

Manistee Downtown Development Authority

BASIC FINANCIAL STATEMENTS

June 30, 2018

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL
AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA
LESLIE BOHN, CPA

**MEMBER AICPA
DIVISION FOR CPA FIRMS**

MEMBER MACPA

**OFFICES IN
MICHIGAN & WISCONSIN**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Manistee Downtown Development Authority
Manistee, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the Manistee Downtown Development Authority (a component unit of the City of Manistee, Michigan), as of and for the year ended June 30, 2018, and related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

To the Authority Board
Manistee Downtown Development Authority

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Manistee Downtown Development Authority, as of June 30, 2018, and the respective changes in financial position 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 and budgetary comparison information on pages 3 through 6 and page 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018 on our consideration of the Manistee Downtown Development Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Manistee Downtown Development Authority's internal control over financial reporting and compliance.



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

November 15, 2018

Management's Discussion and Analysis

As management of the Manistee Downtown Development Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

Financial Highlights

The assets of the Authority exceeded its liabilities at the close of this fiscal year by \$459,555 (shown as *Net Position*), representing an increase of \$43,375 over the previous fiscal year. Of this amount, \$459,555 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

During the year, the Authority received \$395,907 in revenues and incurred \$352,532 in expenses, resulting in an increase in net position of \$43,375.

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$263,479 or 75% of the General Fund's total expenditures.

Overview of the Financial Statements

The Manistee Downtown Development Authority's financial statements consist of four components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to financial statements, and 4) required supplementary information.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's financial position. They are presented using a method of accounting that is similar to a private-sector business.

The *statement of net position* presents information on all of the Authority's assets and liabilities, the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (for example, earned but unused vacation leave, prepaid items, etc.).

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The Manistee Downtown Development Authority uses fund accounting to ensure compliance with finance-related legal requirements. The Authority tracks all of its activities in one governmental fund (the General Fund).

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. This is known as the modified accrual system of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide financial statements. These items are recorded in the government fund balance as expenditures. No depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the information provided in both the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, the report further presents required supplementary information (RSI) that explains the information presented in the financial statements.

Government-wide Financial Analysis

The following tables reflect a comparative analysis of government-wide data.

Statement of Net Position

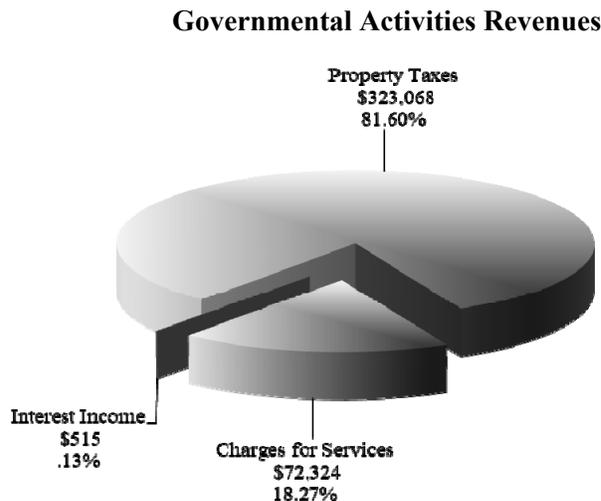
	Governmental Activities	
	2018	2017
Assets		
Current Assets	\$ 358,214	\$ 305,292
Noncurrent Assets	117,531	125,182
Total Assets	\$ 475,745	\$ 430,474
Liabilities		
Current Liabilities	\$ 16,190	\$ 14,294
Net Position		
Unrestricted	459,555	416,180
Total Net Position	\$ 459,555	\$ 416,180

Statement of Change in Net Position

	Governmental Activities	
	2018	2017
Revenues		
Program Revenues		
Charges for Services	\$ 72,324	\$ 66,251
General Revenues		
Property Taxes	323,068	308,391
Interest Income	515	12,177
Other Revenue	-	-
Total Revenues	395,907	386,819
Expenses		
Downtown Development	215,057	196,628
Transfers to Local Government	137,475	136,150
Total Expenses	352,532	332,778
Changes in Net Position	43,375	54,041
Net Position - Beginning	416,180	340,888
Prior Period Adjustment	-	21,251
Net Position - Beginning as Restated	416,180	362,139
Net Position - Ending	\$ 459,555	\$ 416,180

Governmental Activities

The following chart summarizes the revenue sources for the governmental activities of the Authority for the most recent fiscal year end:



The Authority transferred \$137,475 to reimburse the City of Manistee for debt service payments made on behalf of the Authority. The transfer out was 39% of the Authority’s expenses. Downtown development expenses of \$215,057 represented the remaining 61% of the total expenses of the governmental activities.

Financial analysis of the Government’s Funds

Governmental Activities. At the completion of the Authority’s fiscal year, its governmental funds (the General Fund) reported a fund balance of \$342,024. Of this amount \$263,479 or 77% is unassigned. This was an increase of \$152,610 in unassigned fund balance from the previous year.

General Fund Budgetary Highlights

When the budget was drafted, the revenue was estimated on a conservative basis with the expenditures estimated on a liberal basis. Difference between the original and final amended budgets and between final amended budgets and actual expenditures were relatively minor for the year.

Capital Asset and Debt Administration

Capital Assets

The Authority has no assets that meet the criteria for capitalization at the end of the year. This amount complies with methods established by the Governmental Accounting Standards Board (GASB) for implementation of GASB Statement 34.

Long-term Debt

At the end of the current fiscal year, the Authority has not debt outstanding, exclusive of compensated absences. However, the Authority does reimburse the City of Manistee for principal and interest on long-term debt obtained by the City for certain downtown improvements (treated as a transfer out).

Economic Factors and Next Year’s Budget and Rates

The following factors were considered in preparing the Authority’s budget for the 2018/2019 fiscal year:

- The Authority continues to take on additional responsibility for the maintenance and physical care of Manistee’s downtown district. Fiscal year 2017/2018 was the sixth year that the Authority was completely responsible for the Riverwalk landscaping and maintenance.

Contacting the Authority’s Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Authority’s finances and to show the Authority’s accountability for the money it receives. If you have questions about this report or need additional information, please direct your requests to:

Manistee Downtown Development Authority
Director – Manistee Downtown Development Authority
294 River Street, Suite 2
Manistee, Michigan 49660

Basic Financial Statements

Manistee Downtown Development Authority

Statement of Net Position June 30, 2018

	<u>Primary Government Governmental Activities</u>
ASSETS:	
Cash and Equivalents - Unrestricted	\$ 270,049
Taxes Receivable	82,242
Accounts Receivable	3,909
Other Assets	2,014
Notes Receivable	117,531
	<hr/>
Total Assets	\$ 475,745
	<hr/> <hr/>
LIABILITIES:	
Accounts Payable	\$ 3,791
Accrued Liabilities	1,188
Unearned Revenue	11,211
	<hr/>
Total Liabilities	16,190
	<hr/>
NET POSITION:	
Unrestricted	459,555
	<hr/>
Total Net Position	\$ 459,555
	<hr/> <hr/>

Manistee Downtown Development Authority

Statement of Activities For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Position Primary Government Governmental Activities
Primary Government			
Governmental Activities:			
Downtown Development	\$ 215,057	\$ 72,324	\$ (142,733)
Transfer to Local Government	137,475	-	(137,475)
Total General Government	\$ 352,532	72,324	(280,208)
General Revenues			
Property Taxes			323,068
Interest Income			515
Total General Revenues			323,583
			43,375
			416,180
			\$ 459,555

Manistee Downtown Development Authority

Balance Sheet
Governmental Fund
June 30, 2018

	<u>General</u>
Assets:	
Cash and Equivalents - Unrestricted	\$ 270,049
Taxes Receivable	82,242
Accounts Receivable	3,909
Other Assets	2,014
	<hr/>
Total Assets	\$ 358,214
	<hr/> <hr/>
Liabilities:	
Accounts Payable	\$ 3,791
Sponsorship Liabilities	11,211
Payroll Liabilities	1,188
	<hr/>
Total Liabilities	16,190
	<hr/>
Fund Balance:	
Committed	78,545
Unassigned	263,479
	<hr/>
Total Fund Balances	342,024
	<hr/>
Total Liabilities and Fund Balances	\$ 358,214
	<hr/> <hr/>

Manistee Downtown Development Authority

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position June 30, 2018

Total fund balances – governmental fund	\$	342,024
Amounts reported for governmental activities in the statement of net position are different because:		
The mortgage receivable will not be collected within 60 days of the end of the fiscal year, and accordingly is not included in the funds.		17,531
The note receivable will not be collected within 60 days of the end of the fiscal year, and accordingly is not included in the funds.		<u>100,000</u>
Net Position of General Government	\$	<u>459,555</u>

Manistee Downtown Development Authority

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended June 30, 2018

	<u>General</u>
REVENUES:	
Property Taxes	\$ 323,068
Event Revenues	72,049
Other	7,926
Interest Income	515
	<hr/>
TOTAL REVENUES	403,558
	<hr/>
EXPENDITURES:	
Office Expenses	5,163
Personnel and Consulting	63,683
Design Committee	74,650
Economic Restructuring	500
Organization Committee	292
Professional Fees	10,592
Marketing and Promotions	50,076
Other Expenses	10,101
Transfer to Local Government	137,475
	<hr/>
TOTAL EXPENDITURES	352,532
	<hr/>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	51,026
	<hr/>
FUND BALANCES, JULY 1	290,998
	<hr/>
FUND BALANCES, JUNE 30	<u>\$ 342,024</u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A – Financial Reporting Entity:**

The Manistee Downtown Development Authority (the “Authority”) is a component unit of the City of Manistee, Michigan. The purpose of the Authority is to act as the Development Authority for the City, in accordance with Act 197, P.A. 1975 as amended, including, but not limited to: to correct and prevent deterioration in the Downtown Development District, to encourage historic preservation, to create and implement development plans, and to promote economic growth.

The Authority is governed by a nine-member board consisting of the Mayor of the City of Manistee and at least five (5) persons having an interest in property located in the downtown district. At least one of the board members shall be a resident of the downtown district if it has one hundred or more persons residing within it.

B – 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 Authority. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by property tax revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. The Authority has no business-type funds or component units.

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

C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 received. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue consist of charges to downtown merchants for promotional costs.

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 Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Authority reports the following major governmental fund:

General Fund – The general fund is the Authority’s primary operating fund. It accounts for all financial resources for the Authority.

D - Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance:

Cash and Equivalents – Cash and equivalents are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Deposits are recorded at cost.

Accounts and Notes Receivable – Credit has been extended to certain customers and other units of government. Accounts receivable are presented net of allowance for doubtful accounts. Notes receivable are recorded in the government-wide statements and are formal extensions of credit granted by the Authority for downtown economic and cultural development purposes. Notes will be collected. The current portion of notes receivable reflects collection on notes expected to occur within one year of the financial statement date. The balance of notes receivable will be collected outside of one year.

Deferred Outflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has no items that qualify for reporting in this category.

Deferred Inflows of Resources – In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has no items that qualify for reporting in this category.

Fund Balance Classification – The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Authority has classified no items as being Nonspendable.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Authority. These amounts cannot be used for any other purpose unless the Authority removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the Authority’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Authority through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Authority would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State Law for the General Fund. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Authority to have its budget in place by July 1st. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits authorities to amend their budget during the year. During the year, the budget was amended in a legally permissible manner.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year.

Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

NOTE 3 - CASH AND EQUIVALENTS

State statutes and the Authority’s investment policy authorize the Authority to make deposits in the accounts of federally insured banks, credit unions, and saving and loan associations that have an office in Michigan; the Authority is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers’ acceptances, mutual funds, and investment pools that are composed of authorized investment vehicles. The Authority’s deposits are in accordance with statutory authority.

NOTE 3 - CASH AND EQUIVALENTS (Continued)

At year end, the Authority’s cash and equivalents were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and Equivalents:	
- Unrestricted	\$ 270,049
Total	<u>\$ 270,049</u>

The breakdowns for deposits are as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	\$ 250,719
Money Market	<u>19,330</u>
Total	<u>\$ 270,049</u>

Investment and Deposit Risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Authority’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 Authority’s investment policy does not have specific limits in excess of state law on investment credit risk. The Authority has no investments for which ratings are required.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year end, the amount exposed to custodial credit risk cannot be determined because the Authority’s cash is pooled with the City’s funds.

Fair value measurement. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the measurements required judgement and considers factors specific to each asset or liability.

NOTE 3 - CASH AND EQUIVALENTS (Continued)Statutory Authority:

Public Act 152, entitled “An act relative to the investment of funds of public corporations of the state; and to validate certain investments,” by amending section 1 (MCL 129.91), as amended by 2009 PA 21.

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

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2); certificates of deposit obtained through a financial institution as provided in subsection (5); or deposit accounts of a financial institution as provided in subsection (6).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers’ acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
 - (i) The purchase of securities on a when-issued or delayed delivery basis.
 - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
 - (iii) The limited ability to borrow and pledge a like portion of the portfolio’s assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

NOTE 4 - RISK MANAGEMENT

The Manistee Downtown Development Authority is insured under policies held by the City of Manistee.

NOTE 5 - COMMITMENTS / LONG-TERM LIABILITIES

The City of Manistee makes annual debt service payments on the behalf of the Manistee Downtown Development Authority. The Authority in turn transfers funds annually to the City in an amount equal to principal plus interest. The reimbursements were recorded as a Transfer to Local Government in the amount of \$137,475.

NOTE 6 - CONTINGENT LIABILITIES

The Authority, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The Authority's management estimates that the potential claims against the Authority, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Authority.

Required Supplementary Information

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 277,077	\$ 277,077	\$ 323,068	\$ 45,991
Event Revenues	72,300	72,300	72,049	(251)
Other Revenues	-	-	7,926	7,926
Interest Income	100	100	515	415
TOTAL REVENUES	<u>349,477</u>	<u>349,477</u>	<u>403,558</u>	<u>54,081</u>
EXPENDITURES:				
Community and Economic Development:				
Office Expenses	5,080	6,880	5,163	1,717
Personnel and Consulting	65,000	65,000	63,683	1,317
Design Committee	71,000	71,000	74,650	(3,650)
Economic Restructuring	1,900	1,000	500	500
Organization Committee	4,400	2,200	292	1,908
Professional Fees	6,250	4,000	10,592	(6,592)
Marketing and Promotions	53,789	56,431	50,076	6,355
Other Expenses	1,900	1,750	10,101	(8,351)
Transfer to Local Government	140,000	140,000	137,475	2,525
TOTAL EXPENDITURES	<u>349,319</u>	<u>348,261</u>	<u>352,532</u>	<u>(4,271)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 158</u>	<u>\$ 1,216</u>	51,026	<u>\$ 49,810</u>
FUND BALANCE, JULY 1			<u>290,998</u>	
FUND BALANCE, JUNE 30			<u>\$ 342,024</u>	

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL
AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA
LESLIE BOHN, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

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

To the Board of Directors
Manistee Downtown Development Authority
Manistee, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and major fund of the Manistee Downtown Development Authority, Michigan, (a component unit of the City of Manistee, Michigan), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Manistee Downtown Development Authority, Michigan's basic financial statements and have issued our report thereon dated November 15, 2018.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Authority Board
Manistee Downtown Development Authority

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency listed as 2018-001.

Compliance and Other Matters

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

Manistee Downtown Development Authority, Michigan's Response to Findings

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

Purpose of this Report

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


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

November 15, 2018

Internal Control Over Financial Reporting

Significant Deficiency

Preparation of Financial Statements in Accordance with GAAP

Finding 2018-001

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

Condition: As many small and medium-sized governmental entities do, the Downtown Development Authority has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements, fund financial statements, and notes to financial statements as part of its external financial reporting process. Accordingly, the Downtown Development Authority's auditors, who cannot by definition, be considered to be a part of the Downtown Development Authority's internal controls.

Cause: This condition was caused by the Downtown Development Authority's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for Downtown Development Authority personnel to prepare them internally.

Effect: The Downtown Development Authority lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this duty.

Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal controls by requiring as much independent review, reconciliation, and approval of accounting transactions by qualified members of management or the Downtown Development Authority Council.

Management Response-Planned Corrective Action: The board of directors has hired a certified public accounting firm to help them put into place additional internal controls to better safe guard the Downtown Development Authority assets

- *Contact Person(s) Responsible for Correction:*
Tyler Leppanen, Director



ANDERSON, TACKMAN & COMPANY, PLC
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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Directors
Manistee Downtown Development Authority
Manistee, Michigan

We have audited the financial statements of the governmental activities and major fund of the Manistee Downtown Development Authority for the year ended June 30, 2018, and have issued our report thereon dated November 15, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information about our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated August 10, 2018, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis and budgetary comparison schedules, which supplement(s) the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on August 10, 2018.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Manistee Downtown Development Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of the allowance for uncollectible accounts receivable is based on past experience and future expectations for collection of various account balances and has been determined to be \$0. We evaluated the key factors and assumptions used to develop the allowance for uncollectible accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreement with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 15, 2018.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Comments and Recommendations

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

Other Matters

We applied certain limited procedures to the management's discussion and analysis and budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and our knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Conclusion

This information is intended solely for the use of the Authority Board, federal awarding agencies, pass through entities, and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.



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

November 15, 2018