City of Ithaca
Ithaca, Michigan

Financial Statements
June 30, 2018

RPC
Roslund Prestage & Company
Certified Public Accountants

City of Ithaca
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June 30, 2018

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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, 2018, 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, 2018, 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 12, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Sincerely,

Roslund, Prestage & Company, P.C.

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

November 12, 2018

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, 2018. 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.

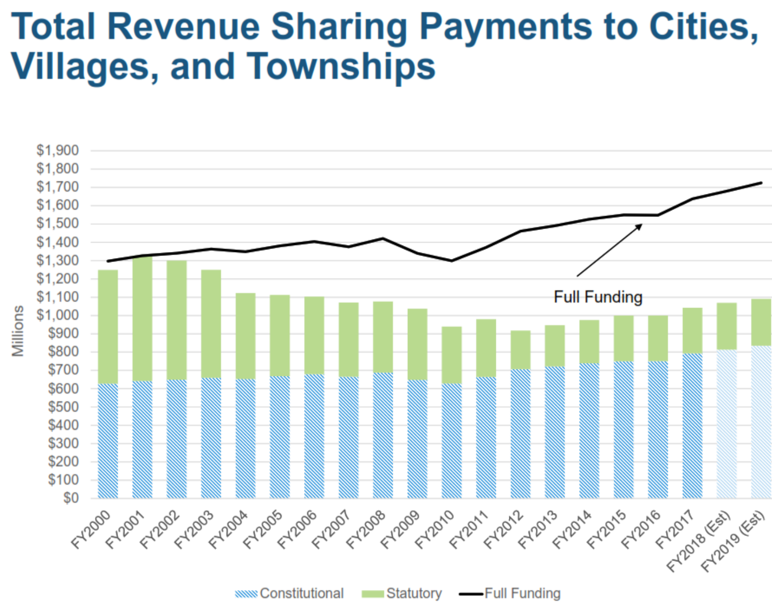
This annual financial report is presented in conformity with the requirements of GASB (Governmental Accounting Standards Board) Statement No. 34. GASB is the source of generally accepted accounting principles (GAAP) used by state and local governments in the United States. As with most of the entities 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, 2018, the net position of the primary government totaled $10,359,551. The unrestricted portion of this amount, $2,807,881, 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 $1,075,596. This resulted from an increase in net position of the governmental activities of $280,140 and an increase in net position of business activities by $795,456. The increase in business activities stems from increased water and sewer rates to meet future capital projects and the development agreement for new infrastructure for a public-private partnership for a new soybean processing facility, of which some expenses were incurred in the prior year. The increase in governmental activities derives from increasing values of capital assets, postponement of City Hall renovations and efficiency upgrades, increased road funding from the State of Michigan, increased revenue from the Library property tax millage and continued consolidation of services with other governmental entities. This increase was reduced by the GASB 68 required pension liability reporting (which is discussed in detail in the *Notes to Financial Statements*).

- The State of Michigan provides the City with State Revenue Sharing (SRS), which is calculated by two separate methods. In 2009, the *Statutory* SRS for local and county governments was converted from an entitlement model to a performance-based model, called "Economic Vitality Incentive Payments" (EVIP). Under EVIP, communities 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. Ithaca has been successful in complying with all of the criteria, thus maximizing funding for this portion of the program.



Constitutional SRS continues to be an entitlement model based primarily on State sales and Use Tax receipts. 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. As seen in the graphic at right, the State has not fully funded SRS since 2001, all while balancing its own budget on the backs of local municipalities. In that way, our 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.

- The City continues to conservatively budget its SRS revenues in an effort to maintain stable service levels in the event future cuts and 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 not only ensure that this cost is covered, but are working toward increasing the funded level, yet not jeopardizing the services and level of services offered to our residents.

- The State's Constitution and amendments thereto severely restrict the growth of the value of properties for property tax purposes. As seen in the graphic on the next page, the artificial "taxable value" of properties in Ithaca peaked in 2009 at $90,022,668; this was before the effects of the Great National Recession were reflected in property values. The following year in 2010, taxable values plummeted to $73,695,731, a decrease of 18%. It dropped another $12 million in 2014 and has been gradually rising since that time, arriving at $68,481,300 in 2018.

  As shown on the graphic, due to the Proposal A cap on taxable values, in 2018 the City was unable to collect property tax revenues of $190,015 due to the gap between taxable and assessed values. Under Proposal A, taxable value can only increase by the rate of inflation, or 5%, whichever is less. Therefore, without any new construction, it is projected that it will take another 15+ years at the average increases between 2014 and 2018 to reach the highest taxable value seen in 2009.

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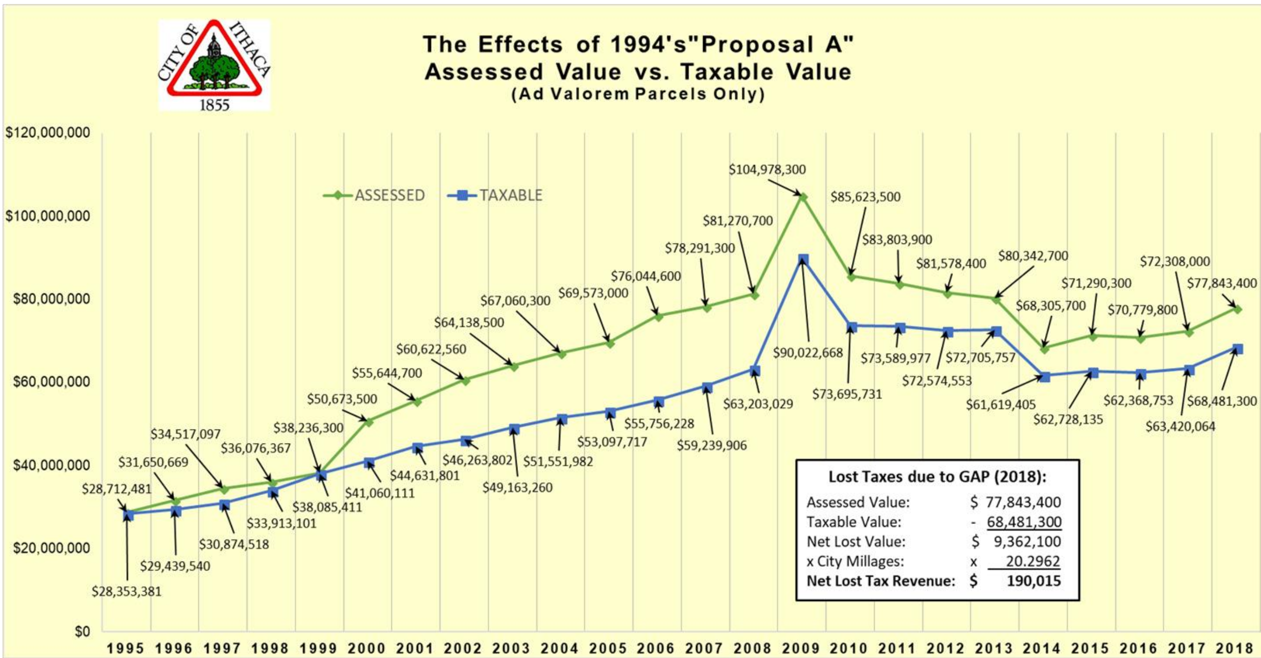


- The next significant revenue source that is decreasing is the Personal Property Tax (PPT). State statutes adopted in 2015 eliminated the PPT through 2018. The PPT has already been eliminated for any business with a cash value of personal property totaling $80,000 or less ($40,000 taxable value.) The PPT receipts are being replaced only partially by a state-initiated statewide essential services assessment (ESA) on industrial properties in the State. The ESA is replacing this lost revenue with that portion of PPT that was used locally *only* for emergency services funding (i.e. police, fire, rescue and EMS.) Again, the City budgets for these revenues conservatively in order to provide a secure level of funding for the services provided to the City's residents, taxpayers, businesses and industries.

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

  The City's assessment roll for 2017 (values as of 12/31/2016) included 13 properties that were exempt from property tax collections under the Act. The combined taxable value of those 13 parcels was $521,380. This resulted in a loss of property taxes to just the City of approximately $10,567, which was based on the combined millages (20.2692 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 significant 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. In this way, those veterans who do not own a home can also benefit from the program and the revenue loss is to the State who created the program, not at the expense of local governments.

- As of June 30, 2018, the City's governmental funds reported combined ending fund balances of $2,653,385. This is a net increase of $101,159 from the prior year. This increase resulted from a combination of responsible spending, consolidation of services with neighboring governments, successful grant writing, increase in the Library millage fund and the release of additional road funds from the State of Michigan. Of the total fund balance for governmental funds, $981,485 is available for spending at the City's discretion (unassigned fund balance) and $1,671,900 is constrained for specific purposes by constitutional provision or enabling legislation (restricted fund balance.)

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

- In November 2006, City electors passed a millage for the issuance of Unlimited Tax General Obligation (UTGO) Bonds in the amount of $4.1 million for improvements to the City's water supply and sanitary sewage collection and disposal systems. Included with the improvements were the purchase of a new sewer vactor truck; two new sanitary lift stations; watermain upgrades throughout the 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 lagging property tax revenues from the Great Recession, and increasing principal payments on the bonds, the millage rate was increased in 2013 to 3.20 mills and again in 2014 to 4.00 mills to cover the debt payment and remained the same in 2015.

  In April 2016, the City refinanced the remaining bond principal of $3.6 million due to historically low interest rates and a recovering national economy. This time, the UTGO Refunding Bonds received a rating of "A1" from Moody's, without regard to municipal bond insurance. Standard & Poor's Credit Market Services assigned a rating of "AA" to this issue with the understanding that bond insurance would be issued by AGM (Assured Guarantee Municipal Corp.) concurrently with the delivery of the bonds. Reductions in interest rates down to between 2.000% and 4.000% resulted in an interest savings of approximately $500,000 over the remaining life of the bonds (final maturity of 4/1/2037). This allowed the City to reduce the 2016 debt property tax millage to 3.80 mills; without the refinancing, the millage would likely have been set at 4.25 mills, which is the maximum millage rate allowed under the voter-approved bonds. With increasing principal payments and flat property tax values it is likely the City would have had to supplement the millage revenues with other funds in order to make future bond payments. 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 to lower it to 3.000 mills for the upcoming 2018 tax year.

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

Based on the City's current taxable values, the new millage generates approximately $62,000 per year for sidewalk work in one of the six designated zones. In early 2016, the City awarded the bid for sidewalk work in Zone 1, which was completed. Zone 2 work, as previously anticipated, began in September of 2017 was completed with use of the second year of millage receipts. The third year for this millage is being applied to Zone 4 of the program with work being performed in late summer/early fall of 2018. 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 <u>Capital Improvement Plan (CIP)</u> 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 FY 17/18 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. <u>An adopted and well-maintained CIP offers the following benefits</u>:

  - 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 2017-2018 and their status.

2017-18 Capital Projects & Status			
Dept.	**Project**	**Est. Cost**	**Funding Source**
DPW	Scraper Dump Truck (Replace #11)	$ 145,000 Postponed	Equip. Replacement Fund
DPW	72" ZTR Mower (Annual Replace 1 of 2)	$ 4,400 Purchased	Equip. Replacement Fund
DPW	Sidewalk Replacement Zone #2	$ 64,200 Completed	Sidewalk Millage
DPW	ZFS Water/Sewer Line Extensions & Sewer Pump Station (E. side of US-127)	$ 700,000 Completed	Zeeland Farm Services Brownfield Authority TIF
DPW	Crush/Repave Maple St. (1,800'L x 20'W) (Emerson St. north to dead-end)	$ 50,000 Completed	Local Street Fund
DPW	Crush/Repave Pine River St. (350'L x 35'W) (South St. to the south side of tracks)	$ 17,500 Spring 2019	Major Street Fund
DPW	Crush/Repave: 1) Library Pkg. Lot; 2) Farmers Market Pkg. Lot; 3) E/W Alley (S. of Center St. from Pine River to Maple St.)	TBD	TBD (MEDC-DT Improvement Grants no longer available)
DPW	Cemetery Water Tower Maint. Contract (1st of 3 Secondary Installments)	$ 17,515 Completed	Water Fund
DPW	S. Industrial Pk. Water Tower Maint. Contract (1st of 3 Secondary Installments)	$ 17,234 Completed	Water Fund
DPW	N Industrial Pk. Water Tower Maint. Contract (1st of 3 Secondary Installments)	$ 21,666 Completed	Water Fund
DPW	Well Maint. Contract Year 2: All 4 Wells	$ 54,234 Completed	Water Fund
DPW	Wireless Water Meter Transmitters (~120)	$ 10,000 Continuing	Water Fund
DPW	Replace Grinder Pumps #1 & #2 @ Palmers Place Grinder Station	$ 5,000 Replaced #1	Sewer Fund
DPW	Replace Lagoon Site Muffin Monster/Grinder	$ 4,000 Completed	Sewer Fund
DPW	Stormwater & Sanitary Collection System Repairs (From 3-year SAW Grant Study)	$ 50,000 In progress	Sewer Fund MDEQ SAW Grant
ADMIN	City Hall Renovations (roof, paint, ceiling tiles, LED lighting [interior & exterior], electronic door access system [C.H., Fire, Comm. Center], remove basement restrooms)	$ 150,000 Postponed to Spring 2019	Gibbs Memorial Fund General Fund

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 had to comply with GASB 77, a new requirement for reporting the amount of tax revenue lost by the City due to corporate tax breaks granted in the name of economic development, or tax abatements as more commonly known. All public entities, including counties, cities and schools affected by the tax abatements are required to report the tax loss. The City's detail for this can be found in the Notes to Financial Statements.

GASB Statement No. 68 Regarding Reporting of Pension Liabilities. In 2015, the City had to comply with GASB 68, a new requirement that changed the way government entities 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.

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

Other information. In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information as required by GASB Statement No. 34 regarding the City's budgetary comparison of the general fund and five 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 <u>good indicator of the City's fiscal health</u>. 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 <u>total net position of the City for FYE June 2018 is $10,359,551</u>. However, $5,879,771 represents its investment in capital assets net of related debt (i.e. land, buildings, furniture & fixtures, equipment, vehicles, water & sewer systems), with 62.4% ($3,669,920) being the water supply and sewage disposal systems' infrastructure. These assets are used to provide services to residents, but are not available for future spending nor can they be liquidated to eliminate their related liabilities.

Of the more liquid assets, $1,671,900 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 $2,807,880 for ongoing obligations to residents and creditors. The total net position for the year increased by $1,075,596 and was discussed earlier in this document.

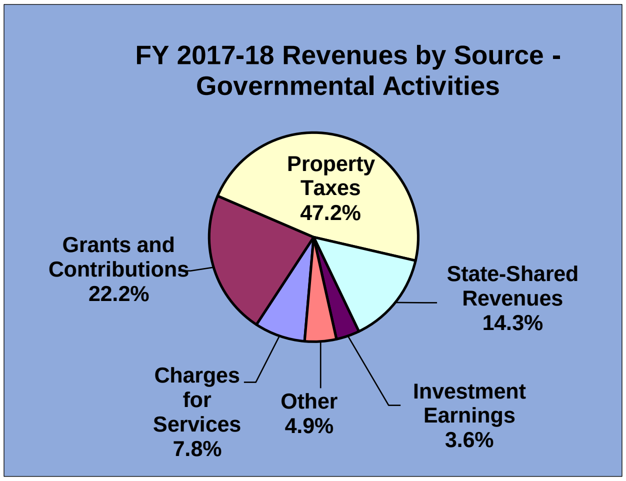
City of Ithaca, Michigan
Statement of Net Position

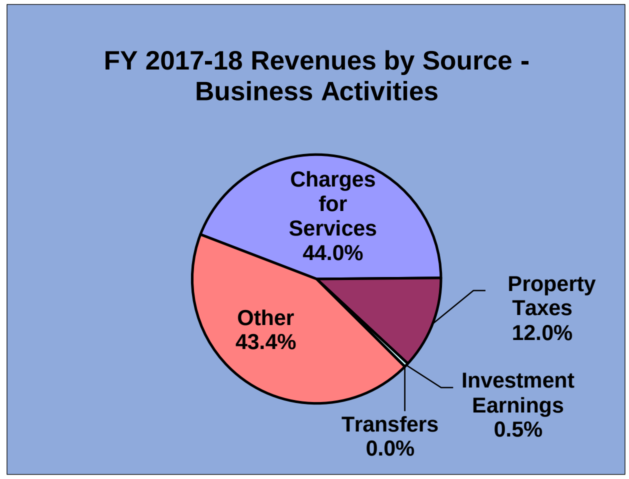
	Governmental Activities			Business-Type Activities			Total	
	2018	2017		2018	2017		2018	2017
Assets:								
Current and Other Assets	4,606,385	4,604,325		2,009,627	1,931,107		6,616,012	6,535,432
Land	214,067	206,279		768,336	133,019		982,403	339,298
Capital Assets (net of deprec.)	1,995,784	1,984,534		6,523,154	6,535,626		8,518,938	8,520,160
Total Assets	**6,816,236**	**6,795,138**		**9,301,117**	**8,599,752**		**16,117,353**	**15,394,890**
Deferred Outflows:								
Deferred outflow-Pension related	136,378	148,449		90,919	98,966		227,297	247,415
Total Deferred Outflows	**136,378**	**148,449**		**90,919**	**98,966**		**227,297**	**247,415**
Liabilities:								
Long-Term Debt	35,138	31,572		3,553,672	3,666,512		3,588,810	3,698,084
Net Pension Liability	1,115,861	1,233,148		743,907	822,099		1,859,768	2,055,247
Other Liabilities	138,890	348,134		245,441	191,115		384,331	539,249
Total Liabilities	**1,150,999**	**1,612,854**		**4,543,020**	**4,679,726**		**5,832,909**	**6,292,580**
Deferred Inflows:								
Deferred inflows-Pension related	91,314	39,462		60,876	26,308		152,190	65,770
Total Deferred Inflows	**91,314**	**39,462**		**60,876**	**26,308**		**152,190**	**65,770**
Net Position:								
Invested in capital assets, net of related debt	2,209,851	2,190,813		3,669,920	2,935,414		5,879,771	5,126,227
Restricted	1,671,900	1,653,161		0	0		1,671,900	1,653,161
Unrestricted	1,689,660	1,447,297		1,118,220	1,057,270		2,807,880	2,504,567
Total Net` Position	**5,571,411**	**5,291,271**		**4,788,140**	**3,992,684**		**10,359,551**	**9,283,955**

City of Ithaca, Michigan Change In Net Position								
	Governmental Activities			Business-Type Activities			Total	
	2018	2017		2018	2017		2018	2017
REVENUES:								
Program Revenues:								
Charges for Services	198,352	202,242		756,607	671,234		954,959	873,476
Grants and Contributions	562,361	563,107		0	0		562,361	563,107
General Revenues:								
Property Taxes	1,192,971	1,128,000		206,951	239.937		1,399,922	1,367,937
State-Shared Revenues	361,384	352,875		0	0		361,384	352,875
Investment Earnings	91,395	78,827		9,375	7,441		100,770	86,268
Transfers	22,677	16,809		0	-5,671		22,677	11,138
Other	100,964	114,508		745,609	78,751		846,573	193,259
Total Revenues	**2,530,104**	**2,456,368**		**1,718,542**	**991,692**		**4,248,646**	**3,448,060**
EXPENSES:								
General Government	431,172	809,789		0	0		431,173	809,789
Public Safety	765,806	749,836		0	0		765,806	749,836
Public Works	589,762	604,817		0	0		589,762	604,817
Rec./Cultural/Econ. Dev.	463,224	283,722		0	0		463,224	283,722
Water and Sewer	0	0		923,085	1,117,386		923,085	1,117,386
Total Expenses	**2,249,964**	**2,448,164**		**923,085**	**1,117,386**		**3,173,050**	**3,565,550**
Change in Net Position	**280,140**	**8,204**		**795,456**	**-125,694**		**1,075,596**	**-117,490**
Net Position – July 1 restated	**5,291,271**	**5,283,745**		**3,992,684**	**4,118,378**		**9,283,955**	**9,402,123**
Prior Period Adjustment	**0**	**-678**		**0**	**0**		**0**	**-678**
Net Position – June 30	**5,571,411**	**5,291,271**		**4,788,140**	**3,992,684**		**10,359,551**	**9,283,955**

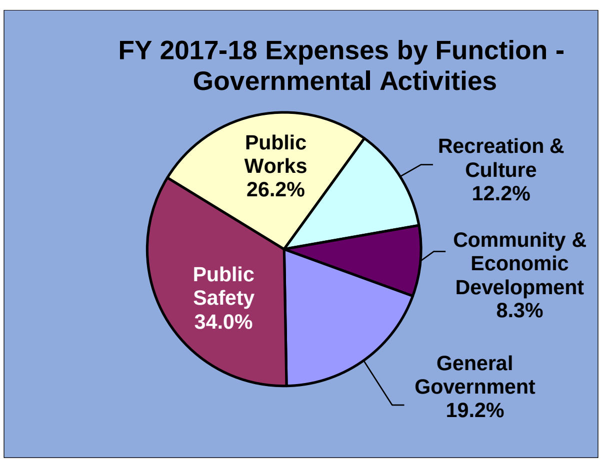
Budgetary Highlights

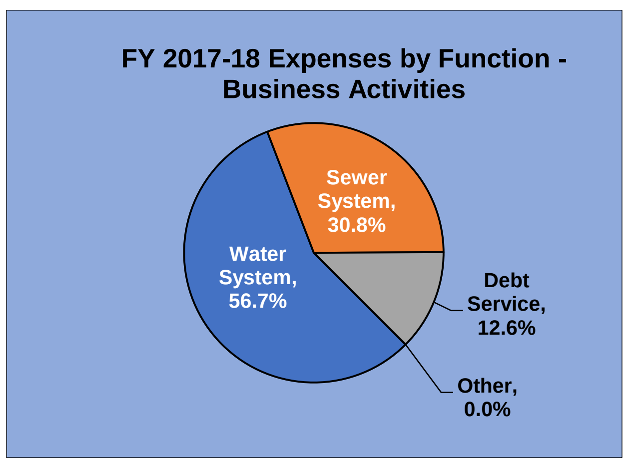
The majority of the City's budget in FY 2017-18 was based on four main revenue sources: *property taxes, charges for utility services, grants & contributions and state-shared revenues*. Ithaca continues to have a conservative fiscal philosophy in being good stewards of the public's money. This philosophy 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 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. Despite these losses, the City weathered two large Michigan Tax Tribunal (MTT) judgments in the past three years and still has a stable fund balance in the General Fund. No further large MTT tax refunds are pending at this time.





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

Ithaca has been very successful in 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 now has a new emphasis and has been replaced by a new Infrastructure Capacity Enhancement (ICE) grant. 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.
- **$198,771** 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. 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).

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 raised for FY 2017-18: both water and sewer rates were increased by 2.5%.

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 maintain the necessary millage for 2017 at 3.8 mills which was reduced in the prior tax year from 4.2 mills. It will be at 3.00 mills in 2018.

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

From Moody's Investors Service: *Cross Sector Outlook*, August 22, 2018: "Global Macroeconomic Update 2018-19 (August 2018 Update); Growth will remain solid in the near term, but early indications suggest it has peaked"

> We see early indications that global growth has peaked. Growth prospects for many of the G-20 economies remain solid, but there are indications that the synchronous acceleration of growth heading into 2018 is now giving way to diverging trends. The near-term global outlook for most advanced economies is broadly resilient, in contrast to the weakening of some developing economies in the face of emerging headwinds from rising US trade protectionism, tightening external liquidity conditions and elevated oil prices. We expect the G-20 countries to grow 3.3% in 2018 and 3.1% in 2019. The advanced economies will grow 2.3% in 2018 and 2.0% in 2019, while G-20 emerging markets will remain the growth drivers, at 5.1% in both 2018 and 2019 (see table below.)
>
> US trade tensions with China will worsen this year, weighing on global growth in 2019. Our base case now assumes that the U.S. administration will go forward with some of the proposed additional restrictions on imports from China. Further tariffs, similar in magnitude to the newly proposed 25% U.S. tariffs on $200 billion of imports from China and 25% U.S. tariffs on all auto and auto part imports, represent a disruptive downside risk to our baseline forecasts.
>
> Elevated oil prices, mounting trade tensions and tightening of financial conditions already weigh on economic activity in many major emerging market countries. External headwinds constrain near-term economic prospects in Turkey, Argentina and Brazil. In contrast, for India and Indonesia, robust domestic growth drivers and a buildup of financial buffers in recent years have conferred a degree of stability amid external headwinds. Overall, emerging market countries remain inherently vulnerable to the risk of capital outflows associated with tightening global liquidity as advanced economy central banks reverse their quantitative easing measures. Escalating trade frictions further add to overall uncertainty. Those with weak fundamentals and relatively shallow, but open, capital markets are particularly vulnerable.

Global Macroeconomic Outlook for G-20 Countries
2018 – 2019 (Aug. 2018 Update)

Indicators	Real GDP Growth %				Inflation % Change (Dec.-Dec.)					Unemployment Rate %			
Countries	2016	2017	2018	2019	Current Target	2016	2017	2018	2019	2016	2017	2018	2019
United States	1.5	2.3	2.9	2.3	2.0%	2.1	2.1	2.3	2.1	4.9	4.4	4.0	4.0
G-20 Advanced	1.5	2.2	2.3	2.0									
G-20 Emerging	4.4	5.3	5.1	5.1									
G-20 All	**2.5**	**3.3**	**3.3**	**3.1**									

- G-20 Advanced Countries Include: U.S., Euro Area, Japan, Germany, U.K., France, Italy, Canada, Australia & South Korea (Euro Area forecast includes 19 countries; most prominent are: Belgium, Denmark, Germany, Greece, Italy, Netherlands, Portugal & Spain)
- G-20 Emerging Countries Include: China, India, Brazil, Russia, Mexico, Indonesia, Turkey, Saudi Arabia, Argentina & South Africa
- Source: Moody's Investors Service: Cross Sector Outlook, August 22, 2018: "Global Macroeconomic Update 2018-19 (August 2018 Update); Growth will remain solid in the near term, but early indications suggest it has peaked"

National Economic Forecast

The U.S. Economic Outlook for 2018–2020; Executive Summary: September 2018
From Research Seminar in Quantitative Economics (RSQE), University of Michigan

Spring Blip. At 4.2%, the seasonally adjusted annualized real GDP (Gross Domestic Product) growth rate in 2018q2 was the strongest in nearly four years. The economy benefited from a pickup in consumption expenditure growth, net exports, and business fixed investment. However, we expect a moderation in these sectors' contributions to GDP growth going forward.

Personal consumption rebounded from weak growth in 2018q1, which was held down by slower spending on vehicles and clothing. Exports jumped, likely due to businesses trying to move as many goods as possible before tariffs on U.S. exports kicked in. Business fixed investment likely benefited from the provision for 100%-expensing of new equipment in the Tax Cuts and Jobs Act and from strong investment in oil and gas exploration. The effect of expensing incentives is likely to wane over time, while recent data suggest that another boost to oil exploration investment is unlikely.

On the other hand, the ramp-up in federal government expenditures is only just starting, following a fiscal stimulus unusual this far into an economic expansion. Federal spending contributed two-tenths of a percentage point to GDP growth in 2018q2, and is likely to add substantially more over the next couple of quarters.

We expect GDP growth to moderate relative to its 2018q2 reading going forward, but to remain solid in the near term.

Wage Growth Here to Stay. Nonfarm payroll employment has increased by 207,000 jobs per month on average so far in 2018. The unemployment rate since April has hovered around its lowest level since the year 2000. Wage growth, the long-missing ingredient for an economy at full employment, finally appears to be accelerating. The year-over-year growth of private sector employees' hourly earnings was the strongest in this business expansion, at 2.9% in August.

Along with the tightening labor market and improving economy, PCE (Personal Consumption Expenditures) price index and CPI (Consumer Price Index) inflation rates have been picking up in 2018 so far. The latest reading of annualized inflation in the PCE deflator was 2.3% in July. We expect PCE inflation to stay near the Fed's medium-run target of 2% percent for the duration of our forecast.

Open-Shut-Open-Shut… Government shutdowns are unpopular and risky, especially in an election year. For fiscal 2019, the House and Senate are working on passing "minibus" bills that each include multiple spending bills to keep the government open beyond the September 30 funding deadline.

Congress has a limited number of working days before the fiscal year ends. To avoid contentious battles before midterm elections, we expect Congress to continue its practice of passing a continuing resolution that will temporarily fund the government at existing levels.

Corporate tax receipts fell by $115 billion and personal tax receipts fell by $49 billion in the first quarter of this year. We project federal current receipts to decline by 2.1% in federal fiscal 2018. With growth in expenditures far outpacing growth in receipts, the federal government deficit steadily worsens from 3.4% of GDP in 2017 to 5.5% of GDP in 2020.

Trade War Alert Level: RED. The trade war between the United States and China has escalated in recent months. Following failed attempts to negotiate a truce, the United States announced a 25% tariff on $50 billion worth of Chinese imports at the end of May, which came into effect in two installments in July and August. The Trump administration just announced a 10% tariff on an additional $200 billion worth of Chinese imports, to be raised to 25% at the end of the year. The most recent tariffs are not included in our forecast. It remains to be seen whether negotiations will happen and whether they will be effective. Any further retaliation by China is constrained by the fact that Chinese imports from the U.S. amount to only one-third of U.S. imports from China in dollar value.

Powell Makes His Mark. The new Federal Reserve Chair, Jerome Powell, announced that he will begin holding a news conference after every FOMC (Federal Open Market Committee) meeting beginning in 2019, removing some self-imposed constraints on policymaking.

The FOMC and markets seem to interpret the state of the economy differently, leading to different expectations about the future path of interest rates. While the FOMC's median expectation of the target range for the federal funds rate is 3.25–3.5% at the end of 2020, the federal fund futures market is pricing in a shallower path through the end of 2020. Of course, inferring investors' expectations from market prices is complicated by time-varying risk and liquidity premia.

It is projected two 25-bps rate increases in the remainder of 2018, followed by three in 2019 and two more in 2020, as PCE deflator inflation is already around the Federal Reserve's 2% target.

The 2018–2020 Outlook. We expect real GDP growth to decelerate from 2.9% in 2018, to 2.8% in 2019, and 2.0% in 2020, as the expansionary effects of fiscal policy fade. Over 2019–2020, consumption and most of the main components of business fixed investment contribute to growth in the economy. The contributions of automotive, residential, and inventory investment, however, are either close to zero or negative. Improvement in the trade balance generated by tariffs on Chinese imports will be short-lived as suppliers adjust their global supply chains. Import growth outpaces growth of exports in 2019–2020, and net exports subtract 0.3–0.4 percentage points from growth.

We anticipate light vehicle sales to edge down from 17 million units in 2018 to 16.9 million units sold in 2019 and 2020. Sales of cars continue to decrease from 6.1 million units in 2017 to 4.0 million in 2020 as the appetite for cars continually falls. Consumers' preference for light trucks continues unabated, with the share of light trucks rising from about 70% of all light vehicle sales in 2018 to over 76% in 2020.

Total housing starts increase from 1.21 million units started in 2017 to 1.27 million in 2018. Starts grow more slowly in 2019–2020, reaching 1.32 million in 2020. Multi-family starts stay essentially flat.

Employment and Inflation. We expect average monthly nonfarm payroll job gains to moderate over our forecast horizon. They decelerate from about 195,000 job additions per month in 2018q3–q4 to 104,000 jobs at the end of 2020. The unemployment rate continues to decline, falling from 3.9% in 2018q2, to 3.4% at the end of 2019, and 3.3% by the end of 2020.

We expect headline CPI inflation to rise to 2.5% in 2018 and then slow down to 2.0–2.1% in 2019–2020. Core CPI inflation rises to 2.1–2.2% in 2018–19, and edges up to 2.3% in 2020. Headline inflation sits higher than core inflation in 2018, but that pattern is expected to reverse in 2019–2020, as oil prices stay essentially flat and food price inflation runs behind core.

U.S. Economic Outlook 2017-19 Executive Summary: September 2018

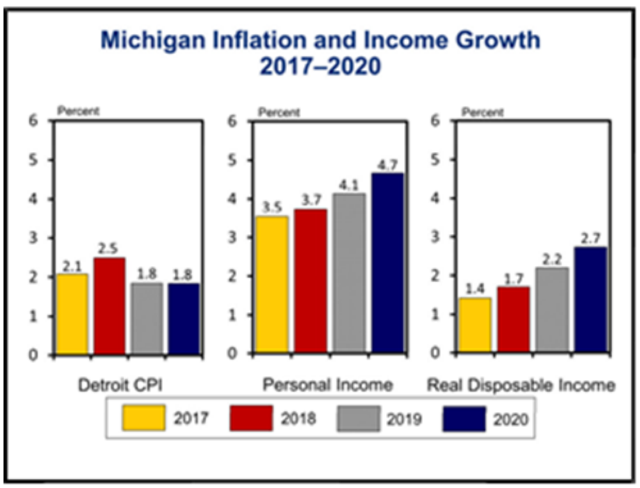
	Actual		**RSQE Forecast**	
	2017	**2018**	**2019**	**2020**
GDP (billions of current $)	19,485.4	20,511.3	21,531.3	22,471.5
Real GDP (billions of chained 2012 $)	16,716.2	17,081.9	17,519.8	17,904.3
% change: year-over-year	2.2	2.9	2.8	2.0
% change: 4th qtr. to 4th qtr.	2.5	3.1	2.5	1.7
Nonfarm payroll employment (millions)	146.6	149.0	151.2	153.0
Civilian unemployment rate (%)	4.4	3.9	3.5	3.3
Capacity utilization, total industry (%)	76.1	77.9	78.2	78.5
Inflation (private nonfarm GPD deflater, % change)	1.9	2.3	2.1	2.3
Inflation (CPI-U, % change)	2.1	2.5	2.0	2.1
Inflation (core CPI, % change)	1.8	2.1	2.2	2.3
Light vehicle sales (millions)	17.1	17.0	16.9	16.9
Private housing starts (thousands)	1,208.2	1,267.8	1,310.4	1,321.7
3-month Treasury bill rate (%)	0.9	1.9	2.6	3.1
10-year Treasury note rate (%)	2.3	2.9	3.3	3.7
30-year fixed Conventional mortgage rate (%)	4.0	4.5	5.0	5.4
Real disposable income (billions of chained 2012 $)	13,949.3	14,349.7	14,815.3	15,275.2
% change	2.6	2.9	3.2	3.1
Corporate profits after taxes (billions of current $)	1,831.2	1,949.9	1,990.8	2,090.6
Value of U.S. $ (FRB broad index), % appreciation	-0.3	0.3	2.9	0.0
Current account balance (NIPA basis, billions of current $)	-472.5	-478.7	-538.5	-593.1
Federal surplus (FY, NIPA basis, billions of current $)	-664.1	-948.1	-1,135.4	-1,213.8

Source: *U.S. Economic Outlook 2018-20; Executive Summary: September 2018*; Research Seminar in Quantitative Economics (RSQE), Univ. of Michigan; 9/21/2018

State of Michigan Economic Forecast

Following are highlights from the most recent *RSQE Michigan* forecast, released on October 5, 2018:

> The pace of job growth in Michigan has cooled recently, from a whopping 24,100 jobs in the first quarter of the year to 9,700 in the second quarter. Based on the data so far, we estimate that the state added 7,600 more jobs in the third quarter. We see the pace in the second and third quarters as the new normal over the next few years. We are forecasting average job gains of about 10,000 jobs per quarter over the period 2018q4–2020q4, an average annualized pace of 0.9%.
>
> Michigan's unemployment rate in August was 4.1%, the lowest since November 2000. We expect Michigan's unemployment rate to average 4.4% this year, inching down to 3.8% by 2020. The strong labor market outweighs the retirements of the baby boomers, leading the labor force participation rate to tick up from 61.4% this year to 61.7% in 2020.
>
> We see professional and business services, leisure and hospitality, private education and health services, and construction leading the way in job growth from 2018 to 2020. The manufacturing and government sectors both lag during that time but manage to eke out modest job gains. The recently proposed U.S.-Mexico-Canada trade agreement is not so different from NAFTA, which should come as a relief to the auto industry.



> As seen in the graphic at left, local (Detroit) CPI inflation is on pace to accelerate from 2.1% last year to 2.5% this year, which would be its briskest pace since 2006 with the exception of 2011. In 2019 and 2020, oil prices stay essentially flat and local inflation backs off, settling in at 1.8% in both years.
>
> Personal income growth moves up progressively throughout the forecast period, from 3.5% in 2017, to 3.7% this year, 4.1% next year, and 4.7% in 2020. Faster wage growth and rising interest rates both contribute to the acceleration of personal income growth.
>
> Real disposable income growth has historically been slower in Michigan than many people realize. It averaged a modest 1.2% per year growth rate over the 20-year period 1998–2017. We see real disposable income growth picking up from 1.4% in 2017 to 1.7% in 2018, supported by more rapid nominal income growth and a decline in federal personal taxes brought about by the federal tax cut. Real income growth moves up to 2.2% in 2019 with the continued strengthening of nominal income growth and moderating local inflation, reaching 2.7% in 2020 as nominal income growth continues to strengthen. That pace would be more than double the average over the past 20 years.

Following are highlights from the most recent House Fiscal Agency's (HFA) *September 2018 Revenue Update Report*, released on October 10, 2018:

Major Taxes. Cash collections from Michigan's major taxes, penalties and interest, and lottery transfers totaled $2,649.6 million in September 2018, $53.4 million more than in September 2017. For the fiscal year-to-date, collections in FY 2017-18 are $1,020.9 million (or 4.8%) higher than during FY 2016-17.

Net income tax revenue totaled $1,033.2 million in September 2018, and for FY 2017-18 collections through September are $662.5 million (or 7.6%) higher than the same period during FY 2016-17. Year-to-date gross income tax collections in FY 2017-18 are $690.0 million higher than one year ago as all three components exceed FY 2016-17 levels. Although the individual components vary somewhat from the consensus estimates, in aggregate both gross and net collections are within 0.6% of the target amounts.

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. On a fiscal year-to-date basis, net business taxes are $44.1 million higher through September 2018 than a year ago, and although MBT collections are $86.5 million ahead of last year, CIT revenue through September 2018 is $72.5 million below last year's collections. However, year-to-date CIT growth is less negative than projected.

Revenue from consumption taxes, which consist of the sales tax, the use tax, beer and wine taxes, liquor taxes, and tobacco taxes, totaled $915.7 million in September 2018, and are collectively $255.1 million higher than in FY 2016-17 on a year-to-date basis. Year-to-date sales tax revenue remains above FY 2016-17 levels, although the individual growth rate is still below the May 2018 consensus projection. In contrast, use tax revenue has already exceeded the consensus estimate. Although liquor tax collections appear to be lagging last year's amounts, it can likely be attributed to timing issues in recording collections as opposed to reflecting a persistent decline.

Revenues from the state education tax (SET) and the real estate transfer tax (RET) in September 2018 were $396.2 million and $43.2 million, respectively. Transfers from the lottery to the School Aid Fund were $85.0 million in September 2018, and are $3.5 million higher than FY 2016-17 on a year-to-date basis.

General Fund/General Purpose (GF/GP) Tax Revenue. General Fund/General Purpose revenue from Michigan's major taxes is estimated[1] to be $1,139.1 million in September 2018, about $87.7 million above the projection established at the May 2018 consensus revenue estimating conference (CREC). Much of the monthly difference can be attributed to strong business tax and individual income tax collections.

Year-to-date GF/GP tax revenue for FY 2017-18 is about $454.0 million above the projected amount on the strength of higher than expected individual income tax, business taxes, and use tax revenues.

School Aid Fund (SAF) Revenue. School Aid Fund revenue from Michigan's major taxes is estimated[1] to be $1,396.0 million in September 2018, about $20.4 million below the amount established at the May 2018 CREC, primarily because of lower than anticipated liquor taxes and SET collections.

Year-to-date SAF revenue for FY 2017-18 is $14.1 million below the consensus revenue projections as lagging lottery transfers, SET collections, and liquor tax revenue more than offset higher than expected use tax revenue.

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

Regional Economic Performance

From *East Central MI Prosperity Region 5 Economic Performance Dashboard*, East MI Council of Governments, September 2018

The Eight-County East Central Michigan Prosperity Region 5 maintains a dashboard that measures progress/changes in several measurable metrics to monitor movement/dynamics relating to the goals, objectives and actions within the regional strategy. The metrics were determined by the PR-5 Strategic Management Team (the Collaborative) during the development of the strategy in 2014. The following is a summary of the dashboard based on the most recent update that was completed for the third quarter of 2018.

Employment. Job growth in the Region accelerated from 2014 to 2016, consistent with national trends, but dropped off a bit in 2017. In 2018 employment is making a recovery to the 2016-2017 levels.

Labor Force. The Region's labor force has gotten smaller since a peak in mid-2010 and has moved up and down since then with growth of over 2,500 people from 2015 to 2016, followed by a decline of nearly 1,000 people in 2017. This decline continued into 2018 with an indication of a growth trend to the 2017 level during the 3rd quarter.

Unemployment Rate. Consistent with job trends and a small labor force growth there was a slightly lower unemployment rate in the Region from 5% in 2017 to 4.9% in 2018. The Region's unemployment rate remains higher than for Michigan and the Nation.

Unemployment Trends. The trend in the unemployment rate has been consistent with the State and National trends since 2010 as the rate of unemployment has been going down. However, as noted above the Region's unemployment rate remains higher than both the State and Nation.

Housing Construction. Residential building permit activity in the Region increased significantly (48%) in 2012-13 and continued to grow until 2016 when permits dropped to the pre-2012 level, including a 38% decline in attached units (multi-family) from 2015 to 2016. In 2017 permits were slightly lower than in 2016 with a continued decline of another 15% in multi-family units from 2016 to 2017. Single-family construction increased slightly in 2017 but remains below the 2012 level.

Mortgage Equity. The number of negative equity rates (i.e., underwater mortgages) has been coming down nationwide and in the Region, yet the percentage of underwater mortgages continues to remain higher for each of the 8 counties than for the Nation.

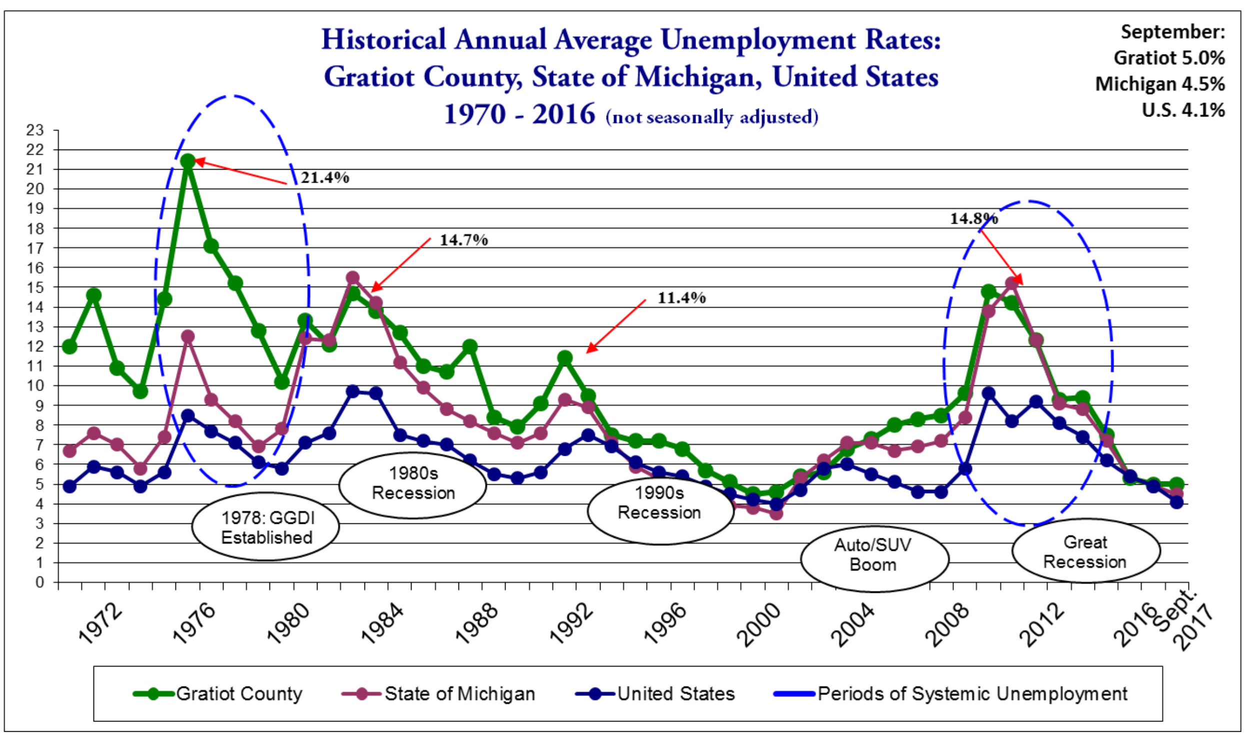
Air Travel. MBS (Flint Bishop) Airport experienced a steady increase in passengers since 2013, the first full year of operation out of its new passenger terminal. However, from April to August of 2017 the number of passengers dropped off significantly compared to the same time period in 2016. For the same period in 2018 passenger traffic is trending much higher than in 2017 with more passengers in the first half of 2018 compared to 2017.

Business Creation. The number of business establishments in the Region has gone up and down since 2013 but the numbers are steadily increasing over the past three years, surpassing the 2010 level even with a slight dip in 2018.

Wages. The Region's wages have been significantly lower than the State and National levels since 2010. The rate of increase in Regional wages is greater than for the State and Nation since 2010, making up a lot of ground. In 2017, the region's wage growth rate was double the State and Nation rates.

Gratiot County Economic Conditions

The economic conditions within the State of Michigan and Gratiot County continue to improve in 2018. The Gratiot County jobless rate in September 2018 (3.6%) is less than the national rate (3.7%) and just a tenth higher that the state rate (3.5%). In 2016, Gratiot County was below both the national and state rates, which has happened only one other time (2002) since 1970. As seen on the graphic below, it has slowly continued to drop from its most recent high of 14.8% in 2010 (following the Great Recession) as industry expands and empty retail spaces are filled. Jobs in the service sector are increasing at a rate far greater than in the industrial or commercial sectors. Gratiot County now ranks 37th out of 83 counties in Michigan for unemployment rates. Mackinac County in the Upper Peninsula is lowest at 2.4% while Montmorency in northeast Michigan is highest at 5.7%.



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

In 2014, the annual average labor force for the County was 18,509 people; 1,314 of those people were unemployed, which resulted in an annual unemployment rate of 7.1%. The most recent data in the table below from September 2018 shows a smaller labor force, a significantly lower number of unemployed, and an unemployment rate down to 3.6%, implying a steady improvement

Gratiot County Employment Data							
	Sept 18*	Aug 18	Sept-17	Change/Month		Change/Year	
				#	%	#	%
Labor Force	17,468	17,274	17,867	+194	+1.2%	-399	-2.2%
Employed	16,839	16,586	16,979	+253	+1.5%	-140	-0.8%
Unemployed	629	688	888	-59	-8.6%	-259	-29.2%
Jobless Rate	3.6%	4.0%	5.0%	-0.4	-10.0%	-1.4	-28.0%

* = Preliminary

Source: MI Dept. of Technology, Management & Budget (DTMB), Bureau of Labor Market Info & Strategic Initiatives, *Employment/Unemployment Statistics Database- LAUS, Gratiot County. 11/8/2018*

in the continued slow recovery from the national Great Recession. An increasingly diversified economic base has lessened the gap between Gratiot County's unemployment situation compared to that of the state and nation over the long term.

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

Ithaca Economic Forecast

The City of Ithaca's diverse economy is stable and is continuing to show signs of improving in 2018. As of June 30, 2018, there were no unoccupied industrial buildings in the City:

- An addition to one industrial building is underway by its new owner in the North Industrial Park, which will double the size of the facility.
- Another new owner is demolishing an obsolete building at Center & Industrial Parkway and will be 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.

Several downtown buildings and storefronts have seen new owners and/or tenants; only four storefronts are vacant:

- Four new restaurants/bars have opened this year in the downtown.
- 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 is purchasing another 3-story building (two storefronts) and will renovate the first-floor commercial level, the exterior façade and create eight new rental units on the upper two floors.
- Another vacant downtown building that burned due to an arsonist fire about three years ago has been cleaned out, partially restored, and is for sale by the owner after lengthy insurance and legal issues were resolved; there is a buyer now interested in the building.

Housing wise, while there have only been two new single-family housing units constructed in the last two years, one new house is currently under construction. 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-acre former ICM property to the east of US-127 and south of Washington Road was sold four years ago to Zeeland Farms Services (ZFS). ICM had plans to construct a corn ethanol production facility, but abandoned those plans after construction had already begun. ZFS has been actively working with the City, Greater Gratiot Development, Inc. (GGDI) and the State MEDC since 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 over this and next year. This could theoretically double the City's current overall taxable value of $61 million.

ZFS estimates it has created approximately 400 construction jobs and will be hiring approximately 74 fulltime employees when the facility begins production in mid-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 could see a $0.10 to $0.25 increase per bushel in the value of their harvested soybeans. Also, the ripple economic effect of 60 new jobs on the local economy will be large for the commercial, housing and agricultural sectors. 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 took action 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. MDOT was the grant applicant for the pathway project, which was constructed over the summer of 2016 at the same time MDOT began a two-year renovation of US-127 in the same area. The $2.2 million pathway project was matched by several local communities by covering the cost of engineering and design; Ithaca's share was $40,000. The $150,000 committed by the area cities and townships, as well as the county and the county park & recreation commission made this an exciting example of a collaborative effort to improve our area for economic vitality, increased tourism and personal health benefits. The ribbon cutting was held in October 2016 at the MDOT rest area about halfway between Ithaca and Alma, where there is a link to the new path.

In 2017, the City contracted to extend the City's sidewalk system east along Center Street to connect with the new pathway project near MDOT's Park & Ride facility just east of the highway. The City paid for the $200k+ project with one of its recreation endowment funds; no public property tax money was used. This new path connector was completed in early November 2017 and offers 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.

This year, the City constructed a new 7-block sidewalk segment along the south side of Center Street, which extended the sidewalk to all of the commercial establishments along Center running all the way to US-127. This is in addition to the ongoing millage-funded annual sidewalk replacement program that is in the 3rd year of its 6-year program. Approximately $62,000 is generated by the one-mill levy each year.

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 July 7, 2017 on Ithaca's above G.O. bond 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 41,665 and a population density of 73 people per square mile. The county's per capita personal income is $34,374 (3rd quartile) and the November 2016 unemployment rate was 4.7% (3rd quartile). The largest industry sectors that drive the local economy are manufacturing, retail trade, and local government.

Credit Overview. Ithaca's credit position is solid. On the contrary, its A1 rating is slightly weaker than the median rating of Aa3 for U.S. cities. Key credit factors include a robust financial position, a somewhat elevated debt burden, and a moderate pension liability. Additional credit factors include a very limited tax base and slightly weak resident wealth levels.

Finances: The financial position of the city is robust and is a notable strength in comparison to its A1 rating. Ithaca's net cash balance as a percent of revenues (62.5%) far exceeds the U.S. median and saw an impressive increase between 2013 and 2016. Also, the available fund balance as a percent of operating revenues (56.4%) is far superior to other Moody's-rated cities nationwide.

Debt and Pensions: The city has a small pension liability, which is slightly favorable in relation to the assigned rating of A1. The Moody's-adjusted net pension liability to operating revenues (1.6x) is just slightly above the U.S. median, increasing modestly from 2013 to 2016. Ithaca has an elevated debt burden which is weak relative to the medians for the A1 rating category. The net direct debt to full value (2.5%) is higher than the U.S. median.

Economy and Tax Base: The economy and tax base of the city are limited and are weak when compared to its A1 rating. The total full value ($142 million) is well below the U.S. median and decreased from 2013 to 2016. Additionally, the median family income equals only 73.7% of the U.S. level. Lastly, the full value per capita ($49,566) is below other Moody's-rated cities nationwide.

Management and Governance: Surplus operating margins indicate strong financial management. From 2013 to 2016, on average, Ithaca' operations were positive; concurrently, the tax base generally weakened.

Michigan cities have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property taxes are the major revenue sources for most cities, though a handful of cities have voter-approved income taxes. Property tax revenue is capped, limiting a city's revenue-raising ability. Cities can override the limitation with voter approval. Unpredictable revenue fluctuations tend to be moderate. Across the sector, fixed and mandated costs are relatively high. Michigan has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be high.

<u>Sector Trends - Michigan Cities</u>. 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, the largest revenue source for most cities, are stabilizing as taxable valuations have begun to grow in most of the state. 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.

Contacting the City's Financial Management Team

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

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

Phone: (989) 875-3200
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Barbara Fandell

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

Principal Base Employers / Significant Industry- June 2017 **Demonstrating Select Significant Industry & Diversity by Sector**				
Ithaca Employer	**Private FTE***	**Public/ NP FTE***	**Product/Service**	**NAICS****
Clover Technologies (Cartridges Are Us)	168.0		Inkjet printer cartridge refilling & OEM supply	325910
Gratiot County Courthouse		162.5	County governmental services	921190
Hutchinson Aerospace (Barry Controls)	147.5		OEM anti-vibration comp. for transportation industry	336399
Ithaca Public Schools		134.5	Public school district K-12	611110
Gratiot-Isabella RESD		124.0	Regional educational support services	611710
Anchor Danly	79.0		Presses, machine tools, die sets, die maker supplies	33514
Aircraft Precision Products	66.0		Parts & components for jet aircraft engines	336413
Commercial Bank- HQ & Branch	65.0		Private financial institution	522110
Craig Frames	49.0		Manufacturer of wood & metal picture frames	339999
Family Independence Agency		35.0	State social services agency	624190
Gratiot County Road Commission		34.0	Countywide road maintenance	921190
Dufrene Machinery, Inc.	23.0		Manuf. corrugated container machines & rigging	333291
C & S Steel	23.0		Steel sales & fabrication	331111
DuPont Pioneer	21.0		Agricultural research & development	541710
Precision Machine & Manufacturing	18.5		Custom machining & fabrication	33271
Mid-MI District Health Dept.		16.5	District public health agency	923120
City of Ithaca		16.0	Municipal governmental services	921190
Clean Harbors	16.0		Environmental remediation equipment	562910
DuPont Pioneer	13.5		Biotechnology R&D labs in agriculture	541714
Ithaca Manufacturing	10.0		Custom manufactured steel products	336999
Gratiot County Herald	8.0		Countywide print & online newspaper	511110
E & S Graphics	7.0		Printing, photo-offset	323110
Isabella Bank Branch	6.5		Private financial institution	522110
Seventh Day Adventist School		6.0	Parochial school K-9	611110
Universal Bearings (Precision Plastics & Die)	5.5		Thermoset compression/injection molded plastic parts	326199
Mid-MI Specialty Crops	5.0		Custom processing/identity preserved crops; organic-certified processing facility; storage	493130
Mich. State University Extension		4.5	University rural/agricultural education	926140
Zeeland Farm Services (Ithaca)	4.0		Soybean oil processing & storage	311224
Powder Coating of Central Mich.	4.0		Powder coating of metal parts	332812
Exelon Wind (formerly Nordex)	4.0		Wind turbine farm maintenance & operations	221115
Gratiot Community Credit Union	3.5		Private financial institution	522130
Misenhelder Welding	3.0		Welding services	811310
Monosem, Inc.	3.0		Fabrication/assembly of precision agric. planters	333111
Greater Gratiot Development, Inc.		3.0	Countywide Econ. Develop. Organization	925120
TOTALS:	**753.0**	**536.0**		

Sources: *2017 Gratiot Community Employment Profile*, Greater Gratiot Development, Inc. (May/June 2017); and Direct contact with employers.
Italicized text represents previous year's employment numbers.
*FTE (full-time equivalent) = # full-time employees + (0.5 x # part-time employees) + (% of year x # temporary employees). Not a total employee count.
**NAICS (North American Industry Classification System) is the identification of what this industry or service does or provides.

GOVERNMENT-WIDE
FINANCIAL STATEMENTS

City of Ithaca
Statement of Net Position
June 30, 2018

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Current assets				
Cash and cash equivalents	$ 2,426,583	$ 1,229,569	$ 3,656,152	$ 15,842
Investments	557,114	266,409	823,523	20,444
Accounts receivable	49,659	266,042	315,701	-
Property taxes receivable	1,370,836	210,308	1,581,144	-
Due from other governments	124,776	-	124,776	-
Due from agency fund	1,000	-	1,000	-
Inventories	-	37,299	37,299	-
Total current assets	4,529,968	2,009,627	6,539,595	36,286
Noncurrent assets				
Long term notes receivable	76,417	-	76,417	-
Capital assets not being depreciated	214,067	768,336	982,403	-
Capital assets being depreciated, net	1,995,784	6,523,154	8,518,938	-
Total noncurrent assets	2,286,268	7,291,490	9,577,758	-
Total assets	6,816,236	9,301,117	16,117,353	36,286
Deferred Outflows of Resources				
Deferred outflow - related to pension	136,378	90,919	227,297	-
Liabilities				
Current liabilities				
Accounts payable	80,495	101,029	181,524	124
Accrued liabilities	52,194	8,615	60,809	-
Accrued interest	-	31,437	31,437	-
Compensated absences, due within one year	6,201	4,360	10,561	-
Bonds payable, due within one year	-	100,000	100,000	-
Total current liabilities	138,890	245,441	384,331	124
Noncurrent liabilities				
Customer deposits	-	7,395	7,395	-
Bond premium, net of amortization	-	221,570	221,570	-
Compensated absences, due beyond one year	35,138	24,707	59,845	-
Bonds payable, due beyond one year	-	3,300,000	3,300,000	-
Net pension liability	1,115,861	743,907	1,859,768	-
Total noncurrent liabilities	1,150,999	4,297,579	5,448,578	-
Total liabilities	1,289,889	4,543,020	5,832,909	124
Deferred Inflows of Resources				
Deferred inflow - related to pension	91,314	60,876	152,190	-
Net position				
Net investment in capital assets	2,209,851	3,669,920	5,879,771	-
Restricted	1,671,900	-	1,671,900	-
Unrestricted	1,689,660	1,118,220	2,807,880	36,162
Total net position	$ 5,571,411	$ 4,788,140	$ 10,359,551	$ 36,162

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

City of Ithaca
Statement of Activities
For the Year Ended June 30, 2018

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position – Primary Government: Governmental Activities	Business-Type Activities	Total	Component Units
Governmental activities							
General government	$ 431,172	$ 34,936	$ 51,222	$ (345,014)	$ -	$ (345,014)	$ -
Public safety	765,806	159,767	-	(606,039)	-	(606,039)	-
Public works	589,762	-	440,330	(149,432)	-	(149,432)	-
Community and economic development	187,695	-	-	(187,695)	-	(187,695)	-
Recreation and cultural	275,529	3,649	70,809	(201,071)	-	(201,071)	-
Total governmental activities	2,249,964	198,352	562,361	(1,489,251)	-	(1,489,251)	-
Business-type activities							
Water and Sewer	923,086	756,607	-	-	(166,479)	(166,479)	-
Total primary government	$ 3,173,050	$ 954,959	$ 562,361	(1,489,251)	(166,479)	(1,655,730)	-
Component units							
Downtown Development Authority	$ 3,507	$ -	$ -	-	-	-	(3,507)
General revenues							
Property taxes				1,192,971	206,951	1,399,922	(1,045)
State grants				361,384	-	361,384	-
Unrestricted investment earnings				91,395	9,375	100,770	505
Gain on disposal of capital assets				63	-	63	-
Transfers				22,677	-	22,677	(22,679)
Other revenues				100,901	745,609	846,510	3,710
Total general revenues				1,769,391	961,935	2,731,326	(19,509)
Change in net position				280,140	795,456	1,075,596	(23,016)
Net position, beginning of year				5,291,271	3,992,684	9,283,955	59,178
Net position, end of year				$ 5,571,411	$ 4,788,140	$ 10,359,551	$ 36,162

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, 2018

	MAJOR FUNDS					Non-Major	Total
	General Fund	Major Street	Local Street	Library	Fire Operating	Governmental Funds	Governmental Funds
Assets							
Cash and cash equivalents	$ 589,976	$ 310,168	$ 180,860	$ 203,509	$ 96,226	$ 686,807	$ 2,067,546
Investments	370,382	-	-	51,263	-	131,237	552,882
Accounts receivable	35,574	-	-	-	-	-	35,574
Notes receivable	-	-	-	-	-	76,417	76,417
Due from agency fund	1,000	-	-	-	-	-	1,000
Due from other governments	56,208	53,144	15,424	-	-	-	124,776
Total assets	$ 1,053,140	$ 363,312	$ 196,284	$ 254,772	$ 96,226	$ 894,461	$ 2,858,195
Liabilities							
Accounts payable	$ 56,894	$ 1,647	$ 2,385	$ 5,135	$ 2,600	$ 8,302	$ 76,963
Accrued liabilities	14,761	859	471	2,959	22,315	10,065	51,430
Unearned revenue	-	-	-	-	-	76,417	76,417
Total liabilities	71,655	2,506	2,856	8,094	24,915	94,784	204,810
Fund balances							
Restricted	-	360,806	193,428	246,678	71,311	799,677	1,671,900
Unassigned	981,485	-	-	-	-	-	981,485
Total fund balances	981,485	360,806	193,428	246,678	71,311	799,677	2,653,385
Total liabilities and fund balance	$ 1,053,140	$ 363,312	$ 196,284	$ 254,772	$ 96,226	$ 894,461	$ 2,858,195

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

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, 2018

Total fund balance - governmental funds		$ 2,653,385
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	5,132,864
Deduct:	accumulated depreciation	(3,355,730)
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	805,775
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	1,370,836
Add:	balance of long-term loans receivable	76,417
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	136,378
Deduct:	deferred inflow - related to pension	(91,314)
Deduct:	net pension liability	(1,115,861)
Deduct:	compensated absences	(41,339)
Total net position - governmental activities		$ 5,571,411

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

	MAJOR FUNDS						
	General Fund	Major Street	Local Street	Library	Fire Operating	Non-Major Governmental Funds	Total Governmental Funds
Revenues							
Taxes and penalties	$ 1,015,555	$ -	$ -	$ 131,681	$ -	$ -	$ 1,147,236
Licenses and permits	12,410	-	-	-	-	-	12,410
State grants	361,384	309,240	131,090	5,648	-	51,222	858,584
Charges for services	21,276	-	-	3,649	121,916	39,101	185,942
Fines and forfeits	10	-	-	65,161	-	-	65,171
Interest and rentals	77,998	1,717	652	4,276	658	4,496	89,797
Other revenues	53,158	-	-	5,872	38,152	11,848	109,030
Total revenues	1,541,791	310,957	131,742	216,287	160,726	106,667	2,468,170
Expenditures							
General government	431,232	-	-	-	-	46,464	477,696
Public safety	424,135	-	-	-	229,025	71,484	724,644
Public works	239,053	185,407	165,302	-	-	-	589,762
Community and economic development	10,854	-	-	-	-	176,841	187,695
Recreation and cultural	101,515	-	-	152,372	-	-	253,887
Other expenditures	156,004	-	-	-	-	-	156,004
Total expenditures	1,362,793	185,407	165,302	152,372	229,025	294,789	2,389,688
Excess of revenues over (under) expenditures	178,998	125,550	(33,560)	63,915	(68,299)	(188,122)	78,482
Other financing sources (uses)							
Transfers in	48,415	57,366	69,429	-	75,348	272,770	523,328
Transfers out	(229,549)	(66,566)	-	-	(15,000)	(189,536)	(500,651)
Total other financing sources (uses)	(181,134)	(9,200)	69,429	-	60,348	83,234	22,677
Net change in fund balances	(2,136)	116,350	35,869	63,915	(7,951)	(104,888)	101,159
Fund balance, beginning of year	983,621	244,456	157,559	182,763	79,262	904,565	2,552,226
Fund balance, end of year	$ 981,485	$ 360,806	$ 193,428	$ 246,678	$ 71,311	$ 799,677	$ 2,653,385

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, 2018

Net change in fund balances - total governmental funds		$ 101,159
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	225,330
Deduct:	depreciation expense	(127,701)
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	(5,413)
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:	change in property tax accrual	45,735
Deduct:	payments of long-term loan receivable	(8,139)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.		
Deduct:	change in deferred outflow - related to pension	(12,071)
Deduct:	change in deferred inflow - related to pension	(51,852)
Add:	change in net pension liability	117,287
Deduct:	change in accrual for compensated absences	(4,195)
Change in net position - governmental activities		$ 280,140

City of Ithaca
Statement of Net Position
Proprietary Funds
June 30, 2018

	Business-Type Activities Enterprise Funds	Governmental Activities
	Water and Sewer	Internal Service
Assets		
Current assets		
Cash and cash equivalents	$ 1,229,569	$ 359,037
Investments	266,409	4,232
Accounts receivable	266,042	14,085
Property taxes receivable	210,308	-
Inventories	37,299	-
Total current assets	2,009,627	377,354
Noncurrent assets		
Capital assets not being depreciated	768,336	-
Capital assets being depreciated, net	6,523,154	432,717
Total noncurrent assets	7,291,490	432,717
Total assets	9,301,117	810,071
Deferred Outflows of Resources		
Deferred outflow - related to pension	90,919	-
Liabilities		
Current liabilities		
Accounts payable	101,029	3,532
Accrued liabilities	8,615	764
Accrued interest	31,437	-
Bonds payable, due within one year	100,000	-
Compensated absences, due within one year	4,360	-
Total current liabilities	245,441	4,296
Noncurrent liabilities		
Bonds payable, due beyond one year	3,300,000	-
Bond premium, net of amortization	221,570	-
Customer deposits	7,395	-
Compensated absences, due beyond one year	24,707	-
Net pension liability	743,907	-
Total noncurrent liabilities	4,297,579	-
Total liabilities	4,543,020	4,296
Deferred Inflows of Resources		
Deferred inflow - related to pension	60,876	-
Net position		
Net investment in capital assets	3,669,920	432,717
Unrestricted	1,118,220	373,058
Total net position	$ 4,788,140	$ 805,775

City of Ithaca
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2018

	Business-Type Activities Enterprise Funds	Governmental Activities
	Water and Sewer	Internal Service
Operating revenues		
Water and sewer sales	$ 747,132	$ -
Penalties and interest charges	9,475	-
Service charges	-	162,068
Property taxes	206,951	-
Miscellaneous revenues	745,609	12,047
Total operating revenues	1,709,167	174,115
Operating expenses		
Water		
Personnel services	165,544	-
Contractual services	99,484	-
Supplies	19,312	-
Depreciation	163,585	-
Other expenses	75,143	-
Sewer		
Personnel services	137,066	-
Contractual services	41,116	-
Supplies	8,013	-
Depreciation	67,712	-
Other expenses	30,023	-
Other		
Personnel services	-	30,949
Contractual services	-	2,306
Supplies	-	12,074
Depreciation	-	82,553
Other expenses	-	53,307
Total operating expenses	806,998	181,189
Operating income (loss)	902,169	(7,074)
Nonoperating revenues (expenses)		
Interest revenue	9,375	1,598
Interest expense	(115,588)	-
Gain on disposal of capital assets	-	63
Other expenses	(500)	-
Total nonoperating revenues (expenses)	(106,713)	1,661
Change in net position	795,456	(5,413)
Net position, beginning of year	3,992,684	811,188
Net position, end of year	$ 4,788,140	$ 805,775

City of Ithaca
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2018

	Business-Type Activities Enterprise Funds	Governmental Activities
	Water and Sewer	Internal Service
Cash flows from operating activities		
Receipts from customers	$ 698,503	$ -
Receipts from interfund charges	-	175,554
Payments to suppliers / outsiders	(232,244)	(124,358)
Payments to employees	(336,645)	(30,949)
Other receipts	984,812	-
Payments to other funds for services provided	-	-
Return of customer deposits	(2,481)	-
Net cash provided by (used in) operating activities	1,111,945	20,247
Cash flows from capital and related financing activities		
Purchase of capital assets	(854,142)	(10,400)
Proceeds from sale of assets	-	6,500
Principal paid on debt	(100,000)	-
Interest and fees paid on debt	(116,088)	-
Net cash provided by (used in) capital and related financing activities	(1,070,230)	(3,900)
Cash flows from investing activities		
(Purchase)/sale of investments	249,765	(62)
Interest revenue	9,375	1,598
Net cash provided by (used in) investing activities	259,140	1,536
Net increase (decrease) in cash and cash equivalents	300,855	17,883
Cash and cash equivalents, beginning of year	928,714	341,154
Cash and cash equivalents, end of year	$ 1,229,569	$ 359,037
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ 902,169	$ (7,074)
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	231,297	82,553
Change in assets and liabilities		
Receivables - net	(25,852)	1,439
Inventories	(1,578)	-
Bond premium, net of amortization	(11,661)	-
Deferred outflows of resources related to pensions	8,047	-
Accounts and other payables	53,147	(56,671)
Deferred inflows of resources related to pensions	34,568	-
Net pension liability	(78,192)	-
Net cash provided by operating activities	$ 1,111,945	$ 20,247

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

City of Ithaca
Statement of Net Position - Fiduciary Funds
June 30, 2018

	Tax	ICCA - Perk Up the Park	Total
Assets			
Cash and cash equivalents	$ 42,454	$ 801	$ 43,255
Total assets	42,454	801	43,255
Liabilities			
Accounts payable	41,454	801	42,255
Due to other funds	1,000	-	1,000
Total liabilities	42,454	801	43,255
Net position			
Unrestricted	-	-	-
Total net position	$ -	$ -	$ -

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

		Downtown Development Authority
Assets		
Current assets		
Cash and cash equivalents	$	15,842
Investments		20,444
Total current assets		36,286
Liabilities		
Accounts payable		124
Total liabilities		124
Net position		
Unrestricted		36,162
Total net position	$	36,162

City of Ithaca
Statement of Activities - Component Unit
For the Year Ended June 30, 2018

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenue and Changes in Net Position
Downtown Development Authority				
General government	$ 3,507	$ -	$ -	$ (3,507)
General Revenues				
Property taxes				(1,045)
Unrestricted investment earnings				505
Other revenues				3,710
Transfers in				12,000
Transfers out				(34,679)
Total general revenues				(19,509)
Change in net position				(23,016)
Net position, beginning of year				59,178
Net position, end of year				$ 36,162

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 and for funds held for the "Perk Up the Park" campaign.

The City reports the following major governmental funds:

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

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

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

Additionally, the City reports the following fund 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 at the fund level for the General fund, at the functional 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 council, along with recommendations, no later than the second council meeting in April of each year. This operating budget includes proposed expenditures and the means of financing them for the fiscal year commencing the following July 1st. The council holds public hearings and final budgets are adopted prior to July 1st.

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

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

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

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

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

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.

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
Vehicles	5 – 30
Infrastructure	10 - 40

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category which relates to the pension plan. See Note 7 for additional information.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category. See Note 7 for additional information.

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.

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 2017 ad valorem tax is levied and collectible on August 1st and December 1st, 2017, 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 2017 taxable valuation of property located in the City for operating purposes totaled $64.4 million, on which ad valorem taxes levied consisted of 13.9692 mills for operating, 1.5000 mills for emergency service and 3.8000 mills for water/sewer debt service and 1.0000 for sidewalk repairs.

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

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

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
Cash and cash equivalents	2,426,583	1,229,569	3,656,152	15,842
Investments	557,114	266,409	823,523	20,444
Totals	2,983,697	1,495,978	4,479,675	36,286

The bank balance of the primary government's deposits is $3,646,009, of which $1,021,813 is covered by federal depository insurance. The remaining amount is uninsured and uncollateralized. The component units' deposits had a bank balance of $15,942, of which all is covered by federal depository insurance. Deposits which exceed FDIC insurance coverage limits are held at local banks.

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

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

Investment Type	Fair Value	Weighted Average Maturity (years)	Standard & Poor's Rating	%
Total Primary Government				
Michigan Cooperative Liquid Assets Securities System (Michigan CLASS)	823,523	.1917	AAAm	100%
Total Component Unit				
Michigan Cooperative Liquid Assets Securities System (Michigan CLASS)	20,444	.1917	AAAm	100%
1 day maturity equals 0.0027, one year equals 1.00				

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

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

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

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

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

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

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

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

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

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

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

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	56,208
Major Street Fund – State of Michigan Act 51	53,144
Local Street Fund – State of Michigan Act 51	15,424
Total	124,776

NOTE 5 - CAPITAL ASSETS

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

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	181,681	-	-	181,681
Construction in Process	24,598	32,386	(24,598)	32,386
Total capital assets not being depreciated	206,279	32,386	(24,598)	214,067
Capital assets being depreciated				
Land Improvements	371,213	-	-	371,213
Buildings and Improvements	2,328,777	-	-	2,328,777
Furniture and Equipment	1,579,442	54,059	(24,245)	1,609,256
Infrastructure	149,801	173,883	-	323,684
Vehicles	1,707,314	-	-	1,707,314
Total capital assets being depreciated	6,136,547	227,942	(24,245)	6,340,244
Accumulated depreciation	(4,152,013)	(210,255)	17,808	(4,344,460)
Capital assets being depreciated, net	1,984,534	17,687	(6,437)	1,995,784
Net capital assets	2,190,813	50,073	(31,035)	2,209,851

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

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	14,432	23,189	-	37,621
Construction in Process	118,587	730,715	(118,587)	730,715
Total capital assets not being depreciated	133,019	753,904	(118,587)	768,336
Capital assets being depreciated				
Furniture and Equipment	12,888	-	-	12,888
Water and Sewer System	11,058,968	218,825	-	11,277,793
Total capital assets being depreciated	11,071,856	218,825	-	11,290,681
Accumulated Depreciation	(4,536,230)	(231,297)	-	(4,767,527)
Capital assets being depreciated, net	6,535,626	(12,472)	-	6,523,154
Net capital assets	6,668,645	741,432	(118,587)	7,291,490

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	64,898
Public Safety	41,162
Recreation and Cultural	21,642
Internal Service Fund	82,553
Total Governmental Activities	210,255
Business-Type Activities	
Water	163,585
Sewer	67,712
Total Business-Type Activities	231,297

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

NOTE 6 - LONG-TERM DEBT

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

Compensated Absences - City policy allows employees to accumulate vacation at the rate of ½ day per month for the first 4 years of service and 1 day per month thereafter. Additional days of vacation are awarded on the employee's anniversary date after 4, 8, 15 and 20 years of service. Amounts accumulated up to a maximum of 25 days for city employees are to be paid to the employee and recognized as an expense either when vacations are taken or upon termination of employment. Vacation pay liability at year-end was $41,111.

City policy allows employees to accumulate one sick leave day per month with a maximum accumulation of 60 days or 75 days, depending on employee hire date. Sick leave expenses are recognized at the time the days are used, or upon termination of employment. Upon termination of employment, with the exception of gross misconduct, 100% or 50% of accumulated sick pay, up to a maximum of 60 days, will be paid to the employee, depending on their date of hire. Sick leave pay liability at year-end was $29,295.

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	37,144	9,767	(5,572)	41,339	6,201
Business-Type					
Compensated Absences	27,535	5,661	(4,130)	29,067	4,360
2016 Bonds	3,500,000	-	(100,000)	3,400,000	100,000
Total Business-Type	3,527,536	5,661	(104,130)	3,429,067	104,360

The annual requirements to pay principal and interest on the outstanding obligations on June 30, 2018 are shown in the *Schedule of Long-Term Debt* at the back of this report.

NOTE 7 – PENSION PLAN – AGENT MULTIPLE-EMPLOYER PLAN

Summary of Significant Accounting Policies

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

General Information about the Pension Plan

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

Benefits Provided

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

01 – General Division: Closed to new hires

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

02 – Police Division: Closed

Benefit Multiplier: 2.25% Multiplier (80% max)
Normal Retirement Age: 60
Vesting: 10 years

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

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

Employees Covered By Benefit Terms
As of the December 31, 2017 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	3
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 $184,356. The City made contributions in the amount of $194,700 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, 2017, 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, 2017 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: 2.5%
- Salary Increases: 3.75% in the long-term
- Investment rate of return: 7.75%, net of investment and administrative expense, including inflation

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

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in the valuation were based on the results of the most recent actuarial experience study conducted of 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 by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount Rate

The discount rate used to measure the total pension liability was 8.00% for 2017. 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 12/31/16	$4,575,078	$2,519,831	$2,055,247
Changes for the Year			
Service Cost	19,110		19,110
Interest on Total Pension Liability	351,659		351,659
Changes in benefits	0		0
Difference between expected and actual experience	(45,573)		(45,573)
Changes in assumptions	0		0
Employer Contributions		194,700	(194,700)
Employee Contributions		8,141	(8,141)
Net investment income		322,962	(322,962)
Benefit payments, including employee refunds	(377,801)	(377,801)	0
Administrative expense		(5,129)	5,129
Other changes	(1)		(1)
Net changes	(52,607)	142,872	(195,479)
Balances as of 12/31/17	**$4,522,471**	**$2,662,703**	**$1,859,768**

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 12/31/17	1,859,768	1,859,768	1,859,768
Change in Net Pension Liability (NPL)	419,709	0	(359,617)
Calculated Net Pension Liability	$ 2,279,477	$ 1,859,768	$ 1,500,151

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

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

For the year ended 06/30/2018 the City recognized pension expense of $145,491. The City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in Experience	$ 0	$ 0
Differences in Assumptions	0	0
Excess (Deficit) Investment Returns	110,081	152,190
Contributions Subsequent to 12/31/17*	117,216	0
Total	$ 227,297	$ 152,190

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending 06/30/2019.

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

Year ended:	2018	(17,691)
	2019	(8,074)
	2020	42,158
	2021	25,716
	Thereafter	0

MERS Defined Contribution Plan

Plan Description

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

Eligibility

All new-hired full-time employees of the City are eligible to participate in the plan. As of year-end, the plan's current membership was 10 active and 4 terminated members.

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

Contributions

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

During the year, the actual contributions to the plan amounted to $48,609, which includes $26,514 of employer contributions, and $22,095 of employee contributions. The outstanding liability to the plan at year-end was $1,018.

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	214,067
Capital asset being depreciated, net	1,995,784
Net investment in capital assets	2,209,851

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	768,336
Capital asset being depreciated, net	6,523,154
Capital related general obligation bonds	(3,400,000)
Unamortized premium/discount on bond refunding	(221,570)
Net investment in capital assets	3,669,920

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	48,415	(229,548)
Major Street	57,366	(66,566)
Local Street	69,429	-
Fire Operating	75,348	(15,000)
First Responder	36,243	(2,000)
Economic Development	173,063	-
Caldwell Memorial	-	(161,885)
Fire and Rescue Sinking	17,000	(6,651)
Grant Projects	46,464	-
Cemetery Perpetual Care	-	(19,000)
Water and Sewer	-	-
Downtown Development Authority	12,000	(34,678)
Total Interfund Transfers	535,328	(535,328)

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 construction of the sidewalk under US-127 to connect to the Pathway and the new construction of sidewalk on the south side of Center Street were the reasons 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 from the General Fund to the to the Grant Fund for the Stormwater Asset Management (SAW) grant work.

NOTE 11 - TAX ABATEMENTS

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

The City of Ithaca historically approves abatements for 12 years for Real Property (brick and mortar) and 7 years for Personal Property (machine and equipment). If approved, the applicant enters into an agreement with the City in which the City promises to forgo tax revenues and the applicant promises to contribute to economic development through growing the business and/or job creation or some other benefit to the City or its residents. All applications are subject to a public hearing in front of the City Council before the decision to approve or decline is made. The City is allowed to approve abatements in total, up to 5% of its tax base. Should it exceed that limit, the State of Michigan in notified, via the approving Resolution, and has the final approval as to if the abatement is allowed. 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 2017, the City of Ithaca had six 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 $74,230.09. Information on individual abatements is available from the City's Treasurer

CITY OF ITHACA ASSESSORS WARRANT - SUMMER 2017 - IFT'S - POST 1994						
TAXING UNIT	TOTAL TAXABLE VALUE	TAXABLE VALUE	MILLAGE RATE	TAXES LEVIED 2017 TAX ROLL	TAXES IF NOT ABATED	AMOUNT OF LOSS DUE TO ABATEMENT
Post 1994						
CITY OPERATING	$2,364,700		6.98460	$16,516.41	$33,032.82	($16,516.41)
WATER/SEWER DEBT	$2,364,700		1.90000	$4,492.93	$8,985.86	($4,492.93)
EMERGENCY SERVICES	$2,364,700		0.75000	$1,773.49	$3,546.98	($1,773.49)
CITY SIDEWALKS	$2,364,700		0.50000	$1,182.35	$2,364.70	($1,182.35)
ADMIN FEE				$348.17	$696.34	($348.17)
TOTAL 2017 SUMMER TAX COLLECTION FOR IFT'S - POST 1994				$24,313.35	$48,626.70	($24,313.35)
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	3.80000	$165.30	$682.48	($517.18)
EMERGENCY SERVICES	$43,500	$179,600	1.50000	$65.25	$269.40	($204.15)
CITY SIDEWALKS	$43,500	$179,600	1.00000	$43.50	$179.60	($136.10)
ADMIN FEE				$13.83	$36.40	($22.57)
TOTAL 2017 SUMMER TAX COLLECTION FOR IFT'S - REHAB				$895.54	$3,676.75	($2,758.64)
Renaissance Zone						
CITY OPERATING	$3,048,516	$0	13.96920	$0.00	$42,585.33	($42,585.33)
WATER/SEWER DEBT	$3,048,516	$0	3.80000	$11,584.36	$11,584.36	($0.00)
EMERGENCY SERVICES	$3,048,516	$0	1.50000	$0.00	$4,572.77	($4,572.77)
CITY SIDEWALKS	$3,048,516	$0	1.00000	$0.00	$3,048.52	($3,048.52)
ADMIN FEE				$115.81	$617.91	($502.10)
TOTAL 2017 SUMMER TAX COLLECTION FOR REN ZONE				$11,700.17	$62,408.89	($47,158.10)
TOTAL 2017 SPECIAL ACTS SUMMER TAX COLLECTION				**$36,909.06**	**$114,712.34**	**($74,230.09)**

REQUIRED SUPPLEMENTARY INFORMATION

City of Ithaca
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Taxes and penalties	$ 1,051,714	$ 1,015,632	$ 1,015,555	$ (77)
Licenses and permits	12,500	12,500	12,410	(90)
State grants	350,168	350,168	361,384	11,216
Charges for services	23,000	23,500	21,276	(2,224)
Fines and forfeits	300	300	10	(290)
Interest and rentals	61,770	68,170	77,998	9,828
Other revenues	65,610	53,810	53,158	(652)
Total revenues	1,565,062	1,524,080	1,541,791	17,711
Expenditures				
General government	603,714	467,954	431,232	36,722
Public safety	443,301	433,246	424,135	9,111
Public works	160,172	230,918	239,053	(8,135)
Community and economic development	5,100	11,300	10,854	446
Recreation and cultural	125,372	125,372	101,515	23,857
Other expenditures	167,878	167,878	156,004	11,874
Total expenditures	1,505,537	1,436,668	1,362,793	73,875
Excess of revenues over (under) expenditures	59,525	87,412	178,998	91,586
Other financing sources (uses)				
Transfers in	187,415	48,415	48,415	-
Transfers out	(240,438)	(240,438)	(229,549)	10,889
Total other financing sources (uses)	(53,023)	(192,023)	(181,134)	10,889
Net change in fund balance	6,502	(104,611)	(2,136)	102,475
Fund balance, beginning of year	983,621	983,621	983,621	-
Fund balance, end of year	$ 990,123	$ 879,010	$ 981,485	$ 102,475

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

City of Ithaca
Budgetary Comparison Schedule - Major Street Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
State grants	$ 292,224	$ 292,224	$ 309,240	$ 17,016
Interest and rentals	200	1,200	1,717	517
Other revenues	1,000	-	-	-
Total revenues	293,424	293,424	310,957	17,533
Expenditures				
Public works	171,375	230,815	185,407	45,408
Excess of revenues over (under) expenditures	122,049	62,609	125,550	62,941
Other financing sources (uses)				
Transfers in	12,317	57,366	57,366	-
Transfers out	(66,566)	(66,566)	(66,566)	-
Total other financing sources (uses)	(54,249)	(9,200)	(9,200)	-
Net change in fund balance	67,800	53,409	116,350	62,941
Fund balance, beginning of year	244,456	244,456	244,456	-
Fund balance, end of year	$ 312,256	$ 297,865	$ 360,806	$ 62,941

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

	Budgeted Amounts			
	Original	Final	Actual	Actual Over (Under) Final Budget
Revenues				
State grants	$ 97,461	$ 124,971	$ 131,090	$ 6,119
Interest and rentals	100	100	652	552
Other revenues	600	600	-	(600)
Total revenues	98,161	125,671	131,742	6,071
Expenditures				
Public works	185,392	173,167	165,302	7,865
Excess of revenues over (under) expenditures	(87,231)	(47,496)	(33,560)	13,936
Other financing sources (uses)				
Transfers in	115,841	69,466	69,429	(37)
Net change in fund balance	28,610	21,970	35,869	13,899
Fund balance, beginning of year	157,559	157,559	157,559	-
Fund balance, end of year	$ 186,169	$ 179,529	$ 193,428	$ 13,899

City of Ithaca
Budgetary Comparison Schedule - Library Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Taxes and penalties	$ 125,000	$ 125,000	$ 131,681	$ 6,681
State grants	5,000	5,648	5,648	-
Charges for services	3,500	3,500	3,649	149
Fines and forfeits	72,200	65,850	65,161	(689)
Interest and rentals	2,500	3,300	4,276	976
Other revenues	4,750	6,325	5,872	(453)
Total revenues	212,950	209,623	216,287	6,664
Expenditures				
Recreation and cultural	176,250	176,250	152,372	23,878
Excess of revenues over (under) expenditures	36,700	33,373	63,915	30,542
Fund balance, beginning of year	182,763	182,763	182,763	-
Fund balance, end of year	$ 219,463	$ 216,136	$ 246,678	$ 30,542

City of Ithaca
Budgetary Comparison Schedule - Fire Operating Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Actual Over (Under) Final
	Original	Final	Actual	Budget
Revenues				
Charges for services	$ 121,916	$ 121,916	$ 121,916	$ -
Interest and rentals	100	500	658	158
Other revenues	900	42,781	38,152	(4,629)
Total revenues	122,916	165,197	160,726	(4,471)
Expenditures				
General government	192,107	250,524	229,025	21,499
Excess of revenues over (under) expenditures	(69,191)	(85,327)	(68,299)	17,028
Other financing sources (uses)				
Transfers in	69,531	75,348	75,348	-
Transfers out	(15,000)	(15,000)	(15,000)	-
Total other financing sources (uses)	54,531	60,348	60,348	-
Net change in fund balance	(14,660)	(24,979)	(7,951)	17,028
Fund balance, beginning of year	79,262	79,262	79,262	-
Fund balance, end of year	$ 64,602	$ 54,283	$ 71,311	$ 17,028

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 year ending 2017	Plan year ending 2016	Plan year ending 2015	Plan year ending 2014
Total Pension Liability				
Service Cost	19,110	23,731	22,158	22,097
Interest	351,659	348,062	335,619	334,991
Changes of Benefit Terms	-	-	-	-
Difference between expected & actual experience	(45,573)	45,090	56,022	-
Changes of assumptions	-	-	225,895	-
Benefit payments including employee refunds	(377,801)	(361,416)	(354,212)	(344,820)
Other	(1)	(2)	-	-
Net Change in Total Pension Liability	(52,606)	55,465	285,482	12,268
Total Pension Liability beginning	4,575,078	4,519,613	4,234,131	4,221,863
Total Pension Liability ending	4,522,472	4,575,078	4,519,613	4,234,131
Plan Fiduciary Net Position				
Contributions-employer	194,700	169,269	139,944	125,664
Contributions-employee	8,141	8,896	8,557	9,220
Net Investment income	322,962	269,761	(38,107)	168,684
Benefit payments including employee refunds	(377,801)	(361,416)	(354,212)	(344,820)
Administrative expense	(5,129)	(5,331)	(5,702)	(6,147)
Net Change in Plan Fiduciary Net Position	142,873	81,179	(249,520)	(47,399)
Plan Fiduciary Net Position beginning	2,519,831	2,438,652	2,688,172	2,735,571
Plan Fiduciary Net Position ending	2,662,704	2,519,831	2,438,652	2,688,172
Employer Net Pension Liability	1,859,768	2,055,247	2,080,961	1,545,959
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	59%	55%	54%	63%
Covered Employee Payroll (from GASB 68 actuarial page)	144,643	189,274	182,060	181,796
Employer's Net Pension Liability as a percentage of covered employee payroll	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 assumptions: There were no changes in actuarial assumptions or methods affecting the 2017 valuation.
(This information can be found in the actuarial valuation section titled: "Plan Provision, Actuarial Assumptions and Actuarial Funding Method; and also in the Appendix link of the actuarial valuation.

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

	Fiscal years ending									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarial Determined Contributions	184,356	149,790	132,972	112,824	97,398	87,930	81,672	73,728	72,425	67,550
Contributions in relation to the actuarially determined contribution	194,700	154,968	144,612	135,276	117,045	97,626	89,424	89,664	83,976	129,039
Contribution deficiency (excess)	(10,344)	(5,178)	(11,640)	(22,452)	(19,647)	(9,696)	(7,752)	(15,936)	(11,551)	(61,489)
Covered Employee Payroll	144,643	189,274	182,060	181,796	223,500	357,005	395,101	378,223	440,723	417,234
Contributions as a Percentage of Covered Employee Payroll	135%	82%	79%	74%	52%	27%	23%	24%	19%	31%

Notes to Schedule of Contributions

Valuation Date	December 31, 2017
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 seven year smoothed asset valuation method was used for the time period of 2012 through 2018
Salary increases were expected to be 1% for the time period of 2015 through 2018

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

OTHER SUPPLEMENTARY INFORMATION

City of Ithaca
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2018

	SPECIAL REVENUE FUNDS							Permanent Fund	
	Economic Development	Caldwell Memorial	Gibbs Memorial	Cemetery Sinking	Fire & Rescue Sinking	First Responder	Grant Projects	Cemetery Perpetual Care	Totals
Assets									
Cash and cash equivalents	$ 39,430	$ 220,243	$ 112,951	$ 7,776	$ 98,967	$ 123,522	$ 53,700	$ 30,218	$ 686,807
Investments	-	-	131,237	-	-	-	-	-	131,237
Note receivable	76,417	-	-	-	-	-	-	-	76,417
Total assets	$ 115,847	$ 220,243	$ 244,188	$ 7,776	$ 98,967	$ 123,522	53,700	30,218	894,461
Liabilities									
Accounts payable	$ 7,756	$ -	$ -	$ -	$ -	$ 546	$ -	$ -	$ 8,302
Accrued liabilities	-	-	-	-	-	10,065	-	-	10,065
Unearned revenue	76,417	-	-	-	-	-	-	-	76,417
Total liabilities	84,173	-	-	-	-	10,611	-	-	94,784
Fund balance									
Restricted	31,674	220,243	244,188	7,776	98,967	112,911	53,700	30,218	799,677
Total fund balance	31,674	220,243	244,188	7,776	98,967	112,911	53,700	30,218	799,677
Total liabilities and fund balance	$ 115,847	$ 220,243	$ 244,188	$ 7,776	$ 98,967	$ 123,522	$ 53,700	$ 30,218	$ 894,461

City of Ithaca
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2018

	SPECIAL REVENUE FUNDS							Permanent Fund	
	Economic Development	Caldwell Memorial	Gibbs Memorial	Cemetery Sinking	Fire & Rescue Sinking	First Responder	Grant Projects	Cemetery Perpetual Care	Totals
Revenues									
State grants	$ -	$ -	$ -	$ -	$ -	$ -	$ 51,222	$ -	$ 51,222
Charges for services	-	-	-	1,230	-	37,851	-	20	39,101
Interest and rentals	200	634	2,402	138	370	588	9	155	4,496
Other revenues	8,138	-	-	-	2,840	870	-	-	11,848
Total revenues	8,338	634	2,402	1,368	3,210	39,309	51,231	175	106,667
Expenditures									
General government	-	-		-	-	-	46,464	-	46,464
Public safety	-	-	-	-	-	71,484	-	-	71,484
Community and economic development	176,841	-	-	-	-	-	-	-	176,841
Total expenditures	176,841	-	-	-	-	71,484	46,464	-	294,789
Excess of revenues over (under) expenditures	(168,503)	634	2,402	1,368	3,210	(32,175)	4,767	175	(188,122)
Other financing sources (uses)									
Transfers in	173,063	-	-	-	17,000	36,243	46,464	-	272,770
Transfers out	-	(161,885)	-	(19,000)	(6,651)	(2,000)	-	-	(189,536)
Total other financing sources (uses)	173,063	(161,885)	-	(19,000)	10,349	34,243	46,464	-	83,234
Net change in fund balances	4,560	(161,251)	2,402	(17,632)	13,559	2,068	51,231	175	(104,888)
Fund balance, beginning of year	27,114	381,494	241,786	25,408	85,408	110,843	2,469	30,043	904,565
Fund balance, end of year	$ 31,674	$ 220,243	$ 244,188	$ 7,776	$ 98,967	$ 112,911	$ 53,700	$ 30,218	$ 799,677

Fiscal Year	Interest Rate (%)	Annual Principal Due	Interest Due October	Interest Due April	Total
Enterprise Fund Bonds - $3,600,000					
2019	2.00	$ 100,000	$ 62,875	$ 62,875	$ 225,750
2020	2.00	100,000	61,875	61,875	223,750
2021	3.00	110,000	60,875	60,875	231,750
2022	3.00	120,000	59,225	59,225	238,450
2023	3.00	125,000	57,425	57,425	239,850
2024	4.00	135,000	55,550	55,550	246,100
2025	4.00	145,000	52,850	52,850	250,700
2026	4.00	155,000	49,950	49,950	254,900
2027	4.00	165,000	46,850	46,850	258,700
2028	4.00	175,000	43,550	43,550	262,100
2029	4.00	190,000	40,050	40,050	270,100
2030	4.00	200,000	36,250	36,250	272,500
2031	4.00	210,000	32,250	32,250	274,500
2032	4.00	220,000	28,050	28,050	276,100
2033	4.00	225,000	23,650	23,650	272,300
2034	4.00	235,000	19,150	19,150	273,300
2035	4.00	250,000	14,450	14,450	278,900
2036	3.50	265,000	9,450	9,450	283,900
2037	3.50	275,000	4,813	4,813	284,626
	Totals	$ 3,400,000	$ 759,138	$ 759,138	$ 4,918,276

DEBT SUMMARY				
2019	$ 100,000	$ 62,875	$ 62,875	$ 225,750
2020	100,000	61,875	61,875	223,750
2021	110,000	60,875	60,875	231,750
2022	120,000	59,225	59,225	238,450
2023	125,000	57,425	57,425	239,850
2024-2028	775,000	248,750	248,750	1,272,500
2029-2033	1,045,000	160,250	160,250	1,365,500
2034-2038	1,025,000	47,863	47,863	1,120,726
	$ 3,400,000	$ 759,138	$ 759,138	$ 4,918,276

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, 2018, 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 12, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants
November 12, 2018