

**City of Ithaca
Ithaca, Michigan**

**Financial Statements
With Supplemental Information
June 30, 2016**



Independent Auditor's Report

Management's Discussion and Analysis I – XXI

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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, 2016, 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, 2016, 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.

Change in Accounting Principle

As discussed in the notes to the financial statements, in 2016, the City adopted new accounting guidance, *GASB Statement No. 72, Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplemental 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 supplemental 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 supplemental 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 December 6, 2016, 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.
Certified Public Accountants

December 6, 2016

**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, 2016. 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, 2016, net position of the primary government totaled \$9,402,123. The unrestricted portion of this amount, \$2,615,606, may be used to meet the City's ongoing obligations to its citizens as well as its creditors.
- The City's total net position decreased by \$181,397 and had a prior period adjustment decrease of \$108,067 for a net decrease in net position of \$289,464. This decrease resulted from an increase in net position of the governmental activities of \$92,115 and a decrease in net position of business activities by \$381,579. The decrease in business activities was due to upgrades to and new infrastructure of the City's water distribution system including the finishing of the new watermain on East Center Street, which services properties east of U.S.-127, and the drilling and testing of a new well. The increase in governmental activities derives from planned increases in fund balances, increasing values of capital assets and continued consolidation of services with other governmental entities. This increase was reduced by the cost of the completion of the Library community room project and GASB 68 required pension liability reporting (which is discussed in detail in the *Notes to Financial Statements*).
- The State of Michigan provides the City with State Revenue Sharing (SRS), which is calculated by two separate methods. In 2009 the Statutory SRS for local and county governments was converted from an entitlement model to a performance-based model, called "Economic Vitality Incentive Payments" (EVIP). Under EVIP, communities must comply with various cost control measures and financial transparency criteria set by the State in order to receive individual portions of available funds that are subject to the State's annual

appropriation process. In 2011, this program was revised and is now known as the “City, Village and Township Revenue Sharing” (CVTRS) program and focuses on Accountability and Transparency of the local units to receive these funds. Ithaca has been successful in complying with all of the criteria, maximizing funding for this portion of the program. Constitutional SRS continues to be an entitlement model based primarily on State sales and Use Tax receipts.

The City continues to budget conservatively its SRS in an effort to maintain stable service levels in the event future cuts are made by the State. As this document was being prepared, the State Legislature was entering its post-election lame duck legislative session. Pressure will be placed on Statutory SRS in order to: 1) pay for last year’s adopted road funding plan that calls for \$600 million to be transferred annually from the State’s General Fund to its Road Fund; 2) help cover the costs of the State’s liabilities with respect to the City of Flint’s water system catastrophe; and 3) help cover the operating and debt costs of the reorganized City of Detroit and the Detroit Public Schools, both of which are just coming out of control by State-appointed Emergency Financial Managers. It is very likely that a most of these three additional costs will be taken from the *Statutory* portion of SRS, which is in the State’s General Fund.

- The next significant revenue source that is decreasing is the Personal Property Tax (PPT). State statutes adopted last year will eliminate the PPT over the next four years. The PPT has already been eliminated for any business with a cash value of personal property totaling \$80,000 or less (\$40,000 taxable value.) The PPT receipts are being replaced only partially by a state-initiated statewide essential services assessment (ESA) on industrial properties in the State. The ESA is replacing this lost revenue with that portion of PPT that was used locally only for emergency services funding only (i.e. police, fire, rescue and EMS.) Again, the City budgets for these revenues conservatively in order to provide a secure level of funding for the services provided to the City’s residents, taxpayers, businesses and industries.
- The City continues to see an increasing number of residential property owners requesting and receiving a 100% property tax exemption for disabled veterans under P.A. 161 of 2013. The act amended the General Property Tax Act to exempt from taxation the homestead of a veteran who is: 1) permanently and totally disabled; 2) a recipient of assistance due to disability for specially-adapted housing; or 3) individually unemployable. This replaces a former exemption for the homestead of a disabled veteran who was receiving assistance for just specially-adapted housing.

The City’s assessment roll for 2016 included 11 properties that were exempt from property tax collections via the disabled veterans Act. The combined taxable value of those 11 parcels was \$431,545. This resulted in a loss of property taxes to just the City of approximately \$8,747, which was based on the combined millages (20.2692 mills) for City general operating, water/sewer bonded debt, emergency services and sidewalk repair.

- The City currently has only one property valuation appeal petition before the Michigan Tax Tribunal (MTT). The case involves the bowling alley/banquet facility known as The Hardwoods located on east Center Street for tax years 2015 and 2016. Loss of property taxes to just the City would range from \$1,000 to \$3,100 per year, depending on the determination

of value established by the MTT. We are hopeful of settling the case before having to adjudicate it before the Tribunal.

- As of June 30, 2016, the City's governmental funds reported combined ending fund balances of \$2,305,091. This is a net increase of \$145,063 from the prior year. This increase derived from a combination of responsible spending, consolidation of services with neighboring governments, successful grant writing, cost cutting, staff vacancies and planned savings for increasing balances of the remaining funds. Of the total fund balance for governmental funds, \$816,825 is available for spending at the City's discretion (unassigned fund balance) and \$1,488,266 is constrained for specific purposes by constitutional provision or enabling legislation (restricted fund balance.)
- The City's long-term debt consists of compensated absences for full-time employees and the outstanding enterprise fund bonded indebtedness (see below.) A detailed schedule of the City's long-term obligations can be found in the *Notes to the Financial Statements*.
- In November 2006, City electors passed a millage for the issuance of Unlimited Tax General Obligation (UTGO) Bonds in the amount of \$4.1 million for improvements to the City's water supply and sanitary sewage collection and disposal systems. Included with the improvements were the purchase of a new sewer vacuum truck; two new sanitary lift stations; watermain upgrades throughout the entire city; lagoon valve replacements; sanitary sewer upgrades and new lines; locating and analyzing an aquifer source; a water system alarm system; and a water system study. The original bonds were issued in April of 2007 and were due in annual installments of \$25,000 to \$295,000 with annual interest rates of 4.25% to 4.30% through November of 2037. The bonds received an initial rating of "Baa1"- by Moody's Investors Service, but were insured for issuance. The economic condition of the State of Michigan partially influenced the rating on the bonds. The first debt millage was applied to the 2007 summer property tax collection at a rate of 3.00 mills. The millage rate was increased in 2013 to 3.20 mills and again in 2014 to 4.00 mills to cover the debt payment and remained the same in 2015.

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

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

At the current City taxable values, the new millage will generate approximately \$64,000 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 began in late May. Even though the millage had not yet been levied on the summer tax bill, the City Council decided to use unrestricted fund balance to cover the contractual costs until collection of the millage revenues in late summer. Zone 1 is in one of the oldest parts of town, and had a large amount of older, damaged sidewalks. Thus, the City supplemented the millage revenues with unrestricted fund balances from the major & local street funds to complete the balance of sidewalk in Zone 1. We anticipate following the same schedule for Zone 2 in early 2017.

- A City staff team prepared an overhauled Capital Improvement Plan (CIP) to help guide, quantify and prioritize the identified capital needs throughout the community. The plan was proposed in March, reviewed by the Planning Commission in March and eventually adopted by the City Council in May as a part of its adoption of the overall FY 15/16 budget. The new CIP now incorporates capital needs from all program areas of the City budget. Previously, the plan did not contain identified needs from the following areas: fire, rescue, water, sewer, fleet services, downtown and all public buildings. These were added to previous projects identified for major & local streets, parks & the cemetery.

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

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

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

Overview of the Financial Statements

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

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

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

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

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

- *Governmental Activities* – The majority of the City's basic services are included here and are principally supported by taxes and intergovernmental revenues. The governmental activities of the City include general government, public safety, streets, library, parks, cemetery and economic development.
- *Business-type Activities* – The City charges fees to customers to essentially cover the costs of providing certain services. The City's water supply and sanitary sewer disposal systems are included here.
- *Component Units* – The City (known as the *primary government*), also has a legally separate authority for which the City is financially accountable. The Downtown Development Authority (DDA) is a separate authority and its financial information is reported here.

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

- **Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how cash and other financial assets can be converted to cashflow in and out, and the balance left at year-end that is available for spending. The governmental fund statements provide a detailed short-term view that helps to determine whether there are more or fewer resources that can be spent in the near future to finance City programs.

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

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

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

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

functions, and are included in their entirety within governmental activities in the government-wide financial statements.

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

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

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

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

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

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

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

Statement No. 54 to improve this reporting and its usefulness through more structured classifications. Fund balance is now reported as:

- **Nonspendable:** Amounts that cannot be spent due to form, such as inventory, long-term loans and note receivables, property held for resale and amounts that must be maintained intact legally or contractually.
- **Restricted:** Amounts constrained for a specific purpose by constitutional provision or enabling legislation. This is the same definition as that of Restricted Net Position from prior years.
- **Committed:** Amounts constrained for a specific purpose by the City Council. It requires action to remove or change the constraints placed on the funds.
- **Assigned:** Used for all governmental funds *other than* the general fund, for any remaining positive amount that is not classified as nonspendable, restricted or committed. For the general fund, the amounts are constrained for the intent to be used for a specific purpose by the City Council or board that has been delegated authority to assign the amounts.
- **Unassigned:** For the general fund, amounts not classified in any other category. The general fund is the *only* fund that can report a positive amount in unassigned fund balance. For all other funds, it is the amount expended in excess of resources that are nonspendable, restricted, committed or assigned.

Government-Wide Financial Analysis

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

The total net position of the City for FYE June 2016 is \$9,402,123. However, \$5,298,251 represents its investment in capital assets net of related debt (i.e. land, buildings, furniture & fixtures, equipment, vehicles, water & sewer systems), with 60.4% (\$3,200,149) 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, \$1,488,266 represents resources and funds that have external restrictions on how they may be used. These assets are held for street maintenance & operations, library operations, economic development, fire & rescue operations & reserves, and perpetual care of the City cemetery. The City may use the remaining balance (unassigned fund balance) of \$1,697,377 for ongoing obligations to residents and creditors. The total net position for the year decreased by \$289,464 and was discussed earlier in this document.

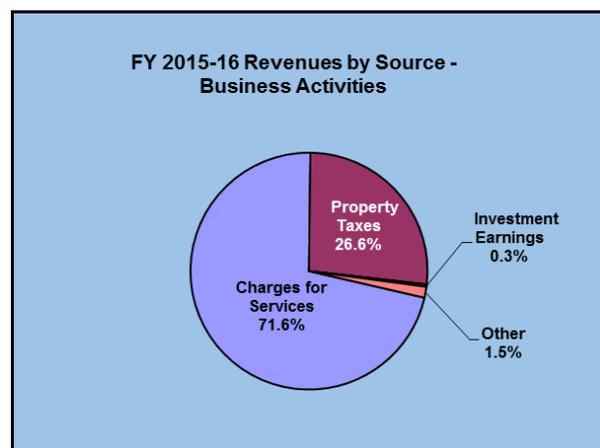
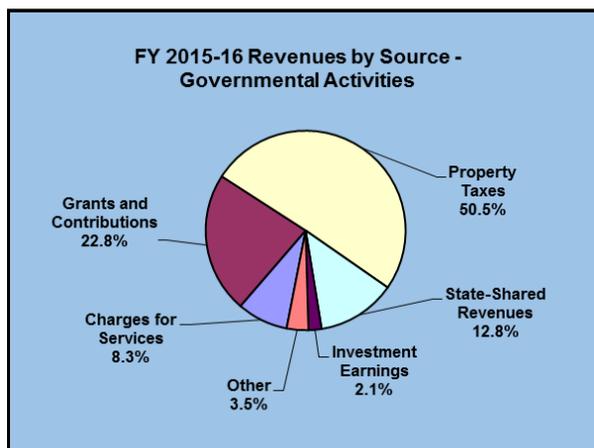
| City of Ithaca, Michigan Statement of Net Position | | | | | | | |
|---|----------------------------|------------------|-----------------------------|------------------|-------------------|-------------------|--|
| | Governmental Activities | | Business-Type Activities | | Total | | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | |
| Assets: | | | | | | | |
| Current and Other Assets | 4,231,914 | 4,163,315 | 1,985,108 | 1,983,571 | 6,217,022 | 6,146,886 | |
| Land | 181,681 | - | - | - | 181,681 | - | |
| Capital Assets (net of deprec.) | 2,098,102 | 2,164,913 | 6,800,149 | 6,996,370 | 8,898,251 | 9,161,283 | |
| Total Assets | 6,511,697 | 6,328,228 | 8,785,257 | 8,979,941 | 15,296,954 | 15,308,169 | |
| Deferred Outflows: | | | | | | | |
| Deferred outflow-Pension related | 192,940 | 40,583 | 128,626 | 27,055 | 321,566 | 67,638 | |
| Total Deferred Outflow | 192,940 | 40,583 | 128,626 | 27,055 | 321,566 | 67,638 | |
| Liabilities: | | | | | | | |
| Long-Term Debt | 39,402 | 48,196 | 3,781,439 | 3,741,051 | 3,820,841 | 3,789,247 | |
| Net Pension Liability | 1,248,576 | 927,575 | 832,385 | 618,384 | 2,080,961 | 1,545,959 | |
| Other Liabilities | 132,914 | 201,410 | 181,681 | 147,604 | 314,595 | 349,014 | |
| Total Liabilities | 1,420,892 | 1,177,181 | 4,795,505 | 4,507,039 | 6,216,397 | 5,684,220 | |
| Net Position: | | | | | | | |
| Invested in capital assets, net of related debt | 2,098,102 | 2,164,913 | 3,200,149 | 3,191,370 | 5,298,251 | 5,356,283 | |
| Restricted | 1,488,266 | 1,455,010 | 0 | 0 | 1,488,266 | 1,455,010 | |
| Unrestricted | 1,697,377 | 1,571,707 | 918,229 | 1,308,587 | 2,615,606 | 2,880,294 | |
| Total Net Position | 5,283,745 | 5,191,630 | 4,118,378 | 4,499,957 | 9,402,123 | 9,691,587 | |

City of Ithaca, Michigan Change In Net Position

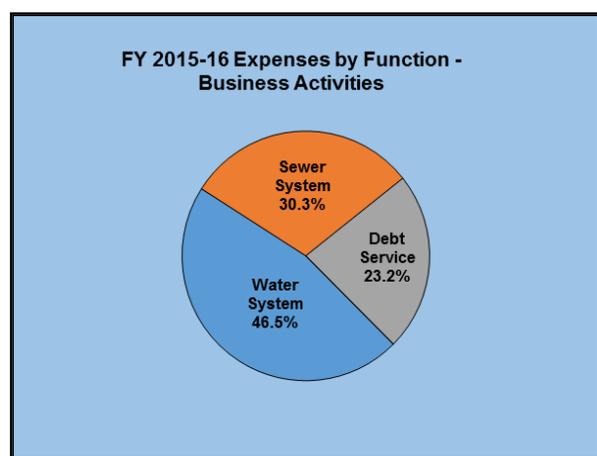
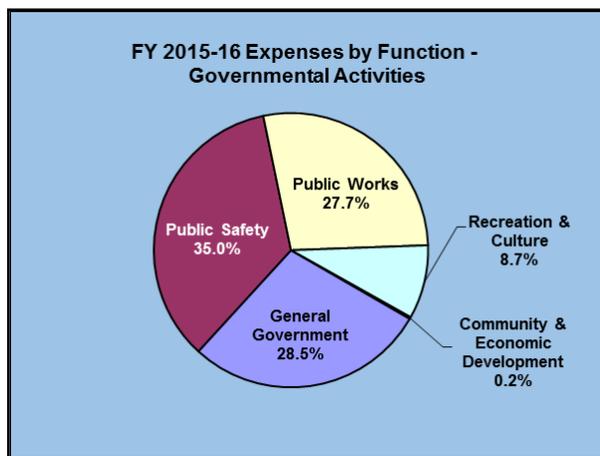
| | Governmental Activities | | Business-Type Activities | | Total | |
|---------------------------------------|-------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| REVENUES: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | 196,339 | 190,381 | 666,373 | 641,327 | 862,712 | 831,708 |
| Grants and Contributions | 542,068 | 1,084,451 | 0 | 0 | 542,068 | 1,084,451 |
| General Revenues: | | | | | | |
| Property Taxes | 1,200,947 | 1,550,744 | 247,687 | 259,539 | 1,448,634 | 1,810,283 |
| State-Shared Revenues | 303,277 | 295,417 | 0 | 0 | 303,277 | 295,417 |
| Investment Earnings | 50,086 | 45,339 | 2,908 | 2,872 | 52,994 | 48,211 |
| Transfers | 10,920 | 33,099 | 0 | 0 | 10,920 | 33,099 |
| Other | 72,300 | 105,885 | 13,902 | 1,325 | 86,202 | 107,210 |
| Total Revenues | 2,375,937 | 3,305,316 | 930,870 | 905,063 | 3,306,807 | 4,210,379 |
| EXPENSES: | | | | | | |
| General Government | 533,802 | 1,033,627 | 0 | 0 | 533,802 | 1,033,627 |
| Public Safety | 655,911 | 655,709 | 0 | 0 | 655,911 | 655,709 |
| Public Works | 518,967 | 481,385 | 0 | 0 | 518,967 | 481,385 |
| Rec./Cultural/Econ. Dev. | 467,075 | 465,032 | 0 | 0 | 467,075 | 465,032 |
| Water and Sewer | 0 | 0 | 1,312,449 | 1,070,598 | 1,312,449 | 1,070,598 |
| Total Expenses | 2,175,755 | 2,635,753 | 1,312,449 | 1,070,598 | 3,488,204 | 3,706,351 |
| Change in Net Position | 200,182 | 669,563 | -381,579 | -165,535 | -181,397 | 504,028 |
| Net Position – July 1 restated | 5,191,630 | 4,508,774 | 4,499,957 | 4,665,492 | 9,691,587 | 9,174,266 |
| Prior Period Adjustment | -108,067 | 13,293 | 0 | 0 | -108,067 | 13,293 |
| Net Position – June 30 | 5,283,745 | 5,191,630 | 4,118,378 | 4,499,957 | 9,402,123 | 9,691,587 |

Budgetary Highlights

The majority of the City’s budget in FY 2015-16 was based on four main revenue sources: *property taxes, charges for utility services, grants & contributions and state-shared revenues*. Ithaca continues to have a conservative fiscal philosophy in being good stewards of the public’s money. This philosophy has translated into preparing for economic challenges while maintaining the solid foundation of our operations.



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



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

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

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

- \$200,000 (\$40,000 local match) Downtown Improvement Grant (DIG) project, which improved a parking lot and alley on the north side of downtown.
- \$183,000 (\$70,000 match) MI Department of Natural Resources (MDNR) Trust Fund grant to develop the youth soccer complex at McNabb Park.
- \$3,500 (50% match) Gratiot Co. Community Foundation (GCCF) grant for new swingsets also at McNabb Park.
- \$70,000 (private match) Michigan State Housing Development Authority (MSHDA) grant to renovate two upper-level downtown apartments.
- \$243,900 (private match) MSHDA grant to renovate six homes occupied by low-moderate income homeowners.
- \$108,778 (50% match) MI Department of Environmental Quality (MDEQ) Scrap Tire Paving grant for re-paving two blocks of downtown streets.
- \$794,000 (\$75,000 match) DIG to improve the downtown streetscape with new stamped/colored concrete walks, decorative lights, benches, bike racks and the construction of a 20' x 69' covered Farm Market structure.
- Since FY 2009-10, received \$198,771 from several grantor agencies (MDNR, GCCF, Federal Aid to Firefighters, Luneak Family Foundation, Emerson Twp. grant, IFD Memorial Fund) for Fire Department vehicles, turnout gear and equipment with total cost of \$444,228 (grants covered 45% of costs).
- \$2.2 million (\$40,000 City match) 2016 MI Department of Transportation (MDOT) grant for the now completed new non-motorized pathway along the east side of US-127, from Washington Avenue in Ithaca to Lincoln Street in Alma.
- An as-yet-to-be-determined value, grant/donation from Dr. E. Malcolm Field (neurosurgeon & philanthropist from Saginaw, MI) through Skyweb Networks (Wi-Fi provider with dishes on City's west water tower) for the installation of free Wi-Fi and security camera systems in the City's two major parks (Wi-Fi is operational, 1 of 4 cameras installed).
- \$118,400 (City provides 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.) This funding has been earmarked for construction in May 2017.

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

- Renovate additional vacant upper-level downtown spaces into apartments (MSHDA/MEDC).
- Renovate several downtown store facades (MEDC).
- Improve the alley & the two public parking areas in the southwest corner of downtown near the Farmers Market Pavilion and behind the Library (MEDC-DIG).
- Implement a *Safe Routes to School* program, including grants to improve infrastructure (sidewalks, crosswalks, lighting, signage, bike routes, etc.) to ensure safe walking & biking to elementary & middle school facilities (MDOT).
- Prepare storm sewer, sanitary sewer and water system asset management plans (MDEQ).
- Install new high-efficiency furnaces for the original fire station, the fire station addition, the community center and the former police department offices (Consumers Energy).

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

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

Rates were raised for FY 2015-16 as a result of the Water and Sewer Rate Study and City Council action by resolution: water rates were increased by 2.88% and sewer rates by 2.5%.

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

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

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

National and International Economic Forecast

According to Moody's November 28, 2016 Credit Outlook report, a modest revival in global growth and sustained low interest rates provide a reasonably stable backdrop for global credit in 2017, and Moody's does not foresee a major spike in defaults. However, nine years after the global financial crisis, the world economy is still meandering along a path of disappointing growth. And there are a number of challenges that will translate into more uncertain economic

and credit outcomes over the coming year. These challenges include concerns over the efficacy of monetary policy, a busy election calendar in Europe and the policy implications of Donald Trump's election as U.S. President. Moody's expects the U.S. economy to grow around 2.2% in 2017 and 2.1% in 2018, after having grown at an estimated 1.6% in 2016.

The global macroeconomic outlook in the table below shows the U.S. outpacing the G-20 Advanced economies in real GDP growth percentage in all four years from 2015 to 2017, but trailing the G-20 Emerging economies in GDP growth rates for 2017 and 2018, respectively.

| Global Macroeconomic Outlook for G20 Countries 2017 – 2018 | | | | | | | | | | | | | |
|--|-------------------|------------|------------|------------|---------------------------------|----------------|------|------|------|---------------------|------|------|------|
| Indicators | Real GDP Growth % | | | | Inflation % Change (Dec.-Dec.)* | | | | | Unemployment Rate % | | | |
| | Countries | 2015 | 2016 | 2017 | 2018 | Current Target | 2015 | 2016 | 2017 | 2018 | 2015 | 2016 | 2017 |
| G-20 Advanced | 2.0 | 1.5 | 1.8 | 1.7 | | | | | | | | | |
| United States | 2.6 | 1.6 | 2.2 | 2.1 | 2.0% | 0.7 | 1.7 | 2.3 | 2.1 | 5.3 | 4.9 | 4.9 | 4.9 |
| Euro Area | 2.0 | 1.5 | 1.3 | 1.3 | 2.0% | 0.1 | 0.2 | 1.0 | 1.3 | 10.6 | 10.3 | 9.9 | 9.6 |
| Japan | 0.5 | 0.7 | 0.9 | 0.5 | 2.0% | 0.2 | -0.5 | 0.6 | 1.0 | 3.4 | 3.2 | 3.2 | 3.2 |
| Germany | 1.7 | 1.7 | 1.5 | 1.4 | 2.0% | 0.3 | 0.5 | 1.5 | 1.6 | 4.6 | 4.6 | 4.7 | 4.7 |
| United Kingdom | 2.2 | 1.9 | 1.0 | 1.0 | 2.0% | 0.2 | 1.5 | 2.6 | 2.0 | 5.3 | 5.0 | 5.2 | 5.5 |
| France | 1.3 | 1.3 | 1.3 | 1.4 | 2.0% | 0.3 | 0.9 | 1.0 | 1.6 | 10.4 | 9.9 | 9.8 | 9.6 |
| Italy | 0.7 | 0.8 | 0.8 | 1.0 | 2.0% | 0.1 | 0.0 | 0.7 | 1.0 | 11.9 | 11.4 | 11.2 | 10.8 |
| Canada | 1.1 | 1.1 | 1.9 | 2.0 | 2.0% (+/- 1.0%) | 1.3 | 1.4 | 2.0 | 2.0 | 6.9 | 7.0 | 6.9 | 6.7 |
| Australia | 2.5 | 3.0 | 2.7 | 2.8 | 2.0% - 3.0% | 1.7 | 1.5 | 2.0 | 2.3 | 6.1 | 5.8 | 5.7 | 5.6 |
| South Korea | 2.6 | 2.7 | 2.5 | 2.0 | 2.0% | 1.3 | 1.5 | 2.3 | 2.3 | 3.6 | 3.6 | 3.3 | 3.3 |
| G-20 Emerging | 4.5 | 4.4 | 4.9 | 5.0 | | | | | | | | | |
| China | 6.9 | 6.7 | 6.3 | 6.0 | 3.0% | 1.6 | 2.0 | 2.5 | 2.7 | | | | |
| India | 7.6 | 7.5 | 7.5 | 7.6 | 4.0% (+/- 2.0%) | 4.8 | 4.5 | 5.2 | 5.5 | | | | |
| Brazil | -3.8 | -3.5 | 0.9 | 1.5 | 4.5% (+/- 2.0%) | 10.7 | 7.5 | 5.5 | | | | | |
| Russia | -3.7 | -1.0 | 1.0 | 1.5 | 4.0% | 12.9 | 5.6 | 4.3 | 3.7 | | | | |
| Mexico | 2.5 | 2.0 | 1.9 | 2.3 | 3.0% (+/- 1.0%) | 2.1 | 3.0 | 3.2 | 3.0 | | | | |
| Indonesia | 4.8 | 5.0 | 5.2 | 5.3 | 4.0% (+/- 1.0%) | 3.4 | 3.5 | 4.0 | 4.0 | 6.2 | 5.6 | 5.5 | 5.5 |
| Turkey | 4.0 | 2.7 | 2.3 | 3.0 | 5.0% (+/- 2.0%) | 8.8 | 8.5 | 8.2 | 8.0 | | | | |
| Saudi Arabia | 3.5 | 1.2 | 1.5 | 1.8 | | 2.3 | 4.6 | 3.3 | 3.3 | | | | |
| Argentina | 2.5 | -1.5 | 3.0 | 3.5 | 12.0% - 17.0% | 27.0 | 40.0 | 20.0 | 12.0 | | | | |
| South Africa | 1.3 | 0.2 | 1.0 | 1.7 | 3.0% - 6.0% | 5.2 | 6.9 | 5.7 | 5.5 | | | | |
| G-20 All | 2.9 | 2.6 | 2.9 | 2.9 | | | | | | | | | |

* CPI for Euro Area reflects average

Note: **Green shading** denotes an improvement from the August 2016 Global Macroeconomic Outlook of 0.3 percentage points or more. **Red shading** denotes a deterioration of the same magnitude.

Source: Moody's Investors Service: "Cross Sector", November 14, 2016

"The U.S. economic recovery, which began in mid-2009, is in its seventh year of expansion. After recording low growth in the first half of 2016, the U.S. economy picked up pace in the third quarter, growing at a quarterly annualized rate of 2.9% (1.5% from a year ago), according to the third-quarter advanced estimate from the *U.S. Commerce Department's Bureau of Economic Analysis*. Assuming another strong fourth-quarter, we project real GDP to grow at 1.6% for 2016. We expect the U.S. economy to bounce back and grow around 2%-2.5% in both 2017 and 2018.

So far in 2016, consumer spending has remained strong, even when business investment spending in the energy and manufacturing sectors was suppressed during the first half of the year. Determinants of consumer spending—employment prospects, real wage growth, household wealth, overall household debt levels and credit availability—are expected to continue to improve. Employment gains and rising incomes should continue to support house prices and residential investment. Investment in the energy and mining sector has declined by an average

annual rate of 37% since the end of 2014, accounting for much of the retrenchment in overall capital expenditures. Looking forward, we expect that growth of business investment will pick up, as the drag related to the pullback in the energy and mining sectors fades.

Risks to U.S. macroeconomic forecasts depend on the direction of economic policies of the incoming administration. While prolonged policy uncertainty could weigh on already weak investment growth, there could be an upside to growth from increased fiscal expenditure, especially infrastructure spending, and tax cuts. A protectionist stance on trade and immigration would be detrimental in the medium term.

We expect that growth will remain subdued and close to 2% over the medium term, under the assumption that productivity growth will return to the average annual rate of around 1.5% observed over the period 1970-95, before the gains from adoption of computers and information technology materialized. That said, we recognize that technological advancements could meaningfully reverse this trend in the future. It remains to be seen whether ongoing innovations including artificial intelligence, cloud computing, big data, and the Internet of things find applications in the way goods and services are produced and delivered, so as to enhance labor productivity, just as computers did over the decade from mid-1990 to mid-2000.”

Source: Moody's Investors Service: “Cross Sector”, November 14, 2016

State of Michigan Economic Forecast

Assuming no major economic disruptions from the incoming new federal administration, Michigan should see continued growth in both the General Fund and the School Aid Fund, economists with the Research Seminar in Quantitative Economics (RSQE) at the University of Michigan said in a presentation Friday, November 18th. Following are highlights of the presentation obtained in part from the report and from Gongwer’s reporting of the presentation.

- Though growth in both jobs and personal income is expected to slow over the coming two years, the report predicted faster growth in state revenues, largely because of increasing business tax revenues.
- But income tax revenues will remain steady because of the improving job picture. General Fund revenues could be expected to grow by 4% for both fiscal year 2016-17 and 2017-18. The 2.1% decline for the 2015-16 fiscal year was anticipated given the outstanding business tax credits expected to be used that year.
- The School Aid Fund will grow 3% for FY 2016-17 on improving sales and use tax revenues. Income tax and the state school property tax are projected to add to the mix for 2017-18, meaning a 3.6% increase that year.
- The state revenue increases are among the benefits of the state completing nine years of recovery since the end of the Great Recession, if projections for 2017 and 2018 hold. Job growth would hold steady at between 1.1% and 1.2% for the next two years, with the state gaining 41,600 jobs in 2017 and 50,000 jobs in 2018. That growth is down from average growth for 2009-16, but the state's labor market is also getting tighter. That would replenish seven in 10 of the jobs it lost from spring of 2000 to summer of 2009. The state lost 858,100

jobs during those nine years. With the projected job gains, the state would have recovered 605,700 jobs by the end of 2018.

- Jobs growth in the state has tracked with light vehicle sales. It is clear that when Michigan Detroit Three vehicle sales are rising, so does total employment; when vehicle sales plummet, so does employment. When vehicle sales are stable, jobs can continue to grow. RSQE predicted Detroit Three vehicle sales would hold steady at 7.5 million units for 2017 and 2018, up from 7.4 million for 2016, but down from 7.6 million in 2015. Overall vehicle sales are predicted to slide from the 17.4 million for 2015 and 2016 to 17.2 million by 2018.
- RSQE was also predicting manufacturing would drop from its role as a key driver of the state's recovery, instead losing some 10,000 jobs by the end of 2018. Professional and business services, though only 15% of the state's labor force, will account for a third of the jobs created over the next two years. Leisure and hospitality, now 9.8% of the workforce, is expected to account for 15.6% of projected job gains.
- The unemployment rate in 2016 is projected to average 4.6%, and 2017 and 2018 are projected to match that as the workforce continues to grow. Personal income growth is expected to tick up over the coming two years after dropping in 2016. Incomes grew by 4.6% in 2015 but are projected at only 3.5% when 2016 completes. Income growth should inch up to 3.7% for 2017 and to 4.3% in 2018. Disposable income growth is expected to remain at half the 5.5% level of 2015, which was the result of falling energy prices. Disposable income should grow 2.1% for 2016, 1.4% for 2017 and 2.4% for 2018. The tight labor market will affect that disposable income by driving up inflation.
- AUTOMOTIVE SECTOR: David Andrea with the Center for Automotive Research agreed with the projected automotive sales numbers but said the industry is also seeing a substantial restructuring to accommodate technology changes. A key factor to watch is mergers as particularly suppliers reposition to meet the new market. But, at least in the short term, there would not be a mass exodus from privately-owned vehicles.
- HOUSING: David Berson with Nationwide Economics said housing is something of a bright spot, with housing prices returning to near pre-recession rates. And he said this time factors that hinted at the bubble burst are favorable for continued growth. Among the key concerns before the housing bubble ended was investor ownership of homes and levels of mortgage defaults. Outside a few key areas nationally, neither of those factors shows reason for concern. Mr. Berson said housing starts, though, are not likely to rise because current financing rules make it difficult to purchase and prepare vacant parcels for new subdivisions. He did expect overall some loosening of lending rules, but not enough to substantially increase currently low levels of default risk.
- PRESIDENTIAL ELECTION: But an undercurrent of all of the predictions was uncertainty resulting from the presidential election. A full blown trade war would be a disaster, based on Mr. Trump's assertions that he would revisit trade agreements and increase some tariffs. But he also did not expect a trade war. We expect much of the camp rhetoric on trade to be overblown," he said. "As long as economic policy remains prudent, we expect more

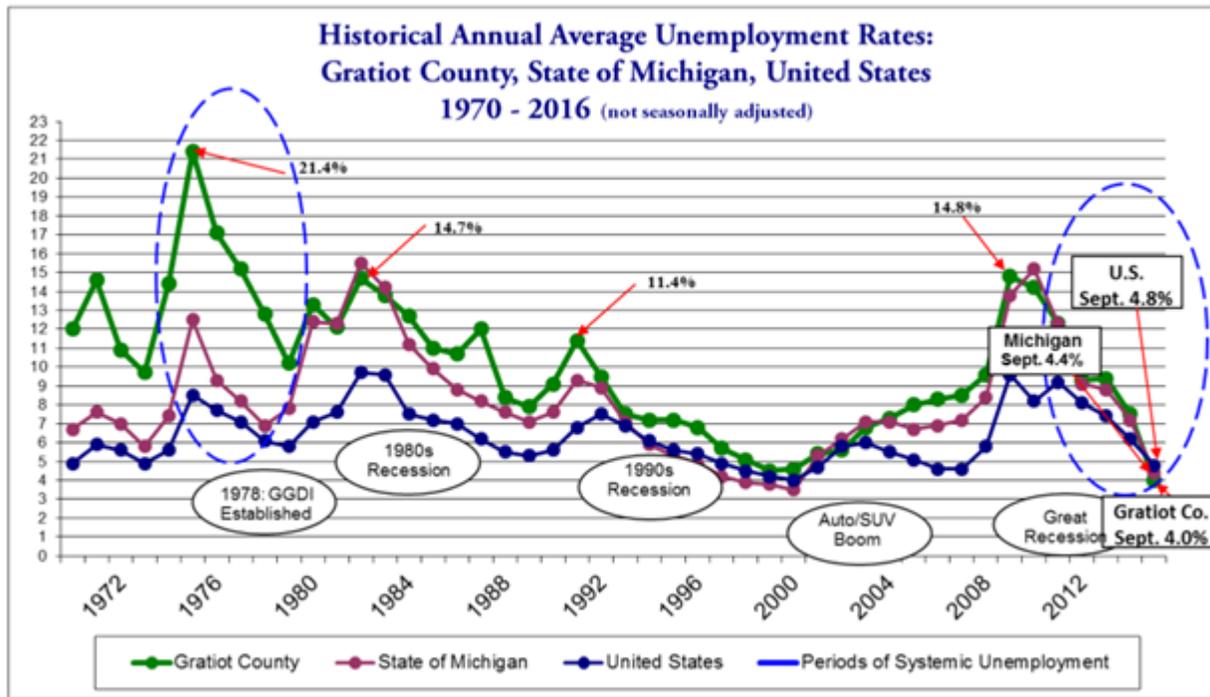
economic growth in Michigan. Mr. Fulton said economists are also expecting that any changes in the Patient Protection and Affordable Care Act, which Mr. Trump has vowed to replace, would not affect Medicaid expansion programs in the states that adopted them. But he said federal tax rates would likely fall, increasing the deficit. Mr. Berson said it was expected that interest rates would climb with the increased deficits predicted from Mr. Trump's proposed tax changes. But he said housing was otherwise in question. "Trump really didn't mention housing at all," Mr. Berson said. "We don't know what he thinks about Fanny (Mae) and Freddy (Mac)."

Source: Gongwer November 18, 2016, Report: "State Revenues to see Continued Growth"

Gratiot County Economic Conditions

The economic conditions within the State of Michigan and Gratiot County continue to improve in 2016. The Gratiot County jobless rate in September 2016 is now lower than both the national and state rates. This has happened only one other time (2002) since 1970. As seen on

| Jobless Rate Comparison Sept. 2016 | |
|---------------------------------------|------|
| United States | 4.8% |
| State of Michigan | 4.4% |
| Gratiot County | 4.0% |



the graphic on the next page, it has slowly continued to drop from its most recent high of 14.8% in 2010 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 30th out of 83 counties in Michigan. Ottawa Co. in west Michigan is lowest at 2.7% while Montmorency in northeast Michigan is highest at 7.1%

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 [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 at right](#) from September 2016 shows a somewhat smaller labor force, a significantly lower number of unemployed, and an unemployment rate down to 4.0%, implying a slow but steady improvement in the 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.

| Gratiot County Sept. 2016 Employment Data | |
|---|--------|
| Labor Force | 18,000 |
| Employed | 17,289 |
| Unemployed | 711 |
| Jobless Rate | 4.0% |

An interesting statistical fact is that 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 2016. As of June 30, 2016, there was only one unoccupied industrial building in the City. Several downtown buildings and storefronts have seen new owners and/or tenants. Only three storefronts are vacant; owners of two of those have plans for renovating the buildings and occupying the buildings. Another vacant downtown building that burned due to an arsonist fire about 18 months ago is finally being restored by the owner after lengthy insurance and legal issues were resolved.

Housing wise, while there have only been a couple of new housing units constructed in the last two years, demand for existing homes has been strong. Listing times for homes for sale have continued to decrease, with many only being offered for sale for several weeks before offers are tendered for purchase. Occupancy in the many multi-family buildings and developments have been very high, with waiting lists for open rental units. The City Council just reduced prices for vacant lots in the City-developed Westwind Estates residential housing subdivision, where only eight vacant lots of the buildable 39 lots remain for sale. Several recent inquiries have been made by interested buyers since the Council reduced the lot prices.

The 435-acre former ICM property to the east of US-127 and south of Washington Road was sold two 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 working with Greater Gratiot Development, Inc. (GGDI) since they purchased the property to repurpose the site for the construction of a soybean processing and storage facility. The City

has been actively assisting GGDI with the ZFS redevelopment for a little more than a year. Last year the City extended a municipal water main to the ZFS property so that water would be available when ZFS needs it, and to serve additional properties east of the highway.

The City, along with its economic development partners GGDI and the State MEDC have crafted an incentive package for ZFS that has now largely been approved by the 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 the next three years. ZFS anticipates creating approximately 250 construction jobs and hiring approximately 74 full-time employees when the facility begins production in late 2018. 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. 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 74 new jobs on the local economy will be large for the commercial, housing and agricultural sectors.

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

Finally, as previously discussed in this 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 offering resulted in a debt service saving of over \$500,000 in interest.

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

PRINCIPAL BASE EMPLOYERS / SIGNIFICANT INDUSTRY
 DEMONSTRATING SELECT SIGNIFICANT INDUSTRY & DIVERSITY BY SECTOR
 SEPTEMBER 2016

| ITHACA EMPLOYER | PRIVATE FTE* | PUBLIC/ NP FTE* | PRODUCT/SERVICE | NAICS** |
|---|---------------------|------------------------|--|----------------|
| Clover Technologies (Cartridges Are Us- CAU) | 211.0 | | Inkjet printer cartridge refilling & OEM supply | 325910 |
| Gratiot County Courthouse | | 163.0 | County governmental services | 921190 |
| Hutchinson Aerospace & Industry (formerly Barry Controls) | 147.5 | | OEM anti-vibration components for the transportation industry | 336399 |
| Ithaca Public Schools | | 121.0 | Public school district K-12 | 611110 |
| Anchor Danly | 78.0 | | Presses, machine tools, die sets & die maker supplies | 33514 |
| Craig Frames | 65.0 | | Manufacturer of wood & metal picture frames | 339999 |
| Commercial Bank- HQ & Branch | 64.0 | | Private financial institution | 522110 |
| Aircraft Precision Products | 58.5 | | Parts & components for jet aircraft engines | 336413 |
| Family Independence Agency | | 37.0 | State social services agency | 624190 |
| Gratiot County Road Commission | | 34.0 | Countywide road maintenance | 921190 |
| Dufrene Machinery, Inc. | 25.0 | | Manufacturer of corrugated container machines & general equipment rigging | 333291 |
| DuPont Pioneer | 21.0 | | Agricultural research & development | 541710 |
| Precision Machine & Manufacturing | 19.0 | | Custom machining & fabrication | 33271 |
| C & S Steel | 18.0 | | Steel sales & fabrication | 331111 |
| City of Ithaca | | 16.2 | Municipal governmental services | 921190 |
| Mid-MI District Health Dept. | | 15.5 | District public health agency | 923120 |
| Clean Harbors | 10.0 | | Environmental remediation equipment | 562910 |
| E & S Graphics | 7.5 | | Printing, photo-offset | 323110 |
| Gratiot County Herald | 8.5 | | Countywide print & online newspaper | 511110 |
| Tractor Supply Co. | 7.5 | | Retail of agricultural supplies & equipment | 444220 |
| Mercantile Bank Branch | 7.5 | | Private financial institution | 522110 |
| Ithaca Manufacturing | 7.0 | | Custom manufactured steel products | 336999 |
| Mid-MI Specialty Crops | 7.0 | | Custom processing & identity preserved crops; organic-certified processing facility; storage | 493130 |
| Isabella Bank Branch | 6.5 | | Private financial institution | 522110 |
| Seventh Day Adventist School | | 6.0 | Parochial school K-9 | 611110 |
| Universal Bearings (formerly Precision Plastics & Die) | 5.5 | | Thermoset compression & injection molded plastic parts | 326199 |
| Mich. State University Extension | | 4.5 | University rural/agricultural education | 926140 |
| Misenhelder Welding | 4.5 | | Welding services | 811310 |
| Exelon (formerly Nordex) | 4.0 | | Wind turbine farm maintenance & operations facility | 221115 |
| Gratiot Community Credit Union | 3.5 | | Private financial institution | 522130 |
| Monosem, Inc. | 3.0 | | Fabrication & assembly of precision agricultural planters | 333111 |
| Powder Coating of Central Mich. | 2.5 | | Powder coating of metal parts | 332812 |
| TOTALS: | 791.5 | 397.2 | | |

Sources: 2016 Gratiot Community Employment Profile, Greater Gratiot Development, Inc.; and Direct contact with employers.

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

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

Contacting the City's Financial Management Team

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

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

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

Chris A. Yonker

Chris A. Yonker
City Manager
manager@ithacami.com

Barbara Fandell

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

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**



City of Ithaca
Statement of Net Position
June 30, 2016

| | PRIMARY GOVERNMENT | | | Component Units |
|---|----------------------------|-----------------------------|---------------------|--------------------|
| | Governmental Activities | Business-Type Activities | Total | |
| Assets | | | | |
| Current assets | | | | |
| Cash and investments | \$ 2,579,773 | \$ 1,524,300 | \$ 4,104,073 | \$ 43,054 |
| Accounts receivable - net | 29,502 | 181,049 | 210,551 | 45 |
| Property taxes receivable | 1,402,020 | 243,933 | 1,645,953 | 14,717 |
| Due from other governments | 111,503 | - | 111,503 | - |
| Due from agency fund | 1,000 | - | 1,000 | - |
| Inventories | - | 35,826 | 35,826 | - |
| Total current assets | 4,123,798 | 1,985,108 | 6,108,906 | 57,816 |
| Noncurrent assets | | | | |
| Long term notes receivable | 108,116 | - | 108,116 | - |
| Land | 181,681 | - | 181,681 | - |
| Capital assets - net of depreciation | 2,098,102 | 6,800,149 | 8,898,251 | - |
| Total noncurrent assets | 2,387,899 | 6,800,149 | 9,188,048 | - |
| Total assets | 6,511,697 | 8,785,257 | 15,296,954 | 57,816 |
| Deferred Outflows of Resources | | | | |
| Deferred outflow -related to pension | 192,940 | 128,626 | 321,566 | - |
| Liabilities | | | | |
| Current liabilities | | | | |
| Accounts payable | 72,256 | 36,276 | 108,532 | 73 |
| Accrued and other liabilities | 49,955 | 11,526 | 61,481 | - |
| Accrued interest | - | 33,879 | 33,879 | - |
| Compensated absences, due within one year | 10,703 | - | 10,703 | - |
| Bonds payable, due within one year | - | 100,000 | 100,000 | - |
| Total current liabilities | 132,914 | 181,681 | 314,595 | 73 |
| Noncurrent liabilities | | | | |
| Bonds payable, due beyond one year | - | 3,500,000 | 3,500,000 | - |
| Bond premium, net of amortization | - | 244,893 | 244,893 | - |
| Customer deposits | - | 15,300 | 15,300 | - |
| Compensated absences | 39,402 | 21,246 | 60,648 | - |
| Net pension liability | 1,248,576 | 832,385 | 2,080,961 | - |
| Total noncurrent liabilities | 1,287,978 | 4,613,824 | 5,901,802 | - |
| Total liabilities | 1,420,892 | 4,795,505 | 6,216,397 | 73 |
| Net position | | | | |
| Net investment in capital assets | 2,098,102 | 3,200,149 | 5,298,251 | - |
| Restricted | 1,488,266 | - | 1,488,266 | - |
| Unrestricted | 1,697,377 | 918,229 | 2,615,606 | 57,743 |
| Total net position | \$ 5,283,745 | \$ 4,118,378 | \$ 9,402,123 | \$ 57,743 |

City of Ithaca
Statement of Activities
For the Year Ended June 30, 2016

| Functions / Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position | | | Component Units |
|------------------------------------|---------------------|----------------------|------------------------------------|---|--------------------------|---------------------|------------------|
| | | Charges for Services | Operating Grants and Contributions | Governmental Activities | Business-Type Activities | Total | |
| Governmental activities | | | | | | | |
| General government | \$ 533,802 | \$ 41,633 | \$ 46,468 | \$ (445,701) | \$ - | \$ (445,701) | \$ - |
| Public safety | 655,911 | 150,798 | - | (505,113) | - | (505,113) | - |
| Public works | 518,967 | - | 405,283 | (113,684) | - | (113,684) | - |
| Community and economic development | 3,895 | - | - | (3,895) | - | (3,895) | - |
| Recreation and cultural | 463,180 | 3,908 | 90,317 | (368,955) | - | (368,955) | - |
| Total governmental activities | 2,175,755 | 196,339 | 542,068 | (1,437,348) | - | (1,437,348) | - |
| Business-type activities | | | | | | | |
| Water and Sewer | 1,312,449 | 666,373 | - | - | (646,076) | (646,076) | - |
| Total primary government | <u>\$ 3,488,204</u> | <u>\$ 862,712</u> | <u>\$ 542,068</u> | (1,437,348) | (646,076) | (2,083,424) | - |
| Component units | | | | | | | |
| Downtown Development Authority | <u>\$ 4,979</u> | <u>\$ -</u> | <u>\$ -</u> | - | - | - | (4,979) |
| General revenues | | | | | | | |
| Property taxes | | | | 1,200,947 | 247,687 | 1,448,634 | 13,979 |
| State grants | | | | 303,277 | - | 303,277 | - |
| Unrestricted investment earnings | | | | 50,086 | 2,908 | 52,994 | 22 |
| Loss on disposal of capital assets | | | | - | - | - | - |
| Transfers | | | | 10,920 | - | 10,920 | (10,920) |
| Other revenues | | | | 72,300 | 13,902 | 86,202 | 4,146 |
| Total general revenues | | | | <u>1,637,530</u> | <u>264,497</u> | <u>1,902,027</u> | <u>7,227</u> |
| Change in net position | | | | 200,182 | (381,579) | (181,397) | 2,248 |
| Net position - beginning of year | | | | 5,191,630 | 4,499,957 | 9,691,587 | 55,495 |
| Prior period adjustment | | | | (108,067) | - | (108,067) | - |
| Net position - end of year | | | | <u>\$ 5,283,745</u> | <u>\$ 4,118,378</u> | <u>\$ 9,402,123</u> | <u>\$ 57,743</u> |

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, 2016

| | General Fund | Major Street | Local Street | Library | Fire Operating | First Responder | Non-Major Governmental Funds | Total Governmental Funds |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|------------------------------------|--------------------------------|
| Assets | | | | | | | | |
| Cash and investments | \$ 906,066 | \$ 243,774 | \$ 106,188 | \$ 109,457 | \$ 116,075 | \$ 124,272 | \$ 695,945 | \$ 2,301,777 |
| Accounts receivable - net | 9,183 | - | 102 | - | - | - | - | 9,285 |
| Notes receivable | 500 | - | - | - | - | - | 678 | 1,178 |
| Due from other funds | 1,000 | - | - | - | - | - | 96,750 | 97,750 |
| Due from other governments | 54,035 | 46,707 | 10,761 | - | - | - | - | 111,503 |
| Total assets | \$ 970,784 | \$ 290,481 | \$ 117,051 | \$ 109,457 | \$ 116,075 | \$ 124,272 | \$ 793,373 | \$ 2,521,493 |
| Liabilities | | | | | | | | |
| Accounts payable | \$ 45,435 | \$ 4,026 | \$ 4,156 | \$ 2,800 | \$ 11,637 | \$ 2,487 | \$ - | \$ 70,541 |
| Accrued liabilities | 11,774 | 1,155 | 1,392 | 2,562 | 21,865 | 10,363 | - | 49,111 |
| Due to other funds | 96,750 | - | - | - | - | - | - | 96,750 |
| Total liabilities | 153,959 | 5,181 | 5,548 | 5,362 | 33,502 | 12,850 | - | 216,402 |
| Fund balances | | | | | | | | |
| Restricted | - | 285,300 | 111,503 | 104,095 | 82,573 | 111,422 | 793,373 | 1,488,266 |
| Unassigned | 816,825 | - | - | - | - | - | - | 816,825 |
| Total fund balances | 816,825 | 285,300 | 111,503 | 104,095 | 82,573 | 111,422 | 793,373 | 2,305,091 |
| Total liabilities and fund balance | \$ 970,784 | \$ 290,481 | \$ 117,051 | \$ 109,457 | \$ 116,075 | \$ 124,272 | \$ 793,373 | \$ 2,521,493 |

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, 2016

| | |
|---|--------------|
| Total fund balance - governmental funds | \$ 2,305,091 |
| <p>Amounts reported for governmental activities in the statement of net position are different because:</p> | |
| <p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p> | |
| Add: capital assets | 4,928,993 |
| Deduct: accumulated depreciation | (3,181,931) |
| <p>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.</p> | |
| Add: net position of governmental activities accounted for in the internal service fund | 828,375 |
| <p>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.</p> | |
| Add: property tax receivable | 1,402,020 |
| Add: balance of long-term loans receivable | 106,938 |
| <p>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:</p> | |
| Add: deferred outflow - related to pension | 192,940 |
| Deduct: net pension liability | (1,248,576) |
| Deduct: compensated absences | (50,105) |
| Total net position - governmental activities | \$ 5,283,745 |

City of Ithaca
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2016

| | General Fund | Major Street | Local Street | Library | Fire Operating | First Responder | Non-Major Governmental Funds | Total Governmental Funds |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|------------------------------------|--------------------------------|
| Revenues | | | | | | | | |
| Taxes and penalties | \$ 1,018,889 | \$ - | \$ - | \$ 133,927 | \$ - | \$ - | \$ - | \$ 1,152,816 |
| Licenses and permits | 11,715 | - | - | - | - | - | - | 11,715 |
| Federal grants | - | - | - | - | - | - | - | - |
| State grants | 303,277 | 326,228 | 79,055 | 5,068 | - | - | 46,468 | 760,096 |
| Charges for services | 21,118 | - | - | 3,908 | 114,452 | 36,346 | 8,800 | 184,624 |
| Fines and forfeits | - | - | - | 85,249 | - | - | - | 85,249 |
| Interest and rentals | 47,328 | 105 | 44 | 1,205 | 76 | 89 | 925 | 49,772 |
| Other revenues | 46,776 | 1,010 | 2,826 | 8,089 | 5,691 | 1,922 | 8,816 | 75,130 |
| Total revenues | 1,449,103 | 327,343 | 81,925 | 237,446 | 120,219 | 38,357 | 65,009 | 2,319,402 |
| Expenditures | | | | | | | | |
| General government | 437,670 | - | - | - | - | - | 44,028 | 481,698 |
| Public safety | 390,615 | - | - | - | 165,428 | 67,421 | - | 623,464 |
| Public works | 172,642 | 245,418 | 100,907 | - | - | - | - | 518,967 |
| Community and economic development | 3,895 | - | - | - | - | - | - | 3,895 |
| Recreation and cultural | 104,229 | - | - | 352,614 | - | - | - | 456,843 |
| Other expenditures | 98,192 | - | - | - | - | - | - | 98,192 |
| Total expenditures | 1,207,243 | 245,418 | 100,907 | 352,614 | 165,428 | 67,421 | 44,028 | 2,183,059 |
| Excess of revenues over (under) expenditures | 241,860 | 81,925 | (18,982) | (115,168) | (45,209) | (29,064) | 20,981 | 136,343 |
| Other financing sources (uses) | | | | | | | | |
| Transfers in | 38,035 | - | 66,509 | - | 67,548 | 36,154 | 17,001 | 225,247 |
| Transfers out | (127,017) | (66,509) | - | - | (15,001) | (2,000) | (6,000) | (216,527) |
| Total other financing sources (uses) | (88,982) | (66,509) | 66,509 | - | 52,547 | 34,154 | 11,001 | 8,720 |
| Excess of revenues and other sources over (under) expenditures and other uses | 152,878 | 15,416 | 47,527 | (115,168) | 7,338 | 5,090 | 31,982 | 145,063 |
| Fund balance, beginning of year | 663,947 | 269,884 | 63,976 | 219,263 | 75,235 | 106,332 | 761,391 | 2,160,028 |
| Fund balance, end of year | <u>\$ 816,825</u> | <u>\$ 285,300</u> | <u>\$ 111,503</u> | <u>\$ 104,095</u> | <u>\$ 82,573</u> | <u>\$ 111,422</u> | <u>\$ 793,373</u> | <u>\$ 2,305,091</u> |

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

City of Ithaca
 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2016

Change in fund balances - total governmental funds \$ 145,063

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 | 267,270 |
| Deduct: depreciation expense | (98,206) |

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: increase in property tax accrual | 48,131 |
| Deduct: long-term loan receivable payments | (1,358) |
| Deduct: special assessment payments | (1,472) |

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.

| | |
|---|-------|
| Add: net income of internal service funds | 2,802 |
|---|-------|

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.

| | |
|---|-----------|
| Add: change in deferred outflow - related to pensions | 152,357 |
| Deduct: increase in net pension liability | (321,001) |
| Add: increase in accrual for compensated absences | 6,596 |

| | |
|--|------------|
| Change in net position - governmental activities | \$ 200,182 |
|--|------------|

City of Ithaca
Statement of Net Position
Proprietary Funds
June 30, 2016

| | Business-Type Activities Enterprise Funds | Governmental Activities |
|---------------------------------------|--|------------------------------------|
| | Water and Sewer | Internal Service Funds |
| Assets | | |
| Current assets | | |
| Cash and investments | \$ 1,524,300 | \$ 277,996 |
| Accounts receivable - net | 181,049 | 20,217 |
| Property taxes receivable | 243,933 | - |
| Inventories | 35,826 | - |
| Total current assets | 1,985,108 | 298,213 |
| Noncurrent assets | | |
| Capital assets | | |
| Water and sewer system | 11,076,963 | - |
| Machinery and equipment | 14,688 | 1,364,281 |
| Less: accumulated depreciation | (4,291,502) | (831,560) |
| Total noncurrent assets | 6,800,149 | 532,721 |
| Total assets | 8,785,257 | 830,934 |
| Deferred Outflows of Resources | | |
| Deferred outflow - related to pension | 128,626 | - |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | 36,276 | 1,715 |
| Accrued liabilities | 11,526 | 844 |
| Accrued interest | 33,879 | - |
| Current portion of long-term debt | 100,000 | - |
| Total current liabilities | 181,681 | 2,559 |
| Noncurrent liabilities | | |
| Long-term debt | 3,500,000 | - |
| Bond premium, net of amortization | 244,893 | - |
| Customer deposits | 15,300 | - |
| Compensated absences | 21,246 | - |
| Net pension liability | 832,385 | - |
| Total noncurrent liabilities | 4,613,824 | - |
| Total liabilities | 4,795,505 | 2,559 |
| Net position | | |
| Net investment in capital assets | 3,200,149 | 532,721 |
| Unrestricted | 918,229 | 295,654 |
| Total net position | \$ 4,118,378 | \$ 828,375 |

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

City of Ithaca
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2016

| | Business-Type Activities Enterprise Funds | Governmental Activities |
|---|--|------------------------------------|
| | Water and Sewer | Internal Service Funds |
| Operating revenues | | |
| Water and sewer sales | \$ 658,144 | \$ - |
| Penalties and interest charges | 8,229 | - |
| Service charges | - | 131,027 |
| Property taxes | 247,687 | - |
| Miscellaneous revenues | 13,902 | 48,479 |
| Total operating revenues | 927,962 | 179,506 |
| Operating expenses | | |
| Water | | |
| Personnel services | 226,674 | - |
| Contractual services | 149,599 | - |
| Supplies | 6,406 | - |
| Depreciation | 172,963 | - |
| Other expenses | 55,067 | - |
| Sewer | | |
| Personnel services | 216,773 | - |
| Contractual services | 40,922 | - |
| Supplies | 20,280 | - |
| Depreciation | 92,843 | - |
| Other expenses | 26,778 | - |
| Other | | |
| Personnel services | - | 27,413 |
| Contractual services | - | 1,700 |
| Supplies | - | 50,821 |
| Depreciation | - | 77,487 |
| Other expenses | - | 21,797 |
| Total operating expenses | 1,008,305 | 179,218 |
| Operating income (loss) | (80,343) | 288 |
| Nonoperating revenues (expenses) | | |
| Interest revenue | 2,908 | 314 |
| Transfers in | - | 2,200 |
| Interest expense | (164,042) | - |
| Other expenses | (140,102) | - |
| Change in net position | (381,579) | 2,802 |
| Total net position, beginning of year | 4,499,957 | 825,573 |
| Total net position, end of year | \$ 4,118,378 | \$ 828,375 |

City of Ithaca
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016

| | Business-Type Activities | Governmental |
|--|---------------------------------|------------------------------|
| | Enterprise Funds | Activities |
| | Water and Sewer | Internal Service Funds |
| Cash flows from operating activities | | |
| Receipts from customers | \$ 666,613 | \$ 192,190 |
| Payments to suppliers / outsiders | (19,248) | (77,807) |
| Payments to employees | (302,739) | (27,413) |
| Other receipts | 277,180 | - |
| Net cash provided by operating activities | 621,806 | 86,970 |
| Cash flows from noncapital financing activities | | |
| Transfer from other funds | - | 2,200 |
| Cash flows from capital and related financing activities | | |
| Purchase of capital assets | (69,585) | (138,160) |
| Loss on disposal | - | 6,800 |
| Proceeds from borrowing | 3,600,000 | - |
| Debt service costs | (4,109,144) | - |
| Net cash provided by (used in) capital and related financing activities | (578,729) | (131,360) |
| Cash flows from investing activities | | |
| Interest revenue | 2,908 | 314 |
| Net increase (decrease) in cash and cash equivalents | 45,985 | (41,876) |
| Cash and cash equivalents, beginning of year | 1,478,315 | 319,872 |
| Cash and cash equivalents, end of year | <u>\$ 1,524,300</u> | <u>\$ 277,996</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | |
| Operating income (loss) | \$ (80,343) | \$ 288 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities | | |
| Depreciation expense | 265,806 | 77,487 |
| Change in assets and liabilities | | |
| Receivables - net | 16,582 | 12,684 |
| Inventories | (2,201) | - |
| Bond amortization | 274,960 | - |
| Deferred outflows of resources related to pensions | (101,571) | - |
| Accounts and other payables | 34,572 | (3,489) |
| Net pension liability | 214,001 | - |
| Net cash provided by operating activities | <u>\$ 621,806</u> | <u>\$ 86,970</u> |

City of Ithaca
Statement of Net Position - Fiduciary Funds
June 30, 2016

| | Tax Fund | ICCA - Perk Up the Park Fund | Total |
|----------------------|-------------|---------------------------------|-----------|
| Assets | | | |
| Cash and equivalents | \$ 40,509 | \$ 809 | \$ 41,318 |
| Total assets | 40,509 | 809 | 41,318 |
| Liabilities | | | |
| Accounts payable | 39,509 | 809 | 40,318 |
| Due to other funds | 1,000 | - | 1,000 |
| Total liabilities | 40,509 | 809 | 41,318 |
| Net position | | | |
| Unrestricted | - | - | - |
| Total net position | \$ - | \$ - | \$ - |

City of Ithaca
Statement of Net Position - Component Unit
June 30, 2016

| | <u>Downtown Development Authority</u> |
|---------------------------|---|
| Assets | |
| Current assets | |
| Cash and equivalents | \$ 43,054 |
| Property taxes receivable | 14,717 |
| Accounts receivable - net | <u>45</u> |
| Total current assets | 57,816 |
| Liabilities | |
| Accounts payable | 73 |
| Accrued liabilities | <u>-</u> |
| Total liabilities | 73 |
| Net position | |
| Unrestricted | <u>57,743</u> |
| Total net position | <u><u>\$ 57,743</u></u> |

City of Ithaca
Statement of Activities - Component Unit
For the Year Ended June 30, 2016

| Functions / Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|---------------------------------------|----------|-------------------------|---------------------|--|
| | | Charges for Services | Operating Grants | |
| Downtown Development Authority | | | | |
| General government | \$ 4,979 | \$ - | \$ - | \$ (4,979) |
| General Revenues | | | | |
| Property taxes | | | | 13,979 |
| Unrestricted investment earnings | | | | 22 |
| Other revenues | | | | 4,146 |
| Transfers in | | | | 14,000 |
| Transfers out | | | | (24,920) |
| Total general revenues | | | | <u>7,227</u> |
| Change in net position | | | | 2,248 |
| Net position, beginning of year | | | | <u>55,495</u> |
| Net position, end of year | | | | <u>\$ 57,743</u> |

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

NOTES TO THE FINANCIAL STATEMENTS



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

The accompanying financial statements present the City and its component unit, and 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 was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of the Mayor and ten individuals appointed by the City Council. In addition, the Authority's budget is subject to approval by the City Council. The City is financially accountable for the Downtown Development Authority's activities.

Government-wide and Fund Financial Statements

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

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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 are 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 employee withholdings.

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 of Ithaca and surrounding townships.
- The First Responder Fund accounts for resources used to provide first responder services to residents of the City of Ithaca and surrounding townships.

The City reports the following major proprietary funds:

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

The City reports the following non-major governmental funds:

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

Additionally, the City reports the following fund types:

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

Budgetary Data

Budgets are adopted by the City for the major general and special revenue funds. The budgets are adopted and prepared on the modified accrual basis of accounting. The budgets are adopted at the function level and control is exercised at the activity level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

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.

Michigan Compiled Laws, Section 129.91, authorizes the City to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The City's deposits are in accordance with statutory authority.

Receivables and Payables

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

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

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 2015 ad valorem tax is levied and collectible on August 1st and December 1st, 2015, 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 2015 taxable valuation of property located in the City for operating purposes totaled \$66.2 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.

Inventory

Inventories are 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 governmental column 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The City does not have infrastructure-type assets. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets 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 & Improvements | 1 – 50 |
| Furniture, Equipment & Vehicles | 5 – 50 |
| Infrastructure | 10 - 20 |

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.

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 8 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 no items that qualify for reporting in this category.

Long-Term Obligations

Long-term debt and other long-term liabilities are reported as liabilities in the statements of net position.

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.

Fund Balances - Reserves and Designations

The City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. 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.

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.

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 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations

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

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

On or before the first day of March of each year, a proposed budget for the next fiscal year is submitted to the budget officer. The budget officer compiles such information and submits it to the council, along with

City of Ithaca
Notes to the Financial Statements
June 30, 2016

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 City does not maintain a formalized encumbrance accounting system.

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.

Excess of Expenditures over Appropriations in Budgeted Funds

During the year, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as shown as negative variances in the Budgetary Comparison Schedules in this report.

NOTE 3 - CASH 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 | Fiduciary Funds | Component Units |
|-------------------------------------|--------------------------------|---------------------------------|---------------------------------|------------------------|------------------------|
| Cash and equivalents - unrestricted | 2,060,748 | 1,065,225 | 3,125,973 | 41,318 | 43,054 |
| Investments | 519,025 | 459,075 | 978,100 | - | - |
| Totals | 2,579,773 | 1,524,300 | 4,104,073 | 41,318 | 43,054 |

The bank balance of the primary government's deposits is \$4,161,930, of which \$1,050,440 is covered by federal depository insurance. The remaining amount is uninsured and uncollateralized. The component units' deposits had a bank balance of \$40,418, 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.

Investments

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

| Investment Type | Fair Value | Weighted Average Maturity (years) | Standard & Poor's Rating | % |
|---|-------------------|--|-------------------------------------|----------|
| Michigan Cooperative Liquid Assets Securities System (Michigan CLASS) | 978,100 | .1782 | AAAm | 100% |
| 1 day maturity equals 0.0027, one year equals 1.00 | | | | |

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

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

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

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

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

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

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

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the City's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available

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

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

City of Ithaca
Notes to the Financial Statements
June 30, 2016

NOTE 4 - RECEIVABLES

Receivables as of year-end for the City's individual major and nonmajor governmental funds, including the applicable allowances for uncollectible accounts, are as follows:

| | General | Major Street | Local Street | Economic Development | Internal Service | Water and Sewer | Total |
|------------------------|-----------|--------------|--------------|----------------------|------------------|-----------------|-----------|
| Accounts receivable | 9,183 | - | 102 | - | 20,217 | 181,049 | 210,551 |
| Prop. Taxes receivable | 1,402,020 | - | - | - | - | 243,933 | 1,645,953 |
| From other governments | 54,035 | 46,707 | 10,761 | - | - | - | 111,503 |
| Notes receivable | 500 | - | - | 107,616 | - | - | 108,116 |
| Totals | 1,465,738 | 46,707 | 10,863 | 107,616 | 20,217 | 424,982 | 2,076,123 |

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES

As of June 30th, interfund receivables and payables are comprised of the following amounts:

| Fund | Interfund Receivables | Interfund Payables |
|-------------------|-----------------------|--------------------|
| General | 1,000 | 96,750 |
| Caldwell Memorial | 41,750 | - |
| Gibbs Memorial | 55,000 | - |
| Trust and Agency | - | 1,000 |
| Totals | 97,750 | 97,750 |

NOTE 6 - CAPITAL ASSETS

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

| Governmental Activities | Beginning Balance | Increases | Decreases | Reclassification | Ending Balance |
|----------------------------|-------------------|-----------|-----------|------------------|----------------|
| ASSETS | | | | | |
| Land | 552,894 | - | - | (371,213) | 181,681 |
| Land Improvements | - | - | - | 371,213 | 371,213 |
| Construction in Process | 238,366 | 226,743 | - | (465,109) | - |
| Buildings & Improve. | 1,863,667 | - | - | 465,109 | 2,328,776 |
| Furn., Equip. & Vehicles | 3,155,611 | 178,687 | (72,495) | - | 3,261,803 |
| Infrastructure | 149,801 | - | - | - | 149,801 |
| Subtotal | 5,960,339 | 405,430 | (72,495) | - | 6,293,274 |
| ACCUM. DEPRECIATION | | | | | |
| Subtotal | (3,795,426) | (283,760) | 65,695 | - | (4,013,491) |
| Total | 2,164,913 | 121,670 | (6,800) | - | 2,279,783 |

With the reclassification of certain assets from Land to Land Improvements, additional depreciation was incurred.

City of Ithaca
Notes to the Financial Statements
June 30, 2016

As a result of the reclassification, four assets had not incurred depreciation prior and as such prior years were included to report the assets accurately.

The additional depreciation incurred was \$128,167 and breaks down as: Current Year = \$20,100 and Prior Years = \$108,067.

| Business Type Activities | Beginning Balance | Increases | Decreases | Ending Balance |
|---------------------------------|--------------------------|------------------|------------------|-----------------------|
| ASSETS | | | | |
| Equipment & Furnishings | 14,432 | - | - | 14,432 |
| Water & Sewer System | 11,007,634 | 69,585 | - | 11,077,219 |
| Subtotal | 11,022,066 | 69,585 | - | 11,091,651 |
| ACCUMULATED DEPRECIATION | | | | |
| Subtotal | (4,025,696) | (265,806) | - | (4,291,502) |
| Total | 6,996,370 | (196,221) | - | 6,800,149 |

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

| | |
|--------------------------------|---------|
| Governmental Activities | |
| General Government | 59,422 |
| Public Safety | 32,447 |
| Recreation and Cultural | 6,337 |
| Internal Service Fund | 77,487 |
| Prior Period Adjustment | 108,067 |
| Total Governmental Activities | 283,760 |
| Business-Type Activities | |
| Water | 172,963 |
| Sewer | 92,843 |
| Total Business-Type Activities | 265,806 |

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 7 - 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 \$36,596.

City of Ithaca
Notes to the Financial Statements
June 30, 2016

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 \$34,755.

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 | Due Beyond One Year |
|------------------|-------------------|-----------|-------------|----------------|---------------------|---------------------|
| Compensated Abs. | 56,702 | 23,154 | (8,505) | 71,351 | 10,703 | 60,648 |
| 2007 Bonds | 3,805,000 | - | (3,805,000) | - | - | - |
| 2016 Bonds | - | 3,600,000 | - | 3,600,000 | 100,000 | 3,500,000 |
| Total | 3,861,702 | 3,623,154 | (3,813,505) | 3,671,351 | 110,703 | 3,560,648 |

The annual requirements to pay principal and interest on the outstanding obligations on June 30, 2016 are shown in the *Schedule of Long-Term Debt* at the back of this report.

NOTE 8 – 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 fiduciary net position have been determined on the same basis as they are reported. 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's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided

The City's plan offer the following benefits:

- Benefits provided include plans with benefit multipliers ranging from 2.00% to 2.25%.
- Vesting periods range from 6 years to 10 years.
- Normal retirement age is age 60 with early retirement allowed at age 55 with 25 years of service.
- Final Average Compensation is calculated based on 5 years.
- Member (employee) contribution rate is 4.70%.
- Future and Current Retirees receive a non-compounded COLA of 2.50% annually.

City of Ithaca
Notes to the Financial Statements
June 30, 2016

Employees Covered By Benefit Terms

As of the December 31, 2015 Valuation date, the following employees were covered by the benefit terms:

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

The City's Defined Benefit plans are closed to new hired employees. All new eligible employees participate in the Defined Contribution 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, establish 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 \$139,944, 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, 2015, 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, 2015 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 expenses, including inflation

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

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

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

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

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

City of Ithaca
Notes to the Financial Statements
June 30, 2016

Discount Rate

The discount rate used to measure the total pension liability was 8.25% for 2015. 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 | Total pension liability (a) | Increase (decrease) plan fiduciary net position (b) | Net pension liability (a) – (b) |
| Balances at 12/31/14 | 4,234,131 | 2,688,172 | 1,545,959 |
| Changes for the year | | | |
| Service cost | 22,158 | - | 22,158 |
| Interest on total pension liability | 335,619 | - | 335,619 |
| Changes in benefits | - | - | - |
| Difference between expected and actual experience | 56,022 | - | 56,022 |
| Changes in assumptions | 225,895 | - | 225,895 |
| Employer contributions | - | 139,944 | (139,944) |
| Employee contributions | - | 8,557 | (8,557) |
| Net investment income | - | (38,107) | 38,107 |
| Benefit payments, including employee refunds | (354,212) | (354,212) | |
| Administrative expense | - | (5,702) | 5,702 |
| Other changes | - | - | - |
| Net changes | 285,482 | (249,520) | 535,002 |
| Balances as of 12/31/15 | 4,519,613 | 2,438,652 | 2,080,961 |

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 12/31/15 | | 2,080,962 | |
| Change in Net Pension Liability (NPL) | 447,957 | | (380,279) |
| Calculated Net Pension Liability | 2,528,919 | 2,080,962 | 1,700,683 |
| Note: the current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB 68 purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes it is net of administrative expenses. | | | |

City of Ithaca
Notes to the Financial Statements
June 30, 2016

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

For the year ended June 30, 2016, the City recognized pension expense of \$483,635. 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 | - | - |
| Differences in Assumptions | 229,781 | - |
| Excess (Deficit) Investment Returns | - | - |
| Contributions Subsequent to 12/31/15* | 91,785 | - |
| Total | 321,566 | - |

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending June 30, 2017.

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

| Plan year ended: | Amount |
|------------------|-----------|
| 2016 | (151,634) |
| 2017 | (59,849) |
| 2018 | (59,849) |
| 2019 | (50,234) |
| Total | (321,566) |

MERS Defined Contribution Plan

Plan Description

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

Eligibility

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

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

Contributions

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

During the year, the actual contributions to the plan amounted to \$39,342, which includes \$21,437 of employer contributions, and \$17,905 of employee contributions.

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 Fund | 38,035 | 127,017 |
| Major Street Fund | - | 66,509 |
| Local Street Fund | 66,509 | - |
| Fire Operating Fund | 67,548 | 15,001 |
| First Responder Fund | 36,154 | 2,000 |
| Cemetery Sinking Fund | - | 6,000 |
| Fire and Rescue Sinking Fund | 17,001 | - |
| Internal Service Fund | 2,200 | - |
| Downtown Development Authority | - | 10,920 |
| Total Interfund Transfers | 227,447 | 227,447 |

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. In addition, funds were transferred to the Internal Service Fund for the purchase of equipment.

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. The Cemetery Sinking Fund transferred funds to the Cemetery Operating Fund to help fund current year operations.

NOTE 11 – PRIOR PERIOD ADJUSTMENT

The prior period adjustment in the Governmental Activities column of page 2 represents an adjustment, as of the beginning of the year, of accumulated depreciation related to reclassified capital assets. See also discussion of reclassification in Note 6.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

PROSPECTIVE 10-YEAR TREND INFORMATION



City of Ithaca
 Budgetary Comparison Schedule - General Fund
 For the Year Ended June 30, 2016

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Actual Over (Under) Final Budget</u> |
|--|-------------------------|-------------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes and penalties | \$ 1,015,610 | \$ 1,020,445 | \$ 1,018,889 | \$ (1,556) |
| Licenses and permits | 12,600 | 12,600 | 11,715 | (885) |
| State grants | 305,702 | 305,702 | 303,277 | (2,425) |
| Charges for services | 22,900 | 22,900 | 21,118 | (1,782) |
| Interest and rentals | 51,563 | 51,063 | 47,328 | (3,735) |
| Other revenues | 51,425 | 51,425 | 46,776 | (4,649) |
| Total revenues | 1,459,800 | 1,464,135 | 1,449,103 | (15,032) |
| Expenditures | | | | |
| General government | 460,608 | 479,698 | 437,670 | 42,028 |
| Public safety | 404,416 | 391,806 | 390,615 | 1,191 |
| Public works | 208,342 | 206,433 | 172,642 | 33,791 |
| Community and economic development | 4,900 | 4,900 | 3,895 | 1,005 |
| Recreation and cultural | 85,220 | 121,020 | 104,229 | 16,791 |
| Other expenditures | 99,764 | 98,364 | 98,192 | 172 |
| Total expenditures | 1,263,250 | 1,302,221 | 1,207,243 | 94,978 |
| Excess of revenues over (under) expenditures | 196,550 | 161,914 | 241,860 | 79,946 |
| Other financing sources (uses) | | | | |
| Transfers in | 38,035 | 38,035 | 38,035 | - |
| Transfers out | (121,604) | (127,017) | (127,017) | - |
| Total other financing sources (uses) | (83,569) | (88,982) | (88,982) | - |
| Excess of revenues and other sources over (under) expenditures and other uses | 112,981 | 72,932 | 152,878 | 79,946 |
| Fund balance, beginning of year | 663,947 | 663,947 | 663,947 | - |
| Fund balance, end of year | \$ 776,928 | \$ 736,879 | \$ 816,825 | \$ 79,946 |

City of Ithaca
 Budgetary Comparison Schedule - Major Street Fund
 For the Year Ended June 30, 2016

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Actual Over (Under) Final Budget</u> |
|--|-------------------------|-------------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| State grants | \$ 272,898 | \$ 303,619 | \$ 326,228 | \$ 22,609 |
| Interest and rentals | 150 | 150 | 105 | (45) |
| Other revenues | 8,250 | 2,000 | 1,010 | (990) |
| Total revenues | 281,298 | 305,769 | 327,343 | 21,574 |
| Expenditures | | | | |
| Public works | 264,999 | 278,810 | 245,418 | 33,392 |
| Excess of revenues over (under) expenditures | 16,299 | 26,959 | 81,925 | 54,966 |
| Other financing sources (uses) | | | | |
| Transfers out | (63,949) | (66,509) | (66,509) | - |
| Excess of revenues and other sources over (under) expenditures and other uses | (47,650) | (39,550) | 15,416 | 54,966 |
| Fund balance, beginning of year | 269,884 | 269,884 | 269,884 | - |
| Fund balance, end of year | <u>\$ 222,234</u> | <u>\$ 230,334</u> | <u>\$ 285,300</u> | <u>\$ 54,966</u> |

City of Ithaca
 Budgetary Comparison Schedule - Local Street Fund
 For the Year Ended June 30, 2016

| | Budgeted Amounts | | Actual | Actual Over (Under) Final Budget |
|--|------------------|------------------|-------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| State grants | \$ 73,101 | \$ 73,101 | \$ 79,055 | \$ 5,954 |
| Interest and rentals | 100 | 100 | 44 | (56) |
| Other revenues | 7,250 | 2,382 | 2,826 | 444 |
| Total revenues | 80,451 | 75,583 | 81,925 | 6,342 |
| Expenditures | | | | |
| Public works | 144,400 | 139,200 | 100,907 | 38,293 |
| Excess of revenues over (under) expenditures | (63,949) | (63,617) | (18,982) | 44,635 |
| Other financing sources (uses) | | | | |
| Transfers in | 63,949 | 66,510 | 66,509 | (1) |
| Excess of revenues and other sources over (under) expenditures and other uses | - | 2,893 | 47,527 | 44,634 |
| Fund balance, beginning of year | 63,976 | 63,976 | 63,976 | - |
| Fund balance, end of year | \$ 63,976 | \$ 66,869 | \$ 111,503 | \$ 44,634 |

City of Ithaca
 Budgetary Comparison Schedule - Library Fund
 For the Year Ended June 30, 2016

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Actual Over (Under) Final Budget</u> |
|--|-------------------------|------------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes and penalties | \$ 115,000 | \$ 134,000 | \$ 133,927 | \$ (73) |
| State grants | 4,750 | 4,750 | 5,068 | 318 |
| Charges for services | 3,500 | 3,500 | 3,908 | 408 |
| Fines and forfeits | 77,200 | 84,900 | 85,249 | 349 |
| Interest and rentals | 300 | 900 | 1,205 | 305 |
| Other revenues | 6,550 | 7,400 | 8,089 | 689 |
| Total revenues | 207,300 | 235,450 | 237,446 | 1,996 |
| Expenditures | | | | |
| Recreation and cultural | 250,200 | 365,900 | 352,614 | 13,286 |
| Excess of revenues over (under) expenditures | (42,900) | (130,450) | (115,168) | 15,282 |
| Fund balance, beginning of year | 219,263 | 219,263 | 219,263 | - |
| Fund balance, end of year | <u>\$ 176,363</u> | <u>\$ 88,813</u> | <u>\$ 104,095</u> | <u>\$ 15,282</u> |

City of Ithaca
 Budgetary Comparison Schedule - Fire Operating Fund
 For the Year Ended June 30, 2016

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Actual Over (Under) Final Budget</u> |
|--|-------------------------|------------------|------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Charges for services | \$ 115,173 | \$ 114,452 | \$ 114,452 | \$ - |
| Interest and rentals | - | - | 76 | 76 |
| Other revenues | - | 5,095 | 5,691 | 596 |
| Total revenues | 115,173 | 119,547 | 120,219 | 672 |
| Expenditures | | | | |
| General government | 167,000 | 169,754 | 165,428 | 4,326 |
| Excess of revenues over (under) expenditures | (51,827) | (50,207) | (45,209) | 4,998 |
| Other financing sources (uses) | | | | |
| Transfers in | 66,827 | 67,548 | 67,548 | - |
| Transfers out | (15,000) | (15,001) | (15,001) | - |
| Total other financing sources (uses) | 51,827 | 52,547 | 52,547 | - |
| Excess of revenues and other sources over (under) expenditures and other uses | - | 2,340 | 7,338 | 4,998 |
| Fund balance, beginning of year | 75,235 | 75,235 | 75,235 | - |
| Fund balance, end of year | <u>\$ 75,235</u> | <u>\$ 77,575</u> | <u>\$ 82,573</u> | <u>\$ 4,998</u> |

City of Ithaca
 Budgetary Comparison Schedule - First Responder Fund
 For the Year Ended June 30, 2016

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Actual Over (Under) Final Budget</u> |
|--|-------------------------|-------------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Charges for services | \$ 36,346 | \$ 36,346 | \$ 36,346 | \$ - |
| Interest and rentals | - | - | 89 | 89 |
| Other revenues | - | 1,380 | 1,922 | 542 |
| | <u>36,346</u> | <u>37,726</u> | <u>38,357</u> | <u>631</u> |
| Expenditures | | | | |
| Public safety | <u>70,500</u> | <u>70,880</u> | <u>67,421</u> | <u>3,459</u> |
| Excess of revenues over (under) expenditures | (34,154) | (33,154) | (29,064) | 4,090 |
| Other financing sources (uses) | | | | |
| Transfers in | 36,154 | 36,154 | 36,154 | - |
| Transfers out | (2,000) | (2,000) | (2,000) | - |
| | <u>34,154</u> | <u>34,154</u> | <u>34,154</u> | <u>-</u> |
| Excess of revenues and other sources over (under) expenditures and other uses | - | 1,000 | 5,090 | 4,090 |
| Fund balance, beginning of year | <u>106,332</u> | <u>106,332</u> | <u>106,332</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 106,332</u> | <u>\$ 107,332</u> | <u>\$ 111,422</u> | <u>\$ 4,090</u> |

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

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

Notes to Schedule:

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

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

Benefit changes (if any) can be found in the actuarial valuation section titled: "Benefit Provision History" Changes in assumptions: There were no changes in actuarial assumptions or methods affecting the 2014 valuation.

(This information can be found in the actuarial valuation section titled: "Plan Provision, Actuarial Assumptions and Actuarial Funding Method; and also in the Appendix link of the actuarial valuation.

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

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---------|---------|----------|----------|---------|---------|---------|---------|----------|---------|---------|
| Actuarial Determined Contributions | 175,128 | 132,972 | 112,824 | 97,398 | 87,930 | 87,726 | 86,812 | 87,334 | 112,998 | 69,492 | 75,147 |
| Contributions in relation to the actuarially determined contribution | 175,128 | 139,944 | 125,664 | 107,832 | 94,668 | 89,412 | 86,812 | 87,334 | 122,998 | 73,716 | 75,147 |
| Contribution deficiency (excess) | - | (6,972) | (12,840) | (10,434) | (6,738) | (1,686) | - | - | (10,000) | (4,224) | - |
| Covered Employee Payroll | | 182,060 | 181,796 | 223,500 | 357,005 | 395,101 | 378,223 | 440,723 | 417,234 | 394,394 | 428,217 |
| Contributions as a Percentage of Covered Employee Payroll | | 77% | 69% | 48% | 27% | 23% | 23% | 20% | 29% | 19% | 18% |

Notes to Schedule of Contributions

Valuation Date

December 31, 2015

Notes

Actuarially determined contribution rates are calculated as of the June 30 that is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry Age |
| Amortization method | Level percentage of payroll, open |
| Remaining amortization period | 23 years |
| Asset valuation method | 10 year smoothed |
| Inflation | 2.50% |
| Salary increases | 3.75% |
| Investment rate of return | 7.75% |
| Retirement age | Varies depending on plan adoption |
| 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.

Above dates are based on fiscal year, not necessarily the measurement date

2015 through 2016 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 SUPPLEMENTAL INFORMATION

COMBINING STATEMENTS – NON-MAJOR GOVERNMENTAL FUNDS

SCHEDULE OF LONG-TERM DEBT



City of Ithaca
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2016

| | SPECIAL REVENUE FUNDS | | | | | | Permanent Fund | Totals |
|---|------------------------------|----------------------|-------------------|---------------------|--------------------------|-----------------|----------------------------|-------------------|
| | Economic Development | Caldwell Memorial | Gibbs Memorial | Cemetery Sinking | Fire & Rescue Sinking | Grant Projects | Cemetery Perpetual Care | |
| Assets | | | | | | | | |
| Cash and investments | \$ 18,927 | \$ 350,900 | \$ 185,534 | \$ 16,245 | \$ 93,813 | \$ 2,554 | \$ 27,972 | \$ 695,945 |
| Note receivable | 678 | - | - | - | - | - | - | 678 |
| Due from other funds | - | 41,750 | 55,000 | - | - | - | - | 96,750 |
| Due from other governments | - | - | - | - | - | - | - | - |
| Total assets | \$ 19,605 | \$ 392,650 | \$ 240,534 | \$ 16,245 | \$ 93,813 | 2,554 | 27,972 | 793,373 |
| Liabilities | | | | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Accrued liabilities | - | - | - | - | - | - | - | - |
| Due to other funds | - | - | - | - | - | - | - | - |
| Total liabilities | - | - | - | - | - | - | - | - |
| Fund balance | | | | | | | | |
| Restricted | 19,605 | 392,650 | 240,534 | 16,245 | 93,813 | 2,554 | 27,972 | 793,373 |
| Total fund balance | 19,605 | 392,650 | 240,534 | 16,245 | 93,813 | 2,554 | 27,972 | 793,373 |
| Total liabilities and fund balance | \$ 19,605 | \$ 392,650 | \$ 240,534 | \$ 16,245 | \$ 93,813 | \$ 2,554 | \$ 27,972 | \$ 793,373 |

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

City of Ithaca
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2016

| | SPECIAL REVENUE FUNDS | | | | | | Permanent Fund | Totals |
|---|------------------------------|-------------------|-------------------|------------------|-----------------------|-----------------|-------------------------|-------------------|
| | Economic Development | Caldwell Memorial | Gibbs Memorial | Cemetery Sinking | Fire & Rescue Sinking | Grant Projects | Cemetery Perpetual Care | |
| Revenues | | | | | | | | |
| State grants | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 46,468 | \$ - | \$ 46,468 |
| Charges for services | - | - | - | 8,400 | - | - | 400 | 8,800 |
| Interest and rentals | 8 | 234 | 466 | 8 | 64 | - | 145 | 925 |
| Other revenues | 8,816 | - | - | - | - | - | - | 8,816 |
| Total revenues | 8,824 | 234 | 466 | 8,408 | 64 | 46,468 | 545 | 65,009 |
| Expenditures | | | | | | | | |
| General government | - | - | - | - | - | 44,028 | - | 44,028 |
| Excess of revenues over (under) expenditures | 8,824 | 234 | 466 | 8,408 | 64 | 2,440 | 545 | 20,981 |
| Other financing sources (uses) | | | | | | | | |
| Transfers in | - | - | - | - | 17,001 | - | - | 17,001 |
| Transfers out | - | - | - | (6,000) | - | - | - | (6,000) |
| Total other financing sources (uses) | - | - | - | (6,000) | 17,001 | - | - | 11,001 |
| Excess of revenues and other sources over (under) expenditures and other uses | 8,824 | 234 | 466 | 2,408 | 17,065 | 2,440 | 545 | 31,982 |
| Fund balance, beginning of year | 10,781 | 392,416 | 240,068 | 13,837 | 76,748 | 114 | 27,427 | 761,391 |
| Fund balance, end of year | <u>\$ 19,605</u> | <u>\$ 392,650</u> | <u>\$ 240,534</u> | <u>\$ 16,245</u> | <u>\$ 93,813</u> | <u>\$ 2,554</u> | <u>\$ 27,972</u> | <u>\$ 793,373</u> |

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

City of Ithaca
Schedule of Long-Term Debt
For the Year Ended June 30, 2016

| Fiscal Year | Interest Rate (%) | Annual Principal Due | Interest Due | | Total |
|--|-------------------|----------------------|----------------|----------------|------------------|
| | | | October | April | |
| Enterprise Fund Bonds - \$4,100,000 | | | | | |
| 2017 | 2.00 | \$ 100,000 | \$ 67,758 | \$ 64,875 | \$ 232,633 |
| 2018 | 2.00 | 100,000 | 63,875 | 63,875 | 227,750 |
| 2019 | 2.00 | 100,000 | 62,875 | 62,875 | 225,750 |
| 2020 | 2.00 | 100,000 | 61,875 | 61,875 | 223,750 |
| 2021 | 3.00 | 110,000 | 60,875 | 60,875 | 231,750 |
| 2022 | 3.00 | 120,000 | 59,225 | 59,225 | 238,450 |
| 2023 | 3.00 | 125,000 | 57,425 | 57,425 | 239,850 |
| 2024 | 4.00 | 135,000 | 55,550 | 55,550 | 246,100 |
| 2025 | 4.00 | 145,000 | 52,850 | 52,850 | 250,700 |
| 2026 | 4.00 | 155,000 | 49,950 | 49,950 | 254,900 |
| 2027 | 4.00 | 165,000 | 46,850 | 46,850 | 258,700 |
| 2028 | 4.00 | 175,000 | 43,550 | 43,550 | 262,100 |
| 2029 | 4.00 | 190,000 | 40,050 | 40,050 | 270,100 |
| 2030 | 4.00 | 200,000 | 36,250 | 36,250 | 272,500 |
| 2031 | 4.00 | 210,000 | 32,250 | 32,250 | 274,500 |
| 2032 | 4.00 | 220,000 | 28,050 | 28,050 | 276,100 |
| 2033 | 4.00 | 225,000 | 23,650 | 23,650 | 272,300 |
| 2034 | 4.00 | 235,000 | 19,150 | 19,150 | 273,300 |
| 2035 | 4.00 | 250,000 | 14,450 | 14,450 | 278,900 |
| 2036 | 3.50 | 265,000 | 9,450 | 9,450 | 283,900 |
| 2037 | 3.50 | 275,000 | 4,813 | 4,813 | 284,626 |
| Totals | | <u>3,600,000</u> | <u>890,771</u> | <u>887,888</u> | <u>5,378,659</u> |

| DEBT SUMMARY | | | | |
|--------------|---------------------|-------------------|-------------------|---------------------|
| 2017 | 100,000 | 67,758 | 64,875 | 232,633 |
| 2018 | 100,000 | 63,875 | 63,875 | 227,750 |
| 2019 | 100,000 | 62,875 | 62,875 | 225,750 |
| 2020 | 100,000 | 61,875 | 61,875 | 223,750 |
| 2021 | 110,000 | 60,875 | 60,875 | 231,750 |
| 2022-2026 | 680,000 | 275,000 | 275,000 | 1,230,000 |
| 2027-2031 | 940,000 | 198,950 | 198,950 | 1,337,900 |
| 2032-2036 | 1,195,000 | 94,750 | 94,750 | 1,384,500 |
| 2037-2039 | 275,000 | 4,813 | 4,813 | 284,626 |
| | <u>\$ 3,600,000</u> | <u>\$ 890,771</u> | <u>\$ 887,888</u> | <u>\$ 5,378,659</u> |



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 units, 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 6, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Roslund, Prestage & Company, P.C." The signature is written in a cursive, flowing style.

Roslund, Prestage & Company, P.C.
Certified Public Accountants
December 6, 2016