City of Ithaca
Ithaca, Michigan

Financial Statements
June 30, 2017

Roslund Prestage & Company
Certified Public Accountants

525 WEST WARWICK DRIVE, SUITE A, ALMA, MICHIGAN 48801

City of Ithaca
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June 30, 2017

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Ithaca

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ithaca (the City), as of and for the year ended June 30, 2017, and the 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 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates 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 other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, on our consideration of the City'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Sincerely,

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

October 31, 2017

MANAGEMENT’S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Ithaca, Michigan (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ending June 30, 2017. This management's discussion and analysis (MD&A) is intended to assist in focusing on significant financial issues and to provide an overview of the City's financial activity.

This annual financial report is presented in conformity with the requirements of GASB (Governmental Accounting Standards Board) Statement No. 34. GASB is the source of generally accepted accounting principles (GAAP) used by state and local governments in the United States. As with most of the entities involved in creating GAAP in the U.S., it is a private, non-governmental organization. The basic financial statements include two types of statements that present different views of the City. The first two statements are *government-wide financial statements* that provide both short-term and long-term information about the City's financial position. The remaining statements are *fund financial statements* that focus on individual sections of the City's operations. The City encourages readers to consider the following information in conjunction with the financial statements taken as a whole, which follow this section.

Financial Highlights

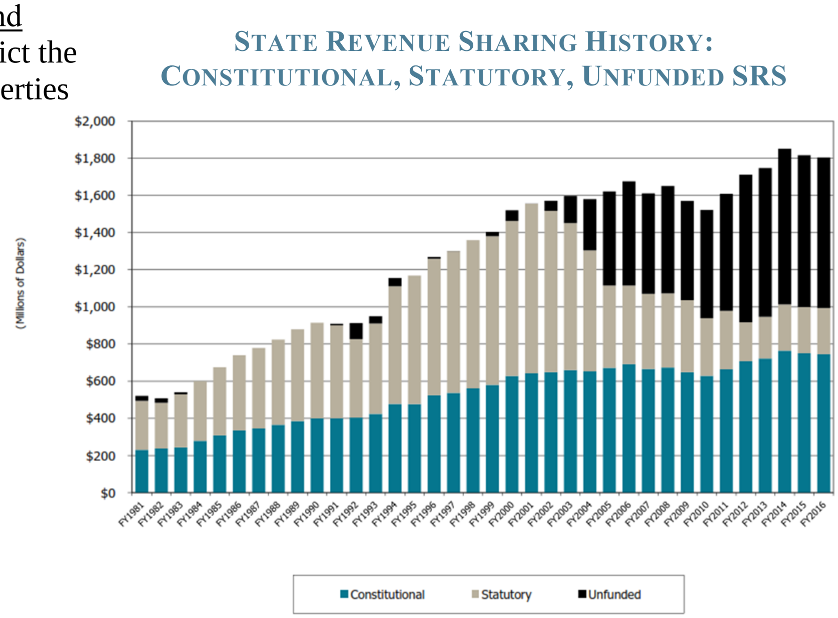
- The net position of the City is the amount by which the City's assets exceed its liabilities. At June 30, 2017, net position of the primary government totaled $9,283,955. The unrestricted portion of this amount, $2,504,567, may be used to meet the City's ongoing obligations to its citizens as well as its creditors.

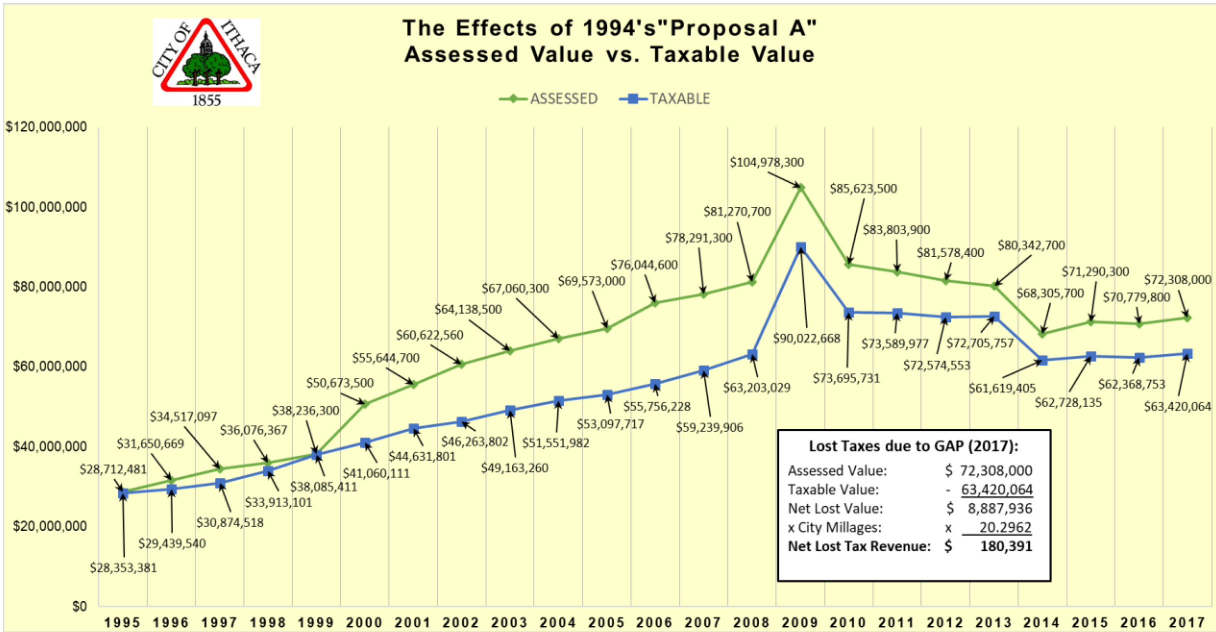
- The City's total net position decreased by $117,490 and had a prior period adjustment decrease of $678.00 for a net decrease in net position of $118,168. This decrease resulted from an increase in net position of the governmental activities of $7,526 and a decrease in net position of business activities by $125,694. The decrease in business activities was due to upgrades to and new infrastructure of the City's water distribution system including the replacement of watermain on North Union Street, and the planning of the new infrastructure to serve properties east of U.S.-127, and the purchasing of the property for the new Well #7. The increase in governmental activities derives from planned increases in fund balances, increasing values of capital assets and continued consolidation of services with other governmental entities. This increase was reduced by the GASB 68 required pension liability reporting (which is discussed in detail in the *Notes to Financial Statements*).

- The State of Michigan provides the City with State Revenue Sharing (SRS), which is calculated by two separate methods. In 2009 the *Statutory* SRS for local and county governments was converted from an entitlement model to a performance-based model, called "Economic Vitality Incentive Payments" (EVIP). Under EVIP, communities must comply with various cost control measures and financial transparency criteria set by the State in order to receive individual portions of available funds that are subject to the State's annual appropriation process. In 2011, this program was revised and is now known as the "City, Village and Township Revenue Sharing" (CVTRS) program and focuses on Accountability and Transparency of the local units to receive these funds. Ithaca has been successful in complying with all of the criteria, maximizing funding for this portion of the program. *Constitutional* SRS continues to be an entitlement model based primarily on State sales and Use Tax receipts.

- The City continues to budget conservatively, its State Revenue Sharing in an effort to maintain stable service levels in the event future cuts and unfunded mandates are made by the State of Michigan. The City also continues to look at funding mechanisms and options for funding its Unfunded Accrued Pension Liability so that this cost is not only covered, but are working toward increasing the funded level and not at the jeopardy of the services offered to residents.

- The State's Constitution, and amendments, severely restrict the growth of the value of properties for property tax purposes. As seen in the graphic below, the artificial "taxable value" of properties in Ithaca peaked in 2009 at $90,022,668; this was before the effects of the Great National Recession were reflected in property values. The following year in 2008, taxable values plummeted to $73,695,731, a decrease of 18%. It has dropped another $12 million in 2014 and has been gradually rising since that time, arriving at $63,420,064 in 2017. As shown on the graphic, due to the Proposal A cap, the City was unable to collect on property tax revenues of $180,391 in 2017 due to the gap between taxable and assessed values. Under Proposal A, taxable value can only increase by the rate of inflation, or 5%, whichever is less. Therefore, without any new construction, it is projected that it will take another 20+ years at the average increases between 2014 and 2017 to reach the highest taxable value seen in 2009.





- The next significant revenue source that is decreasing is the Personal Property Tax (PPT). State statutes adopted in 2015 will eliminate the PPT over the next three years. The PPT has already been eliminated for any business with a cash value of personal property totaling $80,000 or less ($40,000 taxable value.) The PPT receipts are being replaced only partially by a state-initiated statewide essential services assessment (ESA) on industrial properties in the State. The ESA is replacing this lost revenue with that portion of PPT that was used locally only for emergency services funding only (i.e. police, fire, rescue and EMS.) Again, the City budgets for these revenues conservatively in order to provide a secure level of funding for the services provided to the City's residents, taxpayers, businesses and industries.

- The City continues to see an increasing number of residential property owners requesting and receiving a 100% property tax exemption for disabled veterans under P.A. 161 of 2013. The act amended the General Property Tax Act to exempt from taxation the homestead of a veteran who is: 1) permanently and totally disabled; 2) a recipient of assistance due to disability for specially-adapted housing; or 3) individually unemployable. This replaces a former exemption for the homestead of a disabled veteran who was receiving assistance for just specially-adapted housing.

  The City's assessment roll for 2017 included 13 properties that were exempt from property tax collections via the disabled veterans Act. The combined taxable value of those 13 parcels was $628,100. This resulted in a loss of property taxes to just the City of approximately $12,731, which was based on the combined millages (20.2692 mills) for City general operating, water/sewer bonded debt, emergency services and sidewalk repair.

- The City currently has only one property valuation appeal petition before the Michigan Tax Tribunal (MTT). The case involves Anchor Danly and is for tax year 2017. Loss of property taxes to just the City would range from $5,000 to $8,000 per year, depending on the determination of value established by the MTT. We are hopeful of settling the case before having to adjudicate it before the Tribunal.

- As of June 30, 2017, the City's governmental funds reported combined ending fund balances of $2,552,226. This is a net increase of $247,813 from the prior year. This increase derived from a combination of responsible spending, consolidation of services with neighboring governments, successful grant writing, cost cutting, staff vacancies and planned savings for increasing balances of the remaining funds. Of the total fund balance for governmental funds, $983,621 is available for spending at the City's discretion (unassigned fund balance) and $1,568,605 is constrained for specific purposes by constitutional provision or enabling legislation (restricted fund balance.)

- The City's long-term debt consists of compensated absences for full-time employees and the outstanding enterprise fund bonded indebtedness (see below.) A detailed schedule of the City's long-term obligations can be found in the *Notes to the Financial Statements*.

- In November 2006, City electors passed a millage for the issuance of Unlimited Tax General Obligation (UTGO) Bonds in the amount of $4.1 million for improvements to the City's water supply and sanitary sewage collection and disposal systems. Included with the improvements were the purchase of a new sewer vactor truck; two new sanitary lift stations; watermain upgrades throughout the entire city; lagoon valve replacements; sanitary sewer upgrades and new lines; locating and analyzing an aquifer source; a water system alarm system; and a water system study. The original bonds were issued in April of 2007 and were due in annual installments of $25,000 to $295,000 with annual interest rates of 4.25% to 4.30% through November of 2037. The bonds received an initial rating of "Baa1"- by Moody's Investors Service, but were insured for issuance. The economic condition of the State of Michigan partially influenced the rating on the bonds. The first debt millage was applied to the 2007 summer property tax collection at a rate of 3.00 mills. The millage rate was increased in 2013 to 3.20 mills and again in 2014 to 4.00 mills to cover the debt payment and remained the same in 2015.

  In April 2016, the City refinanced the remaining bond principal of $3.6 million due to historically low interest rates and a recovering national economy. This time, the UTGO Refunding Bonds received a rating of "A1" from Moody's, without regard to municipal bond insurance. Standard & Poor's Credit Market Services assigned a rating of "AA" to this issue with the understanding that bond insurance would be issued by AGM (Assured Guarantee Municipal Corp.) concurrently with the delivery of the bonds. Reductions in interest rates down to between 2.000% and 4.000% resulted in an interest savings of approximately $500,000 over the remaining life of the bonds (final maturity of 4/1/2037). This allowed the City to reduce the 2016 debt property tax millage to 3.80 mills; without the refinancing, the millage would likely have been set at 4.25 mills, which is the maximum millage rate allowed under the voter-approved bonds. With increasing principal payments and flat property tax values it is likely the City would have had to supplement the millage revenues with other funds in order to make future bond payments.

- In August 2015, City electors approved a new 6-year levy of 1.00 mill for the repair, reconstruction and improvement of sidewalks throughout the City. This was in lieu of previous sidewalk improvement efforts that used special assessments and property owner contributions; those efforts were not very successful and were spotty at best. The goals for the multi-year program were to: 1) address only existing sidewalks, not construct new ones where they do not presently exist; 2) eliminate as much as possible those sidewalk segments that were severely damaged or created public liability from tripping hazards; 3) encourage non-motorized transportation options for pedestrians and bicyclists; 4) improve safe routes to our elementary & middle schools for students; and 5) increase property values for adjoining properties.

At the current City taxable values, the new millage will generate approximately $61,000 per year for sidewalk work in one of the six designated zones. In early 2016, the City awarded the bid for sidewalk work in Zone 1, which was completed. Zone 2 work, as previously anticipated, began in September of 2017 and will be completed with use of the second year of collection of this millage.

- A City staff team prepared an overhauled Capital Improvement Plan (CIP) to help guide, quantify and prioritize the identified capital needs throughout the community. The plan was proposed in March, reviewed by the Planning Commission in March and eventually adopted by the City Council in May as a part of its adoption of the overall FY 16/17 budget. The new CIP now incorporates capital needs from all program areas of the City budget.

  An effective and ongoing CIP is beneficial to elected officials, City staff, the general public, credit-worthiness ratings companies and bond holders. An adopted and well-maintained CIP offers the following benefits:

  - Coordination of the community's physical planning with its fiscal planning capabilities & capacities
  - Ensuring that public improvements are undertaken in the most desirable and efficient order of priority
  - Assisting in stabilization of tax levies over a period of years
  - Producing savings in total project costs by promoting a "pay as you go" policy of capital financing, thereby reducing additional interest and other extra charges from long-term financing
  - Providing adequate time for planning and engineering of proposed projects
  - Ensuring the maximum benefit of the monies expended for public improvements
  - Permitting municipal construction activities to be coordinated with those of other public agencies within the community.

  Capital improvement planning and budgeting allow officials and citizens to set priorities for capital expenditures and ensure maximum physical benefit for a minimum capital expenditure. This is done through an orderly process of project development, project design, cost estimating, scheduling, financing and implementation.

Following is a summary table of the status of capital improvement projects for fiscal year 2016-2017.

2016-2017 Fiscal Year				
Dept.	**Project**	**Status**	**Est. Cost**	**Funding**
FIRE	Jaws/Hurst Extrication Tools (Engine #422)	Completed	$ 35,000	FOF/DO
FIRE	Grass Truck (Replace #451)	Completed	66,000	FOF/FG
FIRE	Turnout Gear (10 sets bunker pants & coats)	Completed	12,000	FOF
FIRE	Rescue Bay Renovation (Floors/chairs)	Completed	8,000	GF/MMR
FIRE/DPW	Convert Int./Ext. Lights- Fire, Comm. Ctr., PD	Completed	21,000	CE/GF
DPW	Small Dump Truck (Ford F-450) (Replace #24)	Completed	62,000	ERF
DPW	Flail Mower for Tractor (#15) (Tires instead)	Deleted	30,000	ERF
DPW	72” ZTR Lawnmower (Annually Replace 1 of 2)	Completed	3,900	ERF
DPW	Add Playground Equip. (McNabb Park)	Completed	15,000	CMF/GF
DPW	Disc Golf Course (9-hole) (McNabb Park)	In design	5,000	CMF/GF
DPW	Sidewalk Replacement Zone #1	Completed	85,000	SM/MS/LS
DPW	Sidewalk Replacement Zone #2	Completed	62,000	SM/MS/LS
DPW	Crush & Repave Union St. (1,375’L x 22’W) (Saint Charles St. to Norton Gibbs Dr.)	Completed	42,500	MS
DPW	Crush & Repave Union St. (650’L x 45’W) (Norton Gibbs Dr. to Westwind Lane)	Completed	41,000	MS
DPW	Crush & Repave W. Center (Pine River to Maple) & N. Pine River (Center to Emerson)	Completed	118,400 29,600	MDOT “D” MS Match
DPW	Resurface Senior Center Parking Lot	Completed	30,000	GF
DPW	Purchase Land for Wellhouse #7	Completed	21,000	WF
DPW	Construct Wellhouse #7 & security fence	Found. done	100,000	WF
DPW	Replace 6” Watermain w/ 8” on Union St. (Norton Gibbs Dr. to Westwind Lane) (650’)	Completed	125,000	WF
DPW	Cemetery Water Tower Maint. Contract (5th of 5 Initial Installments)	Completed	40,005	WF
DPW	S. Industrial Water Tower Maint. Contract (5th of 5 Initial Installments)	Completed	37,078	WF
DPW	North Industrial Water Tower Maint. Contr. (5th of 5 Initial Installments)	Completed	48,117	WF
DPW	Well Maint. Contract Year 1: Only 3 Wells	Completed	55,744	WF
DPW	Handheld Meter Reader (Replace #1 & new software)	Completed	5,000 5,000	WF SF
DPW	Wireless Water Meter Transmitters (~120)	Deleted	10,000	WF
DPW	Repl. Lagoon Back-Up Pumps & Elec. Controls	Pending	20,000	SF
DPW	Replace Road Salt Storage Structure	Completed	25,000	MS/LS
ADMIN	City Hall Renovations (In FY 17/18 Budget)	Postponed	150,000	GF/GMF

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which are comprised of five sections: 1) Government-Wide Financial Statements; 2) Fund Financial Statements 3) Fiduciary Funds; 4) Component Units; and 5) Notes to the Financial Statements. This report contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position serve as a useful indicator of the financial health of the City.

The statement of activities presents information showing how the City's net position changed during the fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cashflows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

The government-wide financial statements are divided into three categories:

- *Governmental Activities* – The majority of the City's basic services are included here and are principally supported by taxes and intergovernmental revenues. The governmental activities of the City include general government, public safety, streets, library, parks, cemetery and economic development.

- *Business-type Activities* – The City charges fees to customers to essentially cover the costs of providing certain services. The City's water supply and sanitary sewer disposal systems are included here.

- *Component Units* – The City (known as the *primary government*), also has a legally separate authority for which the City is financially accountable. The Downtown Development Authority (DDA) is a separate authority and its financial information is reported here.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: *governmental funds, proprietary funds and fiduciary funds.*

- ***Governmental funds.*** 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 how cash and other financial assets can be converted to cashflow in and out, and the balance left at year-end that is available for spending. The governmental fund statements provide a detailed short-term view that helps to determine whether there are more or fewer resources that can be spent in the near future to finance City programs.

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

  The City maintains six major and seven non-major individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and all major special revenue and capital project funds. Data from the non-major governmental funds are combined in a single-column presentation on the governmental funds statements. Individual fund data for each of these non-major governmental funds is provided in the combining statements section of this report.

  The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement is provided for the general fund to demonstrate compliance with this budget. Budget comparison statements are also provided for the other major funds. These can be found in the required supplementary information section of this report.

- ***Proprietary funds:*** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its potable water supply and sanitary sewage collection and disposal systems. *Internal service funds* are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its equipment and material funds. The services of the equipment and material funds predominantly benefit governmental- rather than business-type functions, and are included in their entirety within governmental activities in the government-wide financial statements.

- ***Fiduciary funds:*** Fiduciary funds are used to account for resources held for the benefit of parties *outside* the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City uses fiduciary funds to account for its employee benefit obligations and funds held by the City in an Agency capacity (e.g. property taxes due to other taxing units.)

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

GASB Statement No. 77 Regarding Reporting of Lost Revenues to Corporate Subsidies. In 2017, the City had to comply with GASB 77, a new requirement for reporting the amount of tax revenue lost by the City due to corporate tax breaks granted in the name of economic development, or tax abatements as more commonly known. All public entities, including counties, cities and schools, affected by the tax abatements are required to report the tax loss. The City's detail for this can be found in the Notes to Financial statements.

GASB Statement No. 68 Regarding Reporting of Pension Liabilities. In 2015, the City had to comply with GASB 68, a new requirement that changed the way government entities, which offer defined benefit retirement plans, report pension liabilities. Though the City's pension numbers may seem different under the new requirement, the financial situation of the retirement plan has not changed. The new GASB requirement does not affect actuarial funded ratios or pension contribution requirements; they only change where and how pension costs are accounted for in financial statements in order to provide additional and more prominent information on the pension plan.

The placement of net pension liabilities on the City's balance sheet could create the erroneous impression that this is an obligation that is due immediately. This is not the case. Pensions are funded and paid out over several years. Contributions are made over the employees' careers and distributions are provided in monthly installments in their retirement.

A new term, "pension expense," refers to the change in the net pension liability from one year to the next, and should not be confused with the City's actual budgeted expenses for pension contributions. The new GASB net pension liability figure will be volatile because it is based, in part, on the market value of pension assets, which fluctuate with investment markets. Under GASB 68, pension expense is a measure of this volatility, not the City's pension contribution.

Other information. In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information as required by GASB Statement No. 34 regarding the City's budgetary comparison of the general fund and seven major special revenue funds *and* GASB Statement No. 54 regarding fund balances (see description below.) This supplementary information is contained behind its own tab following the footnotes to the financial statements.

GASB Statement No. 54 Regarding Fund Balances. Fund balance is an important measure that represents the difference between a fund's assets and liabilities. The overall objective of reporting fund balance is to isolate the portion that is not available to support the following year's budget. In many ways, fund balance represents working capital, which can be used either as a liquid reserve or for spending in future years. Due to an inconsistency among governments in reporting the components of fund balance and misunderstanding by users, GASB issued Statement No. 54 to improve this reporting and its usefulness through more structured classifications. Fund balance is now reported as:

- **Nonspendable:** Amounts that cannot be spent due to form, such as inventory, long-term loans and note receivables, property held for resale and amounts that must be maintained intact legally or contractually.

- **Restricted:** Amounts constrained for a specific purpose by constitutional provision or enabling legislation. This is the same definition as that of Restricted Net Position from prior years.

- **Committed:** Amounts constrained for a specific purpose by the City Council. It requires action to remove or change the constraints placed on the funds.

- **Assigned:** Used for all governmental funds *other than* the general fund, for any remaining positive amount that is not classified as nonspendable, restricted or committed. For the general fund, the amounts are constrained for the intent to be used for a specific purpose by the City Council or board that has been delegated authority to assign the amounts.

- **Unassigned:** For the general fund, amounts not classified in any other category. The general fund is the *only* fund that can report a positive amount in unassigned fund balance. For all other funds, it is the amount expended in excess of resources that are nonspendable, restricted, committed or assigned.

Government-Wide Financial Analysis

The *Statement of Net Position* provides an overview of the City's assets, liabilities and net position. As previously mentioned, this provides a good indicator of the City's fiscal health. Following on the next page is a summarized version of the Statement of Net Position that provides a perspective of the financial position of the City as a whole.

The total net position of the City for FYE June 2017 is $9,283,955. However, $5,126,227 represents its investment in capital assets net of related debt (i.e. land, buildings, furniture & fixtures, equipment, vehicles, water & sewer systems), with 57.2% ($2,935,414) being the water supply and sewage disposal systems' infrastructure. These assets are used to provide services to residents, but are not available for future spending nor can they be liquidated to eliminate their related liabilities.

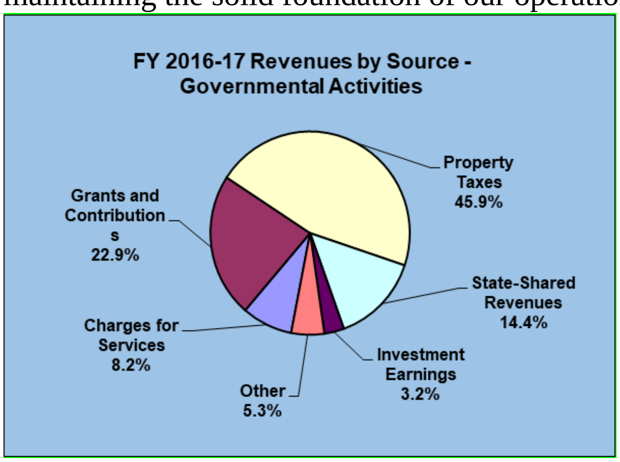
Of the more liquid assets, $1,653,161 represents resources and funds that have external restrictions on how they may be used. These assets are held for street maintenance & operations, library operations, economic development, fire & rescue operations & reserves, and perpetual care of the City cemetery. The City may use the remaining balance (unrestricted net position) of $2,504,567 for ongoing obligations to residents and creditors. The total net position for the year decreased by $118,168 and was discussed earlier in this document.

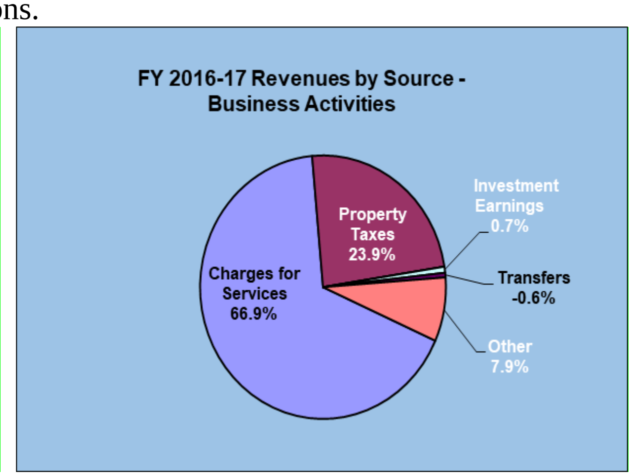
City of Ithaca, Michigan Statement of Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets:						
Current and Other Assets	4,604,325	4,231,914	1,931,107	1,985,108	6,535,432	6,217,022
Land	206,279	181,681	133,019	-	339,298	181,681
Capital Assets (net of deprec.)	1,984,534	2,098,102	6,535,626	6,800,149	8,520,160	8,898,251
Total Assets	**6,795,138**	**6,511,697**	**8,599,752**	**8,785,257**	**15,394,890**	**15,296,954**
Deferred Outflows:						
Deferred outflow-Pension related	148,449	192,940	98,966	128,626	247,415	321,566
Total Deferred Outflows	**192,940**	**192,940**	**98,966**	**128,626**	**321,566**	**321,566**
Liabilities:						
Long-Term Debt	31,572	39,402	3,666,512	3,781,439	3,698,084	3,820,841
Net Pension Liability	1,233,148	1,248,576	822,099	832,385	2,055,247	2,080,961
Other Liabilities	348,134	132,914	191,115	181,681	539,249	314,595
Total Liabilities	**1,612,854**	**1,420,892**	**4,679,726**	**4,795,505**	**6,292,580**	**6,216,397**
Deferred Inflows:						
Deferred inflows-Pension related	39,462	0	26,308	0	65,770	0
Total Deferred Inflows	39,462	**0**	26,308	0	65,770	**0**
Net Position:	**1[illegible]40**					
Invested in capital assets, net of related debt	2,190,813	2,098,102	2,935,414	3,200,149	5,126,227	5,298,251
Restricted	1,653,161	1,488,266	0	0	1,653,161	1,488,266
Unrestricted	1,447,297	1,697,377	1,057,270	918,229	2,504,567	2,615,606
Total Net` Position	**5,291,271**	**5,283,745**	**3,992,684**	**4,118,378**	**9,283,955**	**9,402,123**

City of Ithaca, Michigan Change In Net Position	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
REVENUES:						
Program Revenues:						
Charges for Services	202,242	196,339	671,234	666,373	873,476	862,712
Grants and Contributions	563,107	542,068	0	0	563,107	542,068
General Revenues:						
Property Taxes	1,128,000	1,200,947	239.937	247,687	1,367,937	1,448,634
State-Shared Revenues	352,875	303,277	0	0	352,875	303,277
Investment Earnings	78,827	50,086	7,441	2,908	86,268	52,994
Transfers	16,809	10,920	-5,671	0	11,138	10,920
Other	114,508	72,300	78,751	13,902	193,259	86,202
Total Revenues	**2,456,368**	**2,375,937**	**991,692**	**930,870**	**3,448,060**	**3,306,807**
EXPENSES:						
General Government	809,789	533,802	0	0	809,789	533,802
Public Safety	749,836	655,911	0	0	749,836	655,911
Public Works	604,817	518,967	0	0	604,817	518,967
Rec./Cultural/Econ. Dev.	283,722	467,075	0	0	283,722	467,075
Water and Sewer	0	0	1,117,386	1,312,449	1,117,386	1,312,449
Total Expenses	**2,448,164**	**2,175,755**	**1,117,386**	**1,312,449**	**3,565,550**	**3,488,204**
Change in Net Position	**8,204**	**200,182**	**-125,694**	**-381,579**	**--117,490**	**-181,397**
Net Position – July 1 restated	**5,283,745**	**5,191,630**	**4,118,378**	**4,499,957**	**9,402,123**	**9,691,587**
Prior Period Adjustment	**-678**	**-108,067**	**0**	**0**	**-678**	**-108,067**
Net Position – June 30	**5,291,271**	**5,283,745**	**3,992,684**	**4,118,378**	**9,283,955**	**9,402,123**

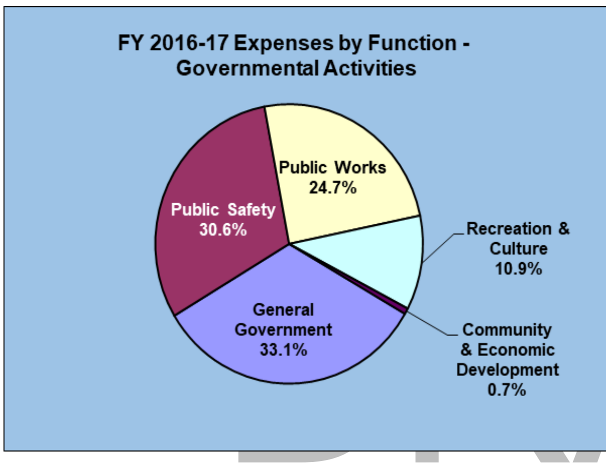
Budgetary Highlights

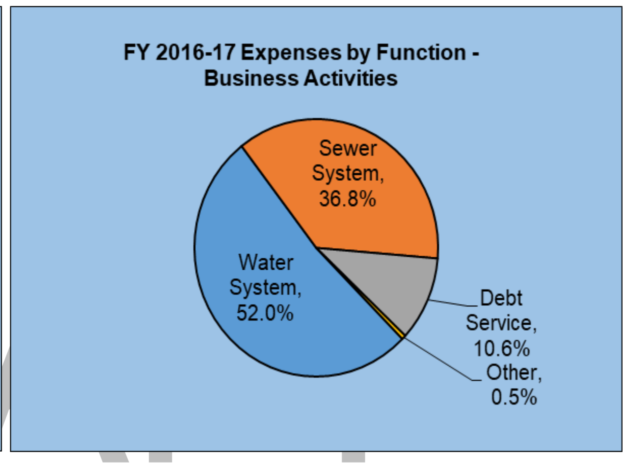
The majority of the City's budget in FY 2016-17 was based on four main revenue sources: *property taxes, charges for utility services, grants & contributions and state-shared revenues*. Ithaca continues to have a conservative fiscal philosophy in being good `stewards of the public's money. This philosophy has translated into preparing for economic challenges while maintaining the solid foundation of our operations.





The City remains conservative in working to maintain positive fund balances, even in the face of challenges such as the increasing loss of personal property taxes (PPT). Unfortunately, PPT replacement funding in the form of an Emergency Services Assessment (ESA) only covers those cost centers involving emergency services (police, fire, EMS, etc.) and will continue to decline over the next several years. The State Legislature's passage late last year of a complicated road funding package will likely impact future State Revenue Sharing (SRS) payments to the City. The package requires an annual contribution of $600 million from the State's General Fund to the Road Fund. It is highly likely that most of that contribution will come from Statutory SRS payments. Therefore, we continue to anticipate reductions in SRS funding from the State. Even so, the City weathered a large Michigan Tax Tribunal (MTT) judgment two years ago and still has a stable fund balance in the General Fund. No further large MTT tax refunds are pending at this time.





The City continues to be proactive in leveraging grant funds to make improvements in community facilities and infrastructure. The list of successful grant projects summarized below is impressive for a town the size of Ithaca. However, we must still be selective about which grants to pursue. Grants should help supplement a capital improvement plan, but not dominate it. The community's needs should drive grant funding, not the other way around. Finally, grants for capital projects need to be carefully considered so that the community has the resources (labor, equipment and funding) to maintain them over their useful lives.

Ithaca has been very successful in receiving grants to leverage its financial resources for both budgeted and unbudgeted projects and/or equipment. Grants are often awarded with a match requirement, in which the City must pay a stated percentage of the grant award, which may range from 5%-50%. The City conducted a survey in late 2009 to qualify the overall city as a primarily *low-moderate income community* under the State of Michigan's Community Development Block Grant (CDBG) program. The results of the survey made the City eligible for a number of additional grant opportunities.

Since FY 2009-10, the City has received grants for projects such as:

- $200,000 ($40,000 local match) Downtown Improvement Grant (DIG) project, which improved a parking lot and alley on the north side of downtown.
- $183,000 ($70,000 match) MI Department of Natural Resources (MDNR) Trust Fund grant to develop the youth soccer complex at McNabb Park.
- $3,500 (50% match) Gratiot Co. Community Foundation (GCCF) grant for new swingsets also at McNabb Park.
- $70,000 (private match) Michigan State Housing Development Authority (MSHDA) grant to renovate two upper-level downtown apartments.
- $243,900 (private match) MSHDA grant to renovate six homes occupied by low-moderate income homeowners.
- $108,778 (50% match) MI Department of Environmental Quality (MDEQ) Scrap Tire Paving grant for re-paving two blocks of downtown streets.
- $794,000 ($75,000 match) DIG to improve the downtown streetscape with new stamped/colored concrete walks, decorative lights, benches, bike racks and the construction of a 20' x 69' covered Farm Market structure.
- Since FY 2009-10, received $198,771 from several grantor agencies (MDNR, GCCF, Federal Aid to Firefighters, Luneak Family Foundation, Emerson Twp. grant, IFD Memorial Fund) for Fire Department vehicles, turnout gear and equipment with total cost of $444,228 (grants covered 45% of costs).
- $2.2 million ($40,000 City match) 2016 MI Department of Transportation (MDOT) grant for the now completed new non-motorized pathway along the east side of US-127, from Washington Avenue in Ithaca to Lincoln Street in Alma.
- An as-yet-to-be-determined value, grant/donation from Dr. E. Malcolm Field (neurosurgeon & philanthropist from Saginaw, MI) through Skyweb Networks (Wi-Fi provider with dishes on City's west water tower) for the installation of free Wi-Fi and security camera systems in the City's two major parks (Wi-Fi and cameras are operational.)
- $118,400 (City provided 20% construction match [$29,600] plus all engineering costs [$27,200]) MDOT Rural Task Force grant to reconstruct two one-block sections in downtown: E. Center St. (between Pine River & Maple) and N. Pine River (between Center & Emerson.)
- Installed new high-efficiency furnaces for the original fire station, the fire station addition, the community center and the former police department offices (Consumers Energy grant.)

The City continues to research other possible grant sources to supplement local funding that further addresses the City's established capital priorities. These may likely include funds to:

- Renovate additional vacant upper-level downtown spaces into apartments (MSHDA/MEDC).
- Renovate several downtown store facades (MEDC).
- Improve the alley & the two public parking areas in the southwest corner of downtown near the Farmers Market Pavilion and behind the Library (MEDC-DIG).
- Prepare storm sewer, sanitary sewer and water system asset management plans (MDEQ).

Due to increased operating expenses and in order to continue to provide safe and secure water and sewer services for the City, water and sewer rates are reviewed annually with the assistance of a sophisticated spreadsheet developed by staff of the Michigan Rural Water Association. The rate analysis uses "full cost pricing" to determine the user fees. Full cost pricing includes:

- Maintaining our water & sewer systems' financial stability by ensuring sufficient revenue streams.
- Collecting and reserving funds needed to cover the costs of future asset rehabilitation and compliance with future regulations, among other things.
- Planning ahead for reasonable, gradual rate increases when necessary.
- Delivering fair-priced, high-quality drinking water & sanitary sewer services to our customers now and in the future.

Rates were raised for FY 2016-17 as a result of the Water and Sewer Rate Study and City Council action by resolution: water rates were increased by 2.88% and sewer rates by 2.5%.

City residents also pay a property tax millage to cover the cost of debt payments for the 2016 GOLT refinanced bonds (original bond sale in 2007) that financed water and sewer capital improvement projects throughout the City. This millage fluctuates depending on the amount of the annual debt service and the total taxable value of the City. The 2016 refinancing allowed the City to reduce the necessary millage for the 2016 tax year from approximately 4.2 mills down to 3.8 mills.

The City Council authorized entering into a contract for water well maintenance services, similar to the one the City already has for its elevated water tanks. The contract is with the Suez/Utility Service Group, which is the second largest water well maintenance program in North America. The company assumes the risk of the pumps and the results of water quality/pumping capacities. The initial contract cost is for three wells; the fourth well (new #7 that will replace now-abandoned #3) will start at a lower initial fee once it is put online. The new well has been installed and has passed the required water quality and sustained pumping requirements of the MDEQ. The City has purchased the land from the estate of a former land owner that surrounds the well site.

The annual budget is a forecast for City operations that is based on upcoming projects, five years of prior-year actual figures and estimated current year expenditures. Throughout the course of the year, events occur that alter the decisions on which the budget figures are based and amendments must be made. The City made minor amendments in the governmental activities and business-type activities for various projects and grants. All amendments are included in the City's budget documents and are available from the City Clerk-Treasurer.

International Economic Forecast

We expect the global economy to grow slightly over 3% in 2018, similar to our estimate for 2017. This is considerably above the 2.5% growth rate in 2016. In 2019, too, we expect growth to stabilize around 3%.

> The current strong growth momentum in advanced economies will be carried over into 2018. Growth in G-20 advanced economies will be stable around 2.0% in 2018 and through 2019, compared with 1.5% in 2016. However, many of the advanced economies,

including the US, Canada, Japan, Germany, France and Italy, which are experiencing above trend growth rates, will likely slow over time to their long-term potential.

The UK's faltering economic growth makes it an exceptional case among advanced economies. We expect the UK's economy to slow further in 2018 to 1.0% from 1.5% in 2017, as Brexit issues add to weak productivity and wage growth, and weigh on domestic demand.

We expect G-20 emerging market countries to grow at 5.4% in 2018, above the 5.0% we estimate for 2017. A notable improvement in economic activity in Argentina, Brazil, Mexico, Saudi Arabia and South Africa will drive the acceleration. We expect that all of the G-20 emerging market countries, except China, will either maintain their growth rates or accelerate in 2019.

We expect China's economic growth to continue its gradual deceleration. However, we do not expect this to exert a significant drag on the global economy.

The era of expanding central bank balance sheets is ending. We expect that the US Federal Reserve will proceed with gradual monetary policy normalization, both interest rate and balance sheet, in 2018 and 2019. The ECB Governing Council has decided to reduce its monthly net asset purchases to €30 billion from the current €60 billion starting in January while holding the policy rate down. We expect that the central bank will reduce monetary policy accommodation for the euro area economy very gradually over the next few years. We believe the Bank of Japan will maintain very loose monetary policy for the foreseeable future.

The easing cycle in many emerging market countries is also nearing an end. The prevailing low inflation environment gives emerging market countries room to maintain monetary policy accommodation for a little while longer. However, inflation rates are likely to firm somewhat.

The balance of risks remains favorable, bolstering the near-term outlook. However, the US stance on global trade remains uncertain. Geopolitical risks remain, especially pertaining to tensions with North Korea. The risk of an asset price correction naturally coexists with historically high asset prices. The risk of a financial market disruption or broad-based asset price correction, as the global monetary cycle unwinds, is mitigated by an expected gradual pace of interest rate increases.

Global Macroeconomic Outlook for G20 Countries 2018 – 2019													
Indicators	Real GDP Growth %				Inflation % Change (Dec.-Dec.)					Unemployment Rate %			
Countries	2016	2017	2018	2019	Current Target	2016	2017	2018	2019	2016	2017	2018	2019
United States	1.5	2.2	2.3	2.1	2.0%	2.1	2.2	2.3	2.1	4.9	4.4	4.0	4.0
G-20 Advanced	1.5	2.1	2.0	1.9									
G-20 Emerging	4.4	5.0	5.4	5.3									
G-20 All	**2.5**	**3.1**	**3.2**	**3.1**									

- G-20 Advanced Countries Include: U.S., Euro Area, Japan, Germany, U.K., France, Italy, Canada, Australia & South Korea (Euro Area Countries Include: Belgium, Denmark, Germany, Greece, Italy, Netherlands, Portugal & Spain)
- G-20 Emerging Countries Include: China, India, Brazil, Russia, Mexico, Indonesia, Turkey, Saudi Arabia, Argentina & South Africa
- Source: Moody's Investors Service: *Cross Sector Outlook*, November 8, 2017: "Global Macroeconomic Update (2018-19); Broadening emerging market recovery and stable growth in advanced economies"

National Economic Forecast

The U.S. Economic Outlook for 2017–2019 Executive Summary: September 2017

From Research Seminar in Quantitative Economics, University of Michigan

Steady, or Not. The second estimate of real GDP growth in 2017q2 was 3% at an annual rate. While this was the strongest reading since the 1st quarter of 2015, it was mainly a rebound from a lackluster 1st quarter. Real GDP growth in the first half of 2017 averaged 2.1%; on par with the average from 2010 to 2016. Relative to the past three years, the first half of 2017 saw slower consumption growth and experienced a significant drag from slow inventory investment, but benefited from an improved trade balance and strong business fixed investment growth. The consumption weakness was largely due to slowing new vehicle sales, while the boost to fixed business investment was brought on by the long-awaited recovery in oil exploration activity.

Earlier this year, Hurricanes Harvey and Irma struck the continental United States (and since then Hurricane Maria struck Puerto Rico) in quick succession, which will likely cause sizeable near-term swings in key monthly economic data. The hurricanes′ impact on GDP, however, is likely to be quite muted. The GDP effects of Hurricanes Katrina and Sandy suggest that inventory investment will be affected the most. Rebuilding efforts will likely boost GDP somewhat in the coming quarters, but those effects will be hard to disentangle from regular growth.

Crossover Takeover. The light vehicle sector has had a mixed year so far, with light truck sales holding up fairly well but car sales taking a beating. Even taking into account a possible drag on the annualized light vehicle sales pace due to Hurricane Harvey, the August reading of 16 million units was the weakest since early 2014. Major manufacturers′ restraint in incentive growth, willingness to control inventory via production cuts, and reduced emphasis on fleet sales are likely behind the recent vehicle sales slowdown.

We do not expect vehicle sales to linger too low for much longer. We expect the sales pace to approach 17 million in the fourth quarter, as buyers who delayed their purchases because of the hurricanes and those who are looking to replace damaged cars help the market. The light truck share rises from 60.6% in 2016 to 64.1% in 2017.

OPEC Shenanigans. Oil prices have remained stubbornly low despite production cuts by OPEC members. Recent news reports suggest that OPEC members cut production to meet their quotas, but they did not reduce exports. In July, Saudi Arabia announced it would decrease its oil exports, and urged other members to follow. The upcoming partial privatization of Saudi Aramco, the state-owned oil company, is likely to make Saudi Arabia push harder for higher oil prices.

Wageless and Price-less Recovery. Labor markets continue to improve, but at a slower pace as the economy has approached full employment. The unemployment rate has remained at 4.3– 4.4% in every month since April. The civilian labor force participation rate has fluctuated in a narrow band between 62.7 and 63.0% since January. After reaching 2.8% in February, the year-over-year growth of average private hourly earnings stalled around 2.5% in recent months.

Inflationary pressures have diminished recently. Year-over-year inflation in the overall PCE price index peaked at 2.2% in February and has decelerated since then to the latest reading of 1.4% in July. Core PCE inflation, excluding food and energy, has also decelerated from its recent peak of 1.9% year-over-year in January to 1.4% in July. As labor markets tighten and resource utilization picks up, we expect inflationary pressures to build in the medium term and approach the Fed's 2% target.

Interest Rate Adjustments. We expect a measured pace of two interest rate hikes per year by the Federal Reserve Board in 2018–19, with the next hike slated for March 2018. While not impossible, we consider a December hike unlikely due to continuing weakness in measures of inflation and some deceleration in labor market improvement.

Back to the Drawing Board. Ten months into the Trump presidency, the Affordable Care Act is still the law of the land. We think a repeal is unlikely and that the ACA will stay for the duration of our forecast.

Up until Hurricane Harvey made landfall in Texas in late August, the September legislative session was shaping up to be quite contentious for the U.S. Congress and the odds of a government shutdown were high. In a surprise move, President Trump negotiated a deal with congressional Democrats that authorized disaster relief funds, funded the federal government roughly at fiscal 2017 levels through early December 2017, and suspended the debt ceiling for the same period all at once. Raising the debt ceiling will likely become necessary again sometime in the spring of 2018.

The 2017–2019 Outlook. All major components of domestic final demand make positive contributions to growth over our forecast horizon, with consumption being the primary driver of growth. Real GDP is expected to grow at a 2.6% pace in 2018 and a 2.2% pace in 2019.

Weak multi-family housing starts in the South in June and July, along with the effects of Hurricanes Harvey and Irma (and now Maria), imply softness in multi-family housing starts in the 2nd quarter of 2017 to the 4th quarter of 2017. As rebuilding gains traction, annual housing starts increase from 1.20 million units in 2017 to 1.31 million in 2018 and 1.33 million in 2019.

We project light vehicle sales to decrease to 16.9 million units in 2017 and then to stay flat in 2018–19. The share of foreign-made vehicles stays roughly flat over the forecast, averaging 22.3%.

Employment and Inflation. The unemployment rate falls slowly from 4.5% in 2017 to 4.1% in 2019. As the economy approaches full employment, average monthly nonfarm payroll job gains slow from 182,000 jobs in 2017 to 173,000 in 2018 and 157,000 in 2019.

We expect low oil prices to keep headline CPI inflation muted in 2017. As energy prices pick up slowly, headline inflation increases from 1.5% in 2018 to 2.0% in 2019. Core inflation remains slightly above the headline figure through our forecast horizon.

Tax Bill Jeopardizes Certain Municipal Bond Financing Tools. Congress is currently considering H.R. 1, which passed the House Ways and Means Committee last week. In its current form, the bill proposes substantial changes to the federal tax code. Because the House Ways and Means Committee approved the bill, it is expected to be considered by the full House of Representatives for a vote. The Senate Finance Committee bill under consideration is hoped to be more favorable to municipal issuers.

U.S. Economic Outlook 2017-19
Executive Summary: September 2017

	Actual	RSQE Forecast		
	2016	**2017**	**2017**	**2019**
GDP (billions of current $)	18,624.5	19,349.0	20,186.1	21,047.1
Real GDP (billions of chained 2009 $)	16,716.2	17,081.9	17,519.8	17,904.3
% change: year-over-year	1.5	2.2	2.6	2.2
% change: 4th qtr. to 4th qtr.	1.8	2.4	2.3	2.1
Nonfarm payroll employment (millions)	144.3	146.5	148.6	150.4
Civilian unemployment rate (%)	4.9	4.5	4.3	4.1
Capacity utilization, total industry (%)	75.7	76.4	77.0	78.0
Inflation (private nonfarm GPD deflater, % change)	1.3	1.7	1.7	2.0
Inflation (CPI-U, % change)	1.3	1.9	1.5	2.0
Inflation (core CPI, % change)	2.2	1.8	1.7	2.1
Light vehicle sales (millions)	17.5	16.9	16.9	16.9
Private housing starts (thousands)	1.177.3	1,202.5	1,305.1	1,332.0
3-month Treasury bill rate (%)	0.3	0.9	1.5	2.0
10-year Treasury note rate (%)	1.8	2.3	2.7	3.2
30-year fixed Conventional mortgage rate (%)	3.6	4.0	4.4	4.8
Real disposable income (billions of chained 2009 $)	12,608.7	12,806.1	13,207.1	13,632.5
% change	1.4	1.6	3.1	3.2
Corporate profits after taxes (billions of current $)	1,687.9	1,798.4	1,954.1	2,138.0
Value of U.S. $ (FRB broad index), % appreciation	4.7	-0.6	-2.9	-0.1
Current account balance (NIPA basis, billions of current $)	-460.9	-506.2	-544.6	-598.7
Federal surplus (FY, NIPA basis, billions of current $)	-660.8	-673.3	-774.0	-901.6

Source: *U.S. Economic Outlook 2017-19; Executive Summary: September 2017*; Research Seminar in Quantitative Economics (RSQE), Univ. of Michigan; 9/19/2017

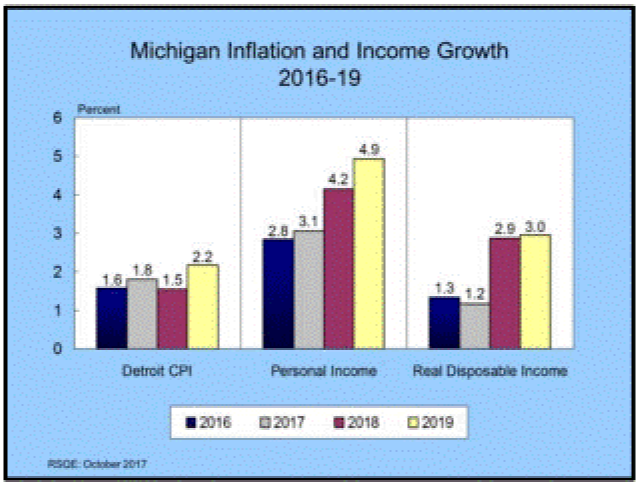
State of Michigan Economic Forecast

Following are some highlights from the most recent RSQE Michigan forecast, released on October 6, 2017.

> The Michigan economy has just completed its eighth year of economic recovery, creating an average of 70,200 net job additions per year from the previous recession's low point in the summer quarter of 2009 to summer 2017—the longest period of sustained job growth since the nine-year interval that spanned the spring quarters of 1991 to 2000. The 1.7% annual growth rate over this period outpaced the nation's average rate of 1.5%. Last year's performance was even more impressive, with the addition of 96,800 jobs.
>
> Since then, the Michigan economy has pumped its brakes. The first three quarters of 2017 have seen a marked slowdown, with job growth coming in at an annual rate of 0.8%.

We see job growth nudging up over the next two years, but its tempo remains muted, moving up from an annual rate of 0.8% during the first half of 2018 to 1.1% in the second half, and then ending 2019 at 1.3%. This path translates into gains of 36,300 jobs during 2017, inching up to 41,800 in 2018 and 55,400 in 2019.

Top job producers over the forecast period are: professional and business services; leisure and hospitality; trade, transportation, and utilities; and construction. The outlook extends the recovery period to ten years.



As seen in the graphic at left, local inflation—measured by the Detroit CPI— rose by 1.6% in 2016 following a decline in 2015. We see an increase to 1.8% in 2017, owing to a rebound in energy prices and an increase in Michigan's gasoline and diesel fuel taxes. As energy prices stabilize in 2018, local inflation recedes to 1.5%, then picks up to 2.2% in 2019 with increasing U.S. inflation and pressure from a tightening local labor market.

Personal income growth increases progressively over the forecast period, from 2.8% in 2016 to 3.1% in 2017, accelerating to 4.2% in 2018 and 4.9% in 2019. Growth picks up over the period in most major categories of nonwage income, including proprietors' income, property income, and transfer payments, as well as in wage and salary income in 2018 and 2019.

Growth in real disposable income fell back in 2016 to 1.3% with a rebound in inflation and slower growth in nominal income, and slows further to 1.2% in 2017 with the increase in inflation and a larger increase in federal taxes. It accelerates to 2.9% in 2018 with the strengthening growth of nominal income, the moderation in inflation, and a smaller increase in federal taxes. It then ticks up to 3% in 2019 with the more rapid growth in nominal income.

Following are highlights from the most recent House Fiscal Agency's (HFA) October Revenue Report, released on November 15, 2017, as reported by the *Gongwer News Service*:

Year-to-date General Fund and School Aid Fund revenues for the 2016-17 fiscal year have come in a little above the May consensus estimates. The School Aid Fund revenue is estimated to be $136.5 million above estimates and the General Fund is estimated to be $58.1 million more.

October's revenues close the State's 2016-17 fiscal year, because revenues accrue to that fiscal year. November's revenues will be the first month's collections for the 2017-18 fiscal year.

For the General Fund, though, its October 2017 revenues are $79 million below projections due to below-target collections from the individual income tax, which more than offset the higher than anticipated revenues coming mostly from the Michigan Business Tax.

School Aid Fund revenues in October came in $20 million above May 2017 projections. Sales tax revenue continues to be strong with the state education tax coming in stronger than anticipated. In total, School Aid Fund revenues were $1.88 billion in October and General Fund revenues were $935.9 million.

Michigan's major taxes, penalties and interests and lottery transfers totaled $2.9 billion in October, $74.2 million more than in October 2016. Net income tax revenue totaled $799 million last month. Income tax revenues for the 2016-17 fiscal year collected through October were $122 million more than the same period during the 2015-16 fiscal year, but the growth rate is still "well below" the May 2017 estimates. For 2016-17, the income tax netted $9.546 billion.

Net business taxes collected through October 2017 are $490.6 million higher than a year ago, with gains spread across the Single Business Tax, the Michigan Business Tax, the Corporate Business Tax and insurance company premium taxes. The taxes drew in a total of $684.6 million during the fiscal year.

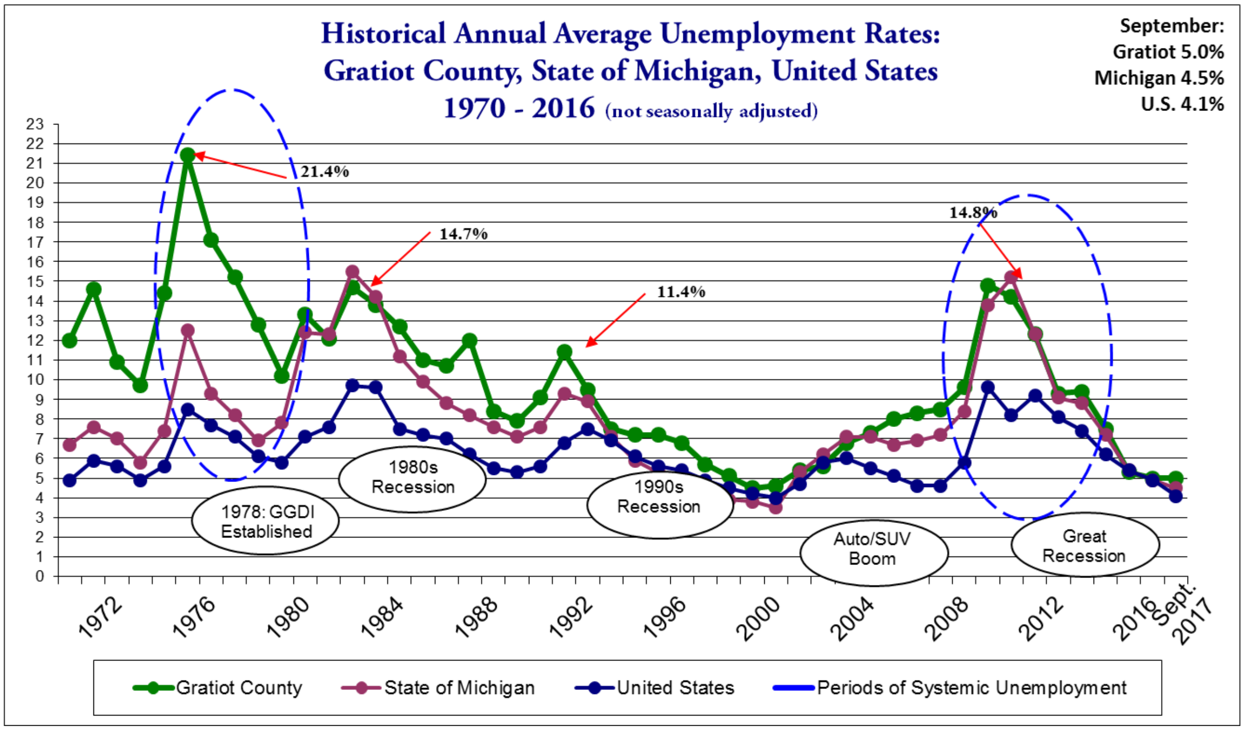
Consumption taxes - sales, use, beer and wine, liquor and tobacco - totaled $847.5 million in October and are $398 million higher than the 2015-16 fiscal year on a year-to-date basis. Sales, use and liquor tax revenues continue to exceed estimated growth rates while beer, wine and tobacco taxes are on target. In total, in 2016-17, the HFA said the taxes netted the state $10.189 billion.

Finally, the state education tax brought in $1.02 billion in October and the real estate transfer tax brought in $28.8 million. Both are well above estimates on a year-to-date basis.

In all, state revenues for 2016-17 totaled slightly more than $24 billion. They were $1.249 billion more than 2015-16.

Gratiot County Economic Conditions

The economic conditions within the State of Michigan and Gratiot County continue to improve in 2017. The Gratiot County jobless rate in September 2017 (5.0%) is again higher than both the national (4.1 %) and state (4.5%) rates. In 2016, Gratiot County was below both the national and state rates, which has happened only one other time (2002) since 1970. As seen on the graphic on the next page, it has slowly continued to drop from its most recent high of 14.8% in 2010 (following the Great Recession) as industry expands and empty retail spaces are filled. Jobs in the service sector are increasing at a rate far greater than in the industrial or commercial sectors. Gratiot County now ranks 43rd out of 83 counties in Michigan. Mackinac County in the Upper Peninsula is lowest at 3.2% while Montmorency in northeast Michigan is highest at 8.2%.



As depicted in the above graphic from GGDI, since the 1970s (except for 2002 and 2016), Gratiot County's unemployment rate has been significantly higher than the national rates and experienced similar fluctuations over that long period. In 1975, Gratiot County experienced its highest unemployment rate in the last 46 years of 21.4%. At that time, the county was heavily dependent on the automotive parts and petroleum sectors. Today, the petroleum refining sector is gone and the automotive parts sector is diminished but stable. Smaller and more diversified manufacturing firms are now typical in the Gratiot region; Ithaca reflects a similar trend as can be seen by the diverse employment base in the employment table on page XX. This table includes principal base employers (manufacturing firms) as well as other larger employers (both public & private) within the City.

In 2014, the annual average labor force for the County was 18,509 people; 1,314 of those people were unemployed, which resulted in an annual unemployment rate of 7.1%. The most recent data in the table below from August 2017 shows a smaller labor force, a significantly lower number of unemployed, and an unemployment rate down to 5.5%, implying a steady

Gratiot County Employment Data							
	Aug-17*	Jul-17	Aug-16	Change/Month		Change/Year	
				#	%	#	%
Labor Force	17,675	17,800	18,000	-125	-0.7%	-325	-1.8%
Employed	16,700	16,600	17,100	100	0.6%	-400	-2.3%
Unemployed	975	1,200	875	-225	-18.8%	100	11.4%
Jobless Rate	5.5%	6.7	4.9	-1.2		0.6	

* = Preliminary

Source: MI Dept. of Technology, Management & Budget (DTMB), Bureau of Labor Market Info & Strategic Initiatives, Press Release: *Mid-Michigan & Northeast; August 2017: Jobless Rates Record Seasonal Decreases* improvement in the continued slow recovery from the national Great Recession. An increasingly diversified economic base has lessened the gap between Gratiot County's unemployment situation compared to that of the state and nation over the long term.

In June 2017, Gratiot saw a decrease in labor force and number employed, leading to a higher unemployment rate. With a 4.9% rate, Gratiot ranked #45 out of the State's 83 counties. June's rate was 0.7% higher than May 2017, and 0.1% lower (improved) than June 2016. Gratiot's rate was higher than the State's rate (4.0%) and the federal rate (4.5%).

In July 2017, Gratiot saw a major decrease in the labor force and number employed, leading to a higher-than-normal unemployment rate of 6.7%. This is likely due to a decline in the auto industry and seasonal education cuts. Gratiot ranked #61 out of the State's 83 counties. Gratiot's rate was higher than the State's rate (4.9%) and the federal rate (4.6%).

The relatively small labor force of Gratiot County has a large impact on the degree to which unemployment rates swing up or down. Approximately 200 people gaining or losing employment changes the county average by approximately one full percentage point. A slight change in Gratiot's labor force results in a substantial impact on the county's unemployment rate, minimal effects to the state rate, and is statistically irrelevant to the national rate. Historically, the size of the Gratiot labor force has remained fairly consistent.

Ithaca Economic Forecast

The City of Ithaca's diverse economy is stable and is continuing to show signs of improving in 2017. As of June 30, 2017, there was only one unoccupied industrial building in the City. Several downtown buildings and storefronts have seen new owners and/or tenants. Only three storefronts are vacant; the owner of one of those is nearing completion of the renovation; the owner of another has plans for renovating & occupying the building. Another vacant downtown building that burned due to an arsonist fire about two years ago has been cleaned out and is finally for sale by the owner after lengthy insurance and legal issues were resolved.

Housing wise, while there have only been a couple of new housing units constructed in the last two years, demand for existing homes has been strong. Listing times for homes for sale have continued to decrease, with many only being offered for sale for several weeks before offers are tendered for purchase. Occupancy in the many multi-family buildings and developments have been very high, with waiting lists for open rental units. Last year the City Council reduced prices for vacant lots in the City-developed Westwind Estates residential housing subdivision, where only eight vacant lots of the buildable 39 lots remained for sale. As a result, two new single-family homes were built in the subdivision in 2017.

The 435-acre former ICM property to the east of US-127 and south of Washington Road was sold three years ago to Zeeland Farms Services (ZFS). ICM had plans to construct a corn ethanol production facility, but abandoned those plans after construction had already begun. ZFS has been actively working with the City, Greater Gratiot Development, Inc. (GGDI) and the State MEDC since they purchased the property to repurpose the site for the construction of a soybean processing and storage facility. The City is nearing completion of the extension of water and sanitary sewer service to the ZFS development, and other properties east of the highway at an approximate cost of $850,000, which will be reimbursed by ZFS.

The City, GGDI and the State MEDC crafted an incentive package for ZFS that was approved in early 2017 by ZFS and the MI Strategic Fund board. Its two major features include a 15-year Agricultural Processing Renaissance Zone, and a Brownfield Redevelopment Plan that will use tax increment financing (TIF) funds to reimburse ZFS and the City for eligible infrastructure and site improvement costs. There are also several other direct grants of about $1.8 million for road and rail improvements adjacent to the site. The total redevelopment investment of both public and private funds will be approximately $130 million over this and next year. This could theoretically double the City's current overall taxable value of $61 million.

ZFS anticipates creating approximately 250 construction jobs and hiring approximately 74 full-time employees when the facility begins production in late 2018. About 60 of those jobs should be at the Ithaca facility, with the remaining 14 at the ZFS corporate headquarters in Zeeland, MI. This will be the largest soybean processing facility in the state and will be capable of processing up to 40 million bushels of soybeans a year (40% of the state's soybean crop.) It is projected that regional soybean growers could see a $0.10 to $0.25 increase per bushel in the value of their harvested soybeans. Also, the ripple economic effect of 60 new jobs on the local economy will be large for the commercial, housing and agricultural sectors.

Ithaca also took action last year to provide more opportunities for the public to experience the area by being active in a project that just added 6.2 miles of paved non-motorized pathway between Ithaca and Alma along the east side of US-127. MDOT was the grant applicant for the pathway project, which was constructed over the summer of 2016 at the same time MDOT began a two-year renovation of US-127 in the same area. The $2.2 million pathway project was matched by several local communities by covering the cost of engineering and design; Ithaca's share was $40,000. The $150,000 already committed by the area cities and townships, as well as the county and the county park & recreation commission made this an exciting example of a collaborative effort to improve our area for economic vitality, increased tourism and personal health benefits. The ribbon cutting was held in October at the MDOT rest area about halfway between Ithaca and Alma, where there is a linkage to the new path.

In 2017, the City contracted to extend the City's sidewalk system east along Center Street to connect with the new pathway project near MDOT's Park & Ride facility just east of the highway. The City paid for the $200k+ project with one of its recreation endowment funds; no public property tax money was used. This new path connector will be completed in early November, and will offer a connection for path users to our east-end commercial/fast-food district, as well as the downtown. It also will provide a safe connection for path users living in town.

Finally, as noted in last year's MD&A section, in May 2016 the City refinanced its 2007 General Obligation Unlimited Tax bonds that had funded water and sewer system infrastructure improvements. The refunding bonds of $3.9 million received an underlying rating of "A1" from Moody's Investors Service. Concurrently, Moody's affirmed the "A1" rating on the City's outstanding debt. Standard & Poor's Credit Market Services assigned a rating of "AA" to this issue with the understanding that bond insurance would be issued concurrently with the delivery of the bonds. The May 2016 offering resulted in a debt service saving of over $500,000 in interest.

The “A1” rating reflected the City's stable financial position, supported by healthy, albeit nominally modest, operating reserves. Additionally, incorporated in the rating are the City's small tax base and below-average demographic profile, along with manageable debt and pension obligations. Due to the small amount of the City’s outstanding debt, a rating outlook was not assigned. Factors that could lead to a rating upgrade include: 1) significant economic and tax base expansion; and 2) material improvement to resident wealth and income indices. Factors that could lead to a rating downgrade include: 1) significant economic or tax base contraction; and 2) sustained narrowing of operating reserves and/or liquidity.

Contacting the City’s Financial Management Team

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City’s finances and to show the City’s accountability for the money it receives and expends. Questions about this report or additional financial information should be addressed to either the City Manager or the City Clerk-Treasurer at:

City of Ithaca
129 W. Emerson Street
Ithaca, Michigan 48847-1017

Phone: 989/ 875-3200
Facsimile: 989/ 875-4064
Website: www.ithacami.com

Chris A. Yonker
Chris A. Yonker
City Manager
manager@ithacami.com

Barbara Fandell
Barbara Fandell, CPFA, MiCPT
City Clerk-Treasurer
clerk@ithacami.com

PRINCIPAL BASE EMPLOYERS / SIGNIFICANT INDUSTRY

DEMONSTRATING SELECT SIGNIFICANT INDUSTRY & DIVERSITY BY SECTOR

JUNE 2017

ITHACA EMPLOYER	PRIVATE FTE*	PUBLIC/ NP FTE*	PRODUCT/SERVICE	NAICS**
Clover Technologies (Cartridges Are Us- CAU)	168.0		Inkjet printer cartridge refilling & OEM supply	325910
Gratiot County Courthouse		162.5	County governmental services	921190
Hutchinson Aerospace & Industry (formerly Barry Controls)	147.5		OEM anti-vibration components for the transportation industry	336399
Ithaca Public Schools		134.5	Public school district K-12	611110
Gratiot-Isabella RESD		124.0	Regional educational support services	611710
Anchor Danly	79.0		Presses, machine tools, die sets & die maker supplies	33514
Aircraft Precision Products	66.0		Parts & components for jet aircraft engines	336413
Commercial Bank- HQ & Branch	65.0		Private financial institution	522110
Craig Frames	49.0		Manufacturer of wood & metal picture frames	339999
Family Independence Agency		35.0	State social services agency	624190
Gratiot County Road Commission		34.0	Countywide road maintenance	921190
Dufrene Machinery, Inc.	23.0		Manufacturer of corrugated container machines & general equipment rigging	333291
C & S Steel	23.0		Steel sales & fabrication	331111
DuPont Pioneer	21.0		Agricultural research & development	541710
Precision Machine & Manufacturing	18.5		Custom machining & fabrication	33271
Mid-MI District Health Dept.		16.5	District public health agency	923120
City of Ithaca		16.0	Municipal governmental services	921190
Clean Harbors	16.0		Environmental remediation equipment	562910
DuPont Pioneer	13.5		Biotechnology R&D labs in agriculture	541714
Ithaca Manufacturing	10.0		Custom manufactured steel products	336999
Gratiot County Herald	8.0		Countywide print & online newspaper	511110
E & S Graphics	7.0		Printing, photo-offset	323110
Isabella Bank Branch	6.5		Private financial institution	522110
Seventh Day Adventist School		6.0	Parochial school K-9	611110
Universal Bearings (formerly Precision Plastics & Die)	5.5		Thermoset compression & injection molded plastic parts	326199
Mid-MI Specialty Crops	5.0		Custom processing & identity preserved crops; organic-certified processing facility; storage	493130
Mich. State University Extension		4.5	University rural/agricultural education	926140
Zeeland Farm Services (Ithaca)	4.0		Soybean oil processing & storage	311224
Powder Coating of Central Mich.	4.0		Powder coating of metal parts	332812
Exelon Wind (formerly Nordex)	4.0		Wind turbine farm maintenance & operations facility	221115
Gratiot Community Credit Union	3.5		Private financial institution	522130
Misenhelder Welding	3.0		Welding services	811310
Monosem, Inc.	3.0		Fabrication & assembly of precision agricultural planters	333111
Greater Gratiot Development, Inc.		3.0	Countywide Econ. Develop. Organization	925120
TOTALS:	**753.0**	**536.0**		

Sources: *2017 Gratiot Community Employment Profile*, Greater Gratiot Development, Inc. (May/June 2017); and Direct contact with employers. *Italicized text* represents previous year's employment numbers.

*FTE (full-time equivalent) = # full-time employees + (0.5 x # part-time employees) + (% of year x # temporary employees). This is not a total employee count.

**NAICS (North American Industry Classification System) is the identification of what this industry or service does or provides.

GOVERNMENT-WIDE
FINANCIAL STATEMENTS

City of Ithaca
Statement of Net Position
June 30, 2017

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Current assets				
Cash and investments	$ 3,031,709	$ 1,444,888	$ 4,476,597	$ 43,620
Accounts receivable	44,302	207,938	252,240	45
Property taxes receivable	1,325,101	242,560	1,567,661	15,513
Due from other governments	117,657	-	117,657	-
Due from agency fund	1,000	-	1,000	-
Inventories	-	35,721	35,721	-
Total current assets	4,519,769	1,931,107	6,450,876	59,178
Noncurrent assets				
Long term notes receivable	84,556	-	84,556	-
Capital assets not being depreciated	206,279	133,019	339,298	-
Capital assets being depreciated, net	1,984,534	6,535,626	8,520,160	-
Total noncurrent assets	2,275,369	6,668,645	8,944,014	-
Total assets	6,795,138	8,599,752	15,394,890	59,178
Deferred Outflows of Resources				
Deferred outflow - related to pension	148,449	98,966	247,415	-
Liabilities				
Current liabilities				
Accounts payable	292,692	46,442	339,134	-
Accrued liabilities	49,870	8,605	58,475	-
Accrued interest	-	31,938	31,938	-
Compensated absences, due within one year	5,572	4,130	9,702	-
Bonds payable, due within one year	-	100,000	100,000	-
Total current liabilities	348,134	191,115	539,249	-
Noncurrent liabilities				
Customer deposits	-	9,876	9,876	-
Bond premium, net of amortization	-	233,231	233,231	-
Compensated absences, due beyond one year	31,572	23,405	54,977	-
Bonds payable, due beyond one year	-	3,400,000	3,400,000	-
Net pension liability	1,233,148	822,099	2,055,247	-
Total noncurrent liabilities	1,264,720	4,488,611	5,753,331	-
Total liabilities	1,612,854	4,679,726	6,292,580	-
Deferred Inflows of Resources				
Deferred inflow - related to pension	39,462	26,308	65,770	-
Net position				
Net investment in capital assets	2,190,813	2,935,414	5,126,227	-
Restricted	1,653,161	-	1,653,161	-
Unrestricted	1,447,297	1,057,270	2,504,567	59,178
Total net position	$ 5,291,271	$ 3,992,684	$ 9,283,955	$ 59,178

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Activities
For the Year Ended June 30, 2017

		Program Revenues		Net (Expense) Revenue and Changes in Net Position			
				Primary Government			
Functions / Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
Governmental activities							
General government	$ 809,789	$ 48,076	$ 134,879	$ (626,834)	$ -	$ (626,834)	$ -
Public safety	749,836	150,258	-	(599,578)	-	(599,578)	-
Public works	604,817	-	350,037	(254,780)	-	(254,780)	-
Community and economic development	16,618	-	-	(16,618)	-	(16,618)	-
Recreation and cultural	267,104	3,908	78,191	(185,005)	-	(185,005)	-
Total governmental activities	2,448,164	202,242	563,107	(1,682,815)	-	(1,682,815)	-
Business-type activities							
Water and Sewer	1,117,386	671,234	-	-	(446,152)	(446,152)	-
Total primary government	$ 3,565,550	$ 873,476	$ 563,107	(1,682,815)	(446,152)	(2,128,967)	-
Component units							
Downtown Development Authority	$ 2,435	$ -	$ -	-	-	-	(2,435)
General revenues							
Property taxes				1,128,000	239,937	1,367,937	14,433
State grants				352,875	-	352,875	-
Unrestricted investment earnings				78,827	7,441	86,268	185
Gain on disposal of capital assets				720	-	720	-
Transfers				16,809	(5,671)	11,138	(11,138)
Other revenues				113,788	78,751	192,539	390
Total general revenues				1,691,019	320,458	2,011,477	3,870
Change in net position				8,204	(125,694)	(117,490)	1,435
Net position, beginning of year				5,283,745	4,118,378	9,402,123	57,743
Prior period adjustment				(678)	-	(678)	-
Net position, end of year				$ 5,291,271	$ 3,992,684	$ 9,283,955	$ 59,178

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

City of Ithaca
Balance Sheet - Governmental Funds
June 30, 2017

	General Fund	Major Street	Local Street	Library	Fire Operating	First Responder	Non-Major Governmental Funds	Total Governmental Funds
Assets								
Cash and investments	$ 1,028,930	$ 313,666	$ 163,920	$ 191,647	$ 106,286	$ 121,430	$ 760,507	$ 2,686,386
Accounts receivable	28,778	-	-	-	-	-	-	28,778
Notes receivable	-	-	-	-	-	-	84,556	84,556
Due from other funds	1,000	-	-	-	-	-	58,177	59,177
Due from other governments	53,978	49,121	14,558	-	-	-	-	117,657
Total assets	$ 1,112,686	$ 362,787	$ 178,478	$ 191,647	$ 106,286	$ 121,430	$ 903,240	$ 2,976,554
Liabilities								
Accounts payable	$ 67,531	$ 116,743	$ 19,801	$ 5,941	$ 5,302	$ 539	$ 16,427	$ 232,284
Accrued liabilities	11,892	1,588	1,118	2,943	21,722	10,048	-	49,311
Due to other funds	49,642	-	-	-	-	-	8,535	58,177
Unearned revenue	-	-	-	-	-	-	84,556	84,556
Total liabilities	129,065	118,331	20,919	8,884	27,024	10,587	109,518	424,328
Fund balances								
Restricted	-	244,456	157,559	182,763	79,262	110,843	793,722	1,568,605
Unassigned	983,621	-	-	-	-	-	-	983,621
Total fund balances	983,621	244,456	157,559	182,763	79,262	110,843	793,722	2,552,226
Total liabilities and fund balance	$ 1,112,686	$ 362,787	$ 178,478	$ 191,647	$ 106,286	$ 121,430	$ 903,240	$ 2,976,554

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City of Ithaca
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Position of Governmental Activities on the Statement of Net Position
June 30, 2017

Total fund balance - governmental funds		$ 2,552,226
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Add:	capital assets	4,921,479
Deduct:	accumulated depreciation	(3,241,974)
Internal service funds are used by management to charge the cost of equipment rents and materials to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		
Add:	net position of governmental activities accounted for in the internal service fund	811,188
Governmental funds do not report revenues until collected or collectible within 60 days of year-end. However, in the statement of activities, revenues are recorded when earned, regardless of the timing of cash flows.		
Add:	property tax receivable	1,325,101
Add:	balance of long-term loans receivable	84,556
Some liabilities (and corresponding deferrals) are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:		
Add:	deferred outflow - related to pension	148,449
Deduct:	deferred inflow - related to pension	(39,462)
Deduct:	net pension liability	(1,233,148)
Deduct:	compensated absences	(37,144)
Total net position - governmental activities		$ 5,291,271

City of Ithaca
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2017

	General Fund	Major Street	Local Street	Library	Fire Operating	First Responder	Non-Major Governmental Funds	Total Governmental Funds
Revenues								
Taxes and penalties	$ 1,072,920	$ -	$ -	$ 131,999	$ -	$ -	$ -	$ 1,204,919
Licenses and permits	13,294	-	-	-	-	-	-	13,294
State grants	352,875	261,481	88,556	2,681	-	-	134,879	840,472
Charges for services	25,182	-	-	3,908	114,814	35,444	9,600	188,948
Fines and forfeits	155	-	-	75,510	-	-	-	75,665
Interest and rentals	71,378	1,086	162	2,871	167	183	2,408	78,255
Other revenues	73,724	712	365	9,169	43,098	809	8,138	136,015
Total revenues	1,609,528	263,279	89,083	226,138	158,079	36,436	155,025	2,537,568
Expenditures								
General government	462,947	-	-	-	-	-	148,527	611,474
Public safety	408,495	-	-	-	244,395	63,998	-	716,888
Public works	194,077	254,933	155,807	-	-	-	-	604,817
Community and economic development	4,620	-	-	-	-	-	11,998	16,618
Recreation and cultural	101,669	-	-	147,470	-	-	-	249,139
Other expenditures	107,628	-	-	-	-	-	-	107,628
Total expenditures	1,279,436	254,933	155,807	147,470	244,395	63,998	160,525	2,306,564
Excess of revenues over (under) expenditures	330,092	8,346	(66,724)	78,668	(86,316)	(27,562)	(5,500)	231,004
Other financing sources (uses)								
Transfers in	36,073	10,810	112,780	-	103,007	34,256	54,346	351,272
Transfers out	(199,369)	(60,000)	-	-	(20,002)	(7,273)	(47,819)	(334,463)
Total other financing sources (uses)	(163,296)	(49,190)	112,780	-	83,005	26,983	6,527	16,809
Net change in fund balances	166,796	(40,844)	46,056	78,668	(3,311)	(579)	1,027	247,813
Fund balance, beginning of year	816,825	285,300	111,503	104,095	82,573	111,422	793,373	2,305,091
Prior period adjustment	-	-	-	-	-	-	(678)	(678)
Fund balance, end of year	$ 983,621	$ 244,456	$ 157,559	$ 182,763	$ 79,262	$ 110,843	$ 793,722	$ 2,552,226

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

Net change in fund balances - total governmental funds		$ 247,813
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Add:	capital outlay	99,388
Deduct:	depreciation expense	(166,945)
Governmental funds do not report revenues until collected or collectible within 60 days of year-end. However, in the statement of activities, revenues are recorded when earned, regardless of the timing of cash flows.		
Deduct:	change in property tax accrual	(76,919)
Deduct:	payments of long-term loan receivable	(22,382)
Internal service funds are used by management to charge the cost of certain activities, such as equipment rents and materials, to individual funds. The net income/expense of the internal service funds is reported with governmental activities.		
Deduct:	net income of internal service funds	(17,187)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.		
Deduct:	change in deferred outflow - related to pension	(44,491)
Deduct:	change in deferred inflow - related to pension	(39,462)
Add:	change in net pension liability	15,428
Add:	change in accrual for compensated absences	12,961
Change in net position - governmental activities		$ 8,204

City of Ithaca
Statement of Net Position
Proprietary Funds
June 30, 2017

	Business-Type Activities Enterprise Funds	Governmental Activities
	Water and Sewer	Internal Service
Assets		
Current assets		
Cash and cash equivalents	$ 928,714	$ 341,154
Investments	516,174	4,169
Accounts receivable	207,938	15,524
Property taxes receivable	242,560	-
Inventories	35,721	-
Total current assets	1,931,107	360,847
Noncurrent assets		
Capital assets not being depreciated	133,019	-
Capital assets being depreciated	11,071,856	1,421,347
Less: accumulated depreciation	(4,536,230)	(910,039)
Total noncurrent assets	6,668,645	511,308
Total assets	8,599,752	872,155
Deferred Outflows of Resources		
Deferred outflow - related to pension	98,966	-
Liabilities		
Current liabilities		
Accounts payable	46,442	60,408
Accrued liabilities	8,605	559
Accrued interest	31,938	-
Current portion of long-term debt	100,000	-
Current portion of compensated absences	4,130	-
Total current liabilities	191,115	60,967
Noncurrent liabilities		
Long-term debt	3,400,000	-
Bond premium, net of amortization	233,231	-
Customer deposits	9,876	-
Compensated absences	23,405	-
Net pension liability	822,099	-
Total noncurrent liabilities	4,488,611	-
Total liabilities	4,679,726	60,967
Deferred Inflows of Resources		
Deferred inflow - related to pension	26,308	-
Net position		
Net investment in capital assets	2,935,414	511,308
Unrestricted	1,057,270	299,880
Total net position	$ 3,992,684	$ 811,188

City of Ithaca
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2017

	Business-Type Activities Enterprise Funds	Governmental Activities
	Water and Sewer	Internal Service
Operating revenues		
Water and sewer sales	$ 663,357	$ -
Penalties and interest charges	7,877	-
Service charges	-	127,256
Property taxes	239,937	-
Miscellaneous revenues	78,751	19,327
Total operating revenues	989,922	146,583
Operating expenses		
Water		
Personnel services	192,071	-
Contractual services	167,175	-
Supplies	12,800	-
Depreciation	167,061	-
Other expenses	44,882	-
Sewer		
Personnel services	163,702	-
Contractual services	124,880	-
Supplies	3,873	-
Depreciation	80,277	-
Other expenses	40,795	-
Other		
Personnel services	-	32,403
Contractual services	-	1,584
Supplies	-	9,007
Depreciation	-	84,472
Other expenses	-	37,596
Total operating expenses	997,516	165,062
Operating income (loss)	(7,594)	(18,479)
Nonoperating revenues (expenses)		
Interest revenue	7,441	572
Interest expense	(119,030)	-
Gain on disposal of capital assets	-	720
Transfers in (out)	(5,671)	-
Other expenses	(840)	-
Total nonoperating revenues (expenses)	(118,100)	1,292
Change in net position	(125,694)	(17,187)
Net position, beginning of year	4,118,378	828,375
Net position, end of year	$ 3,992,684	$ 811,188

City of Ithaca
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017

	Business-Type Activities Enterprise Funds	Governmental Activities
	Water and Sewer	Internal Service
Cash flows from operating activities		
Receipts from customers	$ 644,345	$ -
Receipts from interfund charges	-	151,276
Payments to suppliers / outsiders	(380,343)	10,221
Payments to employees	(306,723)	(32,403)
Other receipts	320,061	-
Payments to other funds for services provided	(17,394)	-
Return of customer deposits	(5,424)	-
Net cash provided by operating activities	254,522	129,094
Cash flows from noncapital financing activities		
Transfer to other funds	(5,671)	-
Cash flows from capital and related financing activities		
Purchase of capital assets	(115,834)	(68,839)
Proceeds from sale of assets	-	6,500
Principal paid on debt	(100,000)	-
Interest and fees paid on debt	(119,870)	-
Net cash provided by (used in) capital and related financing activities	(335,704)	(62,339)
Cash flows from investing activities		
(Purchase)/sale of investments	(57,099)	(35)
Interest revenue	7,441	572
Net cash provided by (used in) investing activities	(49,658)	537
Net increase (decrease) in cash and cash equivalents	(136,511)	67,292
Cash and cash equivalents, beginning of year	1,065,225	273,862
Cash and cash equivalents, end of year	$ 928,714	$ 341,154
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ (7,594)	$ (18,479)
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	247,338	84,472
Change in assets and liabilities		
Receivables - net	(25,516)	4,693
Inventories	105	-
Bond premium, net of amortization	(11,662)	-
Deferred outflows of resources related to pensions	29,660	-
Accounts and other payables	6,169	58,408
Deferred inflows of resources related to pensions	26,308	-
Net pension liability	(10,286)	-
Net cash provided by operating activities	$ 254,522	$ 129,094

City of Ithaca
Statement of Net Position - Fiduciary Funds
June 30, 2017

	Tax	ICCA - Perk Up the Park	Total
Assets			
Cash and investments	$ 40,435	$ 800	$ 41,235
Total assets	40,435	800	41,235
Liabilities			
Accounts payable	39,435	800	40,235
Due to other funds	1,000	-	1,000
Total liabilities	40,435	800	41,235
Net position			
Unrestricted	-	-	-
Total net position	$ -	$ -	$ -

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Net Position - Component Unit
June 30, 2017

	Downtown Development Authority
Assets	
Current assets	
Cash and investments	$ 43,620
Property taxes receivable	15,513
Accounts receivable - net	45
Total current assets	59,178
Liabilities	
Accounts payable	-
Accrued liabilities	-
Total liabilities	-
Net position	
Unrestricted	59,178
Total net position	$ 59,178

City of Ithaca
Statement of Activities - Component Unit
For the Year Ended June 30, 2017

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenue and Changes in Net Position
Downtown Development Authority				
General government	$ 2,435	$ -	$ -	$ (2,435)
General Revenues				
Property taxes				14,433
Unrestricted investment earnings				185
Other revenues				390
Transfers in				14,000
Transfers out				(25,138)
Total general revenues				3,870
Change in net position				1,435
Net position, beginning of year				57,743
Net position, end of year				$ 59,178

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The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
The accounting policies of the City of Ithaca (the City) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the City. All amounts shown are in dollars.

Reporting Entity
The City is governed by a seven member city council which has responsibility and control over all activities related to the City. The City receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities. Council members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financial accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely Presented Component Unit
The following component unit is reported within the component unit column in the combined financial statements.

Downtown Development Authority – The Ithaca Downtown Development Authority (the Authority) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of the mayor and ten individuals appointed by the city council. In addition, the Authority's budget is subject to approval by the city council. The City is financially accountable for the Downtown Development Authority's activities.

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 non-fiduciary activities of the City and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a function 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 consumers who purchase, use or directly benefit from services 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. Other items, including taxes and intergovernmental payments, not properly included among program revenues, are reported instead as general revenues.

Net position is restricted when constraints placed on it are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation
Government-wide Financial Statements **–** The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are 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 **-** The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. 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 severance pay, are recorded only when payment is due.

Proprietary Fund Financial Statements – The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards to not conflict with the standards of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for services provided. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition on reported as nonoperating revenue and expenses.

Fiduciary Fund Financial Statements – Fiduciary funds account for assets held by the City in a trustee or agency capacity on behalf of others and, therefore, are not available to support City operations. The reporting focus is upon net position and changes in net position and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements as they are not an asset of the City available to support the City's operations. The City currently maintains an agency fund to account for the monies collected and paid to various governmental entities for property tax collections and for funds held for the "Perk Up the Park" campaign.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Street Fund accounts for the resources of State revenue sharing of Trunkline maintenance revenues, gas and weight tax revenues and local road program revenues that are restricted for use on major streets.
- The Local Street Fund accounts for the resources of State revenue sharing of gas and weight tax revenues and local road program revenues that are restricted for use on local streets.
- The Library Fund accounts for the resources of library revenues that are restricted for the operations of the City's library.
- The Fire Operating Fund accounts for resources used to provide fire services to residents of the City and surrounding townships.
- The First Responder Fund accounts for resources used to provide first responder services to residents of the City and surrounding townships.

The City reports the following major proprietary funds:

- The Water and Sewer Fund (and Enterprise Fund) accounts for the activities of the water distribution system and sewage collection system.

The City reports the following non-major governmental funds:

- The Economic Development Fund accounts for resources used to promote economic development of the City.
- The Caldwell & Gibbs Memorial Funds account for resources to fund special projects.
- The Cemetery and Fire & Rescue Sinking Funds account for funds that are placed in reserve for future operations and equipment purchases.
- The Grant Projects Fund accounts for resources to fund special projects as awarded through local, state and federal grants.
- The Cemetery Perpetual Care Fund accounts for resources designated for the future ongoing care of the cemetery.

Additionally, the City reports the following fund types:

- The Internal Service Fund accounts for major machinery and equipment purchases, as well as material purchases, provided to other departments of the City on a cost reimbursement basis.

Budgetary Basis of Accounting
Budgets are adopted at the functional level and on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is not employed in the governmental funds.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

On or before the first day of March of each year, a proposed budget for the next fiscal year is submitted to the budget officer. The budget officer compiles such information and submits it to the council, along with recommendations, no later than the second council meeting in April of each year. This operating budget includes proposed expenditures and the means of financing them for the fiscal year commencing the following July 1st. The council holds public hearings and final budgets are adopted prior to July 1st.

Prior to July 1st, the budget is legally enacted pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978, as amended).

The city treasurer is authorized to transfer budgeted amounts between departments within any fund; however, council must approve any revisions that alter the total expenditures of any fund.

Formal budgetary integration is employed as a management control device during the year.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is at the function level for the General Fund, and the fund level for all other funds.

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

<u>Cash and Cash Equivalents</u>
The City's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

<u>Investments</u>
Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity.

State statutes authorize the City to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The City is also authorized to invest in U.S. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to / from other funds". Activity between funds that is representative of lending / borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

All trade receivables are shown as net of allowance for uncollectible amounts, if any.

Inventory

Inventory is valued at cost, on a first-in, first-out basis for the City's business-type activities. For all other funds, the City does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the City as individual assets with an initial cost equal to or more than $5,000 and an estimated useful life in excess of one year. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at estimated fair 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 assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Land and construction in process are not depreciated. Other property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land	Not Depreciated
Construction in Process	Not Depreciated
Land Improvements	5 – 15
Buildings and Improvements	3 – 50
Furniture, Equipment & Vehicles	3 – 50
Infrastructure	10 - 40

Deferred Outflows/Inflows 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 City has one item that qualifies for reporting in this category which relates to the pension plan. See Note 7 for additional information.

In addition to liabilities, the statement of financial 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. See Note 7 for additional information.

<u>Compensated Absences</u>
It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. These compensated absences are accrued in the government-wide financial statements.

<u>Long-Term Obligations</u>
In the government-wide financial statements and the proprietary fund type statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

<u>Defined Benefit Plan</u>
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) 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.

<u>Net Position and Fund Balances</u>
Restricted net position shown in the government-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental funds financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the government-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

<u>Net Position – Restrictions</u>
Net position in the government-wide financial statements are reported as restricted when constraints placed on net position use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

<u>Fund Balance</u>
The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- The City would typically use restricted fund balance 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 classified funds.
- Committed fund balance—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (city council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the City intends to use for a specific purpose. Intent can be expressed by the city council or by an official or body to which the city council delegates the authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Property Tax Revenue
The City's property tax is levied on August 1st and December 1st on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31st.

Although the City's 2016 ad valorem tax is levied and collectible on August 1st and December 1st, 2016, it is the City's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2016 taxable valuation of property located in the City for operating purposes totaled $64.4 million, on which ad valorem taxes levied consisted of 13.9692 mills for operating, 1.5000 mills for emergency service and 3.8000 mills for water/sewer debt service and 1.0000 for sidewalk repairs.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS
At June 30th, the carrying amount of the City's cash, deposits and investments was as follows:

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
Cash and equivalents - unrestricted	2,412,902	928,714	3,341,616	23,480
Investments	618,807	516,174	1,134,981	20,140
Totals	3,031,709	1,444,888	4,476,597	43,620

The bank balance of the primary government's deposits is $3,343,127, of which $986,809 is covered by federal depository insurance. The remaining amount is uninsured and uncollateralized. The component units' deposits had a bank balance of $23,480, of which all is covered by federal depository insurance. Deposits which exceed FDIC insurance coverage limits are held at local banks.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

As of year-end, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (years)	Standard & Poor's Rating	%
Total Primary Government				
Michigan Cooperative Liquid Assets Securities System (Michigan CLASS)	1,134,981	.1782	AAAm	100%
Total Component Unit				
Michigan Cooperative Liquid Assets Securities System (Michigan CLASS)	20,140	.1782	AAAm	100%
1 day maturity equals 0.0027, one year equals 1.00				

Interest rate risk. In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. See above for amount of deposits held by the City that are exposed to custodial credit risk because it is uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, it is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City will minimize custodial 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 allowed by law; and prequalifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business.

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

Fair value measurement. The City is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the City's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The City does not have any investments subject to the fair value measurement.

NOTE 3 – INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivable and payable shown on the fund financial statements as of June 30th, are as follows:

Receivable fund	Amount	Payable fund	Amount
General	1,000	General	49,642
Caldwell Memorial	41,750	Caldwell Memorial	8,535
Grant Projects	7,892	Tax	1,000
Economic Development	8,535		-
Total	59,177	Total	59,177

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

As of June 30th, due from other governmental units is comprised of the following amounts:

Fund and Description	Amount
General Fund – State of Michigan Revenue Sharing	53,978
Major Street Fund – State of Michigan Act 51	49,121
Local Street Fund – State of Michigan Act 51	14,558
Total	117,657

NOTE 5 - CAPITAL ASSETS

A summary of changes in the City's Governmental Activities capital assets follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	181,681	-	-	181,681
Construction in Process	-	24,598	-	24,598
Total capital assets not being depreciated	181,681	24,598	-	206,279
Capital assets being depreciated				
Land Improvements	371,213	-	-	371,213
Buildings and Improvements	2,328,776	-	-	2,328,777
Furniture and Equipment	1,652,899	45,218	(118,675)	1,579,442
Infrastructure	149,801	-	-	149,801
Vehicles	1,608,904	98,411	-	1,707,314
Total capital assets being depreciated	6,111,593	143,629	(118,675)	6,136,547
Accumulated depreciation	(4,013,491)	(251,416)	112,894	(4,152,013)
Net capital assets being depreciated	2,098,102	(107,787)	(5,781)	1,984,534
Net capital assets	2,279,783	(83,189)	(5,781)	2,190,813

A summary of changes in the City's Business-Type Activities capital assets follows:

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	14,432	-	-	14,432
Construction in Process	69,585	118,587	(69,585)	118,587
Total capital assets not being depreciated	84,017	118,587	(69,585)	133,019
Capital assets being depreciated				
Furniture and Equipment	14,688	-	(1,800)	12,888
Water and Sewer System	10,992,946	66,832	(810)	11,058,968
Total capital assets being depreciated	11,007,634	66,832	(2,610)	11,071,856
Accumulated Depreciation	(4,291,502)	(247,338)	2,610	(4,536,230)
Net capital assets being depreciated	6,716,132	(180,506)	-	6,535,626
Net capital assets	6,800,149	(61,919)	(69,585)	6,668,645

Capital assets not being depreciated include land and construction in process. Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	116,032
Public Safety	32,948
Recreation and Cultural	17,965
Internal Service Fund	84,472
Total Governmental Activities	251,417
Business-Type Activities	
Water	167,061
Sewer	80,277
Total Business-Type Activities	247,338

The City is considered a "Phase 3" Government, as defined by GASB 34. Accordingly, the City has elected to not retroactively apply the reporting of major general infrastructure assets.

NOTE 6 - LONG-TERM DEBT

The City's long-term debt as of year-end is as follows:

Compensated Absences - City policy allows employees to accumulate vacation at the rate of ½ day per month for the first 4 years of service and 1 day per month thereafter. Additional days of vacation are awarded on the employee's anniversary date after 4, 8, 15 and 20 years of service. Amounts accumulated up to a maximum of 25 days for city employees are to be paid to the employee and recognized as an expense either when vacations are taken or upon termination of employment. Vacation pay liability at year-end was $37,124.

City policy allows employees to accumulate one sick leave day per month with a maximum accumulation of 60 days or 75 days, depending on employee hire date. Sick leave expenses are recognized at the time the days are used, or upon termination of employment. Upon termination of employment, with the exception of gross misconduct, 100% or 50% of accumulated sick pay, up to a maximum of 60 days, will be paid to the employee, depending on their date of hire. Sick leave pay liability at year-end was $27,555.

Enterprise Fund Bonds - During 2016 the City issued $3,600,000 of general obligation refunding bonds to provide for the current refunding of the general obligation bonds issued in 2007. These bonds are due in annual installments ranging from $100,000 to $275,000 through April 2037, with interest ranging from 2.0% to 3.50% per annum.

As a result, the 2007 bonds refunded are considered to be defeased and the liability has been removed from the enterprise fund. The net carrying amount of the old debt exceeded the reacquisition price by $125,000. This current refunding was undertaken to reduce total debt service payments over the next 21 years by $449,540 and resulted in an economic gain of $313,633.

Long-term debt activity for the year was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Government-Wide					
Compensated Absences	50,105	-	(12,961)	37,144	5,572
Business-Type					
Compensated Absences	21,246	9,476	(3,187)	27,535	4,130
2016 Bonds	3,600,000	-	(100,000)	3,500,000	100,000
Total Business-Type	3,621,246	9,477	(103,187)	3,527,536	104,130

The annual requirements to pay principal and interest on the outstanding obligations on June 30, 2017 are shown in the *Schedule of Long-Term Debt* at the back of this report.

NOTE 7 – PENSION PLAN – AGENT MULTIPLE-EMPLOYER PLAN

Summary of Significant Accounting Policies

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.

General Information about the Pension Plan

Plan Description: The City of Ithaca's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and their 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. It is 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 by accessing the MERS website at www.mersofmich.com.

Benefits Provided

The City of Ithaca offers the following plans based on the employee's division classification. All plans are closed to new hires.

01 – General Division: Closed to new hires
Benefit Multiplier: 2.25% Multiplier (80% max)
Normal Retirement Age: 60
Vesting: 6 years
Early Retirement (Unreduced): 55 years of age/25 years of service
Early Retirement (Reduced): 50 years of age/25 years of service 55 years of age/15 years of service
Final Average Compensation: 5 years
COLA for Future Retirees: 2.50% (Non-Compound)
COLA for Current Retirees: 2.50% (Non-Compound)
Employee Contributions: 4.70%
Defined Contribution Plan for New Hires: Effective 9/1/2005
Act 88: Yes (Adopted 12/1/1970)

02 – Police Division: Closed
Benefit Multiplier: 2.25% Multiplier (80% max)
Normal Retirement Age: 60
Vesting: 10 years

Early Retirement (Unreduced): 55 years of age/25 years of service
Early Retirement (Reduced): 50 years of age/25 years of service 55 years of age/15 years of service
Final Average Compensation: 5 years
COLA for Future Retirees: 2.50% (Non-Compound)
COLA for Current Retirees: 2.50% (Non-Compound)
Employee Contributions: 4.70%
Defined Contribution Plan for New Hires: Effective 9/1/2005
Act 88: Yes (Adopted 12/1/1970)

10 - DPW Union: Closed to new hires
Benefit Multiplier: 2.00% Multiplier (no max)
Normal Retirement Age: 60
Vesting: 10 years
Early Retirement (Unreduced): 55 years of age/25 years of service
Early Retirement (Reduced): 50 years of age/25 years of service 55 years of age/15 years of service
Final Average Compensation: 5 years
COLA for Future Retirees: 2.50% (Non-Compound)
COLA for Current Retirees: 2.50% (Non-Compound)
Employee Contributions: 4.70%
Defined Contribution Plan for New Hires: Effective 9/1/2005
Act 88: Yes (Adopted 1/1/2006)

Employees Covered By Benefit Terms
As of the December 31, 2016 Valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	18
Inactive employees entitled to but not yet receiving benefits	5
Active employees	4
Total	27

The City's Defined Benefit plans are closed to new hired employees. All new eligible employees participate in its Defined Contribution retirement plan.

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. The City may, and has, established contribution rates to be paid by its covered employees. Due to the plan divisions being closed to new employees, the City's contribution rates are based on a flat rate valuation of annual payroll and not a percentage of the annual payroll. The minimum combined annual contribution amount for all divisions in the plan was $154,968. The City made contributions in the amount of $169,269 with the additional being applied to its unfunded accrued liability.

Net Pension Liability
The City's Net Pension Liability was measured as of December 31, 2016, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial Assumptions
The total pension liability in the December 31, 2016 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 conducted 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount Rate

The discount rate used to measure the total pension liability was 8.00% for 2016. 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.

Changes in Net Pension Liability

Calculating the Net Pension Liability Changes in Net Pension Liability	Increase (Decrease) Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/15	$4,519,613	$2,438,651	$2,080,962
Changes for the Year			
Service Cost	23,731		23,731
Interest on Total Pension Liability	348,062		348,062
Changes in benefits	0		0
Difference between expected and actual experience	45,090		45,090
Changes in assumptions	0		0
Employer Contributions		169,269	(169,269)
Employee Contributions		8,896	(8,896)
Net investment income		269,761	(269,761)
Benefit payments, including employee refunds	(361,416)	(361,416)	0
Administrative expense		(5,331)	5,331
Other changes	(2)		(2)
Net changes	55,465	81,179	(25,714)
Balances as of 12/31/16	**$4,575,078**	**$2,519,831**	**$2,055,247**

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

The following presents the Net Pension Liability of the City, calculated using the discount rate of 8.00%, as well as what the City's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.00%) or 1 percentage point higher (9.00%) than the current rate.

	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
Net Pension Liability at 12/31/16		2,055,247	
Change in Net Pension Liability (NPL)	444,460	0	379,745
Calculated Net Pension Liability	$ 2,499,707	$ 2,055,247	$ 2,434,992

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.

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

For the year ended 06/30/2017 the City recognized pension expense of $269,174. The City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in Experience	$ 0	$ 0
Differences in Assumptions	0	0
Excess (Deficit) Investment Returns	169,932	65,770
Contributions Subsequent to 12/31/16*	77,484	0
Total	$ 247,415	$ 65,770

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending 06/30/2018.

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

Year ended:	2017	120,891
	2018	43,407
	2019	33,790
	2020	(16,443)
	Thereafter	0

MERS Defined Contribution Plan

Plan Description

In January of 2005, the City adopted and now participates in the MERS Uniform Defined Contribution Program; a 401(a) plan.

Eligibility

All new-hired full-time employees of the City are eligible to participate in the plan. As of year-end, the plan's current membership was 8 active and 4 terminated members.

A defined contribution plan provides retirement benefits in return for services rendered, provides an individual account for each participant and specifies how contributions to the individual's account are to be determined. The amounts participant's receive depend solely on the amounts contributed to the participant's account and the returns earned on those contributions.

Contributions

Participants contribute between 1% - 5% of their annual salary. The City matches participant contribution percentages, plus one additional percentage. City contributions, therefore, range between 2% - 6% of each participant's annual salary. Participants are 100% vested in the employer contributions after five years of service with the City.

During the year, the actual contributions to the plan amounted to $43,074, which includes $22,999 of employer contributions, and $20,075 of employee contributions.

NOTE 8 - NET INVESTMENT IN CAPITAL ASSETS
As of June 30th, the composition of the governmental activities net investment in capital assets was comprised of the following:

Net investment in capital assets	Amount
Capital assets not being depreciated	206,279
Capital asset being depreciated, net	1,984,534
Net investment in capital assets	2,190,813

As of June 30th, the composition of the business-type activities net investment in capital assets was comprised of the following:

Net investment in capital assets	Amount
Capital assets not being depreciated	133,019
Capital asset being depreciated, net	6,535,626
Capital related general obligation bonds	(3,500,000)
Unamortized premium/discount on bond refunding	(233,231)
Net investment in capital assets	2,935,414

NOTE 9 - RISK MANAGEMENT
The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 10 – TRANSFERS
Transfers between funds during the year were as follows:

Fund	Transfers In	Transfers Out
General	36,073	(199,369)
Major Street	10,810	(60,000)
Local Street	112,780	-
Fire Operating	103,007	(20,002)
First Responder	34,256	(7,273)
Economic Development	11,998	-
Caldwell Memorial	-	(11,998)
Fire and Rescue Sinking	27,276	(35,821)
Grant Projects	13,563	-
Cemetery Perpetual Care	1,509	-
Water and Sewer	-	(5,671)
Downtown Development Authority	14,000	(25,138)
Total Interfund Transfers	365,272	(365,272)

Transfers are used to provide resources from unrestricted general fund revenues to finance various programs accounted for in other funds, in accordance with budgetary authorizations. In addition, the Major Street Fund is allowed under Act 51 to share a portion of its Gas and Weight Tax revenues with the Local Street Fund if the municipality has a Street Asset Management Program in place.

The General Fund transfers were budgeted transfers to the Fire Operating, First Responder (Rescue) Operating, Cemetery Operating and from the Component Unit (Downtown Development Authority) for the purpose of general operations. The General Fund also transferred millage funds collected for sidewalk repairs as voted on by the electors of the City, to the Major and Local Street funds.

The Fire Operating and the First Responder Funds transferred funds to the Fire and Rescue Sinking Fund. These transfers are budgeted to set aside funds for future equipment purchases. In addition, funds from the Fire and Rescue Memorial accounts and the Second Century Fire account were transferred into the Sinking Fund to gain economies of scale for investments and eliminate the three small accounts. The Cemetery Perpetual Care Fund transferred funds to the Cemetery Operating Fund to help fund current year operations.

Funds were transferred from the Fire and Rescue Sinking Fund to the Fire Operating Fund for the purchase of a new Brush truck, which had the support of a budget amendment. Additional projects were the reason for additional intrafund transfers. The construction of the sidewalk under US-127 to connect to the Pathway was the reason for the transfer of Caldwell Memorial Fund to the Economic Development Fund. Funds were also transferred from the Water/Sewer Fund to the General Fund and from the General Fund to the Grant Fund for the Stormwater Asset Management (SAW) grant work.

NOTE 11 – PRIOR PERIOD ADJUSTMENT

The prior period adjustment in the Economic Development Fund of $678 represents an adjustment, as of the beginning of the year, of payments related to the long-term receivable.

NOTE 12 - TAX ABATEMENTS

Effective for the year ended June 30, 2017 the City is required to disclose significant tax abatements as required by GASB statement 77 (Tax abatements).

The City of Ithaca has two Michigan Certified Industrial Parks and one Agricultural Industrial Park which were built to attract companies to the City for job creation and growth of the City. It also has a Downtown Development Authority which works with the City to encourage economic development in the Commercial district. In order to achieve this industrial economic vitality and rehabilitation of older downtown buildings, the City offers tax abatements under Michigan law. To have an abatement awarded, the owner must make application to the City which requires presentation of the work to be done, the number of jobs to be created and retained, investment contribution and number of years requested. To date, the City has awarded abatements under Michigan Public Act PA146 of 2000 for Obsolete Property Rehabilitation and under Public Act 198 of 1974 for Industrial Facilities Tax.

The City of Ithaca historically approves abatements for 12 years for Real Property (brick and mortar) and 7 years for Personal Property (machine and equipment). If approved, the applicant enters into an agreement with the City in which the City promises to forgo tax revenues and the applicant promises to contribute to economic development through growing the business and/or job creation or some other benefit to the City or its residents. All applications are subject to a public hearing in front of the City Council before the decision to approve or decline is made. The City is allowed to approve abatements in total, up to 5% of its tax base. Should it exceed that limit, the State of Michigan in notified, via the approving Resolution, and has the final approval as to if the abatement is allowed.

In 2016, the City of Ithaca had six companies receiving IFT abatements and one company receiving OPRA tax abatements. The combined values of the lost revenue from these abated properties are disclosed below, with total loss of revenue due to the abatements being equal to $29,667.91. Information on individual abatements is available from the City’s Treasurer.

CITY OF ITHACA TAX ABATEMENT DISCLOSURE 2016 PROPERTY TAXES						
BASED ON CITY OF ITHACA ASSESSORS WARRANT - SUMMER 2016 - IFT'S - POST 1994						
CITY OF ITHACA MILLAGES	TOTAL TAXABLE VALUE	TAXABLE VALUE NON-HOMESTEAD	MILLAGE RATE	TAXES LEVIED 2016 SUMMER TAX ROLL	TAXES IF NOT IFT ABATED	AMOUNT OF LOSS PER ABATEMENT IFT /OPRA
INDUSTRIAL FACILITY TAX - POST 1994						
CITY OPERATING	$2,598,000		6.98460	$18,145.93	$36,291.98	($18,146.05)
WATER/SEWER DEBT	$2,598,000		1.90000	$4,936.20	$9,872.40	($4,936.20)
EMERGENCY SERVICES	$2,598,000		0.75000	$1,948.47	$3,897.00	($1,948.53)
CITY SIDEWALKS	$2,598,000		0.50000	$1,299.00	$2,598.00	($1,299.00)
ADM FEE				$378.29	$756.74	($378.45)
TOTAL 2016 SUMMER TAX COLLECTION FOR IFT'S - POST 1994				$26,707.89	$53,416.12	($26,708.23)
INDUSTRIAL FACILITY TAX -REHABILITATION						
CITY OPERATING	$43,500	$179,600	13.96920	$607.66	$2,508.87	($1,901.21)
WATER/SEWER DEBT	$43,500	$179,600	3.80000	$165.30	$682.48	($517.18)
EMERGENCY SERVICES	$43,500	$179,600	1.50000	$65.25	$269.40	($204.15)
CITY SIDEWALKS	$43,500	$179,600	1.00000	$43.50	$179.60	($136.10)
ADM FEE				$13.83	$57.11	($43.28)
TOTAL 2016 SUMMER TAX COLLECTION FOR IFT'S - REHAB				$895.54	$3,697.46	($2,801.92)
OBSOLETE PROPERTY REHABILITATION ACT-FROZEN						
CITY OPERATING	$19,339	$27,000	13.96920	$270.15	$377.17	($107.02)
WATER/SEWER DEBT	$19,339	$27,000	3.80000	$73.48	$102.60	($29.12)
EMERGENCY SERVICES	$19,339	$27,000	1.50000	$29.00	$40.50	($11.50)
CITY SIDEWALKS	$19,339	$27,000	1.00000	$19.33	$27.00	($7.67)
ADM FEE				$6.14	$8.59	($2.45)
TOTAL 2016 SUMMER TAX COLLECTION FOR OPRA - FROZEN				$398.10	$555.85	($157.75)
OBSOLETE PROPERTY REHABILITATION ACT-REHAB						
CITY OPERATING	$67,053		0.00000	$0.00	$0.00	$0.00
WATER/SEWER DEBT	$67,053		0.00000	$0.00	$0.00	$0.00
EMERGENCY SERVICES	$67,053		0.00000	$0.00	$0.00	$0.00
CITY SIDEWALKS	$67,053		0.00000	$0.00	$0.00	$0.00
AD FEE				$4.02	$4.02	($0.00)
TOTAL 2016 SUMMER TAX COLLECTION FOR OPRA- REHAB				$4.02	$4.02	($0.00)
TOTAL 2016 SPECIAL ACTS SUMMER TAX COLLECTION				**$28,005.55**	**$57,673.46**	**($29,667.91)**

REQUIRED SUPPLEMENTARY INFORMATION

City of Ithaca
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts			
	Original	Final	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes and penalties	$ 1,066,805	$ 1,073,963	$ 1,072,920	$ (1,043)
Licenses and permits	12,500	12,500	13,294	794
State grants	312,494	349,451	352,875	3,424
Charges for services	22,500	24,550	25,182	632
Fines and forfeits	-	-	155	155
Interest and rentals	46,110	71,485	71,378	(107)
Other revenues	43,625	66,625	73,724	7,099
Total revenues	1,504,034	1,598,574	1,609,528	10,954
Expenditures				
General government	563,078	484,063	462,947	21,116
Public safety	426,754	409,997	408,495	1,502
Public works	192,206	204,450	194,077	10,373
Community and economic development	4,500	5,166	4,620	546
Recreation and cultural	102,073	122,028	101,669	20,359
Other expenditures	105,282	107,629	107,628	1
Total expenditures	1,393,893	1,333,333	1,279,436	53,897
Excess of revenues over (under) expenditures	110,141	265,241	330,092	64,851
Other financing sources (uses)				
Transfers in	136,396	36,396	36,073	(323)
Transfers out	(246,377)	(191,477)	(199,369)	(7,892)
Total other financing sources (uses)	(109,981)	(155,081)	(163,296)	(8,215)
Net change in fund balance	160	110,160	166,796	56,636
Fund balance, beginning of year	816,825	816,825	816,825	-
Fund balance, end of year	$ 816,985	$ 926,985	$ 983,621	$ 56,636

City of Ithaca
Budgetary Comparison Schedule - Major Street Fund
For the Year Ended June 30, 2017

	Budgeted Amounts			Actual Over (Under) Final
	Original	Final	Actual	Budget
Revenues				
State grants	$ 265,453	$ 265,453	$ 261,481	$ (3,972)
Interest and rentals	200	200	1,086	886
Other revenues	1,000	1,000	712	(288)
Total revenues	266,653	266,653	263,279	(3,374)
Expenditures				
Public works	274,196	279,787	254,933	24,854
Excess of revenues over (under) expenditures	(7,543)	(13,134)	8,346	21,480
Other financing sources (uses)				
Transfers in	11,000	10,810	10,810	-
Transfers out	(60,000)	(60,000)	(60,000)	-
Total other financing sources (uses)	(49,000)	(49,190)	(49,190)	-
Net change in fund balance	(56,543)	(62,324)	(40,844)	21,480
Fund balance, beginning of year	285,300	285,300	285,300	-
Fund balance, end of year	$ 228,757	$ 222,976	$ 244,456	$ 21,480

City of Ithaca
Budgetary Comparison Schedule - Local Street Fund
For the Year Ended June 30, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Actual Over (Under) Final Budget
Revenues				
State grants	$ 88,913	$ 88,913	$ 88,556	$ (357)
Interest and rentals	100	100	162	62
Other revenues	-	-	365	365
Total revenues	89,013	89,013	89,083	70
Expenditures				
Public works	167,122	182,711	155,807	26,904
Excess of revenues over (under) expenditures	(78,109)	(93,698)	(66,724)	26,974
Other financing sources (uses)				
Transfers in	114,000	112,780	112,780	-
Net change in fund balance	35,891	19,082	46,056	26,974
Fund balance, beginning of year	111,503	111,503	111,503	-
Fund balance, end of year	$ 147,394	$ 130,585	$ 157,559	$ 26,974

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Taxes and penalties	$ 125,000	$ 132,000	$ 131,999	$ (1)
State grants	5,000	5,000	2,681	(2,319)
Charges for services	3,500	3,500	3,908	408
Fines and forfeits	77,200	75,850	75,510	(340)
Interest and rentals	1,050	2,500	2,871	371
Other revenues	4,550	7,000	9,169	2,169
Total revenues	216,300	225,850	226,138	288
Expenditures				
Recreation and cultural	162,306	166,768	147,470	19,298
Excess of revenues over (under) expenditures	53,994	59,082	78,668	19,586
Fund balance, beginning of year	104,095	104,095	104,095	-
Fund balance, end of year	$ 158,089	$ 163,177	$ 182,763	$ 19,586

City of Ithaca
Budgetary Comparison Schedule - Fire Operating Fund
For the Year Ended June 30, 2017

	Budgeted Amounts			
	Original	Final	Actual	Actual Over (Under) Final Budget
Revenues				
Charges for services	$ 114,814	$ 114,814	$ 114,814	$ -
Interest and rentals	-	-	167	167
Other revenues	-	43,280	43,098	(182)
Total revenues	114,814	158,094	158,079	(15)
Expenditures				
General government	167,000	247,134	244,395	2,739
Excess of revenues over (under) expenditures	(52,186)	(89,040)	(86,316)	2,724
Other financing sources (uses)				
Transfers in	67,186	107,586	103,007	(4,579)
Transfers out	(15,000)	(15,000)	(20,002)	(5,002)
Total other financing sources (uses)	52,186	92,586	83,005	(9,581)
Net change in fund balance	-	3,546	(3,311)	(6,857)
Fund balance, beginning of year	82,573	82,573	82,573	-
Fund balance, end of year	$ 82,573	$ 86,119	$ 79,262	$ (6,857)

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The notes to the financial statements are an integral part of this statement.

City of Ithaca
Budgetary Comparison Schedule - First Responder Fund
For the Year Ended June 30, 2017

	Budgeted Amounts			
	Original	Final	Actual	Actual Over (Under) Final Budget
Revenues				
Charges for services	$ 35,444	$ 35,444	$ 35,444	$ -
Interest and rentals	-	-	183	183
Other revenues	-	-	809	809
Total revenues	35,444	35,444	36,436	992
Expenditures				
Public safety	67,700	67,700	63,998	3,702
Excess of revenues over (under) expenditures	(32,256)	(32,256)	(27,562)	4,694
Other financing sources (uses)				
Transfers in	34,256	34,256	34,256	-
Transfers out	(2,000)	(2,000)	(7,273)	(5,273)
Total other financing sources (uses)	32,256	32,256	26,983	(5,273)
Net change in fund balance	-	-	(579)	(579)
Fund balance, beginning of year	111,422	111,422	111,422	-
Fund balance, end of year	$ 111,422	$ 111,422	$ 110,843	$ (579)

City of Ithaca
Required Supplemental Information
MERS Agent Multiple-Employer Defined Benefit Pension Plan
Schedule of Changes in City's Net Pension Liability and Related Ratios

	2016	2015	2014
Total Pension Liability			
Service Cost	23,731	22,158	22,097
Interest	348,062	335,619	334,991
Changes of Benefit Terms	-	-	-
Difference between expected & actual experience	45,090	56,022	-
Changes of assumptions	-	225,895	-
Benefit payments including employee refunds	(361,416)	(354,212)	(344,820)
Other	(2)	-	-
Net Change in Total Pension Liability	55,465	285,482	12,268
Total Pension Liability beginning	4,519,613	4,234,131	4,221,863
Total Pension Liability ending	4,575,078	4,519,613	4,234,131
Plan Fiduciary Net Position			
Contributions-employer	169,269	139,944	125,664
Contributions-employee	8,896	8,557	9,220
Net Investment income	269,761	(38,107)	168,684
Benefit payments including employee refunds	(361,416)	(354,212)	(344,820)
Administrative expense	(5,331)	(5,702)	(6,147)
Net Change in Plan Fiduciary Net Position	81,179	(249,520)	(47,399)
Plan Fiduciary Net Position beginning	2,438,652	2,688,172	2,735,571
Plan Fiduciary Net Position ending	2,519,831	2,438,652	2,688,172
Employer Net Pension Liability	2,055,247	2,080,961	1,545,959
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	55%	54%	63%
Covered Employee Payroll (from GASB 68 actuarial page)	189,274	182,060	181,796
Employer's Net Pension Liability as a percentage of covered employee payroll	1086%	1143%	850%

Notes to Schedule:
The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Benefit changes (if any) can be found in the actuarial valuation section titled: "Benefit Provision History"
Changes in assumptions: There were no changes in actuarial assumptions or methods affecting the 2014 valuation.
(This information can be found in the actuarial valuation section titled: "Plan Provision, Actuarial Assumptions and Actuarial Funding Method; and also in the Appendix link of the actuarial valuation.

City of Ithaca
MERS Agent Multiple -Employer Defined Benefit Pension Plan
Schedule of Employer Contributions

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarial Determined Contributions	182064	154,968	132,972	112,824	97,398	87,930	87,726	86,812	87,334	112,998	69,492
Contributions in relation to the actuarially determined contribution	0	169,269	139,944	125,664	107,832	94,668	89,412	86,812	87,334	122,998	73,716
Contribution deficiency (excess)	182,064	(14,301)	(6,972)	(12,840)	(10,434)	(6,738)	(1,686)	-	-	(10,000)	(4,224)
Covered Employee Payroll		189,274	182,060	181,796	223,500	357,005	395,101	378,223	440,723	417,234	394,394
Contributions as a Percentage of Covered Employee Payroll	#DIV/0!	89%	77%	69%	48%	27%	23%	23%	20%	29%	19%

Notes to Schedule of Contributions

Valuation Date	December 31, 2016
Notes	Actuarially determined contribution rates are calculated as of the June 30 that is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	12 years
Asset valuation method	5 year smoothed
Inflation	2.50%
Salary increases	3.75%
Investment rate of return	7.75%
Retirement age	Age 60 or Age 55 with 25 years of service
Mortality	50% female/50% Male RP-2014 Group Annuity Mortality Table

Previous actuarial methods and assumptions:
A seven year smoothed asset valuation method was used for the time period of 2012 through 2016
Salary increases were expected to be 1% for the time period of 2015 through 2018

*Actuarially Determined Contributions are found in the actuarial valuation in Table 5 of the MERS Annual Valuation.
Above dates are based on fiscal year, not necessarily the measurement date
2017 & 2018 numbers are illustrative and are based on the actual employer's contributions over the past ten years, they are not projected.
Note that these are employer contributions not employee contributions

OTHER SUPPLEMENTARY INFORMATION

City of Ithaca
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2017

	SPECIAL REVENUE FUNDS						Permanent Fund	
	Economic Development	Caldwell Memorial	Gibbs Memorial	Cemetery Sinking	Fire & Rescue Sinking	Grant Projects	Cemetery Perpetual Care	Totals
Assets								
Cash and investments	$ 27,114	$ 348,279	$ 241,786	$ 25,408	$ 85,408	$ 2,469	$ 30,043	$ 760,507
Note receivable	84,556	-	-	-	-	-	-	84,556
Due from other funds	8,535	41,750	-	-	-	7,892	-	58,177
Total assets	$ 120,205	$ 390,029	$ 241,786	$ 25,408	$ 85,408	10,361	30,043	903,240
Liabilities								
Accounts payable	$ 8,535	$ -	$ -	$ -	$ -	$ 7,892	$ -	$ 16,427
Accrued liabilities	-	-	-	-	-	-	-	-
Due to other funds	-	8,535	-	-	-	-	-	8,535
Unearned revenue	84,556	-	-	-	-	-	-	84,556
Total liabilities	93,091	8,535	-	-	-	7,892	-	109,518
Fund balance								
Restricted	27,114	381,494	241,786	25,408	85,408	2,469	30,043	793,722
Total fund balance	27,114	381,494	241,786	25,408	85,408	2,469	30,043	793,722
Total liabilities and fund balance	$ 120,205	$ 390,029	$ 241,786	$ 25,408	$ 85,408	$ 10,361	$ 30,043	$ 903,240

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2017

	SPECIAL REVENUE FUNDS						Permanent Fund	
	Economic Development	Caldwell Memorial	Gibbs Memorial	Cemetery Sinking	Fire & Rescue Sinking	Grant Projects	Cemetery Perpetual Care	Totals
Revenues								
State grants	$ -	$ -	$ -	$ -	$ -	$ 134,879	$ -	$ 134,879
Charges for services	-	-	-	9,120	-	-	480	9,600
Interest and rentals	49	842	1,252	43	140	-	82	2,408
Other revenues	8,138	-	-	-	-	-	-	8,138
Total revenues	8,187	842	1,252	9,163	140	134,879	562	155,025
Expenditures								
General government	-	-		-	-	148,527	-	148,527
Community and economic development	11,998	-	-	-	-	-	-	11,998
Total expenditures	11,998	-	-	-	-	148,527	-	160,525
Excess of revenues over (under) expenditures	(3,811)	842	1,252	9,163	140	(13,648)	562	(5,500)
Other financing sources (uses)								
Transfers in	11,998	-	-	-	27,276	13,563	1,509	54,346
Transfers out	-	(11,998)	-	-	(35,821)	-	-	(47,819)
Total other financing sources (uses)	11,998	(11,998)	-	-	(8,545)	13,563	1,509	6,527
Net change in fund balances	8,187	(11,156)	1,252	9,163	(8,405)	(85)	2,071	1,027
Fund balance, beginning of year	19,605	392,650	240,534	16,245	93,813	2,554	27,972	793,373
Prior period adjustment	(678)	-	-	-	-	-	-	(678)
Fund balance, end of year	$ 27,114	$ 381,494	$ 241,786	$ 25,408	$ 85,408	$ 2,469	$ 30,043	$ 793,722

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Schedule of Long-Term Debt
For the Year Ended June 30, 2017

Fiscal Year	Interest Rate (%)	Annual Principal Due	Interest Due October	Interest Due April	Total
Enterprise Fund Bonds - $3,600,000					
2018	2.00	$ 100,000	$ 63,875	$ 63,875	$ 227,750
2019	2.00	100,000	62,875	62,875	225,750
2020	2.00	100,000	61,875	61,875	223,750
2021	3.00	110,000	60,875	60,875	231,750
2022	3.00	120,000	59,225	59,225	238,450
2023	3.00	125,000	57,425	57,425	239,850
2024	4.00	135,000	55,550	55,550	246,100
2025	4.00	145,000	52,850	52,850	250,700
2026	4.00	155,000	49,950	49,950	254,900
2027	4.00	165,000	46,850	46,850	258,700
2028	4.00	175,000	43,550	43,550	262,100
2029	4.00	190,000	40,050	40,050	270,100
2030	4.00	200,000	36,250	36,250	272,500
2031	4.00	210,000	32,250	32,250	274,500
2032	4.00	220,000	28,050	28,050	276,100
2033	4.00	225,000	23,650	23,650	272,300
2034	4.00	235,000	19,150	19,150	273,300
2035	4.00	250,000	14,450	14,450	278,900
2036	3.50	265,000	9,450	9,450	283,900
2037	3.50	275,000	4,813	4,813	284,626
	Totals	3,500,000	823,013	823,013	5,146,026

DEBT SUMMARY

2018	100,000	63,875	63,875	227,750
2019	100,000	62,875	62,875	225,750
2020	100,000	61,875	61,875	223,750
2021	110,000	60,875	60,875	231,750
2022	120,000	59,225	59,225	238,450
2023-2027	725,000	262,625	262,625	1,250,250
2028-2032	995,000	180,150	180,150	1,355,300
2033-2037	1,250,000	71,513	71,513	1,393,026
	3,500,000	823,013	823,013	5,146,026

RPC
Roslund Prestage & Company
CERTIFIED PUBLIC ACCOUNTANTS

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 Education
City of Ithaca

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Ithaca (the City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control over Financial Reporting

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

Purpose of this Report

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

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants
October 31, 2017