |
| Miscellaneous | 100 | 100 | 793 | (693) |
| | <u>244,100</u> | <u>244,100</u> | <u>256,545</u> | <u>(12,445)</u> |
| Total Expenditures | <u>810,436</u> | <u>810,436</u> | <u>802,905</u> | <u>7,531</u> |
| Excess (Deficiency) of Revenues Over Expenditures | (56,405) | (56,405) | 260,366 | 302,857 |
| Other Financing Sources (Uses) | | | | |
| Operating transfer out | <u>(40,000)</u> | <u>(40,000)</u> | <u>(40,000)</u> | <u>0</u> |
| Net Change in Fund Balances | <u>(96,405)</u> | <u>(96,405)</u> | <u>220,366</u> | <u>302,857</u> |
| Fund Balances - Beginning of year | <u>961,624</u> | <u>980,706</u> | <u>980,706</u> | <u>0</u> |
| Fund Balances - End of year | <u>\$865,219</u> | <u>\$884,301</u> | <u>\$1,201,072</u> | <u>\$302,857</u> |

CITY OF LUNA PIER

*Major Street Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2019*

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|------------------------------------|------------------|-----------------|------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| State grants: | | | | |
| Gas and weight tax | \$100,134 | \$100,134 | \$107,812 | \$7,678 |
| Other state grant | 0 | 0 | 12,661 | 12,661 |
| Other revenue | 200 | 200 | 3,821 | 3,621 |
| Total Revenues | 100,334 | 100,334 | 124,294 | 20,339 |
| Expenditures | | | | |
| Public works: | | | | |
| Preservation | 7,000 | 7,000 | 0 | 7,000 |
| Routine maintenance | 25,000 | 25,000 | 17,425 | 7,575 |
| Traffic services | 3,800 | 3,800 | 0 | 3,800 |
| Winter maintenance | 7,750 | 7,750 | 9,853 | (2,103) |
| Administrative and engineering | 27,447 | 27,447 | 2,976 | 24,471 |
| | 70,997 | 70,997 | 30,254 | 40,743 |
| Debt service: | | | | |
| Principal | 18,424 | 18,424 | 23,290 | (4,866) |
| Interest | 10,913 | 10,913 | 10,912 | 1 |
| | 29,337 | 29,337 | 34,202 | (4,865) |
| Total Expenditures | 100,334 | 100,334 | 64,456 | 35,878 |
| Net Change in Fund Balances | 0 | 0 | 59,838 | 56,217 |
| Fund Balances - Beginning of year | 69,374 | 72,682 | 72,681 | (1) |
| Fund Balances - End of year | <u>\$69,374</u> | <u>\$72,682</u> | <u>\$132,519</u> | <u>\$59,837</u> |

CITY OF LUNA PIER

*Local Street Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2019*

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|------------------------------------|------------------|-----------|-----------|---|
| | Original | Final | | |
| Revenues | | | | |
| State grants: | | | | |
| Gas and weight tax | \$52,518 | \$52,518 | \$56,494 | \$3,976 |
| Other state grant | 0 | 0 | 6,638 | 6,638 |
| Other revenue | 500 | 500 | 0 | (500) |
| Total Revenues | 53,018 | 53,018 | 63,132 | 10,114 |
| Expenditures | | | | |
| Public works: | | | | |
| Preservation | 10,000 | 10,000 | 1,385 | 8,615 |
| Routine maintenance | 22,600 | 22,600 | 19,830 | 2,770 |
| Traffic services | 2,550 | 2,550 | 71 | 2,479 |
| Winter maintenance | 6,650 | 6,650 | 899 | 5,751 |
| Administrative and engineering | 11,218 | 11,218 | 3,479 | 7,739 |
| Total Expenditures | 53,018 | 53,018 | 25,664 | 27,354 |
| Net Change in Fund Balances | 0 | 0 | 37,468 | 37,468 |
| Fund Balances - Beginning of year | 118,569 | 113,515 | 113,515 | 0 |
| Fund Balances - End of year | \$118,569 | \$113,515 | \$150,983 | \$37,468 |

CITY OF LUNA PIER

*Police Millage Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2019*

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|------------------|----------|----------|---|
| | Original | Final | | |
| Revenues | | | | |
| Taxes: | | | | |
| Property taxes | \$86,157 | \$86,157 | \$92,365 | \$6,208 |
| State grants | 0 | 0 | 1,779 | 1,779 |
| Donation | 0 | 0 | 500 | 500 |
| Total Revenue | 86,157 | 86,157 | 94,644 | 8,487 |
| Expenditures | | | | |
| Public safety: | | | | |
| Police department | 126,100 | 126,100 | 131,426 | (5,326) |
| Excess (Deficiency) of Revenues Over Expenditures | (39,943) | (39,943) | (36,782) | 3,161 |
| Other Financing Sources (Uses) | | | | |
| Operating transfer in | 40,000 | 40,000 | 40,000 | 0 |
| Net Change in Fund Balances | 57 | 57 | 3,218 | 3,161 |
| Fund Balances - Beginning of year | 27,494 | 9,267 | 9,267 | 0 |
| Fund Balances - End of year | \$27,551 | \$9,324 | \$12,485 | \$3,161 |

CITY OF LUNA PIER

*Garbage and Rubbish Collection Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2019*

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|-------------------------------------|------------------|----------|----------|---|
| | Original | Final | | |
| Revenues | | | | |
| Special assessments | \$67,850 | \$67,850 | \$67,390 | (\$460) |
| Expenditures | | | | |
| Public works: | | | | |
| Refuse collection | 67,850 | 67,850 | 66,374 | 1,476 |
| Net Changes in Fund Balances | 0 | 0 | 1,016 | 1,016 |
| Fund Balances - Beginning of year | 16,971 | 6,540 | 6,540 | 0 |
| Fund Balances - End of year | \$16,971 | \$6,540 | \$7,556 | \$1,016 |

CITY OF LUNA PIER

*Downtown Development Authority Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2019*

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|-------------------------------------|------------------|------------|--------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Other revenue: | | | | |
| Sponsorships | \$0 | \$0 | \$4,501 | \$4,501 |
| Expenditures | | | | |
| Community and economic development: | | | | |
| Miscellaneous | 2,035 | 2,035 | 5,960 | (3,925) |
| Net Change in Fund Balances | (2,035) | (2,035) | (1,459) | 576 |
| Fund Balances - Beginning of year | 2,035 | 2,035 | 2,035 | 0 |
| Fund Balances - End of year | <u>\$0</u> | <u>\$0</u> | <u>\$576</u> | <u>\$576</u> |

CITY OF LUNA PIER

*Community Development Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2019*

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|-------------------------------------|------------------|----------|----------|---|
| | Original | Final | | |
| Revenues | | | | |
| Interest income: | | | | |
| Investments | \$0 | \$0 | \$86 | \$86 |
| Expenditures | | | | |
| Community and economic development: | | | | |
| Professional fees | 2,000 | 2,000 | 2,000 | 0 |
| Miscellaneous | 12,000 | 12,000 | 5,460 | 6,540 |
| Total Expenditures | 14,000 | 14,000 | 7,460 | 6,540 |
| Net Change in Fund Balances | (14,000) | (14,000) | (7,374) | 6,626 |
| Fund Balances - Beginning of year | 71,317 | 71,316 | 71,316 | 0 |
| Fund Balances - End of year | \$57,317 | \$57,316 | \$63,942 | \$6,626 |

CITY OF LUNA PIER

*Flood Control Facilities Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2019*

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|------------------------------------|-------------------------|-------------------------|-------------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Taxes: | | | | |
| Property | \$21,538 | \$21,538 | \$23,032 | \$1,494 |
| Penalties and interest | 0 | 0 | 42 | 42 |
| | <u>21,538</u> | <u>21,538</u> | <u>23,074</u> | <u>1,536</u> |
| State grants | 0 | 0 | 988 | 988 |
| Interest income | 250 | 250 | 2,241 | 1,991 |
| | <u>21,788</u> | <u>21,788</u> | <u>26,303</u> | <u>4,515</u> |
| Expenditures | | | | |
| Public works: | | | | |
| Dike maintenance | 17,488 | 17,488 | 6,074 | 11,414 |
| Pump stations utilities | 3,300 | 3,300 | 4,822 | (1,522) |
| Emergency maintenance | 0 | 0 | 0 | 0 |
| Miscellaneous | 1,000 | 1,000 | 1,525 | (525) |
| | <u>21,788</u> | <u>21,788</u> | <u>12,421</u> | <u>9,367</u> |
| Net Change in Fund Balances | 0 | 0 | 13,882 | 13,882 |
| Fund Balances - Beginning of year | <u>209,675</u> | <u>184,821</u> | <u>184,821</u> | <u>0</u> |
| Fund Balances - End of year | <u><u>\$209,675</u></u> | <u><u>\$184,821</u></u> | <u><u>\$198,703</u></u> | <u><u>\$13,882</u></u> |

CITY OF LUNA PIER

*Fire Millage Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2019*

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|-------------------------------------|-------------------|----------------------|---------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Interest income | \$0 | \$0 | \$0 | \$0 |
| Expenditures | | | | |
| Public safety: | | | | |
| Fire department: | | | | |
| Equipment maintenance | 1,986 | 1,986 | 1,552 | 434 |
| Miscellaneous | 0 | 0 | 241 | (241) |
| | <u>1,986</u> | <u>1,986</u> | <u>1,793</u> | <u>193</u> |
| Net Changes in Fund Balances | (1,986) | (1,986) | (1,793) | 193 |
| Fund Balances - Beginning of year | <u>1,986</u> | <u>1,926</u> | <u>1,926</u> | <u>0</u> |
| Fund Balances - End of year | <u><u>\$0</u></u> | <u><u>(\$60)</u></u> | <u><u>\$133</u></u> | <u><u>\$193</u></u> |

CITY OF LUNA PIER

*Schedule of Changes in the Employer's Net Pension Liability and Related Ratios
Municipal Employees' Retirement System of Michigan
Last 10 Fiscal Years (Amounts determined as of 12/31 of each year)*

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Total Pension Liability | | | | | |
| Service Cost | \$8,652 | \$15,889 | \$25,427 | \$28,199 | \$27,220 |
| Interest | 373,251 | 368,396 | 364,922 | 359,902 | 356,388 |
| Changes of Benefit Terms | 0 | 0 | 0 | 0 | 0 |
| Difference between expected and actual experience | 109,311 | 51,390 | 3,991 | (80,320) | 0 |
| Changes of assumptions | 0 | 0 | 0 | 230,826 | 0 |
| Benefit payments including employee refunds | (383,673) | (359,058) | (333,245) | (343,041) | (339,966) |
| Other | 0 | (1) | 0 | 1 | 1 |
| Net Change in Total Pension Liability | 107,541 | 76,616 | 61,095 | 195,567 | 43,643 |
| Total Pension Liability - Beginning of year | 4,853,149 | 4,776,533 | 4,715,438 | 4,519,871 | 4,476,228 |
| Total Pension Liability - End of year | \$4,960,690 | \$4,853,149 | \$4,776,533 | \$4,715,438 | \$4,519,871 |
| Plan Fiduciary Net Position | | | | | |
| Contributions - employer | \$184,521 | \$163,243 | \$143,494 | \$129,531 | \$111,202 |
| Contributions - employee | 7,699 | 12,165 | 15,434 | 15,788 | 16,566 |
| Net investment income | (85,346) | 287,237 | 240,022 | (33,685) | 153,221 |
| Administrative expenses | (4,394) | (4,566) | (4,748) | (5,112) | (5,569) |
| Benefit payments, including refunds | (383,673) | (359,058) | (333,245) | (343,041) | (339,966) |
| Other | 0 | 0 | 0 | 0 | 0 |
| Net Change in Plan Fiduciary Net Position | (281,193) | 99,021 | 60,957 | (236,519) | (64,546) |
| Plan Fiduciary Net Position - Beginning of year | 2,350,921 | 2,251,900 | 2,190,943 | 2,427,462 | 2,492,008 |
| Plan Fiduciary Net Position - End of year | \$2,069,728 | \$2,350,921 | \$2,251,900 | \$2,190,943 | \$2,427,462 |
| City's Net Pension Liability - Ending | \$2,890,962 | \$2,502,228 | \$2,524,633 | \$2,524,495 | \$2,092,409 |
| Plan Fiduciary Net Position as a percentage of Total Pension Liability | 41.7% | 48.4% | 47.1% | 46.5% | 53.7% |
| Covered Employee Payroll | \$96,573 | \$178,738 | \$284,867 | \$318,225 | \$307,324 |
| City's Net Pension Liability as a percentage of Covered Employee Payroll | 2993.6% | 1399.9% | 886.2% | 793.3% | 680.8% |

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available, beginning with FYE December 31, 2014.

CITY OF LUNA PIER

*Schedule of Employer's Contributions
Municipal Employees' Retirement System of Michigan
Last 10 Fiscal Years (Amounts determined as of 12/31 of each year)*

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-----------|-----------|-----------|-----------|-----------|
| Actuarial determined contributions | \$184,521 | \$163,243 | \$143,494 | \$129,531 | \$111,202 |
| Contributions in relation to the actuarially determined contribution | 184,521 | 163,243 | 143,494 | 129,531 | 111,202 |
| Contribution deficiency (excess) | \$0 | \$0 | \$0 | \$0 | \$0 |

Notes to Schedule of City Contributions

| | |
|-------------------------------|--|
| Actuarial cost method | Entry age |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 17 years |
| Asset valuation method | 10 year smoothed |
| Inflation | 2.50% |
| Salary increases | 3.75% |
| Investment rate of return | 7.75% |
| Retirement age | Normal age is 60, or 50 with 25 years of service, or 55 with 15 years of service |
| Mortality | 50% female/50% male 2014 Group Annuity Mortality Table |

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available, beginning with FYE December 31, 2014.

CITY OF LUNA PIER

*Schedule of Changes in the Employer's Net OPEB Liability and Related Ratios
Municipal Employees' Retirement System of Michigan
Last 10 Fiscal Years (Amounts determined as of 6/30 of each year)*

| | <u>2019</u> | <u>2018</u> |
|--|------------------|------------------|
| Total OPEB Liability | | |
| Service Cost | \$20,897 | \$20,897 |
| Interest | 1,479 | 1,848 |
| Changes of Benefit Terms | 0 | 0 |
| Difference between expected and actual experience | (149,001) | (14,656) |
| Changes of assumptions | (48,271) | (95,871) |
| Benefit payments including employee refunds | (25,293) | (45,228) |
| Other | 1 | 0 |
| Net Change in Total OPEB Liability | <u>(200,188)</u> | <u>(133,010)</u> |
| Total OPEB Liability - Beginning of year | 484,708 | 617,718 |
| Total OPEB Liability - End of year | <u>\$284,520</u> | <u>\$484,708</u> |
| Plan Fiduciary Net Position | | |
| Contributions - employer | \$25,293 | \$45,228 |
| Contributions - employee | 0 | 0 |
| Net investment income | 0 | 0 |
| Administrative expenses | 0 | 0 |
| Benefit payments, including refunds | (25,293) | (45,228) |
| Other | 0 | 0 |
| Net Change in Plan Fiduciary Net Position | <u>0</u> | <u>0</u> |
| Plan Fiduciary Net Position - Beginning of year | 0 | 0 |
| Plan Fiduciary Net Position - End of year | <u>\$0</u> | <u>\$0</u> |
| City's Net OPEB Liability - Ending | <u>\$284,520</u> | <u>\$484,708</u> |
| Plan Fiduciary Net Position as a percentage of Total OPEB Liability | 0.0% | 0.0% |
| Covered Employee Payroll | \$89,550 | \$26,317 |
| City's Net OPEB Liability as a percentage of Covered Employee Payroll | 317.7% | 1841.8% |

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available, beginning with FYE June 30, 2018.

OTHER SUPPLEMENTAL INFORMATION

CITY OF LUNA PIER

Tax Collection Agency Fund
Statement of Changes in Assets and Liabilities
June 30, 2019

| | <u>Balance</u> <u>July 1, 2018</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>June 30, 2019</u> |
|---------------------------------|---------------------------------------|--------------------|--------------------|--|
| Assets | | | | |
| Cash | <u>\$1,001</u> | <u>\$2,156,192</u> | <u>\$2,156,192</u> | <u>\$1,001</u> |
| Liabilities | | | | |
| Due to other taxing units | \$1,001 | \$559,738 | \$559,738 | \$1,001 |
| Due to other governmental units | <u>0</u> | <u>1,596,454</u> | <u>1,596,454</u> | <u>0</u> |
| Total Liabilities | <u>\$1,001</u> | <u>\$2,156,192</u> | <u>\$2,156,192</u> | <u>\$1,001</u> |

CITY OF LUNA PIER

*Waste Water Treatment Plant Fund
Statement of Revenues, Expenses, and Changes in Fund Net Position
Years Ended June 30, 2019*

| | <u>2019</u> |
|--|-------------------------|
| Operating Revenues | |
| Charges for services: | |
| Sewer use charge - Luna Pier | \$367,058 |
| Sewer use charge - LaSalle Township | 104,046 |
| | <u>471,104</u> |
| Other revenue | 973 |
| | <u>472,077</u> |
| Operating Expenses | |
| Sewer processing and maintenance: | |
| Salaries | 104,272 |
| Payroll taxes | 9,309 |
| Workers compensation | 1,779 |
| Pension | 89,877 |
| Hospitalization insurance and other post-employment benefits | (44,823) |
| Insurance | 14,707 |
| Supplies and chemicals | 25,897 |
| Contracted services | 17,281 |
| Utilities and telephone | 36,064 |
| Maintenance | 14,001 |
| Schooling | 366 |
| Miscellaneous | 11,357 |
| Depreciation | 170,953 |
| | <u>451,040</u> |
| Administration: | |
| Salaries | 19,677 |
| Professional fees | 1,800 |
| | <u>21,477</u> |
| | <u>472,517</u> |
| Net Operating Income (Loss) | (440) |
| Non-Operating Revenues (Expenses) | |
| Interest | <u>(77,632)</u> |
| Change in Net Position | <u>(78,072)</u> |
| Net Position - Beginning of year | <u>995,635</u> |
| Net Position - End of year | <u><u>\$917,563</u></u> |

COOLEY HEHL SABO & CALKINS

CERTIFIED PUBLIC ACCOUNTANTS

December 11, 2019

Honorable Mayor and City Council
City of Luna Pier
Monroe County, Michigan

We have audited the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Luna Pier for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 16, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Luna Pier are described in Note 2 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the 2019 fiscal year. We noted no transactions entered into by the City of Luna Pier during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the allowance of doubtful accounts is based on the sewer use charges. We evaluated the key factors and assumptions used to develop an estimate of a zero percent for the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the useful lives of depreciable capital assets is based on the length of time those assets will provide economic benefit in the future.

Management's estimate of the accrued compensated absences is based on formulas and conditions specified in various contracts regarding vacation and sick leave benefits.

Management's valuation of pension and other post-retirement benefits is based on formulas and assumptions about the probability of the occurrence of events far into the future.

Honorable Mayor and City Council
City of Luna Pier

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The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, some of which were material to the financial statements.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 11, 2019.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the major fund budget and actual statements and pension and OPEB schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Honorable Mayor and City Council
City of Luna Pier

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We were engaged to report on the agency changes in assets and liabilities and the Waste Water Treatment Plant Statement of Revenues, Expenses, and Changes in Fund Net Position, which accompany the financial statements but are not RSI. With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the City Council and management of the City of Luna Pier and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Coolay Hehl Sabo + Calkins

COOLEY HEHL SABO & CALKINS

CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor and City Council
City of Luna Pier
Monroe County, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Luna Pier as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

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 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 following deficiency in the City's internal control to be a material weakness:

Financial Statements

The City does not have procedures in place to prepare financial statements in accordance with accounting principles generally accepted in the United States of America, including procedures to record accruals for revenues and expenditures, to track changes in capital assets, and to present required financial statement disclosures. As is the case with many smaller and medium-sized entities, the government has historically relied on independent external auditors to assist in the preparation of the government-wide financial statements and footnotes. As a result of this condition, the government lacks internal controls over the preparation of the financial statements in accordance with GAAP.

A significant deficiency is a deficiency, or 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 following deficiency in the City's internal control to be a significant deficiency:

Annual Budgets

The City adopts a budget for each fund at the beginning of the fiscal year. Throughout the fiscal year, the budget needs to be amended to allow for expenditures that are higher than originally anticipated and for unexpected expenditures.

Honorable Mayor and City Council
City of Luna Pier

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The following comment is not a significant deficiency or material weakness but is a suggestion to improve your existing accounting and control systems.

Due to/Due From Other Funds

There are several funds that owe each other as of June 30, 2019. The City should reconcile these due to/due from accounts during the fiscal year and pay at least quarterly. The City should transfer the following funds to clear these outstanding June 30, 2019 balances.

| | |
|---|-------------|
| Major Street Fund to General Fund | \$41,077.23 |
| Local Street Fund to General Fund | 43,989.31 |
| Waste Water Treatment Plant Fund to General Fund | 178,218.12 |
| General Fund to Police Millage Fund | 1,779.43 |
| General Fund to Flood Control Facilities Fund | 1,317.12 |
| Major Street Fund to Waste Water Treatment Plant Fund | 4,937.04 |
| Local Street Fund to Waste Water Treatment Plant Fund | 1,614.09 |

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

We appreciate the cooperation and courtesy extended to us by the officials and employees of the City during the audit engagement. We are encouraged by the City's efforts to improve and maintain a sound internal accounting control system and by the efficiency of those people involved. It is our pleasure to have been of service to the City of Luna Pier.

Very truly yours,



December 11, 2019