

**City of Ithaca
Ithaca, Michigan**

**Financial Statements
June 30, 2019**



RPC
Roslund Prestage & Company
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

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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, 2019, 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, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as identified in the table of contents, 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 November 26, 2019, 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,

A handwritten signature in cursive script that reads "Roslund, Prestage & Company, P.C." The signature is written in black ink and is positioned above the printed name of the firm.

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

November 26, 2019

**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, 2019. 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.

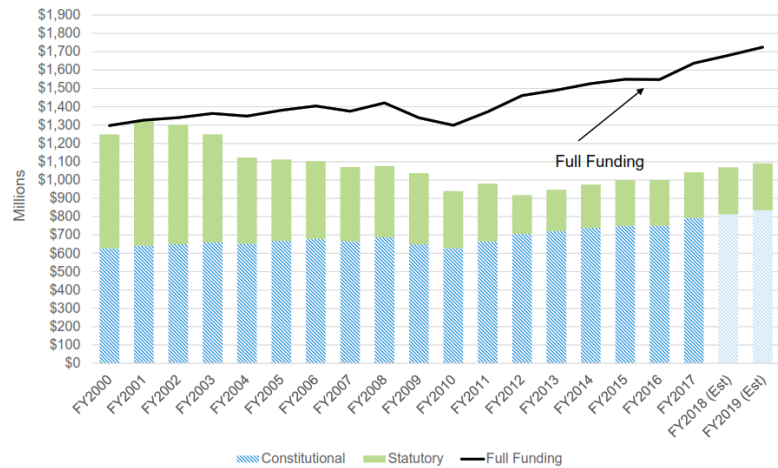
Financial Highlights

- The net position of the City is the amount by which the City's assets exceed its liabilities. At June 30, 2019, the net position of the primary government totaled \$10,632,265. The unrestricted portion of this amount, \$2,819,015, may be used to meet the City's ongoing obligations to its citizens as well as its creditors.
- The City's total net position increased by \$272,714. This resulted from an increase in net position of the governmental activities of \$121,339 and an increase in net position of business activities by \$151,375. The increase in business activities stems from reimbursement funds from the development agreement for new infrastructure for a public-private partnership for a new soybean processing facility and from expenditures for repair, maintenance and technology that were budgeted but not incurred. The increase in governmental activities derives from postponement of City Hall renovations and efficiency upgrades, increased road funding from the State of Michigan and delay of street paving projects, increased revenue from the Library property tax millage and continued consolidation of services with other governmental entities.
- 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 had to 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, the Legislature again revised the program, calling it "City, Village and Township Revenue Sharing" (CVTRS) program, which focuses on accountability and transparency of the local units to receive these funds. Required financial reports are available on the City's website; these include a Performance Dashboard, Debt Service Report, Projected Budget Report and Citizens Guide. Ithaca has been successful in complying with all of the

criteria, thus maximizing funding for this portion of the program.

Total Revenue Sharing Payments to Cities, Villages, and Townships

Constitutional SRS continues to be an entitlement model based primarily on State sales and Use Tax receipts. This portion of the SRS is not subject to annual amendments or appropriations by the State Legislature because it is included in the State's Constitution. This portion of SRS obligates 15% of 4% of the annual State sales tax collected to local municipalities. In 1994, when sales tax was voted to 6%, the additional 2% was all earmarked for the School Aid Fund. As seen in the graphic at right, the State has not fully funded the Statutory SRS since 2001, all while balancing its own budget on the backs of local municipalities. State legislators do not have to make the hard budget decisions; they just transfer those hard decisions to local government leaders who have to answer to their constituents when service levels and/or services are curtailed or eliminated or new millages are requested to provide services in lieu of eliminating them.



- The City continues to conservatively budget its SRS revenues in an effort to maintain stable service levels in the event future cuts and additional unfunded mandates are made by the State. The City also continues to look at funding mechanisms and options for funding its Unfunded Accrued Pension Liability. We must not only ensure that this cost is covered, but also work toward paying down the liability and increasing the funded level without jeopardizing the services and level of services offered to our residents.
- Property Taxes are another major source of revenue for the City. Proposal A of 1994 restricted the growth of the value for which property is taxed on and actually capped the taxable value. Increases to the taxable value of property is restricted to the rate of inflation or 5%, whichever is less. For the City, values were at their peak in 2009 but were reduced by the effects of the National recession. While values slowly increase, it will take a decade for them to recover to the 2009 values. The State further added to the reduction of property tax revenues in 2015 with legislation that allowed for the elimination of small taxpayer Personal Property Tax (PPT). PPT was eliminated for any business with a cash value of personal property totaling \$80,000 or less (\$40,000 taxable value.) The lost PPT revenue is being replaced only partially by a state-initiated statewide essential services assessment (ESA) on industrial properties in the State. The ESA replaces the lost revenue with that portion of PPT that was used locally *only* for emergency services funding (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 a 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 2018 included 9 properties that were exempt from property tax collections under the Act. The combined taxable value of those parcels was \$446,200. This resulted in a loss of property taxes to just the City of approximately \$7,030, which was based on the combined millages (19.4692 mills) for City general operating, water/sewer bonded debt, emergency services and sidewalk repair. While we appreciate and support our local veterans in many ways, this program is resulting in a revenue loss to the City. We continue to advocate for our legislators to substitute an income tax deduction for eligible disabled veterans instead of gifting our local property taxes for this purpose. Doing so, will allow those veterans who do not own a home to also benefit from the program and the revenue loss remains with the State who created the program, not with the local government who still provides necessary services to the exempted.

- As of June 30, 2019, the City's governmental funds reported combined ending fund balances of \$3,037,881. This is a net increase of \$384,496 from the prior year. This increase resulted from a combination of responsible spending, consolidation of services with neighboring governments, successful grant writing and the release of additional road funds from the State of Michigan. Of the total fund balance for governmental funds, \$1,015,290 is available for spending at the City's discretion (unassigned fund balance) and \$2,022,591 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 vacuum truck; two new sanitary lift stations; watermain upgrades throughout the 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 at that time. The first debt millage was applied to the 2007 summer property tax collection at a rate of 3.00 mills. Due to reductions in property tax revenues from the National recession, and increasing principal payments on the bonds, the millage rate was increased over the years until 2015 when it looked into refinancing the bonds.

In April of 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 from 2.000% to 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. The refinancing of the bonds allowed the City to maintain the levy of the millage for the bonds at 3.8000 mills for 2017 and lower it to 3.000 mills for the 2018 and upcoming 2019 tax years.

- 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. 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 schools for students; and 5) increase property values for adjoining properties.

Based on the City’s current taxable values, the new millage generates approximately \$64,000 per year for sidewalk work in one of the six designated zones. Three years of this millage have been completed, which targeted Zones 1, 2 and 4. The fourth year for this millage is being applied to Zone 3 of the program with work being performed in the summer of 2020. The program has been well received by property owners and those that frequently use the sidewalks, thus enhancing the quality of life, offering an alternative to driving, and increasing the health of our residents.

- A City staff team prepared a Capital Improvement Plan (CIP) to help guide, quantify and prioritize the identified capital needs throughout the community. The plan was proposed and reviewed by the Planning Commission in March and adopted by the City Council in May as a part of its adoption of the overall fiscal year budget. The CIP now incorporates capital needs from all program areas and departments 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 costs 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 (MDOT, County Road Commission, etc.)

Capital improvement planning and budgeting allow officials and citizens to set priorities for capital expenditures and ensures 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.

On the following page is a table of the adopted CIP's projects for fiscal year 2018-2019 and their status.

2018-2019 Fiscal Year

Dept.	Project	Status	Est. Cost	Funding
FIRE	SCBA Air Bottles & Airpaks (Replace 15 complete masks & bottles + 15 extra bottles)	Pending	\$105,000	F-RSF/FEMA
FIRE	Turnout Gear (2 sets bunker pants & coats)	Completed	4,000	FOF
FIRE	Replace loaner SUV w/ new owned model	Completed	14,000	F-RSF/Twps.
FIRE	Truck bed of new hose (American Hose Raffle)	Completed	10,000	DO
DPW	Scraper Dump Truck (Replace #11)	Delay to 21/22	145,000	ERF
	Purchase plow for 1-ton instead	Pending	8,000	
DPW	72" ZTR Mower (Annual Replace 1 of 2)	Purchased	4,600	ERF
DPW	Sidewalk Replacement Zone #4 (Year 3)	Completed	62,000	SM
DPW	Crush/Curb/Repave/Sidewalk: Library Pkg. Lot Mill/Curb/Repave/Sidewalk: City Hall Pkg. Lot Mill/Curb/Repave/Sidewalk: Fm. Market Pkg. Lot E/W Alley S. of Center (btw. Pine River & Maple)	Pending (Fall '20)	Estimates Pending	GF/PD/SA/ GMF/SM (Using Alley Maint. \$)
DPW	Cemetery Water Tower Maint. Contract (2 nd of 3 Secondary Installments)	Completed	17,515	WF
DPW	S. Industrial Water Tower Maint. Contract (2 nd of 3 Secondary Installments)	Completed	17,234	WF
DPW	N. Industrial Water Tower Maint. Contract (2 nd of 3 Secondary Installments)	Completed	21,666	WF
DPW	Well Maint. Contract Year 3: 3 Wells	Completed	22,400	WF
DPW	Wireless Water Meter Transmitters (~120)	Completed	10,000	WF
ADMIN	City Hall 2 Computer Servers (Replacement of Mainframe only; email now on cloud server)	Completed	2,500	GF/WF/SF
ADMIN	Replace City Hall Copy Machine	Completed	7,000	GF/WF/SF
LIBRARY	Replace Library Copy Machine	Completed	4,500	LF

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 the net position. Over time, increases or decreases in the 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 five major and eight 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 for 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 came into compliance 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 that offer defined benefit retirement plans had to report their 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 many years. Contributions are made over the employees' careers and distributions are provided in monthly installments in their retirement.

The 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 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 four 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 one of the following:

- **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 Council 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. 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 Fiscal Year end June 2019 is \$10,632,265. However, \$5,790,659 represents its investment in capital assets net of related debt (i.e. land, buildings, furniture & fixtures, equipment, vehicles, water & sewer systems), with 62.4% (\$3,617,506) 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, \$2,022,591 represents resources and funds that have external restrictions on how they may be used. These assets are held for street maintenance & operations, library operations, fire & rescue operations & reserves, and perpetual care of the city cemetery. The City may use the remaining balance (unrestricted net position) of \$2,819,015 for ongoing obligations to residents and creditors. The total net position for the year increased by \$272,714 and was discussed earlier in this document.

**City of Ithaca, Michigan
Statement of Net Position**

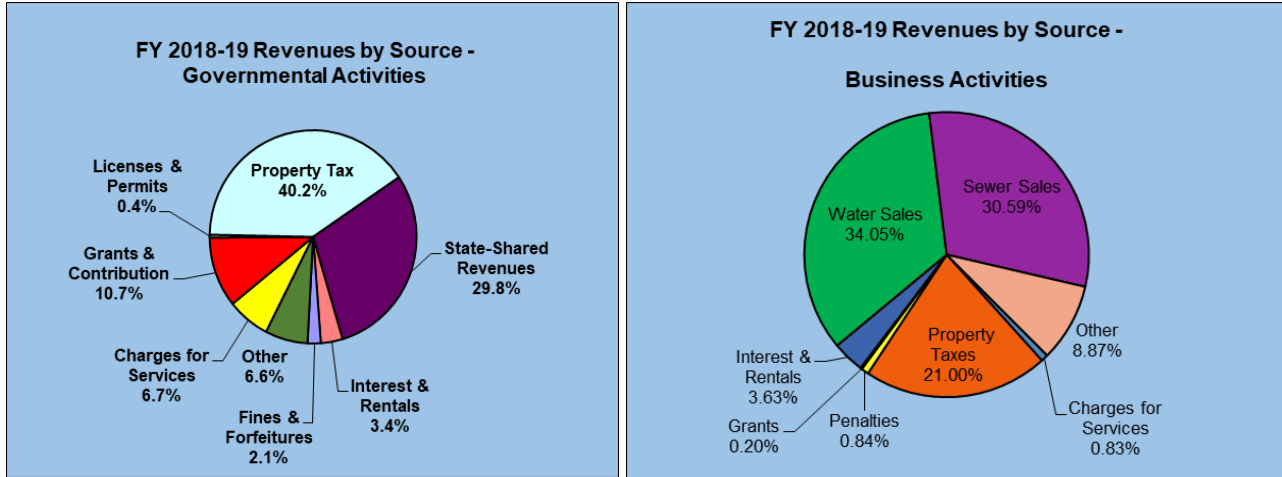
	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets:						
Current and Other Assets	\$4,848,447	\$ 4,606,385	\$ 2,087,807	\$ 2,009,627	\$ 6,936,254	\$ 6,616,012
Land	207,759	206,279	43,843	133,019	251,602	339,298
Capital Assets (net of deprec.)	1,965,394	2,003,571	7,083,571	7,158,471	9,048,965	9,162,042
Total Assets	7,021,600	6,816,235	9,301,117	9,301,117	16,236,821	16,117,352
Deferred Outflows:						
Deferred outflow-Pension related	184,396	136,378	122,930	90,919	307,326	227,297
Total Deferred Outflows	184,396	136,378	90,919	90,919	307,326	227,297
Liabilities:						
Long-Term Debt	34,830	35,767	3,443,316	3,553,672	3,468,146	3,589,439
Net Pension Liability	1,202,627	1,115,861	801,753	743,905	2,004,380	1,859,766
Other Liabilities	386,789	138,261	163,567	245,441	439,356	383,702
Total Liabilities	1,513,246	1,289,889	4,398,636	4,543,018	5,911,882	5,832,907
Deferred Inflows:						
Deferred inflows-Pension related	0	91,314	0	60,877	0	152,191
Total Deferred Inflows	0	91,314	0	60,877	0	152,191
Net Position:						
Invested in capital assets, net of related debt	2,173,153	2,209,850	3,617,506	3,669,920	5,790,659	5,879,770
Restricted	2,022,591	1,748,317	0	0	2,022,591	1,748,317
Unrestricted	1,497,006	1,613,243	1,322,009	1,118,221	2,819,015	2,731,464
Total Net Position	5,692,750	5,571,410	4,939,515	4,788,141	10,632,265	10,359,551

**City of Ithaca, Michigan Change
In Net Position**

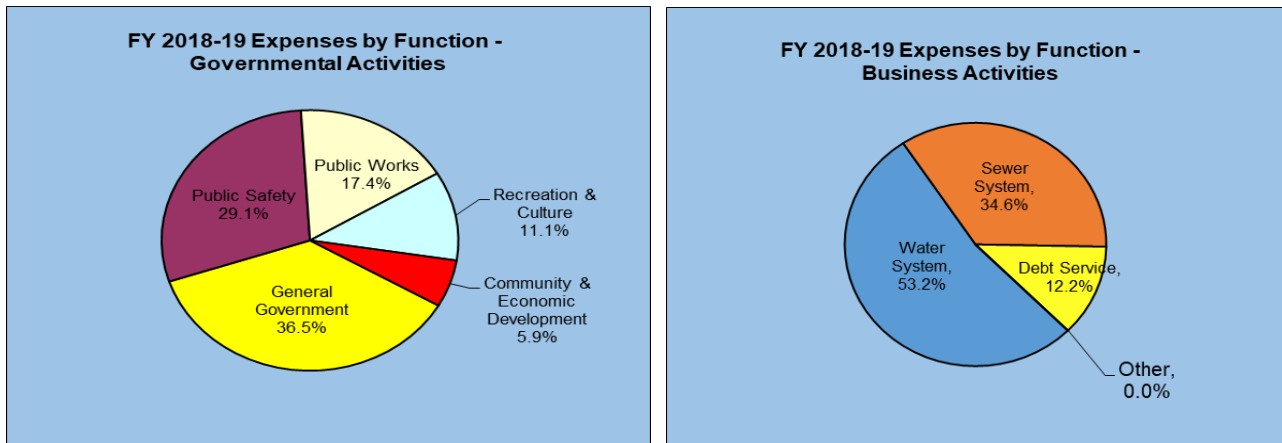
	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
REVENUES:						
Program Revenues:						
Charges for Services	\$ 214,677	\$ 198,352	\$ 720,369	\$ 756,607	935,046	\$ 954,959
Grants and Contributions	877,849	562,361	0	0	877,849	562,361
General Revenues:						
Property Taxes	928,100	1,192,971	228,135	206,951	1,156,235	1,399,922
State-Shared Revenues	400,771	361,384	0	0	400,771	361,384
Investment Earnings	105,025	91,395	9,474	9,375	124,499	100,770
Transfers	1,510	22,677	0	0	1,510	22,677
Other	191,682	100,964	118,481	745,609	310,163	846,573
Total Revenues	2,719,614	2,530,104	1,086,459	1,718,542	3,806,073	4,248,646
EXPENSES:						
General Government	949,657	431,173	0	0	949,657	431,173
Public Safety	757,135	765,806	0	0	757,135	765,806
Public Works	451,611	589,762	0	0	451,611	589,762
Rec./Cultural/Econ. Dev.	439,872	463,224	0	0	439,872	463,224
Water and Sewer	0	0	935,084	923,085	935,084	923,085
Total Expenses	2,598,275	2,249,965	935,084	923,085	3,533,359	3,173,050
Change in Net Position	121,339	280,139	151,375	795,457	272,714	1,075,596
Net Position – July 1 restated	5,571,411	5,291,271	4,788,140	3,992,684	10,359,551	9,283,955
Prior Period Adjustment	0	0	0	0	0	0
Net Position – June 30	5,692,750	5,571,410	4,939,515	4,788,141	10,632,265	10,359,551

Budgetary Highlights

The majority of the City's budget in FY 2018-19 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) and the loss of real property taxes due to the Disabled Veteran's exemption. 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. There is still pending legislation that may repeal the disabled veteran's property tax exemption and replace it with an income tax credit. This would still allow the credit for veterans, but would put the financial loss at the State level and not on the local government, which has to continue to provide and fund services such as road maintenance, utilities, police-fire-rescue, economic vitality and recreation.



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 securing 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 that 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. The CDBG program has a new emphasis and has been replaced by Infrastructure Capacity Enhancement (ICE) grants. This grant is designated for upgrading existing public infrastructure systems either by replacing deteriorating or obsolete systems or by adding needed capacity to existing, but burdened systems. The City may apply for this grant in the future.

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.
- **\$202,938** in total, 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 non-motorized pathway along the east side of US-127, from Washington Road (Center Street) in Ithaca to Lincoln Road in Alma.

- **\$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.)
- **\$6,000** 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.)
- **\$503,933** (City match is \$55,991) MDEQ Stormwater Asset Management Plan and Wastewater (SAW) grant for the preparation of a stormwater asset management plan. The City water and sewer funds are covering the additional cost to add those systems to the asset management plan, and to place all three utility systems on a new GIS software platform.

The City continues to research other possible grant sources to supplement local funding that further address the City's established capital priorities or assist private developers obtain grants to benefit the City. 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).
- Additional paving of City streets with Scrap Tire material. (EGLE)

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 water and sewer rate analysis 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/or replacement and compliance with future regulations, among other things.
- Planning ahead for reasonable, gradual rate increases when necessary.
- Delivering fair- and competitively-priced, high-quality drinking water & sanitary sewer services to our customers now and in the future.

As a result of the Water and Sewer Rate Study and City Council action by resolution, rates were adjusted for FY 2018-2019 and will annually be reevaluated and adjusted (either raised or lowered) accordingly.

City residents also pay a property tax millage to cover the cost of debt payments for the 2016 General Obligation 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 lower the millage for 2018 to 3.0 mills from the prior year's 3.8 mills.

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 were 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

Source: From Moody's Investors Service: *Cross Sector Outlook*, August 22, 2019: "Global Macroeconomic Update 2019-20 (August 2019 Update); Global growth slows even as central banks cut rates to offset impact of trade disputes."

- Global economic stabilization is at risk. The escalation of the US-China trade dispute and the shift of major central banks to an accommodative monetary policy stance are occurring as the global economy is growing below trend, inflation expectations are almost universally subdued and interest rates are extraordinarily low. This new normal will likely continue for the next three to five years.
- We expect global growth to slow below trend to 2.7% in 2019 and 2020, about half a percentage point below the level in 2017-18. Real growth in the G-20 advanced economies will decelerate from around 2.1% in 2018 to 1.7% in 2019 and 1.4% in 2020. Growth in the G-20 emerging market economies will decline from an estimated 5.1% in 2018 to 4.4% in 2019, followed by a pickup to 4.7% in 2020. Contractions in Turkey and Argentina, as well as economic weakness in several other countries, will pull down aggregate growth in the G-20 emerging markets in 2019, but only temporarily.
- Country-specific developments add to downward forecast revisions. Our below consensus growth forecasts had already incorporated the expectation of deteriorating global growth and some escalation of trade tensions. Thus, our downward forecast revisions for a number of countries reflect not only a change in our baseline assumption on trade, but also deeper-than-expected cyclical weakness in individual economies. We have lowered our growth forecasts for countries including China, Australia, Japan, Korea, India, Mexico, Brazil, Saudi Arabia, South Africa, Russia, Germany and Italy.
- The tensions could ratchet up if the US were to impose 25% tariffs on all imports from China, as well as place tariffs on imported autos and parts. Either of these moves could trigger a disorderly reaction in global financial markets and have a detrimental impact on growth. The US-China trade dispute has also broadened to include currency tensions, which have the potential to spill over to asset prices. The flare-up in the trade dispute between Japan and Korea adds to regional risks.

National Economic Forecast

Source: *The U.S. Economic Outlook for 2019-2020; Executive Summary: May 2019*

From Research Seminar in Quantitative Economics (RSQE), University of Michigan

The Devil Is in the Details: The healthy 3.2 percent annualized initial read of real GDP growth in 2019q1 was the third quarterly reading above 3 percent over the past year. In fact, year-over-year growth has been on an almost continuous upswing since the third quarter of 2016. During that time, growth has improved from the fracking-bust low of 1.3 percent in 2016q2 to a fiscal stimulus-juiced 3.2 percent in 2019q1. A look under the hood, however, reveals a more concerning snapshot of domestic demand. Final sales to domestic purchasers—real GDP without net exports and inventory

investment—grew at only a 1.4 percent annual rate. That was the slowest pace of growth in domestic final demand in over three years. The partial federal government shutdown early in 2019 temporarily depressed growth by just a few tenths of a percentage point, but the slowdown in the growth of consumption and investment spending is more of a concern. The combined growth contribution of personal consumption expenditures and private fixed investment—at a mere 1.1 percentage points—was the weakest since 2015q4. We expect a muted turnaround in consumption and investment spending.

What Goes Up Must Come Down?: After totaling 17.1–17.2 million units in 2017–18, the sales pace slowed in January–April to an average of only 16.7 million units. Manufacturer incentive discipline, rising auto finance interest rates (in spite of a recent decline in longer-term government rates), and a relative lack of new vehicle models are a few possible explanations. For the first time in years, there is a significant oversupply of light trucks on dealer lots, which will make it harder to keep incentive spending in check. Several high-volume models are due for a refresh later in 2019, which, along with a few all-new models, should push vehicle sales back toward the 17-million-unit pace. Existing home price appreciation has slowed considerably in recent months. Our preferred housing price inflation measure—the seasonally adjusted S&P CoreLogic Case-Shiller National Home Price Index—slowed to 4.2 percent year-over-year in February from 6.4 percent a year prior. We expect year-over-year home price appreciation to decelerate in 2019–2020, and we project housing market activity to expand slowly. Oil prices ticked down late in April, breaking the upward trend that had persisted since the beginning of the year. Recent supply cuts and other surprises have brought OPEC's supply below expected values. Oil production in the United States continues to exceed previous records and is on pace to break 12 million barrels per day in the second quarter of 2019. On an annual basis, we expect WTI prices to remain stable during the forecast, as increases in domestic oil production offset declines in OPEC oil supply.

All's Fair in Love and Trade:

Until recently, the ongoing trade tensions between China and the United States were expected to subside, with a deal by late May. However, an agreement couldn't be reached. President Trump has since followed through on an earlier threat to increase tariffs to 25 percent on 200 billion dollars' worth of imports from China, and China has retaliated with an increase in tariffs on 60 billion dollars of U.S. goods. Both sides are now negotiating to prevent the trade deal from collapsing. We consider the risk of an all-out trade war with China to have increased significantly in recent weeks. Our forecast, however, assumes prompt cooling off of recent tensions.

The Usual Suspects: With the longest (albeit partial) federal government shutdown in U.S. history behind us, Congress can now focus on lifting the debt ceiling and avoiding sequestration cuts. The Treasury has until around September or October before it runs out of money and is forced to default on its obligations. The sequestration caps on discretionary funding imposed by the Budget Control Act of 2011 are scheduled to be reinstated in October. Our forecast assumes a removal of spending caps for fiscal 2020 and that the debt ceiling is lifted prior to the deadline, but it will likely take several continuing resolutions before funding for the whole year is in place. As expenditures outpace revenues, the federal budget deficit deteriorates from 4.6 percent of GDP in 2018 to 5.3 percent in 2020. Rising debt levels lead to a tick up in interest payments on government debt from 2.6 percent of GDP in 2018 to 2.8 percent in 2020, a situation that would be far more problematic if interest rates were to rise more than we have forecast.

The Board of Governors: There has been a fairly remarkable shift in the expected stance of monetary policy over the past few months. Short of actually reversing its December 2018 hike in the federal funds rate, the Federal Reserve has done everything it can to signal a more dovish policy going forward. For 2020, seven out of seventeen FOMC members now see no rate hikes, up from only to members at the December 2018 FOMC meeting. The labor market is showing remarkable strength as the current economic expansion approaches a record length: in April, nonfarm payroll employment increased by 263,000 jobs, and the unemployment rate fell to 3.6 percent, its lowest level since 1969. However, core inflation has shown some worrying signs of weakness in recent months. We expect the Fed to take a wait-and-see approach to monetary policy in 2019–2020 and hold the federal funds rate essentially flat, as labor markets and inflation send opposing signals.

The 2019–2020 Outlook: Calendar-year real GDP growth slows to 2.6 percent in 2019 and 1.8 percent in 2020, as the fiscal boost from lower taxes and higher federal spending wanes. We expect the pace of light vehicle sales to downshift from 17.2 million units in 2018 to 16.8 million units in both 2019 and 2020. While housing market fundamentals look reasonable, the slowdown in the broader economy will likely take a toll on this sector. The best we can hope for over the next two years seems to be lackluster growth. Total housing starts retreat by 50,000 in 2019 and then pick up by 30,000 in 2020. Existing home sales stay at 4.7million units in 2019–2020, on par with 2018 levels.

Employment and Inflation: We expect average monthly private nonfarm payroll job gains to moderate over our forecast horizon. They decelerate from about 190,000 job additions per month in 2019q2 to 116,000 per month at the end of 2020. The unemployment rate inches down only a bit from its current level, falling from 3.6 percent in 2019q2 to 3.5 percent at the end of 2020. We expect core inflation to decline from 2.1 percent in 2018 to 1.8 percent in 2019 and to edge up to 2.0 percent in 2020. Weak energy price inflation lowers the all-item CPI inflation rate to 1.6 percent in 2019. As energy prices remain mostly flat in 2020, all-item inflation ticks up to 1.8 percent.

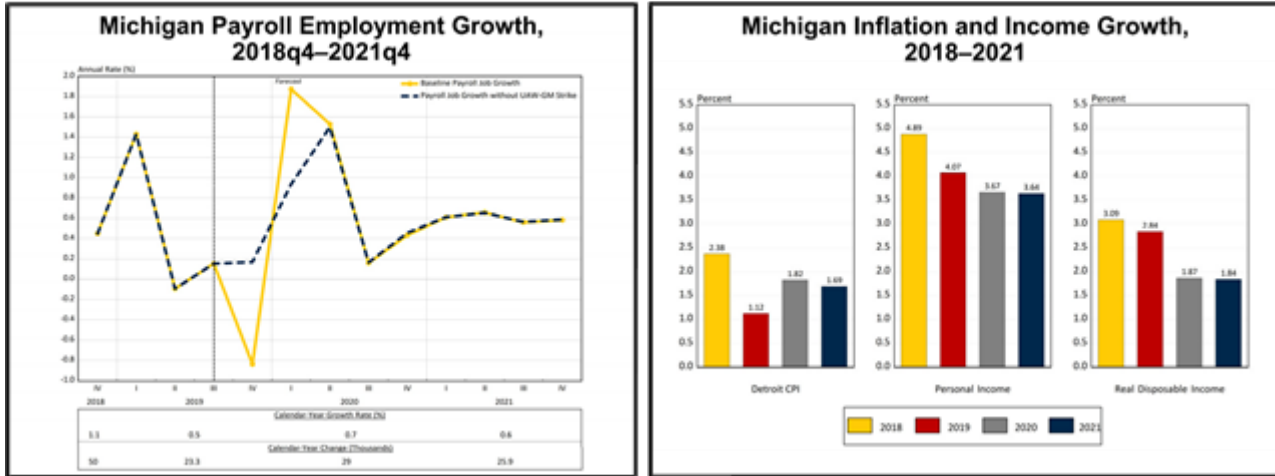
	Actual		RSQE Forecast	
	2017	2018	2019	2020
GDP (billions of current \$)	19485.4	20494.1	21367.8	22199.7
Real GDP (billions of 2012 \$)	18050.7	18566.4	19052.8	19405.2
% change: year-over-year	2.2	2.9	2.6	1.8
% change: 4th-qtr-to-4th-qtr	2.5	3.0	2.3	1.7
Nonfarm payroll employment (millions)	146.6	149.1	151.5	153.5
Civilian unemployment rate (%)	4.4	3.9	3.6	3.5
Capacity utilization, total industry (%)	76.5	78.7	78.5	78.0
Inflation (private nonfarm GDP deflator, % change)	1.9	2.3	1.6	2.0
Inflation (CPI-U, % change)	2.1	2.4	1.6	1.8
Inflation (core CPI, % change)	1.8	2.1	1.8	2.0
Light vehicle sales (millions)	17.1	17.2	16.8	16.8
Private housing starts (thousands)	1208.2	1249.1	1197.4	1232.0
3-month Treasury bill rate (%)	0.9	1.9	2.4	2.4
10-year Treasury note rate (%)	2.3	2.9	2.6	2.7
Conventional mortgage rate (%)	4.0	4.5	4.3	4.4
Real disposable income (billions of chained 2012 \$)	13949.3	14350.8	14706.1	15103.6
% change	2.6	2.9	2.5	2.7
Corporate profits after tax (billions of current \$)	1831.2	1946.9	2069.4	2158.4
Value of U.S. \$ (FRB broad index), % appreciation	-0.3	0.7	3.9	0.2
Current account balance (NIPA basis, billions of current \$)	-472.5	-502.4	-514.0	-512.8
Federal surplus (FY, NIPA basis, billions of current \$)	-664.1	-931.9	-1094.7	-1168.2

State of Michigan Economic Forecast

Source: *The U.S. Economic Outlook for 2019-2020; Executive Summary: November 2019*

From Research Seminar in Quantitative Economics (RSQE), University of Michigan

Following are highlights from the most recent *RSQE Michigan* forecast, released on November 22, 2019



This year has provided a tough test for Michigan's economy. We believe that after slogging through much of 2019, Michigan will return to moderate, but sustained, expansion in 2020 and 2021. We forecast the state to add 23,300 payroll jobs in 2019, 29,000 in 2020, and 25,900 in 2021, roughly half of the pace seen in 2017-18.

We estimate that the UAW-GM strike reduced Michigan's payroll job count by 31,500 jobs for the month of October after accounting for spillover effects. We expect almost all of the affected employees to be back on the job by November; the strike's impact averages out to 11,200 jobs for the fourth quarter of 2019.

Michigan's unemployment rate averages 4.1 percent this year and declines to 3.9 percent in 2020 and 3.7 percent in 2021, which would be on par with the rate in 1999 and 2000 as the lowest annual average on record since 1976. The labor force participation rate holds on to most of this year's gains, edging down from 61.8 percent in 2019 to 61.7 percent in 2020-21. Household employment has outpaced payroll employment substantially in Michigan this year, but the two grow more closely in line over the forecast.

Detroit CPI inflation declines to 1.1 percent this year because of lower energy prices. It rebounds to the 1.7-1.8 percent per year range over the next two years as energy prices stabilize.

We expect the growth of state personal income to slow down from 4.9 percent in 2018 to 4.1 percent this year, amid slower job growth and lower interest rates. In 2020 and 2021, state personal income moderates to the 3.6-3.7 percent range on slower growth of transfer income.

This year's decline in inflation cushions real disposable income from most of the slowdown in nominal growth. Growth declines by nearly a percentage point in 2020, falling to 1.9 percent with a rebound in inflation and the continued slowdown in nominal income growth. As inflation stabilizes in 2021, so does real disposable income growth, which registers 1.8 percent.

We expect Michigan's real GDP growth to decelerate to just 0.4 percent in 2019 as the state's labor market cools and the UAW-GM strike takes its toll. That would be Michigan's slowest annual growth rate since the Great Recession. Growth returns to a moderate trend after 2019, reaching 1.3 percent in 2020 and 0.9 percent in 2021.

Following are highlights from the most recent House Fiscal Agency's (HFA) *October 2019 Revenue Update Report*, released on November 12, 2019:

Major Taxes

Cash collections from Michigan's major taxes, penalties and interest, and lottery transfers totaled \$3,017.1 million in October 2019, \$6.8 million less than in October 2018. October cash collections complete the fiscal year, so prior year comparisons represent full fiscal year totals. Collections in FY 2018-19 were \$587.3 million (or 2.3%) higher than in FY 2017-18.

Net income tax revenue totaled \$871.6 million in October 2019, and for FY 2018-19 collections were \$225.6 million higher than during FY 2017-18. Fiscal year 2018-19 gross income tax collections were \$423.6 million higher than FY 2017-18 as higher withholding and annual payments more than offset lower quarterly payments.

Net business taxes are composed of the single business tax (SBT), the Michigan business tax (MBT), the corporate income tax (CIT), and insurance company taxes. Because of their inherent volatility, monthly collections of business taxes can often display significant fluctuations that diverge from historical trends. For FY 2018-19, net business taxes were \$175.6 million higher than last year. The primary contributors were MBT collections, which were less negative by \$74.4 million, and CIT revenue, which was \$241.5 million higher than FY 2017-18. Combined, they more than offset negative SBT collections.

Revenue from consumption taxes, which consist of the sales tax, the use tax, beer and wine taxes, liquor taxes, and tobacco taxes, totaled \$917.0 million in October 2019, and was collectively \$170.4 million higher than in FY 2017-18. FY 2018-19 sales tax collections were larger than last year's amount by \$321.4 million, in line with the most recent consensus estimate. Correspondingly, use tax revenue tracked well below the consensus estimate.

Revenues from the state education tax (SET) and the real estate transfer tax in October 2019 were \$1,034.5 million and \$29.0 million, respectively. There was no transfer from the lottery to the School Aid Fund in October 2019, leaving the lottery transfer \$43.5 million below the FY 2017-18 total.

General Fund/General Purpose (GF/GP) Tax Revenue

General Fund/General Purpose revenue from Michigan's major taxes was estimated¹ to be \$987.4 million in October 2019, about \$39.6 million below the projection established at the May 2019 consensus revenue estimating conference (CREC).

General Fund/General Purpose tax revenue for FY 2018-19 was about \$132.1 million above the projected amount, primarily due to continued strong individual income tax and business tax collections.

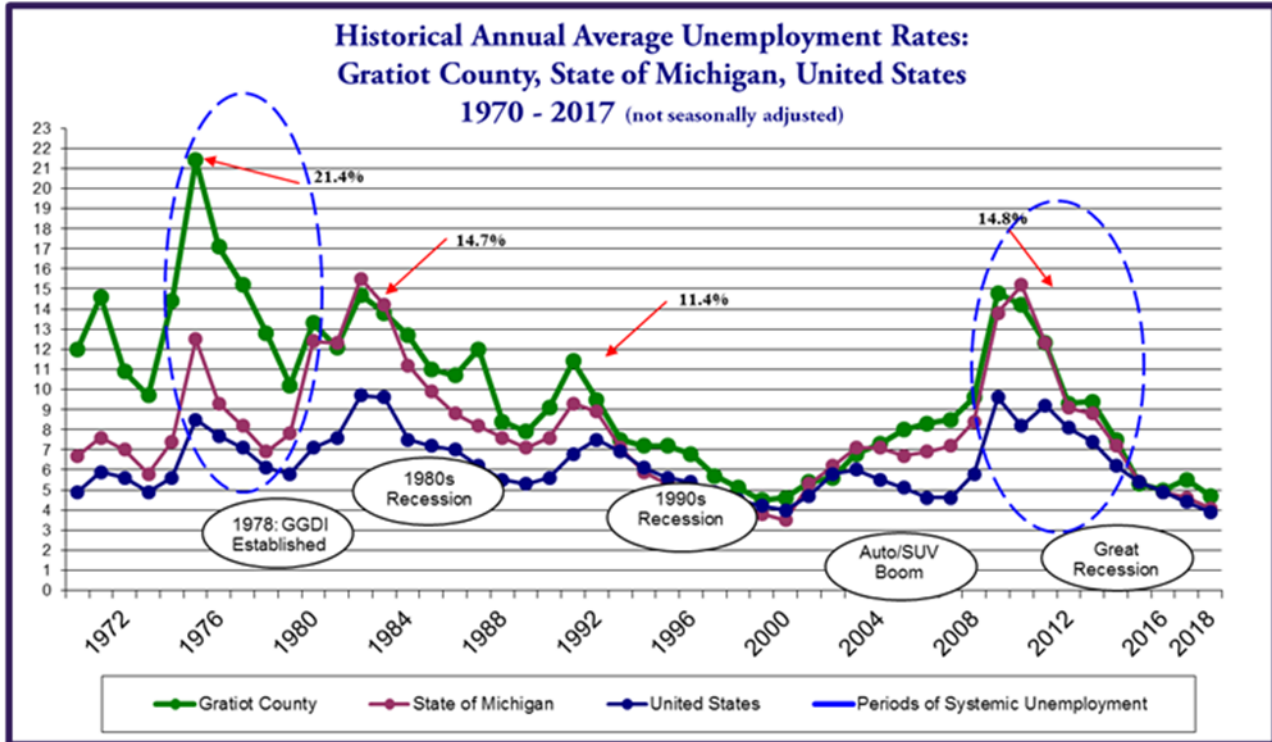
School Aid Fund (SAF) Revenue

School Aid Fund revenue from Michigan's major taxes was estimated¹ to be \$1,911.6 million in October 2019, about \$43.7 million below the amount established at the May 2019 CREC. October 2019 collections were lower than expected primarily due to the lack of a lottery transfer. School Aid Fund revenue for FY 2018-19 was \$117.7 million below the consensus revenue projections, mostly due to lower than expected SET collections and lottery transfers. Consumption taxes accruing to the SAF were also less than projected.

¹ Because of accruals and undistributed revenue, monthly fund splits are estimated.

Gratiot County Economic Conditions

Source: Greater Gratiot Development, Inc : 2019 Gratiot County Employment Profile



This graph represents the unemployment rate trends between Gratiot County, the State of Michigan, and the United States over the past 48 years. In the 1970s, Gratiot County's unemployment rate was significantly higher than the state and national rates and experienced similar fluctuations for a long period of time. Gratiot County experienced an unemployment rate of 21.4% in 1975. For a short time in 2002, Gratiot County had a lower unemployment rate than both the state and the nation. The county was heavily dependent on automotive parts and petroleum sectors. Today, the petroleum refining sector is gone, and the automotive parts sector is slightly diminished but stable. Smaller and more diversified manufacturing and agri-industry firms are now typical in the county.

The *annual average labor force* for 2018 was 17,766 persons, and 832 of those persons were unemployed. This results in an *annual unemployment rate* of 4.7% for 2018. The most recent unemployment rate from August 2019 was 4.4%, implying a significant improvement in the economic climate since the 2008 Recession. An increasingly diversified economic base has lessened the gap between Gratiot County's unemployment situation compared to that of the state and the nation over the long term.

The relatively small total labor force of Gratiot County has a large impact on the degree to which unemployment rates swing up or down. Approximately 200 persons gaining or losing employment changes the county average by one full percentage point. A slight change in Gratiot County's labor force results in a substantial impact on the County's unemployment rate, minimal effects to the state rate, and no effect to the national rate. Historically, the size of the Gratiot County labor force has remained fairly consistent.

One of the biggest issues facing companies across all sectors of the County, is retaining and recruiting talented employees. Numerous initiatives are in effect to help alleviate this issue. First, a bi-county voted millage supports career and technical education program in K-12 schools in Isabella and Gratiot counties. Representatives from the schools meet regularly with industry representatives and support agencies in order to ensure that students are receiving training that industries need. Second, Michigan Works! coordinates the Going Pro Talent Fund, a program that provides companies with grants to cover training needs for new hires. Finally, in 2019, Greater Gratiot Development Inc will be working with the Gratiot-Isabella RESD and several other local partners in promoting trade skill education through grant funds recently distributed in the Marshall Plan for Talent.

Ithaca Economic Forecast

The City of Ithaca's diverse economy is stable and is continuing to show signs of improving in 2019. As of June 30, 2019, there were no unoccupied industrial buildings in the City:

- A new owner demolished an obsolete building at Center & Industrial Parkway and is building a brand-new electric service company facility. They will be relocating from an existing older & smaller building just north of them in the North Industrial Park, making it available for use for another company.
- A new owner, Ellen's Equipment, has purchased the vacated Sav-A-Lot building at the end of Dilts Road and is scheduled to open in November of 2019.
- In the same area, Kimmel Propane is starting plans for the construction of a new office building.
- Commercially, McDonald's and KFC/Taco Bell will be undergoing façade' restructuring and interior updates for functionality and appeal for customers.

Several downtown buildings and storefronts have seen new owners and/or tenants; with a few vacancies, the Downtown Development Authority continues its efforts to fill these spaces.

- A former restaurant, forced to close due to a fire, has remodeled and will soon open under the same owners, but offering new cuisine.
- One new building owner (two storefronts) has plans to renovate the first-floor commercial level, the exterior façade and create four new rental units on the second floor.
- The same investor has purchased another 3-story building (two storefronts) and will renovate the first-floor commercial level, the exterior façade and create ten new rental units in the building.

Housing wise, while there have only been three new single-family housing units constructed in the last two years, the demand for existing homes has continued to be 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. Two years ago, 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-acres east of the highway on Center Street, is owned by Zeeland Farms Services (ZFS). ZFS has been actively working with the City, Greater Gratiot Development, Inc. (GGDI) and the State MEDC since it purchased the property to repurpose the site for the construction of a soybean processing and storage facility. The City has completed 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 has been 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. This could theoretically double the City's current overall taxable value of \$64 million.

ZFS estimates it has created approximately 400 construction jobs and will be hiring 74 fulltime employees when the facility begins production in late-2019. 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 will see an 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. As an example, the expansion & new construction of the two businesses noted above in the North Industrial Park are directly attributable to the ZFS project. One is a semi-truck/trailer maintenance & repair facility; the other is an electrical service company, which had a previous relationship with ZFS in Zeeland, and purchased a local electric company so they could service the Ithaca ZFS facility.

Ithaca recently continues to provide more opportunities for the public to experience the area by being active in a project that added 6.2 miles of paved non-motorized pathway between Ithaca and Alma along the east side of US-127. 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 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. Cyclists and walkers can now make a complete loop using pathways and marked routes through the city.

The City has completed its sidewalk along the Commercial District on both sides of East Center Street, ultimately connecting to the Mid-Michigan Community pathway. These sidewalks offer a connection for path users to our east-end commercial/fast-food district, as well as the downtown. It also provided a safe connection for path users living in town. The sidewalks were constructed in addition to the ongoing, voter approved millage-funded sidewalk replacement program, which is in its fourth year of its six-year program.

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 to our community's taxpayers.

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.

Moody's Annual Issuer Comment dated January 25, 2019 on Ithaca's above Unlimited Tax General Obligation bond¹ issue offered the following credit overview:

Issuer Profile. The City of Ithaca is the county seat of Gratiot County, located in the geographic center of Michigan's Lower Peninsula, approximately 40 miles north of Lansing. Gratiot County has a population of 41,676 and a low population density of 73 people per square mile. The county's median family income is \$51,840 (4th quartile) and the September 2018 unemployment rate was 3.6% (3rd quartile)². The largest industry sectors that drive the local economy are manufacturing, retail trade, and local government.

Credit Overview. Ithaca has a sound credit position. Yet, its A1 rating is a little weaker than the median rating of Aa3 for U.S. cities. The notable credit factors include a robust financial position, a moderate debt burden, a somewhat elevated pension liability a somewhat weak wealth and income profiles, and a very limited tax base.

Finances: Ithaca's financial position is robust and is a notable strength in comparison to its assigned rating of A1. The city's fund balance as a percent of operating revenues (63.7%) far surpasses the US median, and saw an impressive increase between 2014 and 2018. Also, the cash balance as a percent of operating revenues (62.3%) is notably stronger than the US median.

Debt and Pensions: Overall, the debt and pension liabilities of Ithaca are somewhat inflated and slightly weak with respect to the assigned rating of A1. The net direct debt to full value (2.2%) is materially higher than the US median. However, this percentage contracted between 2014 and 2018. Additionally, the Moody's – adjusted net pension liability to operating revenues (2.4x) is above the U.S. median.

Economy and Tax Base: The city's economy and tax base weak and unfavorable in relation to the A1 rating assigned. Ithaca's full value per capita (\$55,622) is slightly below the US median. Yet, this number rose significantly from 2014-2018. Moreover, the median family income equals a mere 68.6% of the US level. Lastly, the total full value (\$156 million) is much weaker than other cities we rate nationwide.

Management and Governance: Michigan cities have an Institutional Framework score³ of A, which is moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Cities rely on property tax and state aid

revenues, which are moderately predictable. Revenue-raising ability is moderate as cities are subject to limits on taxable valuation growth (Proposal A) and revenue growth (Headlee Amendment). The Headlee Amendment restriction creates a permanent reduction in the millage rate, although voters can approve an override. Expenditures are moderately predictable and cities have moderate flexibility to reduce them, but many have recently reduced service levels to accommodate rising fixed costs. While Michigan's constitution protects accrued pension benefits, changes can be made to future benefits.

Sector Trends - Michigan Cities. Most Michigan cities' credit profiles are stabilizing after years of substantial pressure, boosted by improvements in key revenue streams and strategic budget decisions. Property taxes are the largest revenue source for most cities. Taxable values have begun to grow in most of the state, however, state-imposed tax limitations constrict revenue growth despite rising values. State aid has also stabilized following significant cuts. Expenditure reductions implemented during the economic downturn have positioned cities to maintain balanced financial operations. However, the recovery is lagging for a handful of distressed cities with unusually weak demographic and economic profiles. Additionally, unfunded pension and retiree healthcare benefits have resulted in increased fixed costs for many cities.

¹ The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.

² The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

³ The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [USLocalGovernmentGeneralObligation Debt\(December2016\)](#) methodology report for more details.

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 the City Clerk-Treasurer at:

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

Phone: (989) 875-3200 x 305
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Jamey Conn

Jamey Conn
City Manager
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Barbara Fandell

Barbara Fandell, ACPFA MiCPT
City Clerk-Treasurer
bfandell@ithacami.com

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**



City of Ithaca
Statement of Net Position
June 30, 2019

	PRIMARY GOVERNMENT			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current assets				
Cash and cash equivalents	\$ 2,458,572	\$ 1,115,278	\$ 3,573,850	\$ 13,956
Investments	959,748	514,410	1,474,158	20,938
Accounts receivable	40,937	185,413	226,350	-
Property taxes receivable	1,090,675	230,657	1,321,332	-
Due from other governments	229,236	-	229,236	-
Due from agency fund	1,000	-	1,000	-
Inventories	-	42,049	42,049	-
Total current assets	<u>4,780,168</u>	<u>2,087,807</u>	<u>6,867,975</u>	<u>34,894</u>
Noncurrent assets				
Long term notes receivable	68,279	-	68,279	-
Capital assets not being depreciated	207,759	43,843	251,602	-
Capital assets being depreciated, net	1,965,394	7,083,571	9,048,965	-
Total noncurrent assets	<u>2,241,432</u>	<u>7,127,414</u>	<u>9,368,846</u>	<u>-</u>
Total assets	7,021,600	9,215,221	16,236,821	34,894
Deferred Outflows of Resources				
Deferred outflow - related to pension	184,396	122,930	307,326	-
Liabilities				
Current liabilities				
Accounts payable	217,353	22,032	239,385	37
Accrued liabilities	52,289	7,393	59,682	-
Accrued interest	-	30,938	30,938	-
Compensated absences, due within one year	6,147	3,204	9,351	-
General obligation bonds payable, due within one year	-	100,000	100,000	-
Total current liabilities	<u>275,789</u>	<u>163,567</u>	<u>439,356</u>	<u>37</u>
Noncurrent liabilities				
Customer deposits	-	5,250	5,250	-
Bond premium, net of amortization	-	209,908	209,908	-
Compensated absences, due beyond one year	34,830	18,158	52,988	-
General obligation bonds payable, due beyond one year	-	3,200,000	3,200,000	-
Net pension liability	1,202,627	801,753	2,004,380	-
Total noncurrent liabilities	<u>1,237,457</u>	<u>4,235,069</u>	<u>5,472,526</u>	<u>-</u>
Total liabilities	<u>1,513,246</u>	<u>4,398,636</u>	<u>5,911,882</u>	<u>37</u>
Net position				
Net investment in capital assets	2,173,153	3,617,506	5,790,659	-
Restricted	2,022,591	-	2,022,591	-
Unrestricted	1,497,006	1,322,009	2,819,015	34,857
Total net position	<u>\$ 5,692,750</u>	<u>\$ 4,939,515</u>	<u>\$ 10,632,265</u>	<u>\$ 34,857</u>

City of Ithaca
Statement of Activities
For the Year Ended June 30, 2019

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Primary Government			
				Governmental Activities	Business-Type Activities	Total	
Governmental activities							
General government	\$ 949,657	\$ 50,100	\$ 4,167	\$ (895,390)	\$ -	\$ (895,390)	\$ -
Public safety	757,135	160,701	316,810	(279,624)	-	(279,624)	-
Public works	451,611	-	489,122	37,511	-	37,511	-
Community and economic development	152,634	-	-	(152,634)	-	(152,634)	-
Recreation and cultural	287,238	3,876	67,750	(215,612)	-	(215,612)	-
Total governmental activities	2,598,275	214,677	877,849	(1,505,749)	-	(1,505,749)	-
Business-type activities							
Water and Sewer	935,084	720,369	-	-	(214,715)	(214,715)	-
Total primary government	\$ 3,533,359	\$ 935,046	\$ 877,849	(1,505,749)	(214,715)	(1,720,464)	-
Component units							
Downtown Development Authority	\$ 3,921	\$ -	\$ -	-	-	-	(3,921)
General revenues							
Property taxes				928,100	228,135	1,156,235	-
State grants				400,771	-	400,771	-
Unrestricted investment earnings				105,025	19,474	124,499	626
Gain on disposal of capital assets				193	-	193	-
Transfers				1,510	-	1,510	(1,510)
Other revenues				191,489	118,481	309,970	3,500
Total general revenues				1,627,088	366,090	1,993,178	2,616
Change in net position				121,339	151,375	272,714	(1,305)
Net position, beginning of year				5,571,411	4,788,140	10,359,551	36,162
Net position, end of year				\$ 5,692,750	\$ 4,939,515	\$ 10,632,265	\$ 34,857

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, 2019

	MAJOR FUNDS					Non-Major Governmental Funds	Total Governmental Funds
	General Fund	Major Street	Local Street	Library	Grant Projects		
Assets							
Cash and cash equivalents	\$ 703,875	\$ 280,401	\$ 246,539	\$ 129,141	\$ 73,849	\$ 657,872	\$ 2,091,677
Investments	328,739	204,437	102,218	185,608	-	134,412	955,414
Accounts receivable	26,503	-	-	-	-	-	26,503
Notes receivable	-	-	-	-	-	68,279	68,279
Due from agency fund	1,000	-	-	-	-	-	1,000
Due from other governments	57,662	54,002	16,730	-	100,842	-	229,236
Total assets	<u>\$ 1,117,779</u>	<u>\$ 538,840</u>	<u>\$ 365,487</u>	<u>\$ 314,749</u>	<u>\$ 174,691</u>	<u>\$ 860,563</u>	<u>\$ 3,372,109</u>
Liabilities							
Accounts payable	\$ 88,153	\$ 2,547	\$ 7,847	\$ 8,283	\$ 92,903	\$ 14,172	\$ 213,905
Accrued liabilities	14,336	688	614	3,179	-	33,227	52,044
Total liabilities	<u>102,489</u>	<u>3,235</u>	<u>8,461</u>	<u>11,462</u>	<u>92,903</u>	<u>47,399</u>	<u>265,949</u>
Deferred inflows of resources							
Unavailable revenue	-	-	-	-	-	68,279	68,279
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>68,279</u>	<u>68,279</u>
Fund balances							
Restricted	-	535,605	357,026	303,287	81,788	744,885	2,022,591
Unassigned	1,015,290	-	-	-	-	-	1,015,290
Total fund balances	<u>1,015,290</u>	<u>535,605</u>	<u>357,026</u>	<u>303,287</u>	<u>81,788</u>	<u>744,885</u>	<u>3,037,881</u>
Total liabilities and fund balance	<u>\$ 1,117,779</u>	<u>\$ 538,840</u>	<u>\$ 365,487</u>	<u>\$ 314,749</u>	<u>\$ 174,691</u>	<u>\$ 792,284</u>	<u>\$ 3,303,830</u>

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, 2019

Total fund balance - governmental funds \$ 3,037,881

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	5,266,871
Deduct:	Accumulated depreciation	(3,486,658)

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	774,910
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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	1,090,675
Add:	Balance of long-term loans receivable	68,279

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	184,396
Add:	Deferred inflow - related to pension	-
Deduct:	Net pension liability	(1,202,627)
Deduct:	Compensated absences	(40,977)

Total net position - governmental activities	<u><u>\$ 5,692,750</u></u>
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City of Ithaca
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2019

	MAJOR FUNDS					Non-Major Governmental Funds	Total Governmental Funds
	General Fund	Major Street	Local Street	Library	Grant Projects		
Revenues							
Taxes and penalties	\$ 1,062,020	\$ -	\$ -	\$ 146,241	\$ -	\$ -	\$ 1,208,261
Licenses and permits	13,442	-	-	-	-	-	13,442
State grants	400,771	332,385	156,737	6,242	316,810	4,167	1,217,112
Charges for services	29,458	-	-	3,876	-	167,901	201,235
Fines and forfeits	215	-	-	61,508	-	-	61,723
Interest and rentals	75,492	6,825	3,399	8,753	141	7,649	102,259
Other revenues	176,984	922	-	4,546	-	16,960	199,412
Total revenues	<u>1,758,382</u>	<u>340,132</u>	<u>160,136</u>	<u>231,166</u>	<u>316,951</u>	<u>196,677</u>	<u>3,003,444</u>
Expenditures							
General government	480,055	-	-	-	286,394	-	766,449
Public safety	464,612	-	-	-	-	250,397	715,009
Public works	227,582	107,280	116,749	-	-	-	451,611
Community and economic development	3,882	-	-	-	-	117,563	121,445
Recreation and cultural	90,894	-	-	174,557	-	-	265,451
Other expenditures	300,493	-	-	-	-	-	300,493
Total expenditures	<u>1,567,518</u>	<u>107,280</u>	<u>116,749</u>	<u>174,557</u>	<u>286,394</u>	<u>367,960</u>	<u>2,620,458</u>
Excess of revenues over (under) expenditures	190,864	232,852	43,387	56,609	30,557	(171,283)	382,986
Other financing sources (uses)							
Transfers in	36,345	15,283	120,211	-	-	239,863	411,702
Transfers in - component unit	1,510	-	-	-	-	-	1,510
Transfers out	(194,914)	(73,336)	-	-	(2,469)	(140,983)	(411,702)
Total other financing sources (uses)	<u>(157,059)</u>	<u>(58,053)</u>	<u>120,211</u>	<u>-</u>	<u>(2,469)</u>	<u>98,880</u>	<u>1,510</u>
Net change in fund balances	33,805	174,799	163,598	56,609	28,088	(72,403)	384,496
Fund balance, beginning of year	<u>981,485</u>	<u>360,806</u>	<u>193,428</u>	<u>246,678</u>	<u>53,700</u>	<u>817,288</u>	<u>2,653,385</u>
Fund balance, end of year	<u>\$ 1,015,290</u>	<u>\$ 535,605</u>	<u>\$ 357,026</u>	<u>\$ 303,287</u>	<u>\$ 81,788</u>	<u>\$ 744,885</u>	<u>\$ 3,037,881</u>

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, 2019

Net change in fund balances - total governmental funds \$ 384,496

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	150,123
Deduct:	Depreciation expense	(147,044)

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	(30,865)
---------	--------------------------------------	----------

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	(280,161)
Deduct:	Payments of long-term loan receivable	(8,138)

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.

Add:	Change in deferred outflow - related to pension	48,018
Add:	Change in deferred inflow - related to pension	91,314
Deduct:	Change in net pension liability	(86,766)
Add:	Change in accrual for compensated absences	362

Change in net position - governmental activities	<u>\$ 121,339</u>
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City of Ithaca
Statement of Net Position
Proprietary Funds
June 30, 2019

	Business-Type Activities Enterprise Funds	Governmental Activities
	Water and Sewer	Internal Service
Assets		
Current assets		
Cash and cash equivalents	\$ 1,115,278	\$ 366,895
Investments	514,410	4,334
Accounts receivable	185,413	14,434
Property taxes receivable	230,657	-
Inventories	42,049	-
Total current assets	<u>2,087,807</u>	<u>385,663</u>
Noncurrent assets		
Capital assets not being depreciated	43,843	-
Capital assets being depreciated, net	7,083,571	392,940
Total noncurrent assets	<u>7,127,414</u>	<u>392,940</u>
Total assets	9,215,221	778,603
Deferred Outflows of Resources		
Deferred outflow - related to pension	122,930	-
Liabilities		
Current liabilities		
Accounts payable	22,032	3,448
Accrued liabilities	7,393	245
Accrued interest	30,938	-
Bonds payable, due within one year	100,000	-
Compensated absences, due within one year	3,204	-
Total current liabilities	<u>163,567</u>	<u>3,693</u>
Noncurrent liabilities		
Bonds payable, due beyond one year	3,200,000	-
Bond premium, net of amortization	209,908	-
Customer deposits	5,250	-
Compensated absences, due beyond one year	18,158	-
Net pension liability	801,753	-
Total noncurrent liabilities	<u>4,235,069</u>	<u>-</u>
Total liabilities	<u>4,398,636</u>	<u>3,693</u>
Net position		
Net investment in capital assets	3,617,506	392,940
Unrestricted	<u>1,322,009</u>	<u>381,970</u>
Total net position	<u>\$ 4,939,515</u>	<u>\$ 774,910</u>

City of Ithaca
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2019

	Business-Type Activities Enterprise Funds	Governmental Activities
	Water and Sewer	Internal Service
Operating revenues		
Water and sewer sales	\$ 711,251	\$ -
Penalties and interest charges	9,118	-
Service charges	-	130,701
Property taxes	228,135	-
Miscellaneous revenues	118,481	6,272
Total operating revenues	<u>1,066,985</u>	<u>136,973</u>
Operating expenses		
Water		
Personnel services	172,772	-
Contractual services	90,045	-
Supplies	15,840	-
Depreciation	170,182	-
Other expenses	48,304	-
Sewer		
Personnel services	144,021	-
Contractual services	38,313	-
Supplies	3,345	-
Depreciation	81,326	-
Other expenses	56,846	-
Other		
Personnel services	-	30,454
Contractual services	-	1,448
Supplies	-	12,141
Depreciation	-	76,389
Other expenses	-	50,365
Total operating expenses	<u>820,994</u>	<u>170,797</u>
Operating income (loss)	245,991	(33,824)
Nonoperating revenues (expenses)		
Interest revenue	19,474	2,766
Interest expense	(113,588)	-
Gain on disposal of capital assets	-	193
Other expenses	(502)	-
Total nonoperating revenues (expenses)	(94,616)	2,959
Change in net position	151,375	(30,865)
Net position, beginning of year	<u>4,788,140</u>	<u>805,775</u>
Net position, end of year	<u>\$ 4,939,515</u>	<u>\$ 774,910</u>

City of Ithaca
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2019

	Business-Type Activities Enterprise Funds	Governmental Activities
	Water and Sewer	Internal Service
Cash flows from operating activities		
Receipts from customers	\$ 800,998	\$ -
Receipts from interfund charges	-	136,624
Payments to suppliers / outsiders	(350,247)	(64,038)
Payments to employees	(360,761)	(30,973)
Other receipts	326,267	-
Net cash provided by (used in) operating activities	<u>416,257</u>	<u>41,613</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(87,432)	(43,018)
Proceeds from sale of assets	-	6,600
Principal paid on debt	(100,000)	-
Interest and fees paid on debt	(114,589)	-
Net cash provided by (used in) capital and related financing activities	<u>(302,021)</u>	<u>(36,418)</u>
Cash flows from investing activities		
(Purchase)/sale of investments	(248,001)	(102)
Interest revenue	19,474	2,766
Net cash provided by (used in) investing activities	<u>(228,527)</u>	<u>2,664</u>
Net increase (decrease) in cash and cash equivalents	(114,291)	7,859
Cash and cash equivalents, beginning of year	<u>1,229,569</u>	<u>359,037</u>
Cash and cash equivalents, end of year	<u>\$ 1,115,278</u>	<u>\$ 366,896</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 245,991	\$ (33,824)
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	251,508	76,389
Change in assets and liabilities		
Accounts receivable - net	80,629	(349)
Property taxes receivable	(20,349)	-
Inventories	(4,750)	-
Deferred outflows of resources related to pensions	(32,011)	-
Accounts payable	(78,997)	(84)
Accrued liabilities	(1,222)	(519)
Bond premium, net of amortization	(11,662)	-
Customer deposits	(2,145)	-
Compensated absences	(7,705)	-
Deferred inflows of resources related to pensions	(60,876)	-
Net pension liability	57,846	-
Net cash provided by operating activities	<u>\$ 416,257</u>	<u>\$ 41,613</u>

City of Ithaca
Statement of Net Position - Fiduciary Funds
June 30, 2019

	<u>Tax</u>
Assets	
Cash and cash equivalents	\$ 55,988
Total assets	<u>55,988</u>
Liabilities	
Accounts payable	54,988
Due to other funds	<u>1,000</u>
Total liabilities	55,988
Net position	
Unrestricted	-
Total net position	<u><u>\$ -</u></u>

City of Ithaca
Statement of Net Position - Component Unit
June 30, 2019

	<u>Downtown Development Authority</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 13,956
Investments	20,938
Total current assets	<u>34,894</u>
Liabilities	
Accounts payable	<u>37</u>
Total liabilities	37
Net position	
Unrestricted	34,857
Total net position	<u><u>\$ 34,857</u></u>

City of Ithaca
Statement of Activities - Component Unit
For the Year Ended June 30, 2019

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	
Downtown Development Authority				
General government	\$ 3,921	\$ -	\$ -	\$ (3,921)
General Revenues				
Unrestricted investment earnings				626
Other revenues				3,500
Transfers in				10,000
Transfers out - general fund				(1,510)
Transfers out				(10,000)
Total general revenues				<u>2,616</u>
Change in net position				(1,305)
Net position, beginning of year				<u>36,162</u>
Net position, end of year				<u>\$ 34,857</u>

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 eight 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.

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.

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 Grant Projects Fund accounts for resources to fund special projects as awarded through local, state and federal grants.

The City reports the following major proprietary funds:

- The Water and Sewer Fund (an 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 First Responder Fund accounts for resources used to provide first responder services to residents of the City and surrounding townships.
- The Fire Operating Fund accounts for resources used to provide fire services to residents of the City and surrounding townships.

- The Cemetery Perpetual Care Fund accounts for resources designated for the future ongoing care of the cemetery.

Additionally, the City reports the following fund type:

- 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 on the functional level for the General fund, at the fund level for all other funds 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 City 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 a public hearing on the submitted budget 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

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Investments

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.

City of Ithaca
Notes to the Financial Statements
June 30, 2019

Due from/to other funds

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”.

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 acquisition cost 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 and Equipment	2 – 50
Infrastructure	10 - 40
Vehicles	5 – 30

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.

Compensated Absences

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.

Long-Term Obligations

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.

Defined Benefit Plan

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.

Net Position and Fund Balances

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.

Net Position – Restrictions

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.

Fund Balance

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.

City of Ithaca
Notes to the Financial Statements
June 30, 2019

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 2018 ad valorem tax is levied and collectible on August 1st and December 1st, 2018, 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 2018 taxable valuation of property located in the City for operating purposes totaled \$63.4 million and \$70.3 million for water/sewer debt purposes, on which ad valorem taxes levied consisted of 13.9692 mills for operating, 1.5000 mills for emergency service, 1.0000 for sidewalk repairs and 3.8000 mills for water/sewer debt service.

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 cash equivalents	2,458,572	1,115,278	3,573,850	13,956
Investments	959,748	514,410	1,474,158	20,938
Totals	3,418,320	1,629,688	5,048,008	34,894

The bank balance of the primary government's deposits is \$3,669,831, of which \$1,050,768 is covered by federal depository insurance. The remaining amount is uninsured and uncollateralized. The component units' deposits had a bank balance of \$13,956, 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. In addition, independent bank rating agencies are also utilized on a quarterly basis for ongoing monitoring of each depository's financial stability.

City of Ithaca
Notes to the Financial Statements
June 30, 2019

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)	1,474,158	.1701	AAAm	98.6%
Total Component Unit				
Michigan Cooperative Liquid Assets Securities System (Michigan CLASS)	20,938	.1701	AAAm	1.4%
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.

City of Ithaca
Notes to the Financial Statements
June 30, 2019

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.

Michigan Class investments are subject to the fair value measurement and are level 2.

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	Tax	1,000
Total	1,000	Total	1,000

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	57,662
Major Street Fund – State of Michigan Act 51	54,002
Local Street Fund – State of Michigan Act 51	16,730
Grant Project Fund – State of Michigan	100,842
Total	229,236

City of Ithaca
Notes to the Financial Statements
June 30, 2019

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	32,386	8,648	(14,956)	26,078
Total capital assets not being depreciated	214,067	8,648	(14,956)	207,759
Capital assets being depreciated				
Land Improvements	371,213	8,700	-	379,913
Buildings and Improvements	2,328,777	-	-	2,328,777
Furniture and Equipment	1,609,256	15,365	(26,833)	1,597,788
Infrastructure	323,684	129,469	-	453,153
Vehicles	1,707,314	45,917	-	1,753,231
Total capital assets being depreciated	6,340,244	199,451	(26,833)	6,512,862
Accumulated depreciation	(4,344,460)	(223,433)	20,425	(4,547,468)
Capital assets being depreciated, net	1,995,784	(23,982)	(6,408)	1,965,394
Net capital assets	2,209,851	(15,334)	(21,364)	2,173,153

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	37,621	-	-	37,621
Construction in Process	730,715	6,222	(730,715)	6,222
Total capital assets not being depreciated	768,336	6,222	(730,715)	43,843
Capital assets being depreciated				
Furniture and Equipment	12,888	-	(12,888)	-
Water System	7,931,633	105,040	(1,220)	8,035,453
Sewer System	3,346,160	706,885	-	4,053,045
Total capital assets being depreciated	11,290,681	811,925	(14,108)	12,088,498
Accumulated Depreciation	(4,767,527)	(251,508)	14,108	(5,004,927)
Capital assets being depreciated, net	6,523,154	560,417	-	7,083,571
Net capital assets	7,291,490	566,639	(730,715)	7,127,414

City of Ithaca
Notes to the Financial Statements
June 30, 2019

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	51,942
Public Safety	42,126
Recreation and Cultural	21,787
Community and Economic Development	31,189
Internal Service Fund	76,389
Total Governmental Activities	223,433
Business-Type Activities	
Water	170,182
Sewer	81,326
Total Business-Type Activities	251,508

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

Premiums and Discounts

Debt may be issued at par value, with a premium (applicable to debt issued in excess of par value) or at a discount (applicable to debt issued at amounts less than the par value). Premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

The changes in premiums during the fiscal year are as follows:

	Beginning Balance	Additions	(Deletions)	Ending Balance
Premium on long-term debt	221,570	-	(11,662)	209,908

Long-term debt

General obligation bonds:

Amount

2016 general obligation refunding bonds due in annual installments of \$100,000 to \$275,000 through April, 2037 with an interest rate from 2.00% to 3.50%.

3,300,000

Total general obligation bonds:

3,300,000

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 \$40,252. City policy also 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,

City of Ithaca
Notes to the Financial Statements
June 30, 2019

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 \$22,087. Total compensated absences as of year-end equals \$62,339.

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	41,339	5,839	6,201	40,977	6,147
Business-Type					
Compensated Absences	29,067	-	(7,705)	21,362	3,204
General Obligation Bonds	3,400,000	-	(100,000)	3,300,000	100,000
Total Business-Type	3,429,067	-	(107,705)	3,321,362	103,204

The requirements to pay principal and interest on the long-term debt outstanding at **Error! No document variable supplied.**, are shown below:

Year Ended June 30	General Obligation Bonds	
	Principal	Interest
2020	100,000	123,750
2021	110,000	121,750
2022	120,000	118,450
2023	125,000	114,850
2024	135,000	111,100
2025-2029	830,000	466,500
2030-2034	1,090,000	278,700
2035-2039	790,000	57,426
Total long-term debt	3,300,000	1,392,526

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, 2018 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	4
Active employees	<u>3</u>
Total	25

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 \$214,518. The City made contributions in the amount of \$383,952 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, 2018, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability in the December 31, 2018 annual actuarial valuation was determined using the following actuarial assumptions, applied to all 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 3.75% long-term wage inflation assumption would be consistent with a price inflation of 2.5% annually.

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 2011-2015.

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 of 7.75% by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and range of allocation allowed, as set by the MERS Board of Directors, for each major asset class are summarized in the following table:

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Asset Class	Target Allocation	Target Allocation Real Rate of Return	Long-Term Expected Gross Rate of Return	Inflation Assumption	Long-Term Expected Real Rate of Return
Global Equity	55.5%	8.65%	4.80%	2.50%	3.41%
Global Fixed Income	18.5%	3.76%	0.70%	2.50%	0.23%
Real Assets	13.5%	9.72%	1.31%	2.50%	0.97%
Diversifying Strategies	12.5%	7.50%	0.94%	2.50%	0.63%

The assets are invested with a strategic, long-term perspective and a high degree of prudence to reduce risk by utilizing the target allocations, maintaining adequate liquidity to pay promised benefits, adopting a strategic asset allocation plan that- reflects current and future liabilities, minimizes volatility and maximizes the long-term total rate of return-, minimizes the associated costs of the asset allocation, maintains above median peer rankings for the 10-year time period and exceeds the return of the Fund's policy benchmark.

Discount Rate

The discount rate used to measure the total pension liability was 8.00% for 2018. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for 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 12/31/17	\$4,522,471	\$2,662,704	\$1,859,767
Changes for the Year			
Service Cost	20,002		20,002
Interest on Total Pension Liability	346,137		346,137
Changes in benefits	-		-
Difference between expected and actual experience	63,500		63,500
Changes in assumptions	-		-
Employer Contributions		383,952	(383,952)
Employee Contributions		7,113	(7,113)
Net investment income		(100,992)	100,992
Benefit payments, including employee refunds	(411,527)	(411,527)	-
Administrative expense		(5,048)	5,048
Other changes	(1)		(1)
Net changes	18,111	(126,502)	144,613
Balances as of 12/31/18	\$4,540,582	\$2,536,202	\$2,004,380

City of Ithaca
Notes to the Financial Statements
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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 12/31/18	2,004,380	2,004,380	2,004,380
Change in Net Pension Liability (NPL)	418,290	0	(358,622)
Calculated Net Pension Liability	\$ 2,422,670	\$ 2,004,380	\$ 1,645,758
<p>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.</p>			

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

For the year ended June 30, 2019, the City recognized pension expense of \$295,866. 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	\$ 63,500	\$ 0
Differences in Assumptions	0	0
Excess (Deficit) Investment Returns	127,090	0
Contributions Subsequent to 12/31/18*	116,736	0
Total	\$ 307,326	\$ 0

*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 June 30, 2020.

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

Year ended:	2019	70,671
	2020	20,439
	2021	36,881
	2022	62,599
	Thereafter	0

Payables to the Municipal Employees Retirement System (MERS) of Michigan Plan

At year end the City is current on all required pension plan payments and amounts payable to the plan were \$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 10 active and 5 terminated members.

City of Ithaca
Notes to the Financial Statements
June 30, 2019

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 participants 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 or at age 55 whichever occurs first.

During the year, the actual contributions to the plan (reduced by forfeitures of \$0) amounted to \$55,132, which includes \$30,072 of employer contributions, and \$25,060 of employee contributions. The outstanding liability to the plan at year-end was \$989.

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	207,759
Capital asset being depreciated, net	1,965,394
Net investment in capital assets	2,173,153

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	43,843
Capital asset being depreciated, net	7,083,571
Capital related general obligation bonds	(3,300,000)
Unamortized premium/discount on bond refunding	(209,908)
Net investment in capital assets	3,617,506

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	37,855	194,914
Major Street	15,283	73,336
Local Street	120,211	-
Fire Operating	76,759	15,000
First Responder	37,958	2,000
Economic Development	108,146	-
Caldwell Memorial	-	112,746
Fire and Rescue Sinking	17,000	5,062
Grant Projects	-	2,469
Cemetery Perpetual Care	-	6,175
Downtown Development Authority	10,000	11,510
Total Interfund Transfers	423,212	423,212

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. Funds were also transferred from the Cemetery Sinking Fund to the Cemetery Operating for daily operating expenses of the cemetery.

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 Sinking fund were transferred to the Fire Fund for the purchase of equipment through memorial donations made to the City and designated for department use. These purchases had the support of the City Council and were supported with a budget amendment,

Additional projects were the reason for additional intrafund transfers. The new construction of the sidewalk on the south side of Center Street was the reason for the transfer of Caldwell Memorial Fund to the Economic Development Fund. The completion of this sidewalk will enhance economic development along the core of the business district and make it safer for pedestrians to shop and travel to these businesses. Funds were also transferred back to the General Fund from the Grant Fund for final reimbursement for the year old MSHDA grant work.

NOTE 11 - TAX ABATEMENTS

The City of Ithaca has five Industrial Parks districts, two of which are Michigan Certified Industrial Parks and one Agricultural Industrial Park which were 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 and commercial economic vitality and rehabilitation of older downtown buildings, the City offers tax abatements under Michigan law. To have an abatement awarded,

City of Ithaca
Notes to the Financial Statements
June 30, 2019

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 for the abatement. 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 and under Public Act 376 of 1996 for Renaissance Zones.

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 is notified, via the approving Resolution, and has the final approval as to if the abatement is allowed. As discussed in the Management Discussion & Analysis, Zeeland Farm Services received an agricultural Renaissance Zone abatement as part of the development package from the State of Michigan.

In 2018, the City of Ithaca had eight companies receiving IFT abatements and one company receiving a Renaissance Zone abatement. 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 \$134,537.28. Information on individual abatements is available from the City's Treasurer.

CITY OF ITHACA ASSESSORS WARRANT - SUMMER 2018 - IFT'S - POST 1994						
TAXING UNIT	TOTAL TAXABLE VALUE	TAXABLE VALUE w/o Abatement	MILLAGE RATE	TAXES LEVIED 2018 TAX ROLL	TAXES IF NOT ABATED	AMOUNT OF LOSS DUE TO ABATEMENT
Post 1994						
CITY OPERATING	\$2,402,600		6.98460	\$16,781.12	\$33,562.24	(\$16,781.12)
WATER/SEWER DEBT	\$2,402,600		1.50000	\$3,603.90	\$7,207.80	(\$3,603.90)
EMERGENCY SERVICES	\$2,402,600		0.75000	\$1,801.91	\$3,603.82	(\$1,801.91)
CITY SIDEWALKS	\$2,402,600		0.50000	\$1,201.30	\$2,402.60	(\$1,201.30)
ADMIN FEE				\$348.14	\$696.28	(\$348.14)
TOTAL 2018 SUMMER TAX COLLECTION FOR IFT'S - POST 1994				\$23,736.37	\$47,472.74	(\$23,736.37)
IFT Rehab						
CITY OPERATING	\$43,500	\$179,600	13.96920	\$607.66	\$2,508.87	(\$1,901.21)
WATER/SEWER DEBT	\$43,500	\$179,600	3.00000	\$130.50	\$538.80	(\$408.30)
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)
ADMIN FEE				\$13.48	\$34.97	(\$21.49)
Total 2018 SUMMER TAX COLLECTION FOR IFT REHAB				\$860.39	\$3,531.64	(\$2,649.76)
Renaissance Zone						
CITY OPERATING	\$0	\$6,991,386	13.96920	\$0.00	\$97,664.07	(\$97,664.07)
WATER/SEWER DEBT	\$6,991,386	\$6,991,386	3.00000	\$20,974.16	\$20,974.16	\$0.00
EMERGENCY SERVICES	\$0	\$6,991,386	1.50000	\$0.00	\$10,487.08	(\$10,487.08)
CITY SIDEWALKS	\$0	\$6,991,386	1.00000	\$0.00	\$6,991.39	(\$6,991.39)
ADMIN FEE				\$209.71	\$1,361.17	(\$1,151.46)
TOTAL 2018 SUMMER TAX COLLECTION FOR REN ZONE				\$21,183.87	\$137,477.86	(\$108,151.15)
TOTAL 2018 SPECIAL ACTS SUMMER TAX COLLECTION				\$45,780.63	\$188,482.23	(\$134,537.28)

REQUIRED SUPPLEMENTARY INFORMATION



City of Ithaca
 Budgetary Comparison Schedule - General Fund
 For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes and penalties	\$ 1,068,557	\$ 1,062,761	\$ 1,062,020	\$ (741)
Licenses and permits	12,500	12,745	13,442	697
State grants	364,361	364,361	400,771	36,410
Charges for services	19,000	26,900	29,458	2,558
Fines and forfeits	100	100	215	115
Interest and rentals	73,820	73,313	75,492	2,179
Other revenues	55,110	217,260	176,984	(40,276)
Total revenues	<u>1,593,448</u>	<u>1,757,440</u>	<u>1,758,382</u>	<u>942</u>
Expenditures				
General government	636,813	510,495	480,055	30,440
Public safety	465,089	465,767	464,612	1,155
Public works	327,470	225,914	227,582	(1,668)
Community and economic development	4,800	4,800	3,882	918
Recreation and cultural	127,213	123,213	90,894	32,319
Other expenditures	252,984	300,984	300,493	491
Total expenditures	<u>1,814,369</u>	<u>1,631,173</u>	<u>1,567,518</u>	<u>63,655</u>
Excess of revenues over (under) expenditures	(220,921)	126,267	190,864	64,597
Other financing sources (uses)				
Transfers in	184,685	37,145	36,345	(800)
Transfers in - component unit	1,510	1,510	1,510	-
Transfers out	201,455	(201,455)	(194,914)	6,541
Total other financing sources (uses)	<u>387,650</u>	<u>(162,800)</u>	<u>(157,059)</u>	<u>5,741</u>
Net change in fund balance	166,729	(36,533)	33,805	70,338
Fund balance, beginning of year	<u>981,485</u>	<u>981,485</u>	<u>981,485</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,148,214</u>	<u>\$ 944,952</u>	<u>\$ 1,015,290</u>	<u>\$ 70,338</u>

City of Ithaca
 Budgetary Comparison Schedule - Major Street Fund
 For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State grants	\$ 319,304	\$ 319,304	\$ 332,385	\$ 13,081
Interest and rentals	15,000	15,000	6,825	(8,175)
Other revenues	500	500	922	422
Total revenues	<u>334,804</u>	<u>334,804</u>	<u>340,132</u>	<u>5,328</u>
Expenditures				
Public works	<u>182,623</u>	<u>148,745</u>	<u>107,280</u>	<u>41,465</u>
Excess of revenues over (under) expenditures	152,181	186,059	232,852	46,793
Other financing sources (uses)				
Transfers in	15,625	15,625	15,283	(342)
Transfers out	(73,336)	(73,336)	(73,336)	-
Total other financing sources (uses)	<u>(57,711)</u>	<u>(57,711)</u>	<u>(58,053)</u>	<u>(342)</u>
Net change in fund balance	94,470	128,348	174,799	46,451
Fund balance, beginning of year	<u>360,806</u>	<u>360,806</u>	<u>360,806</u>	<u>-</u>
Fund balance, end of year	<u>\$ 455,276</u>	<u>\$ 489,154</u>	<u>\$ 535,605</u>	<u>\$ 46,451</u>

City of Ithaca
 Budgetary Comparison Schedule - Local Street Fund
 For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State grants	\$ 106,031	\$ 153,190	\$ 156,737	\$ 3,547
Interest and rentals	700	3,200	3,399	199
Other revenues	-	-	-	-
Total revenues	<u>106,731</u>	<u>156,390</u>	<u>160,136</u>	<u>3,746</u>
Expenditures				
Public works	<u>186,885</u>	<u>152,650</u>	<u>116,749</u>	<u>35,901</u>
Excess of revenues over (under) expenditures	(80,154)	3,740	43,387	39,647
Other financing sources (uses)				
Transfers in	<u>120,211</u>	<u>120,211</u>	<u>120,211</u>	<u>-</u>
Net change in fund balance	40,057	123,951	163,598	39,647
Fund balance, beginning of year	<u>193,428</u>	<u>193,428</u>	<u>193,428</u>	<u>-</u>
Fund balance, end of year	<u>\$ 233,485</u>	<u>\$ 317,379</u>	<u>\$ 357,026</u>	<u>\$ 39,647</u>

City of Ithaca
 Budgetary Comparison Schedule - Library Fund
 For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes and penalties	\$ 125,000	\$ 146,240	\$ 146,241	\$ 1
State grants	5,000	6,242	6,242	-
Charges for services	3,500	3,500	3,876	376
Fines and forfeits	61,600	61,600	61,508	(92)
Interest and rentals	2,500	8,700	8,753	53
Other revenues	4,250	5,025	4,546	(479)
Total revenues	<u>201,850</u>	<u>231,307</u>	<u>231,166</u>	<u>(141)</u>
Expenditures				
Recreation and cultural	<u>176,050</u>	<u>193,345</u>	<u>174,557</u>	<u>18,788</u>
Excess of revenues over (under) expenditures	25,800	37,962	56,609	18,647
Fund balance, beginning of year	<u>246,678</u>	<u>246,678</u>	<u>246,678</u>	<u>-</u>
Fund balance, end of year	<u>\$ 272,478</u>	<u>\$ 284,640</u>	<u>\$ 303,287</u>	<u>\$ 18,647</u>

City of Ithaca
 Budgetary Comparison Schedule - Grant Projects Fund
 For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State grants	\$ 62,000	\$ 316,200	\$ 316,810	\$ 610
Interest and rentals	-	145	141	(4)
Total revenues	<u>62,000</u>	<u>316,345</u>	<u>316,951</u>	<u>606</u>
Expenditures				
General government	<u>62,000</u>	<u>321,385</u>	<u>286,394</u>	<u>34,991</u>
Excess of revenues over (under) expenditures	-	(5,040)	30,557	35,597
Other financing sources (uses)				
Transfers out	-	(2,469)	(2,469)	-
Total other financing sources (uses)	<u>-</u>	<u>(2,469)</u>	<u>(2,469)</u>	<u>-</u>
Net change in fund balance	-	(7,509)	28,088	35,597
Fund balance, beginning of year	<u>53,700</u>	<u>53,700</u>	<u>53,700</u>	<u>-</u>
Fund balance, end of year	<u>\$ 53,700</u>	<u>\$ 46,191</u>	<u>\$ 81,788</u>	<u>\$ 35,597</u>

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

	Plan years ending				
	2018	2017	2016	2015	2014
Total Pension Liability					
Service Cost	20,002	19,110	23,731	22,158	22,097
Interest	346,137	351,659	348,062	335,619	334,991
Changes of Benefit Terms	-	-	-	-	-
Difference between expected & actual experience	63,500	(45,573)	45,090	56,022	-
Changes of assumptions	-	-	-	225,895	-
Benefit payments including employee refunds	(411,527)	(377,801)	(361,416)	(354,212)	(344,820)
Other	(1)	(2)	(2)	-	-
Net Change in Total Pension Liability	18,111	(52,607)	55,465	285,482	12,268
Total Pension Liability beginning	4,522,471	4,575,078	4,519,613	4,234,131	4,221,863
Total Pension Liability ending	4,540,582	4,522,471	4,575,078	4,519,613	4,234,131
Plan Fiduciary Net Position					
Contributions-employer	383,952	194,700	169,269	139,944	125,664
Contributions-employee	7,113	8,141	8,896	8,557	9,220
Net Investment income	(100,992)	322,962	269,761	(38,107)	168,684
Benefit payments including employee refunds	(411,527)	(377,801)	(361,416)	(354,212)	(344,820)
Administrative expense	(5,048)	(5,129)	(5,331)	(5,702)	(6,147)
Net Change in Plan Fiduciary Net Position	(126,502)	142,873	81,179	(249,520)	(47,399)
Plan Fiduciary Net Position beginning	2,662,704	2,519,831	2,438,652	2,688,172	2,735,571
Plan Fiduciary Net Position ending	2,536,202	2,662,704	2,519,831	2,438,652	2,688,172
Employer Net Pension Liability	2,004,380	1,859,767	2,055,247	2,080,961	1,545,959
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	56%	59%	55%	54%	63%
Covered Employee Payroll (from GASB 68 actuarial page)	151,337	144,643	189,274	182,060	181,796
Employer's Net Pension Liability as a percentage of covered employee payroll	1324%	1286%	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 6-30-2015. 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 the actuarial assumptions and methods based on the 2015 Experience Study are phased-in over a 5-year period. This valuation reflects the fourth year of the phase in. (This information can be found in the actuarial valuation section titled: "Plan Provisions, 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

	Fiscal years ending									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarial Determined Contributions	222,828	184,356	149,790	132,972	112,824	97,398	87,930	81,672	73,728	72,425
Contributions in relation to the actuarially determined contribution	383,472	194,700	154,968	144,612	135,276	117,045	97,626	89,424	89,664	83,976
Contribution deficiency (excess)	<u>(160,644)</u>	<u>(10,344)</u>	<u>(5,178)</u>	<u>(11,640)</u>	<u>(22,452)</u>	<u>(19,647)</u>	<u>(9,696)</u>	<u>(7,752)</u>	<u>(15,936)</u>	<u>(11,551)</u>
Covered Employee Payroll	151,337	144,643	189,274	182,060	181,796	223,500	357,005	395,101	378,223	440,723
Contributions as a Percentage of Covered Employee Payroll	253%	135%	82%	79%	74%	52%	27%	23%	24%	19%

Notes to Schedule of Contributions

Valuation Date

December 31, 2018

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	Flat Valuation of Annual Payroll, Closed
Remaining amortization period	10 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 five year smoothed asset valuation method was used for the time period of 2014 through 2018

Salary increases were expected to be 2.5% 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.

Note that these are employer contributions not employee contributions.

OTHER SUPPLEMENTARY INFORMATION



City of Ithaca
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2019

	SPECIAL REVENUE FUNDS							Permanent Fund	Totals
	Economic Development	Caldwell Memorial	Gibbs Memorial	Cemetery Sinking	Fire & Rescue Sinking	First Responder	Fire Operating	Cemetery Perpetual Care	
Assets									
Cash and cash equivalents	\$ 30,691	\$ 107,774	\$ 113,619	\$ 8,531	\$ 113,363	\$ 127,409	\$ 125,671	\$ 30,814	\$ 657,872
Investments	-	-	134,412	-	-	-	-	-	134,412
Note receivable	68,279	-	-	-	-	-	-	-	68,279
Total assets	\$ 98,970	\$ 107,774	\$ 248,031	\$ 8,531	\$ 113,363	\$ 127,409	\$ 125,671	\$ 30,814	\$ 860,563
Liabilities									
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,123	\$ 13,049	\$ -	\$ 14,172
Accrued liabilities	-	-	-	-	-	10,405	22,822	-	33,227
Unearned revenue	68,279	-	-	-	-	-	-	-	68,279
Total liabilities	68,279	-	-	-	-	11,528	35,871	-	115,678
Fund balance									
Restricted	30,691	107,774	248,031	8,531	113,363	115,881	89,800	30,814	744,885
Total fund balance	30,691	107,774	248,031	8,531	113,363	115,881	89,800	30,814	744,885
Total liabilities and fund balance	\$ 98,970	\$ 107,774	\$ 248,031	\$ 8,531	\$ 113,363	\$ 127,409	\$ 125,671	\$ 30,814	\$ 860,563

City of Ithaca
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2019

	SPECIAL REVENUE FUNDS							Permanent Fund	Totals
	Economic Development	Caldwell Memorial	Gibbs Memorial	Cemetery Sinking	Fire & Rescue Sinking	First Responder	Fire Operating	Cemetery Perpetual Care	
Revenues									
State grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,167	\$ -	\$ 4,167
Charges for services	-	-	-	6,840	-	38,949	121,752	360	167,901
Interest and rentals	296	277	3,843	90	813	1,042	1,052	236	7,649
Other revenues	8,138	-	-	-	1,645	278	6,899	-	16,960
Total revenues	8,434	277	3,843	6,930	2,458	40,269	133,870	596	196,677
Expenditures									
General government	-	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	73,257	177,140	-	250,397
Community and economic development	117,563	-	-	-	-	-	-	-	117,563
Total expenditures	117,563	-	-	-	-	73,257	177,140	-	367,960
Excess of revenues over (under) expenditures	(109,129)	277	3,843	6,930	2,458	(32,988)	(43,270)	596	(171,283)
Other financing sources (uses)									
Transfers in	108,146	-	-	-	17,000	37,958	76,759	-	239,863
Transfers out	-	(112,746)	-	(6,175)	(5,062)	(2,000)	(15,000)	-	(140,983)
Total other financing sources (uses)	108,146	(112,746)	-	(6,175)	11,938	35,958	61,759	-	98,880
Net change in fund balances	(983)	(112,469)	3,843	755	14,396	2,970	18,489	596	(72,403)
Fund balance, beginning of year	31,674	220,243	244,188	7,776	98,967	112,911	71,311	30,218	817,288
Fund balance, end of year	\$ 30,691	\$ 107,774	\$ 248,031	\$ 8,531	\$ 113,363	\$ 115,881	\$ 89,800	\$ 30,814	\$ 744,885



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

To the City Council
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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 26, 2019.

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.

A handwritten signature in black ink that reads "Roslund, Prestage & Company, P.C." in a cursive script.

Roslund, Prestage & Company, P.C.
Certified Public Accountants
November 26, 2019