

**City of Ithaca
Ithaca, Michigan
Financial Statements
June 30, 2020**



Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Ithaca

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ithaca (the City), as of and for the year ended June 30, 2020, 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, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting

Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Sincerely,

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

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

December 3, 2020

**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, 2020. 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.

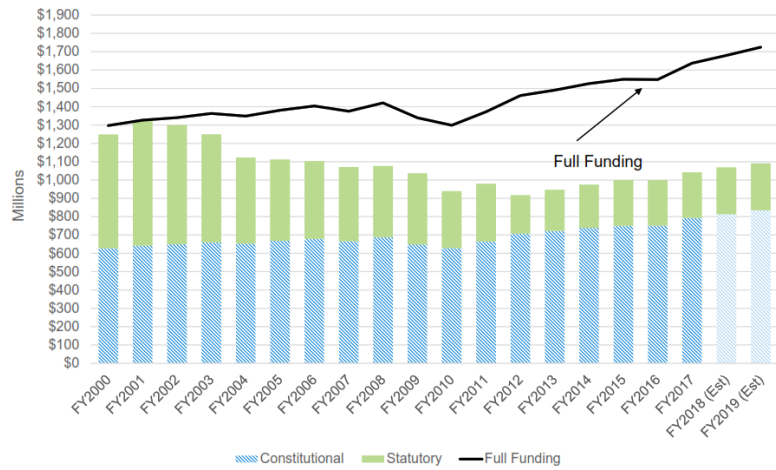
Financial Highlights

- The net position of the City is the amount by which the City's assets exceed its liabilities. At June 30, 2020, the net position of the primary government totaled \$10,791,031. The unrestricted portion of this amount, \$2,945,912, may be used to meet the City's ongoing obligations to its citizens as well as its creditors.
- The City's total net position increased by \$158,766. This resulted from an increase in net position of the governmental activities of \$95,676 and an increase in net position of business activities by \$63,090. The increase in business activities is derived from increased revenues due to the new soybean processing facility becoming fully operational, from expenditures for repair, maintenance and technology that were budgeted but not incurred and changeover of personnel. The increase in governmental activities derives from postponement of City Hall renovations and efficiency upgrades, the delay of street paving projects, grants received, increased revenue from the Library property tax millage and continued consolidation of services with other governmental entities.

The State of Michigan provides the City with State Revenue Sharing (SRS), which is calculated by two separate methods. In 2009, the **Statutory SRS** for local and county governments was converted from an entitlement model to a performance-based model, called "Economic Vitality Incentive Payments" (EVIP). Under EVIP, communities had to comply with various cost-control measures and financial transparency criteria set by the State in order to receive individual portions of available funds that are subject to the State's annual appropriation process. In 2011, the Legislature again revised the program, calling it "City, Village and Township Revenue Sharing" (CVTRS) program, which focuses on accountability and transparency of the local units to receive these funds. Required financial reports are available on the City's website; these include a Performance Dashboard, Debt Service Report, Projected Budget Report and Citizens Guide. Ithaca has been successful in complying with all of the criteria, thus maximizing funding for this portion of the program.

Constitutional SRS continues to be an entitlement model based primarily on State sales and Use Tax receipts. This portion of the SRS is not subject to annual amendments or appropriations by the State Legislature because it is included in the State of Michigan's Constitution. This portion of SRS obligates 15% of 4% of the annual State sales tax collected to local municipalities. As seen in the graphic at right, the State has not fully funded the Statutory SRS since 2001, all while balancing its own budget on the backs of local municipalities.

Total Revenue Sharing Payments to Cities, Villages, and Townships



State legislators do not have to make the hard budget decisions; they just transfer those hard decisions to local government leaders who have to answer to their constituents when service levels and/or services are curtailed or eliminated or new millages are requested to provide services in lieu of eliminating them. Due to budget cuts in 2020, the State once again cut the CVTRS to all local governments by eliminating the payment they would receive in August for the month of June. The State utilized the COVID-19 pandemic federal government approved CARES Act funds it received of \$150 million and appropriated it to local governments in place of the \$97 million that legislators cut. This budget cut and the related federal CARES funding appropriation did not impact any of the Constitutional Revenue Sharing payment. The federal funding was apportioned to provide approximately 150% of what the City would have received in its normal August CVTRS distribution, however, the funds were not a replacement revenue, but were issued as part of the Coronavirus Relief Local Government Grants (CRLGG) and could only be used for CARES Act eligible expenditures. These funds required extra reporting and if not accounted for, would have to be repaid to the State.

- The City continues to conservatively budget its SRS revenues in an effort to maintain stable service levels in the event future cuts and additional unfunded mandates are made by the State. The City also continues to look at funding mechanisms and options for funding its Unfunded Accrued Pension Liability. We must not only ensure that this cost is covered, but continue to work toward paying down the liability and increasing the funded level without jeopardizing the services and level of services offered to our residents.
- Property Taxes are another major source of revenue for the City. Proposal A of 1994 restricted the growth of the value for which property is taxed on and actually capped the taxable value. Increases to the taxable value of property is restricted to the rate of inflation or 5%, whichever is less. For the City, values were at their peak in 2009 but were reduced by the effects of the National recession. It has taken a decade for values to recover back to where they were in 2009. The State further added to the reduction of property tax revenues in 2015 with legislation that

allowed for the elimination of small taxpayer Personal Property Tax (PPT). PPT was eliminated for any business with a cash value of personal property totaling \$80,000 or less (\$40,000 taxable value.) The lost PPT revenue is being replaced only partially by a state-initiated statewide essential services assessment (ESA) on industrial properties in the State. The ESA replaces the lost revenue with that portion of PPT that was used locally *only* for emergency services funding (i.e. police, fire, rescue and EMS.) Again, the City budgets for these revenues conservatively in order to provide a secure level of funding for the services provided to the City's residents, taxpayers, businesses and industries.

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

The City's assessment roll for 2019 included 15 properties that were exempt from property tax collections under the Act. The combined taxable value of those parcels was \$593,020. This resulted in a loss of property taxes to just the City of approximately \$11,545, which was based on the combined millages (19.4692 mills) for City general operating, water/sewer bonded debt, emergency services and sidewalk repair. While we appreciate and support our local veterans in many ways, this program is resulting in a revenue loss to the City. We continue to advocate for our legislators to substitute an income tax deduction for eligible disabled veterans instead of gifting our local property taxes for this purpose. Doing so, will allow those veterans who do not own a home to also benefit from the program and the revenue loss remains with the State who created the program, not with the local government who still provides necessary services to the exempted.

- As of June 30, 2020, the City's governmental funds reported combined ending fund balances of \$3,282,203. This is a net increase of \$244,322 from the prior year. This increase resulted from a combination of responsible spending, consolidation of services with neighboring governments, successful grant writing and the postponement of street paving projects planned for the fiscal year. Of the total fund balance for governmental funds, \$1,112,456 is available for spending at the City's discretion (unassigned fund balance) and \$2,169,747 is constrained for specific purposes by constitutional provision or enabling legislation (restricted fund balance.)
- The City's long-term debt consists of compensated absences for full-time employees and the outstanding enterprise fund bonded indebtedness (see below.) A detailed schedule of the City's long-term obligations can be found in the *Notes to the Financial Statements*.
- In November 2006, City electors passed a millage for the issuance of Unlimited Tax General Obligation (UTGO) Bonds in the amount of \$4.1 million for improvements to the City's water supply and sanitary sewage collection and disposal systems. Included with the improvements were the purchase of a new sewer vacuum truck; two new sanitary lift stations; watermain upgrades throughout the city; lagoon valve replacements; sanitary sewer upgrades and new lines; locating and analyzing an aquifer source; a water system alarm system; and a water system study. The original bonds were issued in April of 2007 and were due in annual installments of \$25,000 to \$295,000 with annual interest rates of 4.25% to 4.30% through

November of 2037. The bonds received an initial rating of “Baa1-” by Moody’s Investors Service, but were insured for issuance. The economic condition of the State of Michigan partially influenced the rating on the bonds at that time. The first debt millage was applied to the 2007 summer property tax collection at a rate of 3.00 mills. Due to reductions in property tax revenues and increasing principal payments on the bonds, the millage rate was increased over the years until 2015 when the City looked into refinancing the bonds.

In April of 2016, the City refinanced the remaining bond principal of \$3.6 million due to historically low interest rates and a recovering national economy. This time, the UTGO Refunding Bonds received a rating of “A1” from Moody’s, without regard to municipal bond insurance. Standard & Poor’s Credit Market Services assigned a rating of “AA” to this issue with the understanding that bond insurance would be issued by AGM (Assured Guarantee Municipal Corp.) concurrently with the delivery of the bonds. Reductions in interest rates from 2.000% to 4.000% resulted in an interest savings of approximately \$500,000 over the remaining life of the bonds (final maturity of 4/1/2037). This allowed the City to reduce the 2016 debt property tax millage to 3.80 mills; without the refinancing, the millage would likely have been set at 4.25 mills, which is the maximum millage rate allowed under the voter-approved bonds. With increasing principal payments and flat property tax values it is likely the City would have had to supplement the millage revenues with other funds in order to make future bond payments. The refinancing of the bonds allowed the City to maintain the levy of the millage for the bonds at 3.8000 mills for 2017 and lower it to 3.000 mills for the 2018, 2019 and upcoming 2020 tax years.

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

Based on the City’s current taxable values, the new millage generates approximately \$65,000 per year for sidewalk work in one of the six designated zones. Four years of this millage have been completed, which targeted Zones 1, 2, 3 and 4. The fifth year for this millage will be applied to Zone 5 of the program with work being performed in the summer of 2021. The program has been well received by property owners and those that frequently use the sidewalks, thus enhancing the quality of life, offering an alternative to driving, and increasing the health of our residents.

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

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

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

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

On the following page is a table of the adopted CIP’s projects for fiscal year 2019-2020 and their status.

2019-2020 Fiscal Year (Pg. 1 of 2)

Dept.	Project	Status	Est. Cost	Funding
FIRE	Defibrillator/Monitor (Replace on Rescue Truck #441)	Purchased	\$ 4,000	FRU/FG
FIRE	Thermal Image Camera (Replace on Engine #421)	Purchased	6,500	FG
FIRE	Replace Front/Rear Fire Dept. Concrete Aprons	Delay to 20/21	Est. Pending	GF
DPW	Sidewalk Replacement Zone #3 (Year 4)	Completed	66,000	SM
DPW	Trackless Mower/Scraper (Replacement)	Purchased	135,000	ERF
DPW	72" ZTR Mower (Replacement)	Purchased	4,800	ERF
DPW	Water Dept. Pickup Truck (Used)	Purchased New	15,000	ERF
DPW	Crush/Repave S. Elm St. (600'L x 20'W) (Newark St. to South St.; Coordinate w/RR)	Delay to 20/21	34,000	MS
DPW	Crush/Repave S. Elm St. (380'L x 35'W) (Center St. to Newark St.) & Combo Sidewalk/Curb	Delay to 20/21	30,000	MS
DPW	Crush/Repave Pine River St. (350'L x 35'W) (South St. to the south side of RR; Coordinate w/RR)	Delay to 20/21	23,000	MS
DPW	Crush/Repave North St. (420'L x 20'W) (Spring St. to Elm St.; scrap tire grant)	Delay to 20/21	9,500 9,500	SG-EGLE LS Match
DPW	Crush/Repave Spring St. (1,000'L x 20'W) (Emerson St. to Arcada St.; scrap tire grant)	Delay to 20/21	20,000 20,000	SG-EGLE LS Match
DPW	Crush/Repave Emerson St. (420'L x 20'W) (Spring St. to Elm St.; scrap tire grant)	Delay to 20/21	9,500 9,500	SG-EGLE LS Match
DPW	Crush/Repave Seaver St. (890'L x 20'W) (Jeffery St. to Ithaca St.)	Delay to 20/21	40,000	LS
DPW	Crush/Repave Saint Johns St. (470'L x 20'W) (Seaver St. to Arcada St.)	Delay to 20/21	21,000	LS
DPW	Chip Seal/Fog Seal W. St. Charles Rd. (w/GCRC & Arcada Twp.: 1 mi. Jerome to State; 25% City Share)	Completed	6,750	LS
DPW	Survey & Design Eng. Union St. Reconstruction	Delay to 21/22	30,000	MS
DPW	Replace Cemetery Decorative Fence (1,100')	Removed	Post. Indef.	CPCF/FG
DPW	Replace 8" Watermain on Seaver St. (Jeffery St. 800' to Saint Johns St.)	In Process	176,000	WF
DPW	Cemetery Water Tower Maint. Contract (3 rd of 3 Secondary Installments)	Completed	17,515	WF
DPW	S. Industrial Water Tower Maint. Contract (3 rd of 3 Secondary Installments)	Completed	17,234	WF
DPW	Ithaca Industrial Water Tower Maint. Contr. (3 rd of 3 Secondary Installments)	Completed	21,666	WF

2019-2020 Fiscal Year (Pg. 2 of 2)				
Dept.	Project		Est. Cost	Funding
DPW	Well Maint. Contract Year 4: All 4 Wells	Completed	27,200	WF
DPW	Wireless Water Meter Transmitters (~120)	Purchased	10,000	WF
DPW	Upgrade SCADA Water/Sewer Alarm Systems (hardware & software) @: - WWTP Primary & Backup Lift Stations (2) - S. Main Lift Station - County Farm Lift Station - Water Wells (3) - Water Towers (3) - Billing & SCADA Software	In Progress	10,000 5,000 5,000 15,000 15,000 10,000	SF SF SF WF WF WF/SF
DPW	Replace Co. Farm Lift Station Pumps (2) /Controls	In Progress	25,000	SF
DPW	Replace S. Main Lift Station Pumps (2) /Controls	Completed	25,000	SF
DPW	Replace Fencing @ WWTP (Orig. 1980)	In Progress	30,000	SF
DPW	New Signage @ Community Ctr., City Hall, DPW, Library & McNabb (2), Woodland, Atkinson Parks	Delayed to 21/22	20,000	GF/WF/SF
DPW	Stormwater & Sanitary Collection System Repairs (From SAW Grant Study)	Pending 21/22	150,000 as needed	SF/GF
ADMIN	City Hall Renovations (roof, paint, ceiling tiles, LED lighting [interior & exterior], electronic door access [C.H., Fire, Comm. Center], remove basement restrooms)	Delayed to 20/21	150,000	GMF/GF

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

- ***Proprietary funds.*** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its potable water supply and sanitary sewage collection and disposal systems. *Internal service funds* are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its equipment and material funds. The services of the equipment and material funds predominantly benefit governmental rather than business-type functions, and are included in their entirety within governmental activities in the government-wide financial statements. The internal service fund for materials was closed at the 19-20 fiscal year end.
- ***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties *outside* the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City uses fiduciary funds to account for its employee benefit obligations and funds held by the City in an Agency capacity (e.g. property taxes due to other taxing units.)

Notes to the Financial Statements

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

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

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

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

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

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

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

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

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

Government-Wide Financial Analysis

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

The total net position of the City for Fiscal Year end June 2020 is \$10,791,031. However, \$5,675,372 represents its investment in capital assets net of related debt (i.e. land, buildings, furniture & fixtures, equipment, vehicles, water & sewer systems), with 62.7% (\$3,556,892) being the water supply and sewage disposal systems’ infrastructure. These assets are used to provide services to residents, but are not available for future spending nor can they be liquidated to eliminate their related liabilities.

Of the more liquid assets, \$2,169,747 represents resources and funds that have external restrictions on how they may be used. These assets are held for street maintenance & operations, library operations, fire & rescue operations & reserves, and perpetual care of the city cemetery. The City may use the remaining balance (unrestricted net position) of \$2,945,912 for ongoing obligations to residents and creditors. The total net position for the year increased by \$158,766 and was discussed earlier in this document.

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

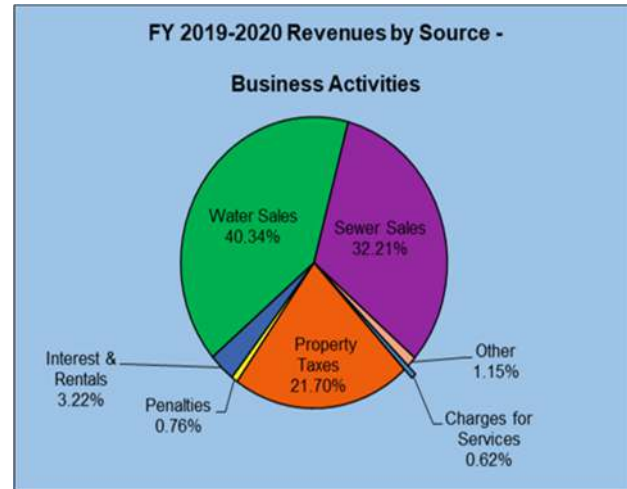
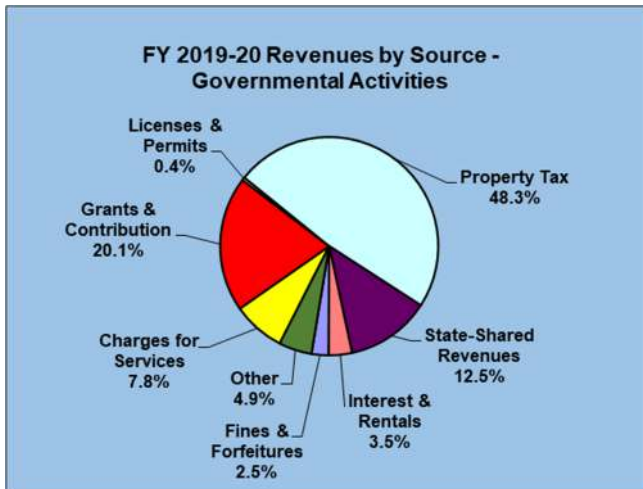
	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Assets:						
Current and Other Assets	\$4,909,113	\$4,848,447	\$ 2,214,700	\$ 2,087,807	\$ 7,123,813	\$ 6,936,254
Land	181,681	207,759	95,830	43,843	277,511	251,602
Capital Assets (net of deprec.)	1,936,799	1,965,394	6,859,308	7,083,571	8,796,107	9,048,965
Total Assets	7,027,593	7,021,600	9,169,838	9,215,221	16,197,431	16,236,821
Deferred Outflows:						
Deferred outflow-Pension related	72,735	184,396	48,489	122,930	121,224	307,326
Total Deferred Outflows	72,735	184,396	48,489	122,930	121,224	307,326
Liabilities:						
Long-Term Debt	41,794	34,830	3,315,513	3,443,316	3,357,307	3,468,146
Net Pension Liability	1,039,852	1,202,627	693,234	801,753	1,733,086	2,004,380
Other Liabilities	230,256	275,789	206,975	163,567	437,231	439,356
Total Liabilities	1,311,902	1,513,246	4,,215,722	4,398,636	5,527,624	5,911,882
Deferred Inflows:						
Deferred inflows-Pension related	0	0	0	0	0	0
Total Deferred Inflows	0	0	0	0	0	0
Net Position:						
Invested in capital assets, net of related debt	2,118,480	2,173,153	3,556,892	3,617,506	5,675,372	5,790,659
Restricted	2,169,747	2,022,591	0	0	2,169,747	2,022,591
Unrestricted	1,500,199	1,497,006	1,445,713	1,322,009	2,945,912	2,819,015
Total Net Position	5,788,426	5,692,750	5,002,605	4,939,515	10,791,031	10,632,265

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

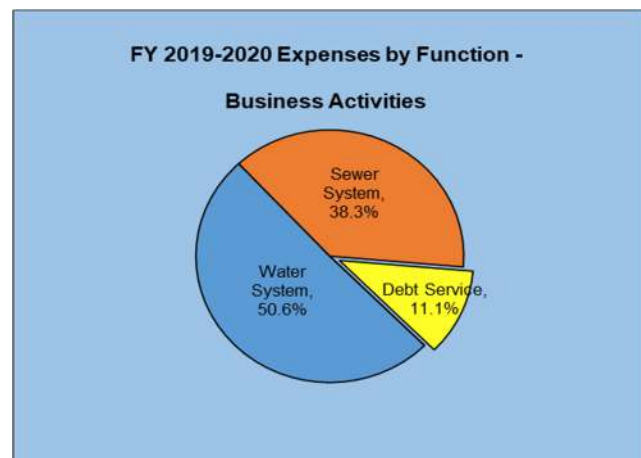
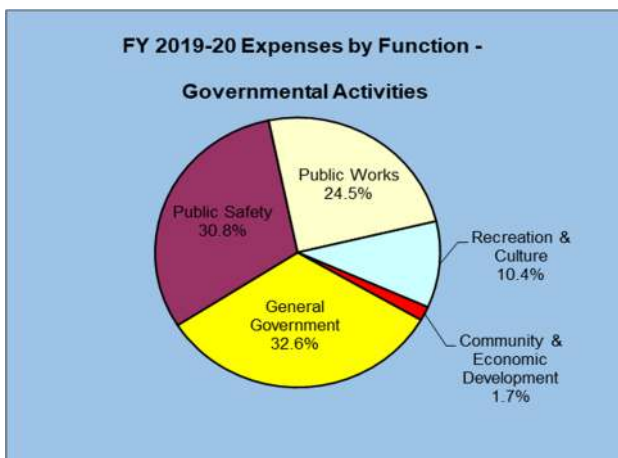
	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
REVENUES:						
Program Revenues:						
Charges for Services	\$ 209,245	\$ 214,677	790,119	\$ 720,369	999,364	935,046
Grants and Contributions	613,030	877,849	0	0	613,030	877,849
General Revenues:						
Property Taxes	1,296,260	928,100	231,854	228,135	1,528,114	1,156,235
State-Shared Revenues	328,391	400,771	0	0	328,391	400,771
Investment Earnings	93,400	105,025	20,798	19,474	114,198	124,499
Transfers	2,106	1,510	0	0	2,106	1,510
Other	141,141	191,682	25,919	118,481	167,060	310,163
Total Revenues	2,683,573	2,719,614	1,086,459	1,086,459	3,752,263	3,806,073
EXPENSES:						
General Government	843,609	949,657	0	0	843,609	949,657
Public Safety	797,351	757,135	0	0	797,351	757,135
Public Works	634,909	451,611	0	0	634,909	451,611
Rec./Cultural/Econ. Dev.	312,028	439,872	0	0	312,028	439,872
Water and Sewer	0	0	1,005,600	935,084	1,005,600	935,084
Total Expenses	2,587,897	2,598,275	1,005,600	935,084	3,593,497	3,533,359
Change in Net Position	95,676	121,339	63,090	151,375	158,766	272,714
Net Position – July 1 restated	5,692,750	5,571,411	4,939,515	4,788,140	10,632,265	10,359,551
Prior Period Adjustment	0	0	0	0	0	0
Net Position – June 30	5,788,426	5,692,750	5,002,605	4,939,515	10,791,031	10,632,265

Budgetary Highlights

The majority of the City's budget in FY 2019-2020 was based on four main revenue sources: *property taxes, charges for utility services, grants & contributions and state-shared revenues*. Ithaca continues to have a conservative fiscal philosophy in being good stewards of the public's money. This philosophy has translated into preparing for economic challenges while maintaining the solid foundation of our operations.



The City remains conservative in working to maintain positive fund balances, even in the face of challenges such as the increasing loss of personal property taxes (PPT) and the loss of real property taxes due to tax exemptions and abatements. Unfortunately, PPT replacement funding in the form of an Emergency Services Assessment (ESA) only covers those cost centers involving emergency services (police, fire, EMS, etc.) and will continue to decline over the next several years. There is still legislative discussions to repeal the disabled veteran's property tax exemption and replace it with an income tax credit. This would still allow the credit for veterans, but would put the financial loss at the State level and not on the local government, which has to continue to provide and fund services such as road maintenance, utilities, police-fire-rescue, economic vitality and recreation.



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

Ithaca has been very successful in securing grants to leverage its financial resources for both budgeted and unbudgeted projects and/or equipment. Grants are often awarded with a match requirement, in which the City must pay a stated percentage of the grant award that may range from 5%-50%. The City is qualified as a primarily *low-moderate income community* under the State of Michigan's Community Development Block Grant (CDBG) program, making it eligible for a number of additional grant opportunities. The CDBG program was recently replaced by Infrastructure Capacity Enhancement (ICE) grants. This grant is designated for upgrading existing public infrastructure systems either by replacing deteriorating or obsolete systems or by adding needed capacity to existing, but burdened systems. The City may apply for this grant in the future.

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

- **\$200,000** (\$40,000 local match) Downtown Improvement Grant (DIG) project, which improved a parking lot and alley on the north side of downtown.
- **\$183,000** (\$70,000 match) MI Department of Natural Resources (MDNR) Trust Fund grant to develop the youth soccer complex at McNabb Park.
- **\$3,500** (50% match) Gratiot Co. Community Foundation (GCCF) grant for new swingsets also at McNabb Park.
- **\$70,000** (private match) Michigan State Housing Development Authority (MSHDA) grant to renovate two upper-level downtown apartments.
- **\$243,900** (private match) MSHDA grant to renovate six homes occupied by low-moderate income homeowners.
- **\$108,778** (50% match) MI Department of Environmental Quality (MDEQ) Scrap Tire Paving grant for re-paving two blocks of downtown streets.
- **\$794,000** (\$75,000 match) DIG to improve the downtown streetscape with new stamped/colored concrete walks, decorative lights, benches, bike racks and the construction of a 20' x 69' covered Farm Market structure.
- **\$202,938** in total, from several grantor agencies (MDNR, GCCF, Federal Aid to Firefighters, Luneak Family Foundation, Emerson Twp. grant, IFD Memorial Fund) for Fire Department vehicles, turnout gear and equipment with total cost of \$444,228 (grants covered 45% of costs).
- **\$2.2 million** (\$40,000 City match) 2016 MI Department of Transportation (MDOT) grant for the now completed non-motorized pathway along the east side of US-127, from Washington Road (Center Street) in Ithaca to Lincoln Road in Alma.
- **\$118,400** (City provided 20% construction match [\$29,600] plus all engineering costs [\$27,200]) MDOT Rural Task Force grant to reconstruct two one-block sections in downtown: E. Center St. (between Pine River & Maple) and N. Pine River (between Center & Emerson.)

- **\$6,000** Installed new high-efficiency furnaces for the original fire station, the fire station addition, the community center and the former police department offices (Consumers Energy grant.)
- **\$503,933** (City match is \$55,991) MDEQ Stormwater Asset Management Plan and Wastewater (SAW) grant for the preparation of a stormwater asset management plan. The City water and sewer funds are covering the additional cost to add those systems to the asset management plan, and to place all three utility systems on a new GIS software platform.

The City continues to research other possible grant sources to supplement local funding that further address the City's established capital priorities or assist private developers obtain grants to benefit the City. These may likely include funds to:

- Renovate additional vacant upper-level downtown spaces into apartments (MSHDA/MEDC).
- Renovate several downtown store facades (MEDC).
- Improve the alley & the two public parking areas in the southwest corner of downtown near the Farmers Market Pavilion and behind the Library (MEDC).
- Additional paving of City streets with Scrap Tire material. (EGLE)

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

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

As a result of the Water and Sewer Rate Study and City Council action by resolution, rates are evaluated and adjusted annually (either raised or lowered) accordingly. In fiscal year 2020-2021, the City is planning to have an outside consultant perform a full water and sewer rate and system study, which has not been thoroughly performed in many years.

City residents also pay a property tax millage to cover the cost of debt payments for the 2016 General Obligation refinanced bonds (original bond sale in 2007) that financed water and sewer capital improvement projects throughout the City. This millage fluctuates depending on the amount of the annual debt service and the total taxable value of the City. The 2016 refinancing allowed the City to lower the millage in 2018 to 3.0 mills from the prior year's 3.8 mills. It remains at 3.0 mills today and for tax year 2020.

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

documents and are available from the City Clerk-Treasurer. This year the City faced budgetary challenges due to the International COVID-19 pandemic. The pandemic pushed budgets and projects in many directions and communities spent thousands of dollars for personal protection equipment, supplies, hazard payroll, staffing issues, technology and equipment to assist staff working from home as required under Executive Orders of the Governor. The pandemic and its effects, will continue into the next fiscal year and affects National, State and local budgets alike.

International Economic Forecast

Source: Moody's Investors Service: *Global Macro Outlook 2021-2022*, (November 12, 2020): "Nascent economic rebound takes hold globally but recovery will remain fragile"

- **Nascent global economic recovery is under threat from rising COVID-19 cases in the US and Europe.** All of the G-20 countries have sustained severe output losses this year, but the contraction in some economies is sharper than in others. The pace of improvement will be asymmetric across countries. The recovery path is beset by uncertainty and will remain highly dependent on: (1) the development and distribution of a vaccine, (2) effective pandemic management, and (3) government policy support. Overall, sustained economic improvement is not possible in countries where new waves of the virus continue to cause disruption.
- **We expect G-20 economies to contract by 3.8% collectively in 2020, followed by 4.9% growth in 2021 and 3.8% growth in 2022.** For the G-20 advanced economies, our forecast is for a 5.1% contraction in 2020, followed by growth of 4.2% in 2021 and 3.3% in 2022. G-20 emerging markets will collectively contract 1.6% in 2020, followed by growth of 6.1% in 2021 and 4.7% in 2022. Excluding China, the G-20 emerging markets will contract 6.6% this year, followed by growth of 4.7% and 3.5% in 2021 and 2022, respectively.
- **Sharply divergent trends are unfolding across different sectors within each country.** The early containment of the virus in East Asia has led to an easing of supply disruptions that has been quicker than the pickup in global demand. Manufacturing activity has rebounded strongly, but discretionary services continue to languish.
- **COVID-19 crisis will test the efficacy of fiscal and monetary policy.** In advanced economies, we expect governments to continue to provide fiscal support to their economies for the next several quarters. Monetary policy in the US, Europe, and Japan will remain highly accommodative. The fiscal response in G-20 emerging market countries has generally been much smaller than in advanced economies, and their scope for additional rate cuts or significant quantitative easing is limited.
- **The pandemic could have long-term consequences in four ways:**
 - 1) An increase in populism and inward-looking policies in the event of a jobless recovery or a recovery that aggravates inequality
 - 2) Geopolitical realignment
 - 3) A policy push for a "greener" economy
 - 4) A technological transformation that could raise productivity while making a large number of jobs obsolete.

National Economic Forecast

Source: The U.S. Economic Outlook for 2020-2021; Executive Summary: November 2020
From Research Seminar in Quantitative Economics (RSQE), University of Michigan

A New Hope for a V-shaped Recovery

Third-quarter real GDP expanded by 7.4 percent at a quarterly rate, or a 33.1 percent annualized rate, shattering most expectations. That performance was welcome news after the 9 percent quarterly decline in the second quarter. In 2020Q3, economic output stood just 3.5 percent below the prior peak in 2019Q4.

Generous federal income support programs, to the tune of about 860 billion dollars, allowed consumption expenditures in 2020Q3 to rebound sharply, to 3.3 percent below 2019Q4 levels. The composition of consumption, however, has changed drastically. Consumption of services remains 7.7 percent below 2019Q4 levels, whereas consumption of goods is 7 percent above 2019Q4 levels. We expect the composition of consumption to shift back toward services once the pandemic subsides.

Residential investment experienced a remarkably quick rebound. Expenditures on information processing equipment expanded strongly for two consecutive quarters, likely reflecting business spending on technology to facilitate remote work. Nonresidential investment, however, continued to decline.

The Revenge of COVID-19

Several states, primarily in the Midwest, are currently suffering from spikes in new cases and hospitalizations. This development is consistent with the seasonal pattern of infections rising sharply as activity moves indoors. We are already seeing some northern and western U.S. states and large municipalities impose restrictions similar to the recent 'lockdowns 2.0' in Europe, which appear to have been largely sufficient to slow the spread of the disease. However, with Americans growing weary of the pandemic, the public's compliance with public health measures despite the ongoing pandemic may decline. We expect the recovery to continue during the winter, albeit at a slower pace, as continued strong growth in the warmer states dominates a potential contraction up north.

Pfizer's and Moderna's recent announcements about the efficacy of their vaccine candidates lifted markets and, surely, some spirits. Our forecast assumes that a vaccine will be available to workers on the front lines by early 2021, with wider availability by summer 2021.

State and local government spending has been severely affected by the coronavirus pandemic. They have responded by furloughing or laying off workers and lowering expenditures. As coronavirus cases rise and potentially more schools transition online in some parts of the country, state and local governments will need to tighten their belts further.

The burden of this recession has been distributed extremely unevenly. Lower-wage customer-facing workers took on most of the early employment hit, while employees in many high-paying occupations transitioned to working from home. As a result, sectors that largely depend on demand from high-income consumers are holding up well or even booming. Unfortunately, a more complete recovery and the return of the jobs in the service sector will have to wait until 2021.

The Housing Sector Awakens

The demand for housing appears to be strong, showing that a substantial portion of homebuyers' fortunes have been largely unaffected by the pandemic, and, perhaps, helped by low interest rates and rising stock prices. The available supply of homes for sale has not kept up with demand. Because of supply shortages, housing starts bounced back strongly over the summer to 11 percent year-over-year growth in September. While the rebound was markedly weaker in multi-family starts, the third-quarter reading of single-family starts stood at its highest level since August 2007!

Industrial activity also appears to be accelerating. The ISM manufacturing index rose to 59.3, its highest reading since September 2018, partially because of the unexpectedly brisk recovery of the demand for new vehicles. In September–October, the annualized light vehicles sales pace exceeded 16 million units.

The Low-inflation Menace

Barring a handful of episodes, the year-over-year PCE inflation rate has largely remained below 2 percent since 2010. In an attempt to raise inflation to its 2 percent target, in August, the Fed announced that its goal is "to achieve inflation that averages 2 percent over time," a policy now broadly labeled as "average inflation targeting." Practically speaking, this means the Fed will likely keep interest rates low until its own inflation forecasts have spent some time over the 2 percent mark, provided that longer-term inflation expectations remain well anchored. We expect the federal funds target range to remain unchanged, at 0–0.25 percent, over the duration of our forecast.

Divided Government Strikes Again

Our forecast assumes Democrats have retained control of the House, and Joe Biden will almost surely be the next president, but control of the Senate hinges on two runoff elections in January. We expect Republicans to maintain control of the Senate, likely limiting the scope for large-scale policy changes.

Most of the income support provided by the previous federal stimulus either has expired or is due to expire by the end of the year. While divided government often leads to gridlock and partisanship, we believe that the urgency for fiscal support for the large number of unemployed persons and struggling firms will overcome partisan divisions. In the short run, we expect a stop-gap measure of around 200 billion dollars, tied to a deal to keep the government open, to pass in December during the lame-duck session. We also anticipate that the resurgence of COVID-19 cases in the fourth quarter, and the accompanying slowdown in the recovery, will prompt Congress to provide another round of fiscal support in the new year. We expect the new Congress to provide around 700 billion dollars in aid beginning in 2021Q1, of which about 275 billion dollars is allocated to schools, hospitals, and state and local governments.

The 2021–22 Outlook: The Return of Growth

The boost from federal income support and growing vaccine availability lift annual real GDP growth to 4.2 percent in 2021. Growth slows to 3.0 percent in 2022 as federal support wanes, but the recovery continues.

Sharp declines in the first half of the year cause light vehicle sales to slow to 14.5 million units in 2020. Sales pick up to 16.3 million units in 2021 and 16.7 million units in 2022. Total housing starts rise from 1.3 million units in 2019 to 1.34 million units in 2020, owing to a strong rebound in single-family starts. Low interest rates help boost the housing market. Housing starts rise to 1.4 million units

per year in 2021–22, while existing home sales rise from 4.9 million units in 2020 to 5.2 million in 2021 and 5.4 million in 2022.

After declining by an unprecedented 20.8 million jobs in April, total nonfarm payroll employment added back 12.1 million jobs over May–October. Total employment continues to recover over the forecast, ending 2022 only 800,000 jobs below the level in 2020Q1. The unemployment rate declines from 6.9 percent in October to 5.6 percent and 5.1 percent at the end of 2021 and 2022, respectively.

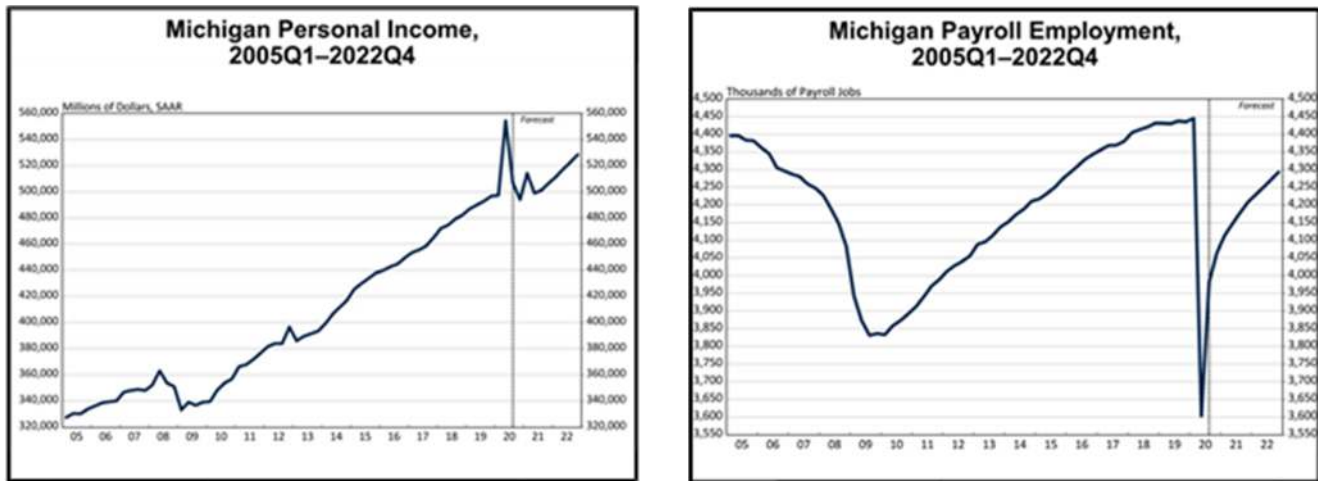
Core CPI inflation has slowed somewhat so far in 2020, largely reflecting slower inflation in the shelter component. Core CPI inflation grows to an average of 1.8 percent in 2021 and 1.9 percent in 2022. As energy prices recover, all-item CPI inflation rebounds from 1.2 percent in 2020 to 2.0–2.1 percent in 2021 and 2022.

	Actual	RSQE Forecast		
	2019	2020	2021	2022
GDP (billions of current \$)	21433.2	20899.4	22127.6	23226.6
Real GDP (billions of 2012 \$)	19091.7	18401.5	19179.6	19756.1
% change: year-over-year	2.2	-3.6	4.2	3.0
% change: 4th-qtr-to-4th-qtr	2.3	-2.8	3.8	2.7
Nonfarm payroll employment (millions)	150.9	142.3	146.3	150.1
Civilian unemployment rate (%)	3.7	8.1	5.9	5.3
Capacity utilization, total industry (%)	77.8	71.7	76.1	78.8
Inflation (private nonfarm GDP deflator, % change)	1.8	1.2	1.6	1.9
Inflation (CPI-U, % change)	1.8	1.2	2.0	2.1
Inflation (core CPI, % change)	2.2	1.7	1.8	1.9
Light vehicle sales (millions)	17.0	14.5	16.3	16.7
Private housing starts (thousands)	1295.3	1335.8	1392.1	1423.2
3-month Treasury bill rate (%)	2.1	0.4	0.1	0.1
10-year Treasury note rate (%)	2.1	0.9	1.0	1.3
Conventional mortgage rate (%)	3.9	3.1	2.9	3.1
Real disposable income (billions of chained 2012 \$)	14882.8	15720.3	15592.4	15546.3
% change	2.2	5.6	-0.8	-0.3
Corporate profits after tax (billions of current \$)	1938.6	1912.1	2159.8	2268.7
Value of U.S. \$ (FRB broad index), % appreciation	3.3	2.3	-2.0	0.0
Current account balance (NIPA basis, billions of current \$)	-502.8	-580.5	-604.8	-603.5
Federal surplus (FY, NIPA basis, billions of current \$)	-1023.3	-2889.8	-2675.4	-1616.9

State of Michigan Economic Forecast

Source: The Michigan Economic Outlook for 2021-2022; Executive Summary: November 2020
From Research Seminar in Quantitative Economics (RSQE), University of Michigan

Following are highlights from the most recent RSQE Michigan forecast, released November 20, 2020:



In response to Michigan's second wave of COVID-19, Governor Whitmer recently announced new restrictions temporarily prohibiting indoor dining and drinking, some other recreational activities, and in-person high school, college, and university instruction. We estimate that the restrictions will reduce the state's payroll job count by about 50,000 jobs, but our best guess is that very few of those job losses will appear in the reported monthly job count due to a quirk in the procedure for estimating payroll employment.

Even prior to the new restrictions, we expected the second wave of the pandemic to inhibit Michigan's economic recovery this winter. Our provisional assessment of the available evidence is that private precautions are likely to drive substantial short-term weakness in the leisure and hospitality sector, regardless of official mandates.

We expect the state's economic recovery to benefit from the wide rollout of a vaccine by mid-2021 and passage of a modest fiscal stimulus package. Payroll employment ends 2022 152,000 jobs, or 3.4%, short of its pre-pandemic level in the first quarter of 2020.

Personal income in Michigan has decoupled from employment during the pandemic because of massive federal income support, but the boost from Uncle Sam is fading fast. We estimate that personal income fell 8.6% from the second quarter to the third, but the third quarter level was still a bit higher than prior to the pandemic.

Personal income falls a bit further in the fourth quarter with very limited federal support, then takes a jagged-tooth path in the first half of 2021. Additional stimulus in the first quarter leads to 4.0% growth, which is followed by a 2.9% decline as the stimulus fades. Personal income growth returns to a smoother path in the fourth quarter of 2021 and stays there in 2022, with annualized growth rates hovering between 3.9 and 4.7%.

That path for total personal income hides a more worrisome trend: employment has held up much better in higher-wage industries than in lower-wage industries, and we expect the recovery to be faster in higher-wage industries as well. The COVID-19 recession thus appears to be driving a substantial increase in income inequality.

Michigan Forecast Highlights; House Fiscal Agency's (HFA) November 25, 2020 Revenue update report

Michigan wage and salary employment growth were 0.4% in CY 2019; it is expected to decrease by 10.2% in CY 2020. Wage and salary employment growth is estimated to increase 6.9% in CY 2021 and 2.3% in CY 2022.

Michigan's unemployment rate was 4.1% in CY 2019; it is forecast to increase to 13.3% in CY 2020 before dropping to 8.0% in CY 2021 and 6.5% in CY 2022.

Michigan personal income grew by 3.8% in CY 2019; it is forecast to decrease 1.5% in CY 2020. Michigan personal income is projected to increase 0.8% in CY 2021 and 6.2% in CY 2022.

Michigan wage and salary income increased by 2.7% in CY 2019; it is forecast to decline 9.9% in CY 2020 before increasing 9.0% in CY 2021 and 7.8% in CY 2022.

Inflation (as measured by the Detroit Consumer Price Index) is forecast to decrease 1.0% in CY 2020 before increasing 0.2% in CY 2021 and 1.3% in CY 2022.

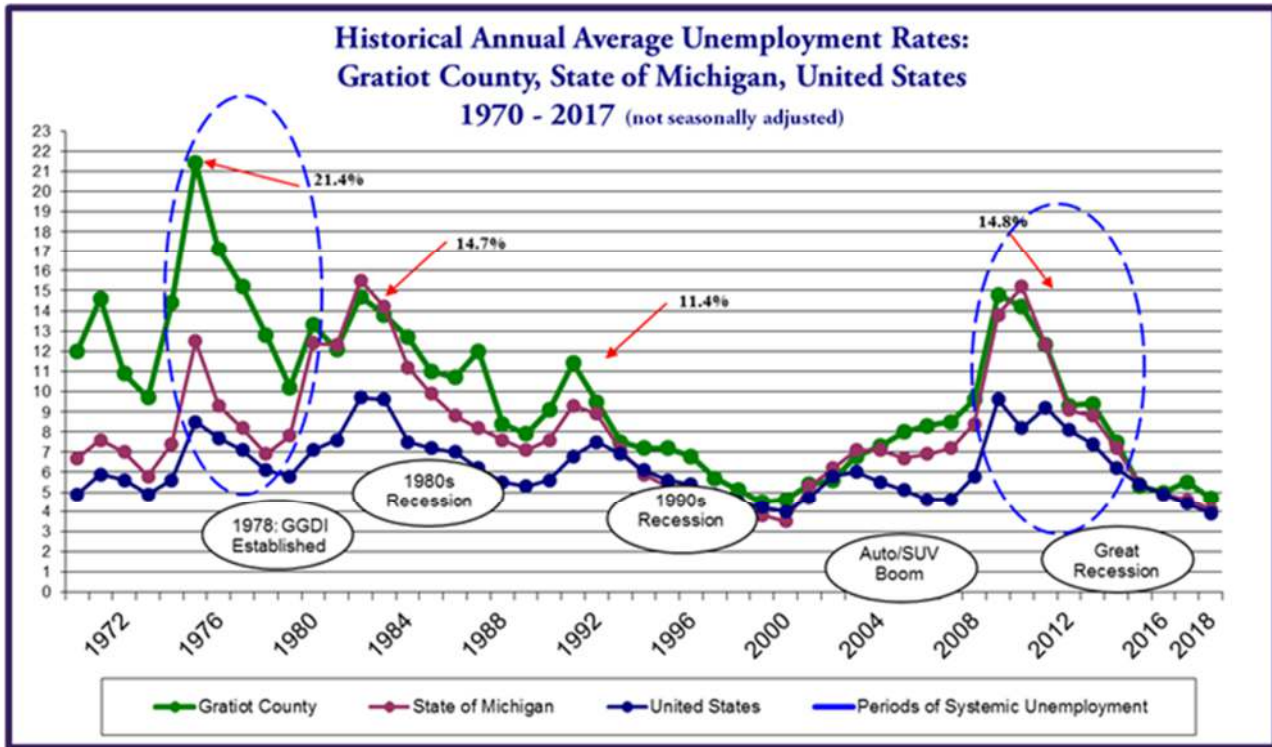
Trajectory of the COVID-19 Global Pandemic; May 2020

The trajectory of, and response to, COVID-19 is the primary source of risk and uncertainty for this forecast. As Michigan and other states begin to relax mitigation measures implemented to slow the spread of the disease, predicting the future path of the disease is very difficult. According to public health experts, current capacity continues to fall short of the level needed to conduct adequate testing, tracing, and isolating that would allow for significant relaxation of mitigation measures without leading to an increase in new cases. It is possible that in the coming weeks and months, increased testing and contact tracing could allow for a broad relaxation of mitigation measures on economic activity. Additionally, as of this writing, antibody tests are in their early stages. As they become more widespread and reliable, epidemiologists will gain a better understanding of the transmission levels, which would allow for improved disease intervention measures. Nevertheless, polls have shown that people are generally reticent to return to normal activity without improved treatments or vaccines even if mitigation measures were eliminated.

Epidemiologists and public health experts note that the disease will continue to circulate at some level until a vaccine is developed and widely distributed. While it is likely that preparedness will be much improved as we move into the fall, the impact on the economy is unknown and will depend on new case rates and treatment capacity. In short, improved measures to track, trace, and/or treat the disease would go a long way to provide disease mitigation and an acceleration of the economic recovery.

Gratiot County Economic Conditions

Source: Greater Gratiot Development, Inc : 2020 Gratiot County Employment Profile



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

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

The relatively small total labor force of Gratiot County has a large impact on the degree to which unemployment rates swing up or down. Approximately 200 persons gaining or losing employment changes the county average by one full percentage point. A slight change in Gratiot County’s labor force results in a substantial impact on the County’s unemployment rate, minimal

effects to the state rate, and no effect to the national rate. Historically, the size of the Gratiot County labor force has remained fairly consistent.

One of the biggest issues facing companies across all sectors of the County, is retaining and recruiting talented employees. Numerous initiatives are in effect to help alleviate this issue. First, a bi-county voted millage supports career and technical education program in K-12 schools in Isabella and Gratiot counties. Representatives from these schools meet regularly with industry representatives and support agencies in order to ensure that students are receiving training that industries need. Second, GGDI works with Michigan Works! In connecting companies with talent and training funds. GGDI continues to work with the Gratiot-Isabella RESD and several other local partners in promoting trade skill education through grant funds recently distributed in the Marshall Plan for Talent. GGDI will continue to work toward solutions for the current talent shortage.

Ithaca Economic Forecast

Like all other communities, small and large alike, Covid-19 has had a major impact on the City of Ithaca during 2020. The Governor's Executive Orders throughout the year closed down Salons, Barbers, Gyms, Bars, indoor dining, in person learning for Schools, among others. Employees were required to learn a "new way of doing business", by being mandated to work from home if able. Similarly, schools have had to learn how to learn virtually. This has sent company's and schools alike in survival and/or adaptation mode. Many restaurants started offering curbside and take-out only orders. Despite the fiscal challenges of the pandemic on local businesses, the City of Ithaca and its' residents have remained steadfast in their support of one another.

To date we have not had one business go under due to the fallout of Covid-19. The City has also seen growth in many areas of the City. On the East end of town in the North Industrial District and the Agricultural Industrial District, there were several projects completed or started in 2020:

- Zeeland Farm Services (ZFS) completed the construction of its' soybean processing and storage facility. They are running at full capacity, with estimated fifty full time employees and is the largest soybean processing facility in the State of Michigan.
- McDonald's/KFC/Taco Bell completed renovation projects on both the interior and exterior of their respective restaurants.
- Ellen's Equipment had their Grand Opening and is in the process of purchasing more property to the east of their building from the City, for display and storage of their fleet.
- Kimmel Propane is in the final stages of completing a new office and warehouse facility on their property just off Commerce Drive.
- Trident Manufacturing is in the planning stages of a new office space and warehouse, as well as an expanded parking lot.

- Pins, which is the only bowling alley left in Gratiot County has completed a parking lot makeover and has plans to install new lanes for bowlers.
- Mint Investment Property LLC built a new Drive-Thru Ice Cream Shop on the lot in front of Ric's Food Center. The Ice Cream Shop was completed and able to open this fall, their name is Big Top Ice Cream Shop. Mint Investment Property LLC also owns Smith Family Funeral Homes.

The Downtown District is also doubling down on the Ithaca Community during the midst of the pandemic with several projects completed or nearing completion.

- Beacon & Bridge, at the corner of E. Center and N. Main, installed a new pole sign for the convenience of their gas buying customers.
- Los Hermanos completed a patio roof structure. They are now offering outdoor dining to their customers. Which has come in handy during the times of Government shutdown.
- Gratiot County purchased the building located across S. Main St. to the West. They are housing the County's Permits Office at this location.
- Gemini Capital has completed construction at the 105 E. Center St. building and nearing completion on their other building across the Street at 146 E. Center St. The upstairs residential units are filling up fast, with the downstairs commercial spaces seemingly following suit. The residents at the 146 Building will be treated with elevator access as is code with the third floor.

These two buildings offer 14 new upstairs residential apartments, along with the commercial space on the first floor.

- Bones Barbecue opened up in the newly renovated location at the corner of Pine River and E. Center St.
- Gratiot Historical and Genealogical Society paved a new parking lot for their patrons, to the south of their building.

Housing for the City of Ithaca has seen a few new single-family homes and duplexes erected this year, along with the aforementioned apartments downtown. Ithaca has also welcomed its' very first Habitat for Humanity House Project, which is nearing completion. Any available houses have been spending little time on the market due to the need of single-family housing and low interest rates in 2020.

City Business has seen the paving of several streets in town along with phase 5 of our sidewalk paving project. The Newark Street paving and drainage project has been completed as well. The City also sold all of its' obsolete vehicles, including an old Scraper Truck. Residents will be seeing a new Scraper truck plowing some of the roads this winter. The City of Ithaca has also entered into two Authorities with other Gratiot County City's and Townships in 2020.

- Gratiot Emergency Services Authority has been formed between the City of Ithaca and our Fire-Rescue Districts Township partners of Arcada, Emerson, Lafayette Newark, New Haven, and North Star. GESA creates a partnership to streamline emergency services and will create long term growth and stability for the Department.
- St. Louis, Ithaca, and Pine River Township have joined forces to create the SLIPR Authority. SLIPR will be contracting with Alma Transportation (Dial-A-Ride) to bring public transportation to their respective cities. The City of Ithaca is new to public transportation, and this addition will not only benefit the citizens of Ithaca, but also the local economy as more people will have the opportunity to be mobile.

This year's elections have brought more changes to the City, outside the forming of SLIPR and the millage dollars it will bring for the service. The City passed the renewal for its' Emergency Services Millage, as well as the Charter Amendment for the reassignment of some of the Clerk and Treasurer duties. The contested November election will also result in a new president, Joe Biden who will be taking us into the new year as our Commander in Chief.

Due to the Pandemic and revenue sharing concerns with the State of Michigan, the City of Ithaca implemented pay freezes for six months and entered into the CARES ACT and its' work share plan administered through the State of Michigan Unemployment Insurance Agency. In doing so the City saved over \$61,000 in wages over that same time period.

Moody's Annual Issuer Comment dated April 28, 2020 on Ithaca's above Unlimited Tax General Obligation bond¹ issue offered the following credit overview:

Issuer Profile. The City of Ithaca is the county seat of Gratiot County, located in the geographic center of Michigan's Lower Peninsula, approximately 40 miles north of Lansing. The county has a population of 41,067 and a low population density of 72 people per square mile. The county's median family income is \$55,954 (4th quartile) and the February 2020 unemployment rate was 3.9% (3rd quartile)². The largest industry sectors that drive the local economy are manufacturing, retail trade, and local government.

We regard the coronavirus outbreak as a social risk under our environmental, social and governance framework, given the substantial implications for public health and safety. We do not see any material immediate credit risks for Ithaca. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Ithaca changes, we will update our opinion at that time.

Credit Overview. Ithaca has a solid credit position. However, its A1 rating is a slightly beneath the U.S. cities median of Aa3. The notable credit factors include a very healthy financial position, an extremely small debt burden, a somewhat elevated pension liability, but a very narrow tax base and a weak wealth and income profile.

Finances: Ithaca's financial position of Ithaca is robust and is a notable strength in comparison to its A1 rating. The cash balance as a percent of operating revenues

(58.7%) is materially above the US median, and grew from 2015 to 2019. In addition, the city's fund balance as a percent of operating revenues (57.7%) is much stronger than the US median.

Debt and Pensions: The debt burden of Ithaca is negligible and is very favorable in comparison to the A1 rating assigned. The net direct debt to full value (0%) is materially below the US median, and decreased dramatically between 2015 and 2019. However, the city has a somewhat inflated pension liability and is slightly unfavorable in relation to its A1 rating position. The Moody's-adjusted net pension liability to operating revenues (2.4x) is unfavorably above the US median. Moody's notes that the city has been contributing more than the actuarial amount the last two fiscal years.

Economy and Tax Base: The coronavirus pandemic is driving an unprecedented economic slowdown. We currently forecast real US GDP to decline significantly over the first and second quarters of 2020, but a more moderate decline for the full year. Local governments with the highest exposure to the tourism, health care, consumer and international trade sectors could suffer particularly severe impacts.

The economy and tax base of Ithaca are limited and are weak in comparison to the assigned rating of A1. The full value per capita (\$63,947) is below the US median, but increased dramatically from 2015 to 2019. Additionally, the total full value (\$179 million) is much weaker than other Moody's-rated cities nationwide. However, a recently completed soybean processing plant opened in the summer of 2019. Lastly, the median family income equates to only 75% of the US level.

Management and Governance: Michigan cities have an institutional framework score³ of "A," or moderate. Cities rely on property tax and state aid revenues, which are moderately predictable. Revenue-raising ability is moderate as cities are subject to limits on taxable valuation growth (Proposal A) and revenue growth (Headlee Amendment). The Headlee Amendment restriction creates a permanent reduction in the millage rate, although voters can approve an override. Expenditures are moderately predictable and cities have moderate flexibility to reduce them, but many have cut to minimum service levels. While Michigan's constitution protects accrued pension benefits, changes can be made to future benefits.

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

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

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

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

³ The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [USLocalGovernmentGeneralObligation Debt\(September2019\)](#) methodology report for more details.

Contacting the City's Financial Management Team

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

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

Phone: (989) 875-3200 x 305
Facsimile: (989) 875-4064
Website: www.ithacami.com

Jamey Conn

Jamey Conn
City Manager
manager@ithacami.com

Barbara Fandell

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

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**



City of Ithaca
Statement of Net Position
June 30, 2020

	PRIMARY GOVERNMENT			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current assets				
Cash and cash equivalents	\$ 2,226,913	\$ 1,190,437	\$ 3,417,350	\$ 11,730
Investments	1,378,429	532,374	1,910,803	21,283
Accounts receivable	49,867	230,634	280,501	-
Property taxes receivable	1,093,908	234,352	1,328,260	-
Due from other governments	98,856	-	98,856	-
Due from agency fund	1,000	-	1,000	-
Inventories	-	26,903	26,903	-
Total current assets	4,848,973	2,214,700	7,063,673	33,013
Noncurrent assets				
Long term notes receivable	60,140	-	60,140	-
Capital assets not being depreciated	181,681	95,830	277,511	-
Capital assets being depreciated, net	1,936,799	6,859,308	8,796,107	-
Total noncurrent assets	2,178,620	6,955,138	9,133,758	-
Total assets	7,027,593	9,169,838	16,197,431	33,013
Deferred Outflows of Resources				
Deferred outflow - related to pension	72,735	48,489	121,224	-
Liabilities				
Current liabilities				
Accounts payable	174,130	53,449	227,579	28
Accrued liabilities	48,751	9,070	57,821	-
Accrued interest	-	30,438	30,438	-
Compensated absences, due within one year	7,375	4,018	11,393	-
General obligation bonds payable, due within one year	-	110,000	110,000	-
Total current liabilities	230,256	206,975	437,231	28
Noncurrent liabilities				
Customer deposits	-	4,500	4,500	-
Bond premium, net of amortization	-	198,246	198,246	-
Compensated absences, due beyond one year	41,794	22,767	64,561	-
General obligation bonds payable, due beyond one year	-	3,090,000	3,090,000	-
Net pension liability	1,039,852	693,234	1,733,086	-
Total noncurrent liabilities	1,081,646	4,008,747	5,090,393	-
Total liabilities	1,311,902	4,215,722	5,527,624	28
Net position				
Net investment in capital assets	2,118,480	3,556,892	5,675,372	-
Restricted	2,169,747	-	2,169,747	-
Unrestricted	1,500,199	1,445,713	2,945,912	32,985
Total net position	\$ 5,788,426	\$ 5,002,605	\$ 10,791,031	\$ 32,985

City of Ithaca
Statement of Activities
For the Year Ended June 30, 2020

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Primary Government		Total	
				Governmental Activities	Business-Type Activities		
Governmental activities							
General government	\$ 843,609	\$ 38,900	\$ 71,276	\$ (733,433)	\$ -	\$ (733,433)	\$ -
Public safety	797,351	167,870	-	(629,481)	-	(629,481)	-
Public works	634,909	-	467,385	(167,524)	-	(167,524)	-
Community and economic development	43,685	-	-	(43,685)	-	(43,685)	-
Recreation and cultural	268,343	2,475	74,369	(191,499)	-	(191,499)	-
Total governmental activities	2,587,897	209,245	613,030	(1,765,622)	-	(1,765,622)	-
Business-type activities							
Water and Sewer	1,005,600	790,119	-	-	(215,481)	(215,481)	-
Total primary government	\$ 3,593,497	\$ 999,364	\$ 613,030	(1,765,622)	(215,481)	(1,981,103)	-
Component units							
Downtown Development Authority	\$ 3,532	\$ -	\$ -	-	-	-	(3,532)
General revenues							
Property taxes				1,296,260	231,854	1,528,114	-
State grants				328,391	-	328,391	-
Unrestricted investment earnings				93,400	20,798	114,198	421
Gain on disposal of capital assets				847	-	847	-
Transfers				2,106	-	2,106	(2,106)
Other revenues				140,294	25,919	166,213	3,345
Total general revenues				1,861,298	278,571	2,139,869	1,660
Change in net position				95,676	63,090	158,766	(1,872)
Net position, beginning of year				5,692,750	4,939,515	10,632,265	34,857
Net position, end of year				\$ 5,788,426	\$ 5,002,605	\$ 10,791,031	\$ 32,985

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, 2020

	MAJOR FUNDS					Non-Major Governmental Funds	Total Governmental Funds
	General Fund	Major Street	Local Street	Economic Development	Library		
Assets							
Cash and cash equivalents	\$ 605,205	\$ 314,467	\$ 192,652	\$ 39,027	\$ 216,342	\$ 645,519	\$ 2,013,212
Investments	535,236	308,993	204,496	-	188,670	136,629	1,374,024
Accounts receivable	14,917	-	-	-	-	-	14,917
Notes receivable	-	-	-	60,140	-	-	60,140
Due from other funds	-	-	20,241	-	-	-	20,241
Due from agency fund	1,000	-	-	-	-	-	1,000
Due from other governments	39,263	45,578	14,015	-	-	-	98,856
Total assets	\$ 1,195,621	\$ 669,038	\$ 431,404	\$ 99,167	\$ 405,012	\$ 782,148	\$ 3,582,390
Liabilities							
Accounts payable	\$ 51,914	\$ 103,629	\$ 7,796	\$ -	\$ 3,600	\$ 4,407	\$ 171,346
Accrued liabilities	11,010	179	355	-	3,129	33,787	48,460
Due to other funds	20,241	-	-	-	-	-	20,241
Total liabilities	83,165	103,808	8,151	-	6,729	38,194	240,047
Deferred inflows of resources							
Unavailable revenue	-	-	-	60,140	-	-	60,140
Total deferred inflows of resources	-	-	-	60,140	-	-	60,140
Fund balances							
Restricted	-	565,230	423,253	39,027	398,283	743,954	2,169,747
Unassigned	1,112,456	-	-	-	-	-	1,112,456
Total fund balances	1,112,456	565,230	423,253	39,027	398,283	743,954	3,282,203
Total liabilities and fund balance	\$ 1,195,621	\$ 669,038	\$ 431,404	\$ 99,167	\$ 405,012	\$ 782,148	\$ 3,582,390

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, 2020

Total fund balance - governmental funds	\$ 3,282,203
<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	5,308,518
Deduct: Accumulated depreciation	(3,641,168)
<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	701,111
<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	1,093,908
Add: Balance of long-term loans receivable	60,140
<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	72,735
Deduct: Net pension liability	(1,039,852)
Deduct: Compensated absences	(49,169)
	(916,286)
Total net position - governmental activities	\$ 5,788,426

City of Ithaca
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2020

	MAJOR FUNDS					Non-Major Governmental Funds	Total Governmental Funds
	General Fund	Major Street	Local Street	Economic Development	Library		
Revenues							
Taxes and penalties	\$ 1,124,303	\$ -	\$ -	\$ -	\$ 168,725	\$ -	\$ 1,293,028
Licenses and permits	14,903	-	-	-	-	-	14,903
State grants	328,391	352,133	115,252	-	6,530	71,276	873,582
Charges for services	19,197	-	-	-	2,475	172,670	194,342
Fines and forfeits	-	-	-	-	67,839	-	67,839
Interest and rentals	69,270	6,178	3,290	197	7,602	5,588	92,125
Other revenues	105,984	-	-	11,343	3,634	27,472	148,433
Total revenues	1,662,048	358,311	118,542	11,540	256,805	277,006	2,684,252
Expenditures							
General government	465,451	-	-	-	-	74,716	540,167
Public safety	469,188	-	-	-	-	282,755	751,943
Public works	187,687	277,866	169,356	-	-	-	634,909
Community and economic development	6,055	-	-	3,204	-	-	9,259
Recreation and cultural	82,143	-	-	-	161,809	-	243,952
Other expenditures	306,107	-	-	-	-	-	306,107
Total expenditures	1,516,631	277,866	169,356	3,204	161,809	357,471	2,486,337
Revenues over (under) expenditures	145,417	80,445	(50,814)	8,336	94,996	(80,465)	197,915
Other financing sources (uses)							
Proceeds from sale of capital assets	100	-	-	-	-	-	100
Transfers in	102,199	28,480	117,041	-	-	129,811	377,531
Transfers in - internal service fund	44,201	-	-	-	-	-	44,201
Transfers in - component unit	12,106	-	-	-	-	-	12,106
Transfers out - component unit	(10,000)	-	-	-	-	-	(10,000)
Transfers out	(196,857)	(79,300)	-	-	-	(101,374)	(377,531)
Total other financing sources (uses)	(48,251)	(50,820)	117,041	-	-	28,437	46,407
Net change in fund balances	97,166	29,625	66,227	8,336	94,996	(52,028)	244,322
Fund balance, beginning of year	1,015,290	535,605	357,026	30,691	303,287	795,982	3,037,881
Fund balance, end of year	\$ 1,112,456	\$ 565,230	\$ 423,253	\$ 39,027	\$ 398,283	\$ 743,954	\$ 3,282,203

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, 2020

Net change in fund balances - total governmental funds	\$ 244,322
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>	
Add: Capital outlay	42,577
Deduct: Depreciation expense	(155,439)
<p>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 fund is reported with governmental activities.</p>	
Deduct: Net income of internal service fund	(73,799)
<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: Change in property tax accrual	3,232
Deduct: Payments of long-term loan receivable	(8,139)
<p>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.</p>	
Deduct: Change in deferred outflow - related to pension	(111,661)
Add: Change in net pension liability	162,775
Deduct: Change in accrual for compensated absences	(8,192)
	(165,078)
Change in net position - governmental activities	\$ 95,676

City of Ithaca
Statement of Net Position
Proprietary Funds
June 30, 2020

	Enterprise Funds	Governmental Activities
	Water and Sewer	Internal Service
Assets		
Current assets		
Cash and cash equivalents	\$ 1,190,437	\$ 213,701
Investments	532,374	4,405
Accounts receivable	230,634	34,950
Property taxes receivable	234,352	-
Inventories	26,903	-
Total current assets	<u>2,214,700</u>	<u>253,056</u>
Noncurrent assets		
Capital assets not being depreciated	95,830	-
Capital assets being depreciated, net	6,859,308	451,130
Total noncurrent assets	<u>6,955,138</u>	<u>451,130</u>
Total assets	9,169,838	704,186
Deferred Outflows of Resources		
Deferred outflow - related to pension	48,489	-
Liabilities		
Current liabilities		
Accounts payable	53,449	2,784
Accrued liabilities	9,070	291
Accrued interest	30,438	-
Compensated absences, due within one year	4,018	-
General obligation payable, due within one year	110,000	-
Total current liabilities	<u>206,975</u>	<u>3,075</u>
Noncurrent liabilities		
Customer deposits	4,500	-
Compensated absences, due beyond one year	22,767	-
General obligation payable, due beyond one year	3,090,000	-
Bond premium, net of amortization	198,246	-
Net pension liability	693,234	-
Total noncurrent liabilities	<u>4,008,747</u>	<u>-</u>
Total liabilities	<u>4,215,722</u>	<u>3,075</u>
Net position		
Net investment in capital assets	3,556,892	451,130
Unrestricted	<u>1,445,713</u>	<u>249,981</u>
Total net position	<u>\$ 5,002,605</u>	<u>\$ 701,111</u>

City of Ithaca
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2020

	Enterprise Funds	Governmental Activities
	Water and Sewer	Internal Service
Operating revenues		
Water and sewer sales	\$ 781,996	\$ -
Penalties and interest charges	8,123	-
Service charges	-	151,679
Property taxes	231,854	-
Miscellaneous revenues	25,919	7,685
Total operating revenues	<u>1,047,892</u>	<u>159,364</u>
Operating expenses		
Water		
Personnel services	153,606	-
Contractual services	92,065	-
Supplies	33,896	-
Depreciation	164,833	-
Other expenses	64,389	-
Sewer		
Personnel services	158,380	-
Contractual services	54,184	-
Supplies	5,183	-
Depreciation	85,149	-
Other expenses	81,830	-
Other		
Personnel services	-	39,960
Contractual services	-	2,392
Supplies	-	4,791
Depreciation	-	86,641
Other expenses	-	57,200
Total operating expenses	<u>893,515</u>	<u>190,984</u>
Operating income (loss)	154,377	(31,620)
Nonoperating revenues (expenses)		
Interest revenue	20,798	1,275
Gain on disposal of capital assets	-	747
Transfer out	-	(44,201)
Interest expense	(111,588)	-
Other expenses	(497)	-
Total nonoperating revenues (expenses)	(91,287)	(42,179)
Change in net position	63,090	(73,799)
Net position, beginning of year	<u>4,939,515</u>	<u>774,910</u>
Net position, end of year	<u>\$ 5,002,605</u>	<u>\$ 701,111</u>

City of Ithaca
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2020

	Enterprise Funds	Governmental Activities
	Water and Sewer	Internal Service
Cash flows from operating activities		
Receipts from customers	\$ 744,898	\$ -
Receipts from interfund charges	-	138,848
Payments to suppliers / outsiders	(297,396)	(65,047)
Payments to employees	(338,962)	(39,914)
Other receipts	254,078	-
Net cash provided by (used in) operating activities	<u>362,618</u>	<u>33,887</u>
Cash flows from capital and related financing activities		
Transfers from other funds	-	(44,201)
Net cash provided by (used in) capital and related financing activities	<u>-</u>	<u>(44,201)</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(77,707)	(144,831)
Proceeds from sale of assets	-	747
Principal paid on debt	(100,000)	-
Interest and fees paid on debt	(112,585)	-
Net cash provided by (used in) capital and related financing activities	<u>(290,292)</u>	<u>(144,084)</u>
Cash flows from investing activities		
(Purchase)/sale of investments	(17,964)	(71)
Interest revenue	20,798	1,275
Net cash provided by (used in) investing activities	<u>2,834</u>	<u>1,204</u>
Net increase (decrease) in cash and cash equivalents	75,160	(153,194)
Cash and cash equivalents, beginning of year	<u>1,115,277</u>	<u>366,895</u>
Cash and cash equivalents, end of year	<u>\$ 1,190,437</u>	<u>\$ 213,701</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 154,377	\$ (31,620)
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	249,982	86,641
Change in assets and liabilities		
Accounts receivable - net	(45,221)	(20,516)
Property taxes receivable	(3,695)	-
Inventories	15,146	-
Deferred outflows of resources related to pensions	74,441	-
Accounts payable	31,417	(664)
Accrued liabilities	1,677	46
Bond premium, net of amortization	(11,662)	-
Customer deposits	(750)	-
Compensated absences	5,423	-
Net pension liability	(108,517)	-
Net cash provided by operating activities	<u>\$ 362,618</u>	<u>\$ 33,887</u>

City of Ithaca
Statement of Net Position - Fiduciary Funds
June 30, 2020

	<u>Tax</u>
Assets	
Cash and cash equivalents	\$ 44,194
Total assets	<u>44,194</u>
Liabilities	
Accounts payable	43,194
Due to other funds	<u>1,000</u>
Total liabilities	<u>44,194</u>
Net position	
Unrestricted	<u>-</u>
Total net position	<u><u>\$ -</u></u>

City of Ithaca
Statement of Net Position - Component Unit
June 30, 2020

	<u>Downtown Development Authority</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 11,730
Investments	21,283
Total current assets	<u>33,013</u>
Liabilities	
Accounts payable	<u>28</u>
Total liabilities	28
Net position	
Unrestricted	<u>32,985</u>
Total net position	<u><u>\$ 32,985</u></u>

City of Ithaca
Statement of Activities - Component Unit
For the Year Ended June 30, 2020

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	
Downtown Development Authority				
General government	\$ 3,532	\$ -	\$ -	\$ (3,532)
General Revenues				
Unrestricted investment earnings				421
Transfers in				10,000
Transfers out				(12,106)
Other revenues				3,345
Total general revenues				<u>1,660</u>
Change in net position				(1,872)
Net position, beginning of year				<u>34,857</u>
Net position, end of year				<u>\$ 32,985</u>

NOTES TO THE FINANCIAL STATEMENTS



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

Discretely Presented Component Unit

The following component unit is reported within the component unit column in the combined financial statements.

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

Government-wide and Fund Financial Statements

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

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Street Fund accounts for the resources of State revenue sharing of trunkline maintenance revenues, gas and weight tax revenues and local road program revenues that are restricted for use on major streets.
- The Local Street Fund accounts for the resources of State revenue sharing of gas and weight tax revenues and local road program revenues that are restricted for use on local streets.
- The Economic Development Fund accounts for resources used to promote economic development of the City.
- The Library Fund accounts for the resources of library revenues that are restricted for the operations of the City's library.

The City reports the following major proprietary funds:

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

The City reports the following non-major governmental funds:

- The Caldwell & Gibbs Memorial Funds account for resources to fund special projects.
- The Cemetery and Fire & Rescue Sinking Funds account for funds that are placed in reserve for future operations and equipment purchases.
- The First Responder Fund accounts for resources used to provide first responder services to residents of the City and surrounding townships.
- The Fire Operating Fund accounts for resources used to provide fire services to residents of the City and surrounding townships.
- The Grant Projects Fund accounts for resources to fund special projects as awarded through local, state and federal grants.
- The Cemetery Perpetual Care Fund accounts for resources designated for the future ongoing care of the cemetery.

Additionally, the City reports the following fund type:

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

Budgetary Basis of Accounting

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

Investments

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

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

Due from/to other funds

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

Inventory

Inventory is valued at cost, on a first-in, first-out basis for the City's business-type activities. For all other funds,

City of Ithaca
Notes to the Financial Statements
June 30, 2020

the City does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the City as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at estimated acquisition cost at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

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

Assets	Years
Land	Not Depreciated
Construction in Process	Not Depreciated
Land Improvements	5 – 15
Buildings and Improvements	3 – 50
Furniture and Equipment	2 – 50
Infrastructure	10 - 40
Vehicles	5 – 30

Deferred Outflows

In addition to assets, the statement of net 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 pension items reported in the government-wide statement of net position. These amounts are expensed in the plan year in which they apply.

Deferred Inflows

In addition to liabilities, the statement of net 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.

Compensated Absences

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

Long-Term Obligations

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

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

proceeds received, are reported as debt service expenditures.

Defined Benefit Plan

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

Net Position and Fund Balances

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

Net Position – Restrictions

Net position in the government-wide financial statements are reported as restricted when constraints placed on net position use is either:

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

Fund Balance

The following classifications describe the relative strength of the spending constraints:

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

Property Tax Revenue

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

Although the City's ad valorem tax is levied and collectible on August 1st and December 1st, 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 2020 taxable valuation of property located in the City for operating purposes totaled \$66.4 million and \$77.4 million for water/sewer debt purposes, on which ad valorem taxes levied consisted of 13.9692 mills for operating, 1.5000 mills for emergency service, 1.0000 for sidewalk repairs and 3.0000 mills for water/sewer debt service.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and

City of Ithaca
Notes to the Financial Statements
June 30, 2020

expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

At June 30th, the carrying amount of the City's cash, deposits and investments was as follows:

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
Cash and cash equivalents	2,226,913	1,189,573	3,416,486	11,730
Investments	1,378,429	532,374	1,910,803	21,283
Totals	3,605,342	1,721,947	5,327,289	33,013

The bank balance of the primary government's deposits is \$3,382,625 of which \$1,000,000 is covered by federal depository insurance. The remaining amount is uninsured and uncollateralized. The component units' deposits had a bank balance of \$11,705 of which all is covered by federal depository insurance. Deposits which exceed FDIC insurance coverage limits are held at local banks.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories. In addition, independent bank rating agencies are also utilized on a quarterly basis for ongoing monitoring of each depository's financial stability.

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

Investment Type	Fair Value	Weighted Average Maturity (years)	Standard & Poor's Rating	%
Total Primary Government				
Michigan Cooperative Liquid Assets Securities System (Michigan CLASS)	1,910,803	0.1377	AAAm	98.9%
Total Component Unit				
Michigan Cooperative Liquid Assets Securities System (Michigan CLASS)	21,283	0.1377	AAAm	1.1%
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.

City of Ithaca
Notes to the Financial Statements
June 30, 2020

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

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

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

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

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

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

NOTE 3 – INTERFUND RECEIVABLES AND PAYABLES

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

Receivable fund	Amount	Payable fund	Amount
General	1,000	Tax	1,000
Local Street	20,241	General	20,241
Total	21,241	Total	21,241

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

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

Fund and Description	Amount
General Fund – State of Michigan Revenue Sharing	39,263
Major Street Fund – State of Michigan Act 51	45,578
Local Street Fund – State of Michigan Act 51	14,015
Total	98,856

City of Ithaca
Notes to the Financial Statements
June 30, 2020

NOTE 5 - CAPITAL ASSETS

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

Governmental Activities	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets not being depreciated					
Land	181,681	-	-	-	181,681
Construction in Process	26,078	-	-	(26,078)	-
Total capital assets not being depreciated	207,759	-	-	(26,078)	181,681
Capital assets being depreciated					
Land Improvements	379,913	-	-	-	379,913
Buildings and Improvements	2,328,777	-	-	17,430	2,346,207
Furniture and Equipment	1,597,788	193,560	(11,975)	8,648	1,788,021
Infrastructure	453,153	-	-	-	453,153
Vehicles	1,753,231	-	-	-	1,753,231
Total capital assets being depreciated	6,512,862	193,560	(11,975)	26,078	6,720,525
Accumulated depreciation	(4,547,468)	(242,080)	5,822	-	(4,783,726)
Capital assets being depreciated, net	1,965,394	(48,520)	(6,153)	26,078	1,936,799
Net capital assets	2,173,153	(48,520)	(6,153)	-	2,118,480

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

Business-Type Activities	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets not being depreciated					
Land	37,621	-	-	-	37,621
Construction in Process	6,222	51,987	-	-	58,209
Total capital assets not being depreciated	43,843	51,987	-	-	95,830
Capital assets being depreciated					
Furniture and Equipment	-	6,775	-	-	6,775
Water System	8,035,452	5,465	(21,754)	-	8,019,163
Sewer System	4,053,045	13,480	-	-	4,066,525
Total capital assets being depreciated	12,088,497	25,720	(21,754)	-	12,092,463
Accumulated Depreciation	(5,004,927)	(249,982)	21,754	-	(5,233,155)
Capital assets being depreciated, net	7,083,570	(224,262)	-	-	6,859,308
Net capital assets	7,127,413	(172,275)	-	-	6,955,138

City of Ithaca
Notes to the Financial Statements
June 30, 2020

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

Governmental Activities	Amount
General Government	51,214
Public Safety	45,408
Recreation and Cultural	34,426
Community and Economic Development	24,391
Internal Service Fund	86,641
Total Governmental Activities	242,080

Business-Type Activities	Amount
Water	164,833
Sewer	85,149
Total Business-Type Activities	249,982

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

NOTE 6 - LONG-TERM DEBT

Premiums and Discounts

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

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

	Beginning Balance	Additions	(Deletions)	Ending Balance
Premium on long-term debt	209,908	-	(11,662)	198,246

Long-term debt

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

General obligation bonds:	Amount
2016 general obligation refunding bonds due in annual installments of \$100,000 to \$275,000 through April, 2037 with an interest rate from 2.00% to 3.50%.	3,200,000
Total general obligation bonds:	3,200,000

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 \$46,907. City policy also allows employees to accumulate one sick leave day per month with a maximum accumulation of 60 days or 75 days, depending on employee hire date. Sick leave expenses are recognized at the time the days are used, or upon termination of employment. Upon termination of employment, with the exception of gross misconduct, 100% or 50% of accumulated sick pay, up to a maximum of 60 days, will be paid to the employee, depending on their date of hire. Sick leave pay liability at year-end was \$29,047. Total compensated absences as of year-end equals \$75,954.

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

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

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

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Government-Wide					
Compensated Absences	40,977	14,339	(6,147)	49,169	7,375
Business-Type					
Compensated Absences	21,362	8,626	(3,204)	26,784	4,018
General Obligation Bonds	3,300,000	-	(100,000)	3,200,000	110,000
Total Business-Type	3,321,362	8,626	(103,204)	3,226,784	114,018

The requirements to pay principal and interest on the long-term debt outstanding at June 30, 2020, are shown below:

Year Ended June 30	General Obligation Bonds	
	Principal	Interest
2021	110,000	121,750
2022	120,000	118,450
2023	125,000	114,850
2024	135,000	111,100
2025	145,000	105,700
2026-2030	885,000	433,300
2031-2035	1,140,000	235,100
2036-2037	540,000	28,526
Total long-term debt	3,200,000	1,268,776

NOTE 7 – PENSION PLAN – AGENT MULTIPLE-EMPLOYER PLAN

Summary of Significant Accounting Policies

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

General Information about the Pension Plan

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

Benefits Provided

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

01 – General Division: Closed to new hires

Benefit Multiplier: 2.25% Multiplier (80% max)

Normal Retirement Age: 60

Vesting: 6 years

Early Retirement (Unreduced): 55 years of age/25 years of service

Early Retirement (Reduced): 50 years of age/25 years of service 55 years of age/15 years of service

Final Average Compensation: 5 years

COLA for Future Retirees: 2.50% (Non-Compound)

COLA for Current Retirees: 2.50% (Non-Compound)

Employee Contributions: 4.70%

Defined Contribution Plan for New Hires: Effective 9/1/2005

Act 88: Yes (Adopted 12/1/1970)

02 – Police Division: Closed

Benefit Multiplier: 2.25% Multiplier (80% max)

Normal Retirement Age: 60

Vesting: 10 years

Early Retirement (Unreduced): 55 years of age/25 years of service

Early Retirement (Reduced): 50 years of age/25 years of service 55 years of age/15 years of service

Final Average Compensation: 5 years

COLA for Future Retirees: 2.50% (Non-Compound)

COLA for Current Retirees: 2.50% (Non-Compound)

Employee Contributions: 4.70%

Defined Contribution Plan for New Hires: Effective 9/1/2005

Act 88: Yes (Adopted 12/1/1970)

10 - DPW Union: Closed to new hires

Benefit Multiplier: 2.00% Multiplier (no max)

Normal Retirement Age: 60

Vesting: 10 years

Early Retirement (Unreduced): 55 years of age/25 years of service

Early Retirement (Reduced): 50 years of age/25 years of service 55 years of age/15 years of service

Final Average Compensation: 5 years

COLA for Future Retirees: 2.50% (Non-Compound)

COLA for Current Retirees: 2.50% (Non-Compound)

Employee Contributions: 4.70%

Defined Contribution Plan for New Hires: Effective 9/1/2005
Act 88: Yes (Adopted 1/1/2006)

Employees Covered By Benefit Terms

As of the December 31, 2019 Valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	17
Inactive employees entitled to but not yet receiving benefits	5
Active employees	<u>2</u>
Total	24

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

Contributions

The City is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City may, and has, established contribution rates to be paid by its covered employees. Due to the plan divisions being closed to new employees, the City's contribution rates are based on a flat rate valuation of annual payroll and not a percentage of the annual payroll. The minimum combined annual contribution amount for all divisions in the plan was \$219,060. The City made contributions in the amount of \$395,913 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, 2019, 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, 2019 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: 2.5%
- Salary Increases: 3.00% in the long-term
- Investment rate of return: 7.35%, net of investment and administrative expense, including inflation

Although no specific price inflation assumptions are needed for the valuation, the 3.00% long-term wage inflation assumption would be consistent with a price inflation of 2.5% annually.

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

The actuarial assumptions used in the valuation were based on the results of the most recent actuarial experience study conducted of 2011-2015.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return of 7.35% by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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The target allocation and range of allocation allowed, as set by the MERS Board of Directors, for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Target Allocation Real Rate of Return	Long-Term Expected Gross Rate of Return	Inflation Assumption	Long-Term Expected Real Rate of Return
Global Equity	60.0%	7.75%	4.65%	2.50%	3.15%
Global Fixed Income	20.0%	3.75%	0.75%	2.50%	0.25%
Private Investments	20.0%	9.75%	1.95%	2.50%	1.45%
	100.0%		7.35%		4.85%

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

Discount Rate

The discount rate used to measure the total pension liability was 7.60% for 2019. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

Calculating the Net Pension Liability				
Changes in Net Pension Liability	Increase (Decrease)			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	
	(A)	(B)	(A)-(B)	
Balances at 12/31/2018	\$ 4,540,582	\$ 2,536,202	\$ 2,004,380	
Changes for the Year				
Service Cost	17,228		17,228	
Interest on Total Pension Liability	348,127		348,127	
Changes in Benefits	-		-	
Difference Between Expected and Actual Experience	(45,828)		(45,828)	
Changes in Assumptions	143,955		143,955	
Employer Contributions		395,913	(395,913)	
Employee Contributions		6,661	(6,661)	
Net Investment Income		338,019	(338,019)	
Benefit Payments, Including Employee Refunds	(395,198)	(395,198)	-	
Administrative Expense		(5,817)	5,817	
Other Changes	-	-	-	
Net Changes	68,284	339,578	(271,294)	
Balances at 12/31/2019	\$ 4,608,866	\$ 2,875,780	\$ 1,733,086	

City of Ithaca
Notes to the Financial Statements
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Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Net Pension Liability of the City, calculated using the discount rate of 7.60%, as well as what the City's Net Pension Liability would be using a discount rate that is 1 percentage point lower (6.60%) or 1 percentage point higher (8.60%) than the current rate.

	1% Decrease 6.60%	Current Discount Rate 7.60%	1% Increase 8.60%
Net pension Liability as 12/31/19	1,733,086	1,733,086	1,733,086
Change in Net Pension Liability (NPL)	427,621	-	(366,112)
Calculated Net Pension Liability	\$ 2,160,707	\$ 1,733,086	\$ 1,366,974
<p>Note: The current discount rate shown for GASB68 purposes is higher than the MERS assumed rate of return. This is because for GASB68 purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.</p>			

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

For the year ended June 30, 2020, the City recognized pension expense of \$311,456. 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	\$ -	\$ 45,828
Differences in Assumptions	143,955	(45,828)
Excess (Deficit) Investment Returns	(140,204)	-
Contributions Subsequent to 12/31/19*	117,474	-
Total	\$ 121,225	\$ -

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending June 30, 2020.

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

Year ended:	2020	(8,603)
	2021	7,840
	2022	33,556
	2023	(29,042)

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

At year end the City is current on all required pension plan payments and amounts payable to the plan were \$0.

MERS Defined Contribution Plan

Plan Description

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

Eligibility

All new-hired full-time employees of the City are eligible to participate in the plan. As of year-end, the plan's current membership was 13 active and 5 terminated members.

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

Contributions

Participants contribute between 1% - 5% of their annual salary. The City matches participant contribution percentages, plus one additional percentage. City contributions, therefore, range between 2% - 6% of each participant's annual salary. Participants are 100% vested in the employer contributions after five years of service with the City or at age 55 whichever occurs first.

During the year, the actual contributions to the plan (reduced by forfeitures of \$0) amounted to \$56,810, which includes \$30,987 of employer contributions, and \$25,823 of employee contributions. The outstanding liability to the plan at year-end was \$0.

NOTE 8 - NET INVESTMENT IN CAPITAL ASSETS

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

Net investment in capital assets	Amount
Capital assets not being depreciated	181,681
Capital asset being depreciated, net	1,936,799
Net investment in capital assets	2,118,480

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

Net investment in capital assets	Amount
Capital assets not being depreciated	95,830
Capital asset being depreciated, net	6,859,308
Capital related general obligation bonds	(3,200,000)
Unamortized premium/discount on bond refunding	(198,246)
Net investment in capital assets	3,556,892

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	158,506	206,857
Major Street	28,480	79,300
Local Street	117,041	-
Cemetery Sinking	-	6,000
Fire and Rescue Sinking	17,000	-

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First Responder	37,875	2,000
Fire Operating	74,936	15,000
Grant Projects	-	78,199
Cemetery Perpetual Care	-	175
Internal Service Fund	-	44,201
Downtown Development Authority	-	2,106
Total Interfund Transfers	433,838	433,838

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

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

The Fire Operating and the First Responder Funds transferred funds to the Fire and Rescue Sinking Fund. These transfers are budgeted to set aside funds for future equipment purchases. In addition, funds from the Fire and Rescue Sinking fund were transferred to the Fire Fund for the purchase of equipment through memorial donations made to the City and designated for department use. These purchases had the support of the City Council and were supported with a budget amendment.

Additional transfers made to the General Fund were from the Internal Service Material Fund and the Grant Program Fund. The Internal Service Material Fund was closed and materials are now directly costed to projects and funds. The Grant Program Fund transferred funds back to the General Fund which were due from loans for the three-year Stormwater Asset Management grant and final reimbursement of the SAW grant payments

NOTE 11 - TAX ABATEMENTS

The City has Five Industrial Districts, two which are Michigan Certified Industrial Parks and one Agricultural Industrial Park which were built to attract companies to the City for job creation and growth of the City. It also has a Downtown Development Authority which works with the City to encourage economic development in the Commercial district. In order to achieve this industrial and commercial economic vitality and rehabilitation of older downtown buildings, the City offers tax abatements as allowed by Michigan law. To have an abatement awarded, the owner must make application to the City which requires presentation of the work to be done, the number of jobs to be created and retained, investment contribution and the number of years requested for the abatement. To date, the City has awarded abatements under Michigan Public Act PA146 of 2000 for Obsolete Property Rehabilitation, under Public Act 198 of 1974 for Industrial Facilities Tax and under Public Act 376 of 1996 for Renaissance Zones.

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

In 2019, the City had seven companies receiving IFT abatements and one company receiving a Renaissance Zone abatement. The combined values of the lost revenue from these abated properties are disclosed below, with total loss of revenue due to the abatements being equal to \$177,195.75. Information on individual

City of Ithaca
Notes to the Financial Statements
June 30, 2020

abatements is available from the City's Treasurer.

CITY OF ITHACA ASSESSORS WARRANT - SUMMER 2019 - IFT'S - POST 1994						
TAXING UNIT	TOTAL TAXABLE VALUE	TAXABLE VALUE w/o Abatement	MILLAGE RATE	TAXES LEVIED 2019 TAX ROLL	TAXES IF NOT ABATED	AMOUNT OF LOSS DUE TO ABATEMENT
Post 1994						
CITY OPERATING	\$2,057,250		6.98460	\$14,368.99	\$28,737.98	(\$14,368.99)
WATER/SEWER DEBT	\$2,057,250		1.50000	\$3,085.88	\$6,171.75	(\$3,085.88)
EMERGENCY SERVICES	\$2,057,250		0.75000	\$1,542.90	\$3,085.80	(\$1,542.90)
CITY SIDEWALKS	\$2,057,250		0.50000	\$1,028.63	\$2,057.25	(\$1,028.63)
ADMIN FEE				\$348.14	\$696.28	(\$348.14)
TOTAL 2019 SUMMER TAX COLLECTION FOR IFT'S - POST 1994				\$20,374.53	\$40,749.05	(\$20,374.53)
IFT Rehab						
CITY OPERATING	\$43,500	\$179,600	13.96920	\$607.66	\$2,508.87	(\$1,901.21)
WATER/SEWER DEBT	\$43,500	\$179,600	3.00000	\$130.50	\$538.80	(\$408.30)
EMERGENCY SERVICES	\$43,500	\$179,600	1.50000	\$65.25	\$269.40	(\$204.15)
CITY SIDEWALKS	\$43,500	\$179,600	1.00000	\$43.50	\$179.60	(\$136.10)
ADMIN FEE				\$13.48	\$34.97	(\$21.49)
Total 2019 SUMMER TAX COLLECTION FOR IFT REHAB				\$860.39	\$3,531.64	(\$2,649.76)
Renaissance Zone						
CITY OPERATING	\$0	\$9,966,350	13.96920	\$0.00	\$139,221.94	(\$139,221.94)
WATER/SEWER DEBT	\$9,966,350	\$9,966,350	3.00000	\$29,899.05	\$29,899.05	\$0.00
EMERGENCY SERVICES	\$0	\$9,966,350	1.50000	\$0.00	\$14,949.53	(\$14,949.53)
CITY SIDEWALKS	\$0	\$9,966,350	1.00000	\$0.00	\$9,966.35	(\$9,966.35)
ADMIN FEE				\$298.96	\$1,940.37	(\$1,641.41)
TOTAL 2019 SUMMER TAX COLLECTION FOR REN ZONE				\$30,198.01	\$195,977.23	(\$154,171.46)
TOTAL 2019 SPECIAL ACTS SUMMER TAX COLLECTION				\$51,432.93	\$240,257.92	(\$177,195.75)

NOTE 12 – UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 84, Fiduciary Activities, was issued by the GASB in January 2017 and will be effective for the City's 2020-2021 fiscal year. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Municipalities with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

GASB Statement No. 87, Leases, was issued by the GASB in June 2017 and will be effective for the City's 2021-2022 fiscal year. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTARY INFORMATION



City of Ithaca
 Budgetary Comparison Schedule - General Fund
 For the Year Ended June 30, 2020

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes and penalties	\$ 1,131,398	\$ 1,129,398	\$ 1,124,303	\$ (5,095)
Licenses and permits	13,000	15,000	14,903	(97)
State grants	385,125	378,816	328,391	(50,425)
Charges for services	23,000	23,000	19,197	(3,803)
Fines and forfeits	250	250	-	(250)
Interest and rentals	74,520	73,920	69,270	(4,650)
Other revenues	128,578	151,978	105,984	(45,994)
Total revenues	1,755,871	1,772,362	1,662,048	(110,314)
Expenditures				
General government	615,664	488,370	465,451	22,919
Public safety	477,362	469,547	469,188	359
Public works	200,285	213,425	187,687	25,738
Community and economic development	6,800	6,800	6,055	745
Recreation and cultural	119,571	119,571	82,143	37,428
Other expenditures	307,476	307,476	306,107	1,369
Total expenditures	1,727,158	1,605,189	1,516,631	88,558
Excess of revenues over (under) expenditures	28,713	167,173	145,417	(21,756)
Other financing sources (uses)				
Proceeds from sale of capital asset	-	-	100	100
Transfers in	129,799	102,199	102,199	-
Transfers in - internal service fund	44,201	44,201	44,201	-
Transfers in - component unit	12,106	12,106	12,106	-
Transfers out - component unit	(10,000)	(10,000)	(10,000)	-
Transfers out	(196,857)	(196,857)	(196,857)	-
Total other financing sources (uses)	(20,751)	(48,351)	(48,251)	100
Net change in fund balance	7,962	118,822	97,166	(21,656)
Fund balance, beginning of year	1,015,290	1,015,290	1,015,290	-
Fund balance, end of year	\$ 1,023,252	\$ 1,134,112	\$ 1,112,456	\$ (21,656)

City of Ithaca
 Budgetary Comparison Schedule - Major Street Fund
 For the Year Ended June 30, 2020

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
State grants	\$ 343,311	\$ 343,311	\$ 352,133	\$ 8,822
Interest and rentals	5,000	5,000	6,178	1,178
Other revenues	1,000	1,000	-	(1,000)
Total revenues	349,311	349,311	358,311	9,000
Expenditures				
Public works	300,472	317,271	277,866	39,405
Excess of revenues over (under) expenditures	48,839	32,040	80,445	48,405
Other financing sources (uses)				
Transfers in	30,461	30,461	28,480	(1,981)
Transfers out	(79,300)	(79,300)	(79,300)	-
Total other financing sources (uses)	(48,839)	(48,839)	(50,820)	(1,981)
Net change in fund balance	-	(16,799)	29,625	46,424
Fund balance, beginning of year	535,605	535,605	535,605	-
Fund balance, end of year	\$ 535,605	\$ 518,806	\$ 565,230	\$ 46,424

City of Ithaca
 Budgetary Comparison Schedule - Local Street Fund
 For the Year Ended June 30, 2020

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
State grants	\$ 113,525	\$ 113,525	\$ 115,252	\$ 1,727
Interest and rentals	2,200	2,200	3,290	1,090
Total revenues	115,725	115,725	118,542	2,817
Expenditures				
Public works	288,381	288,256	169,356	118,900
Excess of revenues over (under) expenditures	(172,656)	(172,531)	(50,814)	121,717
Other financing sources (uses)				
Transfers in	115,060	115,060	117,041	1,981
Net change in fund balance	(57,596)	(57,471)	66,227	123,698
Fund balance, beginning of year	357,026	357,026	357,026	-
Fund balance, end of year	\$ 299,430	\$ 299,555	\$ 423,253	\$ 123,698

City of Ithaca
 Budgetary Comparison Schedule - Economic Development Fund
 For the Year Ended June 30, 2020

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Interest and rentals	\$ 250	\$ 250	\$ 197	\$ (53)
Other revenues	8,139	11,343	11,343	-
Total revenues	8,389	11,593	11,540	(53)
Expenditures				
Community and economic development	-	3,204	3,204	-
Net change in fund balance	8,389	8,389	8,336	(53)
Fund balance, beginning of year	30,691	30,691	30,691	-
Fund balance, end of year	\$ 39,080	\$ 39,080	\$ 39,027	\$ (53)

City of Ithaca
 Budgetary Comparison Schedule - Library Fund
 For the Year Ended June 30, 2020

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Taxes and penalties	\$ 132,000	\$ 132,000	\$ 168,725	\$ 36,725
State grants	5,500	5,500	6,530	1,030
Charges for services	3,500	3,500	2,475	(1,025)
Fines and forfeits	61,500	61,500	67,839	6,339
Interest and rentals	5,400	5,400	7,602	2,202
Other revenues	4,375	4,375	3,634	(741)
Total revenues	212,275	212,275	256,805	44,530
Expenditures				
Recreation and cultural	177,255	186,155	161,809	24,346
Excess of revenues over (under) expenditures	35,020	26,120	94,996	68,876
Fund balance, beginning of year	303,287	303,287	303,287	-
Fund balance, end of year	\$ 338,307	\$ 329,407	\$ 398,283	\$ 68,876

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

	Plan years ending					
	2014	2015	2016	2017	2018	2019
Total Pension Liability						
Service Cost	22,097	22,158	23,731	19,110	20,002	17,228
Interest	334,991	335,619	348,062	351,659	346,137	348,127
Changes of Benefit Terms	-	-	-	-	-	-
Difference between expected & actual experience	-	56,022	45,090	(45,573)	63,500	(45,828)
Changes of assumptions	-	225,895	-	-	-	143,955
Benefit payments including employee refunds	(344,820)	(354,212)	(361,416)	(377,801)	(411,527)	(395,198)
Other	-	-	(2)	(2)	(1)	-
Net Change in Total Pension Liability	12,268	285,482	55,465	(52,607)	18,111	68,284
Total Pension Liability beginning	4,221,863	4,234,131	4,519,613	4,575,078	4,522,471	4,540,582
Total Pension Liability ending	4,234,131	4,519,613	4,575,078	4,522,471	4,540,582	4,608,866
Plan Fiduciary Net Position						
Contributions-employer	125,664	139,944	169,269	194,700	383,952	395,913
Contributions-employee	9,220	8,557	8,896	8,141	7,113	6,661
Net Investment income	168,684	(38,107)	269,761	322,962	(100,992)	338,019
Benefit payments including employee refunds	(344,820)	(354,212)	(361,416)	(377,801)	(411,527)	(395,198)
Administrative expense	(6,147)	(5,702)	(5,331)	(5,129)	(5,048)	(5,817)
Net Change in Plan Fiduciary Net Position	(47,399)	(249,520)	81,179	142,873	(126,502)	339,578
Plan Fiduciary Net Position beginning	2,735,571	2,688,172	2,438,652	2,519,831	2,662,704	2,536,202
Plan Fiduciary Net Position ending	2,688,172	2,438,652	2,519,831	2,662,704	2,536,202	2,875,780
Employer Net Pension Liability	1,545,959	2,080,961	2,055,247	1,859,767	2,004,380	1,733,086
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	63%	54%	55%	59%	56%	62%
Covered Employee Payroll (from GASB 68 actuarial page)	181,796	182,060	189,274	144,643	151,337	117,518
Employer's Net Pension Liability as a percentage of covered employee payroll	850%	1143%	1086%	1286%	1324%	1475%

Notes to Schedule:

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

GASB 68 was implemented in fiscal year 6-30-2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Benefit changes (if any) can be found in the actuarial valuation section titled: "Benefit Provision History".

Changes in the actuarial assumptions and methods based on the 2015 Experience Study are phased-in over a 5-year period. This valuation reflects the fourth year of the phase in. (This information can be found in the actuarial valuation section titled: "Plan Provisions, Actuarial Assumptions and Actuarial Funding Method; And also in the Appendix link of the actuarial valuation.

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

	Fiscal years ending									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Actuarial Determined Contributions	73,728	81,672	87,930	97,398	112,824	132,972	149,790	184,356	222,828	236,580
Contributions in relation to the actuarially determined contribution	89,664	89,424	97,626	117,045	135,276	144,612	154,968	194,700	383,472	396,651
Contribution deficiency (excess)	(15,936)	(7,752)	(9,696)	(19,647)	(22,452)	(11,640)	(5,178)	(10,344)	(160,644)	(160,071)
Covered Employee Payroll	378,223	395,101	357,005	223,500	181,796	182,060	189,274	144,643	151,337	117,518
Contributions as a Percentage of Covered Employee Payroll	24%	23%	27%	52%	74%	79%	82%	135%	253%	338%

Notes to Schedule of Contributions

Valuation Date

December 31, 2019

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 normal
Amortization method	Flat valuation of annual payroll, closed
Remaining amortization period	10 years
Asset valuation method	5 year smoothed
Inflation	2.50%
Salary increases	3.00%
Investment rate of return	7.35%
Retirement age	Age 60 or Age 55 with 25 years of service
Mortality	50% female/50% Male RP-2014 Group Annuity Mortality Table

Previous actuarial methods and assumptions:

*Actuarially Determined Contributions are found in the actuarial valuation in Table 5 of the MERS Annual Valuation.

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

Note that these are employer contributions not employee contributions.

OTHER SUPPLEMENTARY INFORMATION



City of Ithaca
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2020

	SPECIAL REVENUE FUNDS							Permanent Fund	Totals
	Caldwell Memorial	Gibbs Memorial	Cemetery Sinking	Fire & Rescue Sinking	First Responder	Fire Operating	Grant Projects	Cemetery Perpetual	
Assets									
Cash and cash equivalents	\$ 107,959	\$ 114,064	\$ 7,139	\$ 132,326	\$ 133,690	\$ 118,988	\$ 258	\$ 31,095	\$ 645,519
Investments	-	136,629	-	-	-	-	-	-	136,629
Total assets	\$ 107,959	\$ 250,693	\$ 7,139	\$ 132,326	\$ 133,690	\$ 118,988	\$ 258	\$ 31,095	\$ 782,148
Liabilities									
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 415	\$ 3,992	\$ -	\$ -	\$ 4,407
Accrued liabilities	-	-	-	-	10,667	23,120	-	-	33,787
Total liabilities	-	-	-	-	11,082	27,112	-	-	38,194
Fund balance									
Restricted	107,959	250,693	7,139	132,326	122,608	91,876	258	31,095	743,954
Total fund balance	107,959	250,693	7,139	132,326	122,608	91,876	258	31,095	743,954
Total liabilities and fund balance	\$ 107,959	\$ 250,693	\$ 7,139	\$ 132,326	\$ 133,690	\$ 118,988	\$ 258	\$ 31,095	\$ 782,148

City of Ithaca
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2020

	SPECIAL REVENUE FUNDS							Permanent Fund	Totals
	Caldwell Memorial	Gibbs Memorial	Cemetery Sinking	Fire & Rescue Sinking	First Responder	Fire Operating	Grant Projects	Cemetery Perpetual	
Revenues									
State grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 71,276	\$ -	\$ 71,276
Charges for services	-	-	4,560	-	40,814	127,056	-	240	172,670
Interest and rentals	185	2,662	48	744	810	814	109	216	5,588
Other revenues	-	-	-	1,219	105	26,148	-	-	27,472
Total revenues	185	2,662	4,608	1,963	41,729	154,018	71,385	456	277,006
Expenditures									
General government	-	-	-	-	-	-	74,716	-	74,716
Public safety	-	-	-	-	70,877	211,878	-	-	282,755
Total expenditures	-	-	-	-	70,877	211,878	74,716	-	357,471
Excess of revenues over (under) expenditures	185	2,662	4,608	1,963	(29,148)	(57,860)	(3,331)	456	(80,465)
Other financing sources (uses)									
Transfers in	-	-	-	17,000	37,875	74,936	-	-	129,811
Transfers out	-	-	(6,000)	-	(2,000)	(15,000)	(78,199)	(175)	(101,374)
Total other financing sources (uses)	-	-	(6,000)	17,000	35,875	59,936	(78,199)	(175)	28,437
Net change in fund balances	185	2,662	(1,392)	18,963	6,727	2,076	(81,530)	281	(52,028)
Fund balance, beginning of year	107,774	248,031	8,531	113,363	115,881	89,800	81,788	30,814	795,982
Fund balance, end of year	\$ 107,959	\$ 250,693	\$ 7,139	\$ 132,326	\$ 122,608	\$ 91,876	\$ 258	\$ 31,095	\$ 743,954



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

To the City Council
City of Ithaca

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Ithaca (the City), as of and for the year ended June 30, 2020, 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 3, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Roslund, Prestage & Company, P.C.
Certified Public Accountants
December 3, 2020