

City of Utica
Financial Statements
June 30, 2018



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City of Utica
List of Elected and Appointed Officials
June 30, 2018

Thom Dionne, Mayor

Kenneth Sikora, Council

Faith Terenzi, Council

William Osladil, Council

Chuck Cuddington, Council

Frank Czapski, Council

Perry Sylvester, Council

Beth Ricketts, City Clerk

Phillip Paternoster, Finance Director/Treasurer



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Independent Auditors' Report

To the Honorable Mayor and Members of the City Council
City of Utica

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 units, each major fund, and the aggregate remaining fund information of the City of Utica, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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. 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 auditors' 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 units, each major fund, and the aggregate remaining fund information of the City of Utica, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2018, the City adopted GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension, and other post-employment benefit schedules, 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 Supplementary Information

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

The other supplementary information, as identified in the table of contents, 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. The other supplementary 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, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The list of elected and appointed officials, which is the responsibility of management, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Yeo & Yeo, P.C.

Auburn Hills, MI
December 19, 2018

This discussion and analysis of the City of Utica, Michigan's (the City) financial position and performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the City's financial statements.

Using This Annual Report

Two statements, the Statement of Net Position and the Statement of Activities, report the City's finances on a government-wide basis, with a focus on long-term economic resources. Following the Government-Wide Financial Statements are the Fund Financial Statements, which report the City's operations in more detail and focus on the City's ability to provide services in the current year.

Government-Wide Financial Statements

The Government-Wide financial statements report information about the City as a whole using accounting methods similar to those used in the private sector. The Statement of Net Position reports all of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the City and reports the difference between these components as "net position." The Statement of Activities reports all of the City's revenues and expenses for the year, regardless of the timing of cash flows.

The Government-Wide financial statements are divided into three categories: Governmental, Business-Type, and Component Units (Downtown Development Authority and Library Fund). The Governmental Activities include the basic services, such as administration, public safety, ambulance, street maintenance, and recreation. Governmental Activities are funded primarily by property tax levies, State-shared revenues, and grants, with some charges for services. Business-Type Activities, which include the Sewer and Water Department and the Senior Housing facility, are primarily funded by charges for services. The Component Units are legally separate entities included within the City's basic financial statements because the City is financially accountable for them.

Fund Financial Statements

The Fund financial statements provide detailed information about the City's most significant funds, not the City as a whole. Funds are accounting tools used to track specific sources of funding or expenses. State law mandates the use of certain funds. Others are established at the City Council's direction.

There are three kinds of funds: Governmental, Proprietary, and Fiduciary.

The Governmental Funds account for most of the City's basic services. The focus is on measuring the ability of the City to provide the current year's services. Capital assets and long-term liabilities are not included in the Governmental Funds Balance Sheet. Revenues are reported when the cash is available to pay current obligations. Expenses are reported when the payment is made, regardless of when the liability for payment was incurred. Acquisition of capital assets and the payment of debt principal and accrued interest are reported as expenses when the cash payments are made.

The Proprietary Funds account for the services primarily funded through customer charges. Like the Government-Wide financial statements, the Proprietary Funds focus on long-term economic resources and report all assets and liabilities. Revenues and expenses are reported when incurred, regardless of the time of cash flows.

The Fiduciary Funds account for the assets that the City holds in-trust or as agent for other agencies or individuals. The Government-Wide financial statements do not report the fiduciary activities because the assets are not available to finance the City's operations.

The City of Utica, Michigan as a Whole

The City's *combined* net position decreased by 32.1% over the fiscal year ended June 30, 2017, decreasing from \$13.0 million to \$8.8 million. The following table shows, in a condensed format, the comparison of Net Position as of June 30, 2018 and 2017:

City of Utica Net Position (In Thousands of Dollars)						
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current Assets	\$ 3,907	\$ 3,733	\$ 112	\$ 729	\$ 4,019	\$ 4,462
Non-current Assets	10,216	10,943	8,717	9,090	18,933	20,033
Total Assets	14,123	14,676	8,829	9,819	22,952	24,495
Deferred Outflows of Resources	2,656	2,181	53	101	2,709	2,282
Liabilities						
Current Liabilities	930	601	529	618	1,459	1,219
Non-current Liabilities	9,845	6,881	4,659	4,715	14,504	11,596
Total Liabilities	10,775	7,482	5,188	5,333	15,963	12,815
Deferred Inflows of Resources	659	734	235	257	894	991
Net Position						
Net investment in capital assets	9,206	9,301	4,603	4,595	13,809	13,896
Restricted	1,496	1,340	-	87	1,496	1,427
Unrestricted	(5,357)	(2,000)	(1,144)	(352)	(6,501)	(2,352)
Total Net Position	\$ 5,345	\$ 8,641	\$ 3,459	\$ 4,330	\$ 8,804	\$ 12,971

Current Assets include cash, cash equivalents, and short-term accounts receivables. Non-current assets include land, buildings, and equipment, net of depreciation.

Current Liabilities are due within one year. Non-current Liabilities are due beyond one year and consist of bonds payable and accrued employee benefits.

Net Investment in Capital Assets represents the value of capital assets, net of depreciation, offset by the amount of outstanding debt issued to finance the capital assets.

Net Position - Restricted represents current assets that have legally enforceable restrictions placed upon their use, either by external entities or by the City Council. External entities may be creditors, grantors, or other governments.

Net Position - Unrestricted represents assets upon which no legally binding restrictions are imposed.

Deferred inflows and outflows are all related to the net pension liability.

Total Net Position of the Governmental Activities decreased by 38.1 percent, from \$8.6 million to \$5.3 million. As of June 30, 2018, unrestricted net position for governmental activities, which is available to finance day-to-day operations and future growth, was a \$5.4 million deficit, an increase of \$3.4 million over 2017. The major factors contributing to the decrease in net position were the decreases in the Deferred Outflows of Resources related to pensions and the Net Investment in Capital Assets as well as the adoption of GASB 75, which added a \$2.4 million liability.

Total Net Position of the Business-Type Activities decreased by 20.1 percent, from \$4.3 million to \$3.5 million. Unrestricted net position decreased from a deficit of \$0.35 million to a deficit of \$1.1 million. The major factor contributing to the decrease in net position was the increase in the deferred inflows of resources as well as the adoption of GASB 75, which added a \$0.2 million liability.

The following table shows the Changes in Net Position for the year ended June 30, 2018:

City of Utica Changes in Net Position (In Thousands of Dollars)						
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program Revenues:						
Charges for Service	\$ 1,272	\$ 1,237	\$ 2,363	\$ 2,375	\$ 3,635	\$ 3,612
Operating Grants and Contributions	503	715	62	83	565	798
Capital Grants and Contributions	-	-	1	200	1	200
General Revenues:						
Property Taxes	3,620	3,529	-	-	3,620	3,529
State-shared Revenue	465	451	-	-	465	451
Unrestricted Investment Earnings	17	13	31	7	48	20
Transfers and Other Revenue	288	251	269	268	557	519
Total Revenue	6,165	6,196	2,726	2,933	8,891	9,129
Program Expenses						
General Government	889	948	-	-	889	948
Public Safety	3,157	3,195	-	-	3,157	3,195
Public Works	1,820	1,367	-	-	1,820	1,367
Health and Welfare	299	279	-	-	299	279
Community and Economic Development	19	11	-	-	19	11
Recreation and Culture	239	323	-	-	239	323
Interest on Long-term Debt	42	45	-	-	42	45
Senior Housing	-	-	357	271	357	271
Sewer and Water	-	-	3,014	2,900	3,014	2,900
Total Program Expenses	6,465	6,168	3,371	3,172	9,836	9,340
Changes in Net Position	\$ (300)	\$ 28	\$ (645)	\$ (239)	\$ (945)	\$ (211)

Governmental Activities

During fiscal year 2018, the City's governmental revenue decreased by 0.5%, from \$6.2 million to \$6.1 million. The decrease can be attributed primarily to decreases in property taxes and charges for services.

The City's governmental expenses increased by 4.8%, from \$6.2 million to \$6.5 million. The increase can be attributed primarily to an increase in full time equivalent employees and wage increases awarded.

The City contributed to both of its defined benefit pension systems the percent of payroll required by the most recent actuarial valuations.

Business-Type Activities

The City has three Business-Type Activities, the Sewer and Water Fund, the Senior Housing Fund and the Municipal Building Authority Senior Housing Fund. The Sewer and Water Operations are funded directly through user fees and charges for services. The Senior Housing Operations and Debt Service are funded directly through rental fees.

The Sewer and Water Fund collected \$2.253 million in operating revenue and had \$2.871 million in operating expenses. The City purchases treated water at wholesale from the Great Lakes Water Authority (GLWA), which replaced the Detroit Water and Sewerage Department (DWSD). The City is a member of the Macomb County Waste Water District (MCWWD), which in turn contracts with the GLWA for treatment of waste water.

The Sewer and Water Fund is responsible for debt service on bonds issued by the Oakland-Macomb Interceptor District, the Macomb Interceptor District, and the North Gratiot Interceptor District.

The Senior Housing Fund collected \$380 thousand in operating revenues, had \$301 thousand in operating expenses.

The City's Funds

Following the Government-Wide financial statements is an analysis of the City's major funds. The only major governmental fund is the General Fund. The non-major funds are presented in the Combining Statements in the Other Supplementary Information section at the end of the Financial Statements.

General Fund Budgetary Highlights

The City monitors and amends the General Fund Budget during the year to account for unanticipated events. The City increased the total budget by \$133,000 net, mainly due to higher than anticipated EMS activity.

Capital Assets and Long-Term Debt Administration

On June 30, 2018, the City had \$13.8 million invested, net of related debt, in capital assets: land, buildings, equipment, streets, sidewalks, storm drains, multi-use trails, and water and sewer mains.

At fiscal year end, the City had one outstanding unlimited tax general obligation bond issued for street repairs. The street bond, with a balance of \$1.010 million at June 30, 2018 and a final maturity date of October 1, 2021, is repaid by the levy of property taxes upon all eligible properties in the City of Utica.

The City's Sewer and Water Fund also reports as capital assets, net of related debt, the City's share of the Oakland-Macomb Interceptor District, the Macomb Interceptor District, and the North Gratiot Interceptor District. The principal and interest are paid through sewer charges to the users of the sanitary sewer system. The outstanding principal at June 30, 2018 was \$3.9 million, with maturity dates ranging from April 2030 to October 2042.

The City is partnering with the Charter Township of Shelby and the Macomb County Department of Roads to develop a segment of multi-use trail stretching from Auburn Road at Davis Drive to River Bends Park in Shelby Township. The project is financed with Federal transportation grants, with matching funds provided by the Downtown Development Authority and the Utica Parks and Recreation Commission, and accounted for in the Major Street Fund.

Economic Factors and Next Year's Budgets and Rates

The City of Utica is a mature community, with very little undeveloped land. The last sizable tract is under development with a multi-family luxury apartment community. Phase 1 was substantially completed by December 2015, and Phase 2 began in mid-2016.

Both commercial and residential property values are rising, as the economy in Macomb County and Metropolitan Detroit rebounds from the Great Recession. However, tax revenue growth is constrained by the interplay of Proposal A and the Headlee Amendment, of which the latter resulted in a decrease of the allowable millage rates for the 2018 Tax Year, which funds the 2019 Fiscal Year.

Contacting the City's Financial Management

This financial report is intended 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. If you have questions about this report or need additional financial information, you may contact the Finance Director at the City of Utica, 7550 Auburn Road, Utica, Michigan 48317.

City of Utica
Statement of Net Position
June 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Current assets				
Cash and cash equivalents	\$ 2,647,641	\$ 319,088	\$ 2,966,729	\$ 300,333
Investments	112,485	112,485	224,970	-
Restricted assets				
Cash and cash equivalents	-	33,054	33,054	-
Receivables				
Taxes	34,150	-	34,150	1,749
Customers	15,131	551,371	566,502	29,267
Due from other units of government	153,737	86	153,823	-
Internal balances	904,095	(904,095)	-	-
Prepaid items	39,729	-	39,729	10,300
Total current assets	<u>3,906,968</u>	<u>111,989</u>	<u>4,018,957</u>	<u>341,649</u>
Noncurrent assets				
Capital assets not being depreciated	839,900	7,095	846,995	2,175,763
Capital assets, net of accumulated depreciation	9,376,280	8,710,097	18,086,377	587,494
Total noncurrent assets	<u>10,216,180</u>	<u>8,717,192</u>	<u>18,933,372</u>	<u>2,763,257</u>
Total assets	14,123,148	8,829,181	22,952,329	3,104,906
Deferred Outflows of Resources				
Deferred amount relating to net pension liability	2,376,915	31,596	2,408,511	-
Deferred amount relating to net OPEB liability	<u>279,520</u>	<u>21,039</u>	<u>300,559</u>	<u>-</u>
Total deferred outflows of resources	<u>2,656,435</u>	<u>52,635</u>	<u>2,709,070</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>16,779,583</u>	<u>8,881,816</u>	<u>25,661,399</u>	<u>3,104,906</u>

See Accompanying Notes to the Financial Statements

City of Utica
Statement of Net Position
June 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Liabilities				
Current liabilities				
Accounts payable	\$ 220,674	\$ 288,478	\$ 509,152	\$ 17,940
Accrued and other liabilities	201,035	36,910	237,945	3,159
Current portion of compensated absences	258,582	41,025	299,607	4,976
Current portion of long-term debt	250,000	162,253	412,253	-
Total current liabilities	<u>930,291</u>	<u>528,666</u>	<u>1,458,957</u>	<u>26,075</u>
Noncurrent liabilities				
Payable from restricted cash - security deposits	-	33,341	33,341	-
Noncurrent portion of compensated absences	199,090	36,284	235,374	-
Noncurrent portion of long-term debt	760,000	3,790,712	4,550,712	-
Net OPEB liability	2,407,438	181,205	2,588,643	-
Net pension liability	<u>6,478,753</u>	<u>617,132</u>	<u>7,095,885</u>	<u>-</u>
Total noncurrent liabilities	<u>9,845,281</u>	<u>4,658,674</u>	<u>14,503,955</u>	<u>-</u>
Total liabilities	10,775,572	5,187,340	15,962,912	26,075
Deferred Inflows of Resources				
Deferred amount relating to debt refunding	-	161,013	161,013	-
Deferred amount relating to net pension liability	438,957	57,510	496,467	-
Deferred amount relating to net OPEB liability	<u>220,230</u>	<u>16,576</u>	<u>236,806</u>	<u>-</u>
Total deferred inflows of resources	<u>659,187</u>	<u>235,099</u>	<u>894,286</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>11,434,759</u>	<u>5,422,439</u>	<u>16,857,198</u>	<u>26,075</u>
Net Position				
Net investment in capital assets	9,206,180	4,603,214	13,809,394	2,763,257
Restricted for				
Streets	1,090,576	-	1,090,576	-
Building permits	160,272	-	160,272	-
Public safety	175,726	-	175,726	-
Debt service	64,306		64,306	
Community and economic development	5,500		5,500	
Unrestricted (deficit)	<u>(5,357,736)</u>	<u>(1,143,837)</u>	<u>(6,501,573)</u>	<u>315,574</u>
Total net position	<u>\$ 5,344,824</u>	<u>\$ 3,459,377</u>	<u>\$ 8,804,201</u>	<u>\$ 3,078,831</u>

See Accompanying Notes to the Financial Statements

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

					Net (Expense) Revenue and Changes in Net Position			
Functions/Programs	Expenses	Program Revenues			Primary Government			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 889,338	\$ 380,440	\$ -	\$ -	\$ (508,898)	\$ -	\$ (508,898)	\$ -
Public safety	3,157,128	260,986	16,058	-	(2,880,084)	-	(2,880,084)	-
Public works	1,820,081	261,515	436,956	-	(1,121,610)	-	(1,121,610)	-
Health and welfare	298,555	331,901	-	-	33,346	-	33,346	-
Community and economic development	19,330	-	-	-	(19,330)	-	(19,330)	-
Recreation and culture	239,172	37,304	50,195	-	(151,673)	-	(151,673)	-
Interest and fiscal charges on long-term debt	41,675	-	-	-	(41,675)	-	(41,675)	-
Total governmental activities	6,465,279	1,272,146	503,209	-	(4,689,924)	-	(4,689,924)	-
Business-type activities								
Sewer and water	3,013,926	2,235,111	-	1,430	-	(777,385)	(777,385)	-
Municipal Building Authority Senior Housing	56,422	-	-	-	-	(56,422)	(56,422)	-
Senior Housing Operations	300,799	128,184	61,639	-	-	(110,976)	(110,976)	-
Total business-type activities	3,371,147	2,363,295	61,639	1,430	-	(944,783)	(944,783)	-
Total primary government	\$ 9,836,426	\$ 3,635,441	\$ 564,848	\$ 1,430	(4,689,924)	(944,783)	(5,634,707)	-
Component units								
Downtown Development Authority	\$ 388,520	\$ -	\$ -	\$ -	-	-	-	(388,520)
Library	234,352	5,096	-	389	-	-	-	(228,867)
Total component units	\$ 622,872	\$ 5,096	\$ -	\$ 389				(617,387)
General revenues								
Property taxes					3,619,628	-	3,619,628	547,808
State-shared revenue					464,757	-	464,757	4,992
Unrestricted investment earnings					17,297	30,460	47,757	-
Miscellaneous					287,618	268,679	556,297	68,367
Total general revenues and transfers					4,389,300	299,139	4,688,439	621,167
Change in net position					(300,624)	(645,644)	(946,268)	3,780
Net position - beginning of year, as restated					5,645,448	4,105,021	9,750,469	3,075,051
Net position - end of year					\$ 5,344,824	\$ 3,459,377	\$ 8,804,201	\$ 3,078,831

See Accompanying Notes to the Financial Statements

City of Utica
Governmental Funds
Balance Sheet
June 30, 2018

	General	Nonmajor Governmental Funds	Total
Assets			
Cash and cash equivalents	\$ 1,289,224	\$ 1,358,417	\$ 2,647,641
Investments	112,485	-	112,485
Receivables			
Taxes	34,150	-	34,150
Customers	15,131	-	15,131
Due from other units of government	85,153	68,584	153,737
Due from other funds	905,957	24,804	930,761
Prepaid items	1,637	38,092	39,729
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 2,443,737</u>	<u>\$ 1,489,897</u>	<u>\$ 3,933,634</u>

See Accompanying Notes to the Financial Statements

City of Utica
Governmental Funds
Balance Sheet
June 30, 2018

	General	Nonmajor Governmental Funds	Total
Liabilities			
Accounts payable	\$ 141,304	\$ 79,370	\$ 220,674
Accrued and other liabilities	190,963	746	191,709
Due to other funds	26,666	-	26,666
	<u>358,933</u>	<u>80,116</u>	<u>439,049</u>
Total liabilities			
Fund Balances			
Non-spendable			
Prepaid items	1,637	38,092	39,729
Restricted for			
Streets	-	1,090,576	1,090,576
Public safety	100,543	75,183	175,726
Building permits	-	160,272	160,272
Debt service	64,306	-	64,306
Community and economic development	5,500	-	5,500
Assigned			
Street equipment	250,522	-	250,522
Public safety equipment	167,476	-	167,476
Park improvements	81,998	-	81,998
Miscellaneous fire department grants	3,692	-	3,692
Administrative equipment	13,990	-	13,990
Capital improvement	-	40,019	40,019
Video equipment	56,151	-	56,151
Unassigned	1,338,989	5,639	1,344,628
	<u>2,084,804</u>	<u>1,409,781</u>	<u>3,494,585</u>
Total fund balances			
	<u>\$ 2,443,737</u>	<u>\$ 1,489,897</u>	<u>\$ 3,933,634</u>
Total liabilities and fund balances			

See Accompanying Notes to the Financial Statements

City of Utica
Governmental Funds
Reconciliation of the Balance Sheet to Statement of Net Position
June 30, 2018

Total fund balances for governmental funds	\$ 3,494,585
Total net position for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets being depreciated, net	9,376,280
Capital assets not being depreciated	839,900
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(9,326)
Compensated absences	(457,672)
Deferred outflows (inflows) of resources.	
Deferred inflows of resources resulting from net pension liability	(438,957)
Deferred outflow of resources resulting from net pension liability	2,376,915
Deferred inflows of resources resulting from net OPEB liability	(220,230)
Deferred outflow of resources resulting from net OPEB liability	279,520
Long-term liabilities applicable to governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities.	
Bonds payable	(1,010,000)
Net other post employment obligation	(2,407,438)
Net pension liability	<u>(6,478,753)</u>
Net position of governmental activities	<u>\$ 5,344,824</u>

See Accompanying Notes to the Financial Statements

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

	General	Nonmajor Governmental Funds	Total
Revenues			
Taxes	\$ 3,619,628	\$ -	\$ 3,619,628
Licenses and permits	123,591	187,421	311,012
Federal grants	12,616	-	12,616
State grants	482,690	480,466	963,156
Charges for services	765,385	-	765,385
Fines and forfeitures	178,925	-	178,925
Interest and rents	237,499	13,500	250,999
Other revenue	62,934	-	62,934
	<u>5,483,268</u>	<u>681,387</u>	<u>6,164,655</u>
Total revenues			

See Accompanying Notes to the Financial Statements

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

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Expenditures			
Current			
General government	\$ 825,276	\$ -	\$ 825,276
Public safety	2,906,819	4,370	2,911,189
Public works	472,101	633,047	1,105,148
Health and welfare	286,133	-	286,133
Community and economic development	18,526	-	18,526
Recreation and culture	220,798	-	220,798
Other functions	228,890	-	228,890
Capital outlay	123,535	50,195	173,730
Debt service			
Principal retirement	250,000	-	250,000
Interest and fiscal charges	41,675	-	41,675
Total expenditures	<u>5,373,753</u>	<u>687,612</u>	<u>6,061,365</u>
Excess (deficiency) of revenues over expenditures	<u>109,515</u>	<u>(6,225)</u>	<u>103,290</u>
Fund balances - beginning of year	<u>1,975,289</u>	<u>1,416,006</u>	<u>3,391,295</u>
Fund balances - end of year	<u>\$ 2,084,804</u>	<u>\$ 1,409,781</u>	<u>\$ 3,494,585</u>

See Accompanying Notes to the Financial Statements

City of Utica
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of the Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018

Net change in fund balances - total governmental funds	\$ 103,290
Total change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(706,270)
Capital outlay	361,091
Expenses are recorded when incurred in the statement of activities.	
Compensated absences	(4,115)
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Change in net pension liability	(1,061,081)
Net change in the deferred inflow of resources related to the net pension liability	295,224
Net change in the deferred outflow of resources related to the net pension liability	195,926
The statement of net position reports the net OPEB liability and deferred outflows of resources and deferred inflows related to the net OPEB liability and post-employment benefit expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Change in net OPEB liability	206,021
Net change in the deferred inflow of resources related to the net OPEB liability	(220,230)
Net change in the deferred outflow of resources related to the net OPEB liability	279,520
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	
Repayments of long-term debt	<u>250,000</u>
Change in net position of governmental activities	<u>\$ (300,624)</u>

See Accompanying Notes to the Financial Statements

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

	Enterprise Funds			Total
	Sewer and Water	Municipal Building Authority Senior Housing	Nonmajor Senior Housing Operations	
Assets				
Current assets				
Cash and cash equivalents	\$ -	\$ -	\$ 319,088	\$ 319,088
Restricted assets				
Cash and cash equivalents	-	-	33,054	33,054
Investments	112,485	-	-	112,485
Receivables				
Customers	547,558	-	3,813	551,371
Due from other units of government	86	-	-	86
Due from other funds	1,862	-	-	1,862
Total current assets	661,991	-	355,955	1,017,946
Noncurrent assets				
Capital assets, net of accumulated depreciation	7,341,476	1,334,685	33,936	8,710,097
Capital assets not being depreciated	5,095	2,000	-	7,095
Total noncurrent assets	7,346,571	1,336,685	33,936	8,717,192
Total assets	8,008,562	1,336,685	389,891	9,735,138
Deferred Outflows of Resources				
Deferred amount relating to net OPEB liability	21,039	-	-	21,039
Deferred amount relating to net pension liability	31,596	-	-	31,596
Total deferred outflows of resources	52,635	-	-	52,635
Total assets and deferred outflows of resources	8,061,197	1,336,685	389,891	9,787,773

See Accompanying Notes to the Financial Statements

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

	Enterprise Funds			Total
	Sewer and Water	Municipal Building Authority Senior Housing	Nonmajor Senior Housing Operations	
Liabilities				
Current liabilities				
Accounts payable	\$ 274,338	\$ -	\$ 14,140	\$ 288,478
Accrued and other liabilities	36,910	-	-	36,910
Due to other funds	845,737	-	60,220	905,957
Current portion of compensated absences	41,025	-	-	41,025
Current portion of noncurrent liabilities	162,253	-	-	162,253
Total current liabilities	1,360,263	-	74,360	1,434,623
Noncurrent liabilities				
Current liabilities payable from restricted assets				
Customer deposits payable	-	-	33,341	33,341
Noncurrent portion of compensated absences	36,284	-	-	36,284
Noncurrent portion of long-term debt	3,790,712	-	-	3,790,712
Net OPEB liability	181,205	-	-	181,205
Net pension liability	617,132	-	-	617,132
Total noncurrent liabilities	4,625,333	-	33,341	4,658,674
Total liabilities	5,985,596	-	107,701	6,093,297

See Accompanying Notes to the Financial Statements

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

	Enterprise Funds			
	Sewer and Water	Municipal Building Authority Senior Housing	Nonmajor Senior Housing Operations	Total
Deferred Inflows of Resources				
Deferred amount relating to debt refunding	\$ 161,013	\$ -	\$ -	\$ 161,013
Deferred amount relating to net OPEB liability	16,576	-	-	16,576
Deferred amount relating to net pension liability	57,510	-	-	57,510
Total deferred inflows of resources	235,099	-	-	235,099
Total liabilities and deferred inflows of resources	6,220,695	-	107,701	6,328,396
Net Position				
Net investment in capital assets	3,232,593	1,336,685	33,936	4,603,214
Unrestricted (deficit)	(1,392,091)	-	248,254	(1,143,837)
Total net position	\$ 1,840,502	\$ 1,336,685	\$ 282,190	\$ 3,459,377

See Accompanying Notes to the Financial Statements

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

	Enterprise Funds			
	Sewer and Water	Municipal Building Authority Senior Housing	Nonmajor Senior Housing Operations	Total
Operating revenue				
Charges for service	\$ 2,236,541	\$ -	\$ 128,184	\$ 2,364,725
Rental income	-	-	251,712	251,712
Other revenue	16,872	169	95	17,136
Total operating revenue	2,253,413	169	379,991	2,633,573
Operating expenses				
Personnel services	398,224	-	8,370	406,594
Supplies	57,397	-	5,343	62,740
Contractual services	28,597	-	27,150	55,747
Utilities	1,994,150	-	50,619	2,044,769
Repairs and maintenance	103,754	-	200,276	304,030
Other expenses	1,714	-	5,793	7,507
Depreciation	287,121	54,039	3,248	344,408
Total operating expenses	2,870,957	54,039	300,799	3,225,795
Operating income (loss)	(617,544)	(53,870)	79,192	(592,222)

See Accompanying Notes to the Financial Statements

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

	Enterprise Funds			Total
	Sewer and Water	Municipal Building Authority Senior Housing	Nonmajor Senior Housing Operations	
Nonoperating revenue (expenses)				
Federal grant	\$ -	\$ -	\$ 61,639	\$ 61,639
Interest income	28,663	-	1,628	30,291
Interest expense	(142,969)	(2,383)	-	(145,352)
Total nonoperating revenues (expenses)	(114,306)	(2,383)	63,267	(53,422)
Income (loss) before transfers out	(731,850)	(56,253)	142,459	(645,644)
Transfers in	-	63,836	-	63,836
Transfers out	-	-	(63,836)	(63,836)
Change in net position	(731,850)	7,583	78,623	(645,644)
Net position - beginning of year, as restated	2,572,352	1,329,102	203,567	4,105,021
Net position - end of year	\$ 1,840,502	\$ 1,336,685	\$ 282,190	\$ 3,459,377

See Accompanying Notes to the Financial Statements

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

	Enterprise Funds			
	Sewer and Water	Municipal Building Authority Senior Housing	Nonmajor Senior Housing Operations	Total
Cash flows from operating activities				
Receipts from customers	\$ 2,226,518	\$ 169	\$ 419,101	\$ 2,645,788
Payments to other funds	612,777	-	-	612,777
Payments to suppliers	(2,144,341)	(1,079)	(313,218)	(2,458,638)
Payments to employees	(420,754)	-	(8,370)	(429,124)
Net cash provided (used) by operating activities	274,200	(910)	97,513	370,803
Cash flows from noncapital financing activities				
Transfer from other funds	-	63,836	-	63,836
Transfers to other funds	-	-	(63,836)	(63,836)
Federal grant	-	-	61,639	61,639
Net cash provided (used) by noncapital financing activities	-	63,836	(2,197)	61,639
Cash flows from capital and related financing activities				
Principal and interest paid on long-term debt	(301,192)	(187,383)	-	(488,575)
Cash flows from investing activities				
Interest received	28,663	-	1,628	30,291
Net change in cash and cash equivalents	-	(124,457)	96,944	(27,513)
Cash and cash equivalents - beginning of year	-	124,457	255,198	379,655
Cash and cash equivalents - end of year	\$ -	\$ -	\$ 352,142	\$ 352,142

See Accompanying Notes to the Financial Statements

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

	Enterprise Funds			
	Sewer and Water	Municipal Building Authority Senior Housing	Nonmajor Senior Housing Operations	Total
Reconciliation to the statement of net position				
Cash and cash equivalents	\$ -	\$ -	\$ 352,142	\$ 352,142
Restricted assets				
Cash and cash equivalents	-	-	33,054	33,054
Investments	112,485	-	-	112,485
	<u>\$ 112,485</u>	<u>\$ -</u>	<u>\$ 385,196</u>	<u>\$ 497,681</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (617,544)	\$ (53,870)	\$ 79,192	\$ (592,222)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	287,121	54,039	3,248	344,408
Noncash portion related to net pension liability	(31,724)	-	-	(31,724)
Noncash portion related to net OPEB liability	209,950	-	-	209,950
Prior period adjustment	(225,457)	-	-	(225,457)
Changes in assets and liabilities				
Receivables (net)	(26,809)	-	5,769	(21,040)
Deferred outflows	48,595	-	-	48,595
Due from other units of government	(86)	-	-	(86)
Accounts payable	33,557	-	10,435	43,992
Accrued and other liabilities	7,714	(1,079)	(34,472)	(27,837)
Due to other funds	612,777	-	-	612,777
Customer deposits payable	-	-	33,341	33,341
Deferred inflows	(21,925)	-	-	(21,925)
Compensated absences	(1,969)	-	-	(1,969)
Net cash provided (used) by operating activities	<u>\$ 274,200</u>	<u>\$ (910)</u>	<u>\$ 97,513</u>	<u>\$ 370,803</u>

See Accompanying Notes to the Financial Statements

City of Utica
Fiduciary Funds
Statement of Net Position
June 30, 2018

	Police and Fire Retirement System Trust Fund	Retiree Healthcare Trust Fund	Agency Funds	
			Current Tax Collection Fund	Trust and Agency Fund
Assets				
Cash and cash equivalents	\$ 1,207	\$ -	\$ 87	\$ 5,344
Investments	8,500,560	1,286,053	-	-
Receivables				
Accounts receivable	-	22,952	-	-
Accrued interest receivable	141	-	-	-
Due from other units of government	40,346	-	-	-
	<u>8,542,254</u>	<u>1,309,005</u>	<u>\$ 87</u>	<u>\$ 5,344</u>
Total assets				
	<u>8,542,254</u>	<u>1,309,005</u>	<u>\$ 87</u>	<u>\$ 5,344</u>
Liabilities				
Accrued and other liabilities	5,887	-	\$ 87	\$ 5,344
	<u>5,887</u>	<u>-</u>	<u>\$ 87</u>	<u>\$ 5,344</u>
Net Position				
Held in trust for pension benefits and other purposes	<u>\$ 8,536,367</u>	<u>\$ 1,309,005</u>		

See Accompanying Notes to the Financial Statements

City of Utica
Fiduciary Funds
Statement of Changes in Net Position
For the Year Ended June 30, 2018

	Police and Fire Retirement System Trust Fund	Retiree Healthcare Trust Fund
Additions		
Investment income		
Interest	\$ 136,023	\$ 89,156
Net increase in fair value	441,704	-
Investment expense	(46,961)	(2,942)
Net investment income	530,766	86,214
Contributions		
Employer	278,884	78,938
Plan members	142,337	-
Total contributions	421,221	78,938
Total additions	951,987	165,152
Deductions		
Benefits payments	635,038	-
Administrative expenses	16,006	-
Total deductions	651,044	-
Change in net position	300,943	165,152
Net position - beginning of year	8,235,424	1,143,853
Net position - end of year	\$ 8,536,367	\$ 1,309,005

See Accompanying Notes to the Financial Statements

City of Utica
Component Units
Combining Statement of Net Position
June 30, 2018

	Downtown Development Authority	Library	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 220,673	\$ 79,660	\$ 300,333
Taxes receivable	-	1,749	1,749
Accounts receivable	29,267	-	29,267
Prepaid items	10,300	-	10,300
Total current assets	<u>260,240</u>	<u>81,409</u>	<u>341,649</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation	2,122,758	53,005	2,175,763
Capital assets not being depreciated	587,494	-	587,494
Total noncurrent assets	<u>2,710,252</u>	<u>53,005</u>	<u>2,763,257</u>
Total assets	<u>2,970,492</u>	<u>134,414</u>	<u>3,104,906</u>
Liabilities			
Current liabilities			
Accounts payable	8,256	9,684	17,940
Accrued and other liabilities	681	2,478	3,159
Compensated absences	-	4,976	4,976
Total liabilities	<u>8,937</u>	<u>17,138</u>	<u>26,075</u>
Net Position			
Net investment in capital assets	2,710,252	53,005	2,763,257
Unrestricted	251,303	64,271	315,574
Total net position	<u>\$ 2,961,555</u>	<u>\$ 117,276</u>	<u>\$ 3,078,831</u>

See Accompanying Notes to the Financial Statements

City of Utica
Component Units
Combining Statement of Activities
For the Year Ended June 30, 2018

	Downtown Development Authority	Library	Total
Expenses			
Community and economic development	\$ 388,520	\$ -	\$ 388,520
Recreation and culture	<u>-</u>	<u>234,352</u>	<u>234,352</u>
Total expenses	388,520	234,352	622,872
Program revenues			
Charges for services	<u>-</u>	<u>5,096</u>	<u>5,096</u>
Net program expenses	<u>(388,520)</u>	<u>(229,256)</u>	<u>(617,776)</u>
General revenues			
Property taxes	319,985	227,823	547,808
Federal grants	-	389	389
State-shared revenues	-	4,992	4,992
Other	<u>58,947</u>	<u>9,420</u>	<u>68,367</u>
Total general revenues	<u>378,932</u>	<u>242,624</u>	<u>621,556</u>
Change in net position	(9,588)	13,368	3,780
Net position - beginning of year	<u>2,971,143</u>	<u>103,908</u>	<u>3,075,051</u>
Net position - end of year	<u>\$ 2,961,555</u>	<u>\$ 117,276</u>	<u>\$ 3,078,831</u>

See Accompanying Notes to the Financial Statements

City of Utica
Notes to the Financial Statements
June 30, 2018

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The City of Utica, Michigan (the City) was organized in 1937 and covers an area of approximately 1.8 square miles. The City is governed by an elected seven-member Board and provides services to its approximately 5,000 residents in many areas including law enforcement, fire protection, and community enrichment and development services. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each 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 (see discussion below for description).

Discretely Presented Component Units

The component unit column in the government-wide financial statements include the financial data of the City of Utica's Downtown Development Authority and Library. These units are reported in a separate column to emphasize that they are legally separate from the City of Utica.

The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district and promote economic growth. The City appoints the governing board but members can only be removed for cause. The budgets and expenditures of the DDA must be approved by the City Council. The DDA does not issue separate financial statements.

The City of Utica Library is established under MCLA 397.201, et seq., as amended. The Mayor, with the consent of City Council, appoints directors to the governing board. Board members serve for staggered five-year terms and can only be removed for cause. The Library does not issue separate financial statements.

Blended Component Units

The Municipal Building Authority of Utica, an entity legally separate from the City, is governed by a seven-member board that is appointed by the City Council. Although it is legally separate from the City, it is reported as part of the City's operations because its purpose is to finance and construct buildings for the City. The operations of the Building Authority are reported as a nonmajor Capital Projects Fund.

The City of Utica Police and Fire Retirement System (the System) has also been blended into the City's financial statements. The System is governed by a six-member governing board that includes the City Treasurer and two (2) others appointed by the City. The System is reported in the financial statements because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

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 nonfiduciary activities of the primary government and its component units. *Government 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 certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments 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 customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a

City of Utica
Notes to the Financial Statements
June 30, 2018

particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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 and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. 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 revenues 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.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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 claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government'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 government reports the following major proprietary funds:

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

The Senior Housing Fund owns the City's Senior Housing facility accounts for the activities of the senior housing facility.

The Municipal Building Authority Senior Housing Fund owns the City's Senior Housing facility and is responsible for the payment of bonds used to finance it. Monthly rental fees charged to residents provide funding.

Additionally, the government reports the following:

The Nonmajor Special Revenue Funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

City of Utica
Notes to the Financial Statements
June 30, 2018

The Capital Project Funds account for the accumulation of resources for current expenditures and future investment in capital projects throughout the City.

The Police and Fire Retirement System Trust and Retiree Healthcare Trust Funds account for current and future contributions and benefits for employees of the City.

Trust and Agency Fund and Current Tax Collection Fund accounts for property tax and other deposits collected on behalf of other units and individuals.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water funds and are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended

to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities, and Net Position or Equity

Deposits and investments – The City pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities and disclosed as part of the City's investments. Deposits are carried at cost plus accrued interest and consist of checking, savings, and money market funds. Cash equivalents consist of temporary investments in mutual funds and certificates of deposit with original maturities of 90 days or less.

Investments include U.S. government securities, corporate bonds, common stock, mutual funds, and certificates of deposit with original maturities of greater than 90 days from the date of purchase. Investments are recorded at market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Restricted cash and investments – The City's restricted cash and investments are for debt service repayment, capital purchases and security deposits.

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Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of a lending/borrowing arrangement 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 and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. The City of Utica records an allowance for uncollectible amounts for governmental revenues it does not expect to collect. There is no such allowance for taxes as all amounts are expected to be collected. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2017 taxable valuation of the government totaled \$183,473,118, on which ad valorem taxes consisted of 16.8409 mills for operating purposes, 1.6838 mills for public safety, 1.2418 mills for the Public Library and 1.5859 mills for debt service.

Prepaid items – Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the City of Utica follows the consumption method, and they therefore are capitalized as prepaid items in both government-wide and fund financial statements.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or

estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Infrastructure	20 - 40 years
Water mains and sewers	20 - 50 years
Land improvements	10 - 25 years
Buildings and improvements	30 - 50 years
Machinery and equipment	5 - 15 years
Furniture and fixtures	7 - 15 years
Library books	10 years

Deferred outflows of resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. The City reports deferred outflows of resources as a result of pension and OPEB activity. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions and experience differences relating to the net pension liability and net OPEB liability are deferred and amortized over the expected remaining services lives of the employees and retirees in the plan. The City also reported deferred outflows of resources for pension contributions made after the measurement date. This amount will reduce net pension liability in the following year.

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Compensated absences – It is the City of Utica’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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.

Pensions and other post-employment benefit (OPEB) costs – 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 Plan and additions to/deductions from Plan’s fiduciary net position have been determined on the same basis as they are reported to the Plan. 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.

Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. The City reports deferred inflows of resources as a result of pension and OPEB activity. A portion of this amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions and experience differences relating to the net pension liability and net OPEB liability are deferred and amortized over the expected remaining services lives of the employees and retirees in the plan. Deferred amounts on bond refundings are included in the government-wide financial statements. The amounts represent the difference between the reacquisition price and the net carrying amount of the prior debt.

Fund Balance – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – assets that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

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Committed – amounts constrained on use imposed by the government's highest level of decision-making authority, its City Council. A fund balance commitment may be established, modified, or rescinded by a resolution of the City Council.

Assigned – amounts intended to be used for specific purposes, as determined by the City Council. Residual amounts in governmental funds other than the general fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the government's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the government's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

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, deferred outflows, liabilities, deferred inflows and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Adoption of New Accounting Standards

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

Upcoming Accounting and Reporting Changes

In addition, the Governmental Accounting Standards Board has released the following Statements.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The criteria generally is on (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 87, *Leases* increases the usefulness of the 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

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that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities should be included when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should

be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

The City is evaluating the impact that the above GASBs will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal yearend.

Prior to July 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. Public hearings are held to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to July 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Mayor, or his designee, is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the City Council.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

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Construction Code Activity

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing agency. The rules indicated that if the revenues exceeded the expenditures, the fees collected must be kept in a separate fund with all the revenues and expenditures accounted for in that fund. These rules allowed for monitoring these funds in a separate activity center within the General Fund if the expenditures would normally exceed revenues. The City chose the former, establishing a separate fund, the Building Code Enforcement Fund.

The activity related to construction code activity for the year ended June 30, 2018 is as follows:

Cumulative balance, beginning		\$	185,288
Building permit revenue	\$	171,684	
Related expenditures - direct costs		<u>(196,700)</u>	
Excess of revenues over expenditures			<u>(25,016)</u>
Cumulative balance, ending		\$	<u>160,272</u>

Fund Deficits

The City has an accumulated net position deficit in the Sewer and Water Fund in the amount of \$1,392,091 as of June 30, 2018.

Note 3 - Deposits and Investments

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers' acceptances of United States banks.
- f. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

City of Utica
Notes to the Financial Statements
June 30, 2018

At year end the government's deposits and investments were reported in the financial statements in the following categories:

	Cash and Cash Equivalents	Restricted Cash and Cash Equivalents	Investments	Total
Governmental activities	\$ 2,647,641	\$ -	\$ 112,485	\$ 2,760,126
Business-type activities	319,088	33,054	112,485	464,627
Total	2,966,729	33,054	224,970	3,224,753
Fiduciary funds	6,638	-	9,786,613	9,793,251
Component units	300,333	-	-	300,333
Total	<u>\$ 3,273,700</u>	<u>\$ 33,054</u>	<u>\$ 10,011,583</u>	<u>\$ 13,318,337</u>

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

Security Type	Fair Market Value	Rating	Weight Average Maturity
Michigan CLASS	\$ 224,970	AAAm (S&P)	67 days
U.S. Real Estate Investment Fund, LLC	549,923	NR	N/A
AMG SouthernSun U.S. Equity Fund	573,187	NR	N/A
Baird Intermediate Bond Fund	1,051,496	NR	4.41 years
Comerica Short Term Fund	93,887	NR	N/A
DFA US Small Cap Portfolio	541,903	NR	N/A
WCM Focused International Growth Fund	647,677	NR	N/A
Brandywine Global Opportunities Bond Fund	193,870	NR	9.2 years
Templeton Global Bond Fund	197,513	NR	3.01 years
Transamerica International Equity Fund	574,061	NR	N/A
Victory INCORE Total Return Bond Fund	1,054,504	NR	9.4 years
Comerica Large Cap Equity Index Fund	3,022,539	NR	N/A
MERS Total Market Portfolio	1,286,053	NR	N/A
	<u>\$ 10,011,583</u>		

The breakdown between deposits and investments is as follows:

	Primary Government	Fiduciary Funds	Component Units	Total
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 2,965,929	\$ 6,638	\$ 300,333	\$ 3,272,900
Investments in securities, mutual funds and similar vehicles	224,970	9,786,613	-	10,011,583
Petty cash and cash on hand	800	-	-	800
	<u>\$ 3,191,699</u>	<u>\$ 9,793,251</u>	<u>\$ 300,333</u>	<u>\$ 13,285,283</u>

Interest rate risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with 270-day maturity. At June 30, 2018, the City did not have any investments exposed to interest rate risk.

Credit risk – State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). At June 30, 2018, the City did not have any investments exposed to credit risk.

Concentration of credit risk – Through its investment policy, the City requires investments to be diversified by security and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for

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custodial credit risk. As of year-end, \$2,817,993 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – Custodial credit risk 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 does not have a policy for custodial credit risk.

At year-end, none of the City's investments were subject to custodial credit risk due to one of the following:

- Investments were part of an insured pool.
- Investments were book-entry only in the name of the City and were fully insured.
- Investments were part of a mutual fund.
- Investments were held by an agent in the City's name.

Note 4 - Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Certain investments that are valued at a net asset value per unit have not been classified in the fair value hierarchy. Those investments have been included in the following table only to permit reconciliation of the fair value disclosures to the financial statement amounts.

The City has the following recurring fair value measurements as of June 30, 2018:

Investment	Fair Value Measurements			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Uncategorized	Total
Mutual funds	\$ 4,834,211	\$ -	\$ -	\$ 4,834,211
Collective investment funds	-	3,022,539	1,835,976	4,858,515
Pooled investments	-	224,970	-	224,970
Short term investments	-	93,887	-	93,887
	<u>\$ 4,834,211</u>	<u>\$ 3,341,396</u>	<u>\$ 1,835,976</u>	<u>\$ 10,011,583</u>

Note 5 - Capital Assets

Capital assets activity of the primary government for the current year is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 839,900	\$ -	\$ -	\$ 839,900
Construction-in-progress	-	-	-	-
Total capital assets not being depreciated	<u>839,900</u>	<u>-</u>	<u>-</u>	<u>839,900</u>
Capital assets being depreciated				
Land improvements	176,069	256,861	-	432,930
Infrastructure (excludes Water Mains and Sewers)	13,607,552	-	-	13,607,552
Buildings and improvements	2,029,974	-	-	2,029,974
Machinery and equipment	3,615,286	102,880	27,114	3,691,052
Furniture and fixtures	163,325	1,350	-	164,675
Total capital assets being depreciated	<u>19,592,206</u>	<u>361,091</u>	<u>27,114</u>	<u>19,926,183</u>
Less accumulated depreciation for				
Land improvements	139,165	6,386	-	145,551
Infrastructure (excludes Water Mains and Sewers)	1,730,192	485,664	-	2,215,856
Buildings and improvements	5,116,271	53,424	-	5,169,695
Machinery and equipment	17,081	152,718	27,114	142,685
Furniture and fixtures	2,868,038	8,078	-	2,876,116
Total accumulated depreciation	<u>9,870,747</u>	<u>706,270</u>	<u>27,114</u>	<u>10,549,903</u>
Net capital assets being depreciated	<u>9,721,459</u>	<u>(345,179)</u>	<u>-</u>	<u>9,376,280</u>
Governmental activities capital assets, net	<u>\$ 10,561,359</u>	<u>\$ (345,179)</u>	<u>\$ -</u>	<u>\$ 10,216,180</u>

City of Utica

Notes to the Financial Statements

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	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 7,095	\$ -	\$ -	\$ 7,095
Capital assets being depreciated				
Buildings and improvements	2,716,351	-	-	2,716,351
Machinery and equipment	379,364	-	-	379,364
Water mains and sewers	11,799,625	-	-	11,799,625
Total capital assets being depreciated	14,895,340	-	-	14,895,340
Less accumulated depreciation for				
Buildings and improvements	1,293,466	56,985	-	1,350,451
Machinery and equipment	361,585	4,206	-	365,791
Water mains and sewers	4,185,784	283,217	-	4,469,001
Total accumulated depreciation	5,840,835	344,408	-	6,185,243
Net capital assets being depreciated	9,054,505	(344,408)	-	8,710,097
Business-type capital assets, net	<u>\$ 9,061,600</u>	<u>\$ (344,408)</u>	<u>\$ -</u>	<u>\$ 8,717,192</u>

Capital assets activity of the Downtown Development Authority component unit for the current year is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 587,494	\$ -	\$ -	\$ 587,494
Capital assets being depreciated				
Land improvements	626,245	58,034	-	684,279
Infrastructure	2,428,069	-	-	2,428,069
Equipment	36,473	-	-	36,473
Total capital assets being depreciated	3,090,787	58,034	-	3,148,821
Less accumulated depreciation for				
Land improvements	173,022	27,759	-	200,781
Infrastructure	714,197	75,498	-	789,695
Equipment	32,044	3,543	-	35,587
Total accumulated depreciation	919,263	106,800	-	1,026,063
Net capital assets being depreciated	2,171,524	(48,766)	-	2,122,758
Component unit capital assets, net	<u>\$ 2,759,018</u>	<u>\$ (48,766)</u>	<u>\$ -</u>	<u>\$ 2,710,252</u>

Capital assets activity of the Library component unit for the current year is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Land improvements	\$ 8,000	\$ -	\$ -	\$ 8,000
Books	469,256	-	-	469,256
Furniture and equipment	56,317	-	7,302	49,015
Total capital assets being depreciated	533,573	-	7,302	526,271
Less accumulated depreciation for				
Land improvements	1,600	320	-	1,920
Books	398,867	23,463	-	422,330
Furniture and equipment	56,187	131	7,302	49,016
Total accumulated depreciation	456,654	23,914	7,302	473,266
Net capital assets being depreciated	76,919	(23,914)	-	53,005
Component unit capital assets, net	<u>\$ 76,919</u>	<u>\$ (23,914)</u>	<u>\$ -</u>	<u>\$ 53,005</u>

Capital assets activity of the component units in total for the current year are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 587,494	\$ -	\$ -	\$ 587,494
Capital assets being depreciated				
Land improvements	634,245	58,034	-	692,279
Infrastructure	2,428,069	-	-	2,428,069
Books	469,256	-	-	469,256
Furniture and equipment	92,790	-	7,302	85,488
Total capital assets being depreciated	3,624,360	58,034	7,302	3,675,092
Less accumulated depreciation for				
Land improvements	174,622	28,079	-	202,701
Infrastructure	714,197	75,498	-	789,695
Books	398,867	23,463	-	422,330
Furniture and equipment	88,231	3,674	7,302	84,603
Total accumulated depreciation	1,375,917	130,714	7,302	1,499,329
Net capital assets being depreciated	2,248,443	(72,680)	-	2,175,763
General capital assets, net	<u>\$ 2,835,937</u>	<u>\$ (72,680)</u>	<u>\$ -</u>	<u>\$ 2,763,257</u>

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Depreciation expense was charged to programs of the primary government as follows:

Governmental activities	
General government	\$ 35,742
Public safety	144,768
Public works	516,972
Recreation and culture	<u>8,788</u>
Total governmental activities	<u>706,270</u>
Business-type activities	
Sewer and water	287,121
Municipal Building Authority Senior Housing	54,039
Senior Housing Operations	<u>3,248</u>
Total business-type activities	<u>344,408</u>
Total primary government	<u>\$ 1,050,678</u>
Component units	
Downtown Development Authority	<u>\$ 106,800</u>
Library	<u>\$ 23,914</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made. Balances at the end of the year are for loans that have not been repaid as of the balance sheet date.

The details for interfund transfers are as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
Senior Housing fund	Municipal Building Authority	<u>\$ 63,836</u>

Transfers from the Senior Housing Operations Fund to the Municipal Building Authority Senior Housing Fund were to fund debt service payments.

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Senior Housing fund	\$ 60,220
General fund	Sewer and Water fund	845,737
Sewer and Water fund	General fund	1,862
Nonmajor governmental fund	General fund	<u>24,804</u>
		<u>\$ 932,623</u>

City of Utica
Notes to the Financial Statements
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Note 7 - Long-Term Debt

The City issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements, installment, and lease purchase agreements are also general obligations for the City. Revenue bonds are payable solely from revenues derived from the activity they were used to finance. Other long-term obligations include compensated absences.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
2011 Unlimited Tax General Obligation Bonds	\$ 3,205,000	10/1/2021	3.50% - 4.00%	\$195,000 - \$320,000	\$ 1,260,000	\$ -	\$ 250,000	\$ 1,010,000	\$ 250,000
Compensated absences					<u>453,557</u>	<u>258,582</u>	<u>254,467</u>	<u>457,672</u>	<u>258,582</u>
Total governmental activities					<u>\$ 1,713,557</u>	<u>\$ 258,582</u>	<u>\$ 504,467</u>	<u>\$ 1,467,672</u>	<u>\$ 508,582</u>
Business-type activities									
Bonds and notes payable									
2003 Refunding Bonds	\$ 2,145,000	11/1/2017	3.50%	\$185,000	\$ 185,000	\$ -	\$ 185,000	\$ -	\$ -
2010B OMID Drainage District	62,529	4/1/2030	1.15% - 5.90%	\$2,740 - \$4,831	46,771	-	2,601	44,170	2,740
2010 North Gratiot Interceptor Drainage District	14,278	5/1/2035	1.00% - 6.35%	\$491 - \$819	11,275	-	478	10,797	491
2010A OMID Drainage District	242,220	4/1/2031	2.50%	\$11,240 - \$15,189	181,787	-	10,961	170,826	11,240
Clintondale Pump Station Improvement	555,552	4/1/2031	5.00%	\$23,449 - \$45,095	459,053	-	21,645	437,408	23,449
2011A OMID Drainage District	291,161	10/1/2034	2.50%	\$12,602 - \$18,189	256,091	-	12,260	243,831	12,602
2013A OMID Drainage District	635,354	10/1/2034	2.00%	\$27,749 - \$38,087	582,537	-	27,213	555,324	27,749
2014A OMID Drainage District	92,890	10/1/2034	2.00% - 3.125%	\$3,852 - \$6,098	85,641	-	3,724	81,917	3,852
2015 OMID SAW Drainage District	110,163	10/1/2034	2.50%	\$7,660 - \$11,709	178,597	-	7,442	171,155	7,660
2015A MID CWRP Project	69,527	10/1/2035	2.50%	\$2,838 - \$4,351	66,784	-	2,743	64,041	2,838
2015 North Gratiot Interceptor Refunding Drainage District	116,448	5/1/2033	3.75% - 5.00%	\$6,580 - \$7,711	111,650	-	4,832	106,818	6,580
2017A MID Refunding	1,043,972	10/1/2035	3.00% - 5.00%	\$38,733 - \$84,078	1,043,972	-	44,165	999,807	38,733
2017A MID	1,087,030	10/1/2042	3.00% - 5.00%	\$20,160 - \$71,872	<u>1,087,030</u>	<u>-</u>	<u>20,159</u>	<u>1,066,871</u>	<u>24,319</u>
Total bonds payable					4,296,188	-	343,223	3,952,965	162,253
Compensated absences					<u>79,278</u>	<u>41,025</u>	<u>42,994</u>	<u>77,309</u>	<u>41,025</u>
Total business-type activities					<u>\$ 4,375,466</u>	<u>\$ 41,025</u>	<u>\$ 386,217</u>	<u>\$ 4,030,274</u>	<u>\$ 203,278</u>
Component unit - Library									
Compensated absences					<u>\$ 4,695</u>	<u>\$ 5,963</u>	<u>\$ 5,682</u>	<u>\$ 4,976</u>	<u>\$ 4,976</u>

City of Utica
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Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 250,000	\$ 33,550	\$ 162,253	\$ 152,703
2020	245,000	24,888	169,035	146,314
2021	320,000	14,200	175,876	139,620
2022	195,000	3,900	182,806	132,622
2023			189,153	125,358
2024-2028	-	-	1,064,903	507,066
2029-2033	-	-	1,148,594	287,466
2034-2038	-	-	592,747	110,990
2039-2043	-	-	267,598	34,263
	<u>\$ 1,010,000</u>	<u>\$ 76,538</u>	<u>\$ 3,952,965</u>	<u>\$ 1,636,402</u>

Advance Refunding - Prior

During prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. As of June 30, 2018, \$1,025,000 of bonds outstanding are considered defeased.

Water and Sewer Obligations

The City of Utica participates in the Oakland-Macomb Interceptor Drainage District (OMID) as well as the North Gratiot Interceptor Drainage District (NGID). These programs are financed by general obligation bonds issued by Macomb County where the City of Utica is only responsible for a portion of these general obligation bonds. The City of Utica has contracts with Macomb County for the cost of the construction of the water and sewer systems within its boundaries. The City of Utica has pledged the full faith and credit of the City to the prompt payment of the City's share of the principal and interest payments on these contracts as they become due. From information

received from Macomb County, the assets relating to those contracts have been recorded in the Sewer and Water Fund of the City to reflect the actual construction cost of the above mentioned systems. The contract principal portion owed by the City of Utica has been recorded in the Sewer and Water Fund.

Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused sick/vacation time. The dollar amounts of these vested rights including related payroll taxes, which have been recorded in the government-wide financial statements, amounted to \$534,981 for the primary government and \$4,976 for the component units at June 30, 2018.

Note 8 - Risk Management

The City maintains property and liability insurance coverage with the Michigan Municipal Liability and Property Pool and workers' compensation insurance through the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy period exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The City has not been informed of any special assessments being required.

The City carries commercial insurance for employee health and accident coverage.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three (3) years.

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Note 9 - Employee Retirement and Benefit Systems

The City makes contributions to two (2) pension plans that cover substantially all full-time employees.

City of Utica Police and Fire Retirement System Defined Benefit Pension Plan

Plan Description – The Plan is a single-employer public employee defined benefit pension plan that covers police officers and fire chiefs and is established under Public Act 345 of the State of Michigan. Effective July 1, 2008, the Plan was closed to new hires but was re-opened effective July 1, 2013. The terms of the Plan may be amended by agreement between the City Council and the collective bargaining units.

Plan members are required to contribute 5 percent of compensation. For the period effective October 1, 2010, through June 30, 2013, the employee contribution was 10 percent. The City is the only non-employee contributor to the Plan and is required to contribute the remaining amounts necessary to fund the Plan using actuarial computations.

Summary of Significant Accounting Policies – For the 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 City of Utica Police and Fire Retirement System and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by Plan. For these purposes, 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.

Benefits Provided – The Plan provides for vesting of benefits after ten (10) years. Eligibility for service retirement requires 25 years of service regardless of age or age 60 regardless of service. The Plan

provides a straight-life pension equal to 2.5 percent (2.25 percent for post-July 1, 1997 hires) of three-year average final compensation (AFC) times the first 25 years of service, plus one percent of AFC times years of service in excess of 25 years.

The Plan also provides for deferred retirement after ten (10) years of service, which begins at the date retirement would have occurred had the member remained in employment and is computed as service requirement but based upon service AFC and benefit multiplier in effect at termination.

The Plan also provides benefits for surviving spouses upon death after retirement, Duty, and Non-Duty death in service and disability. The Plan does not issue a separate financial report.

Plan Membership – At the June 30, 2018 valuation date, the following employees were covered by benefit terms:

Inactive employees or beneficiaries	
currently receiving benefits	10
Inactive employees entitled to, but not	
yet receiving benefits	2
Active employees	<u>15</u>
	<u>27</u>

Contributions – The employer is required to contribute amounts at least equal to the actuarially determined rate. 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 funded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

Employer contributions range from 11.53% to 25.35% based on annual payroll for open divisions.

City of Utica
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Rate of Return – For the year ended June 30, 2018, the annual money-weighted rate of return (loss) on pension plan investments, net of pension plan investment expense, was 8.84 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the change in amounts actually invested.

Net Pension Liability – The employer's net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	4 year smoothed market
Inflation	3.00%
Cost of living assumption adjustments	None
Salary increases	8.0% - 4.2%, including inflation
Investment rate of return	7.5%, net of pension plan investment expense, including inflation
Mortality rates	RP 2000 Healthy Annuitant Mortality Projected to 2014 Table

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period July 1, 2016 through June 30, 2017. The long-term expected rate of return on pension plan investments is 7.5%.

Discount Rate – The discount rate used to measure the total pension liability was 5.80 percent. The projection of cash flows used to

determine the discount rate assumed that member contributions will be made at the current contribution rate and the City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the 5.80 percent 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.

City of Utica
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Changes in Net Pension Liability

Total Pension Liability

Service cost	\$ 288,299
Interest on the total pension liability	719,140
Difference between expected and actual experience	579,465
Changes in assumptions	491,740
Benefit payments and refunds	<u>(635,038)</u>
Net change in total pension liability	1,443,606
Total pension liability - beginning	<u>12,139,098</u>
Total pension liability - ending (a)	<u><u>\$ 13,582,704</u></u>

Plan Fiduciary Net Position

Employer contributions	\$ 275,684
Employee contributions	142,337
Pension plan net investment income	530,540
Benefit payments and refunds	(635,038)
Pension plan administrative expense	<u>(12,580)</u>
Net change in plan fiduciary net position	300,943
Plan fiduciary net position - beginning	<u>8,235,425</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 8,536,368</u></u>

Net pension liability (a-b) \$ 5,046,336

Plan fiduciary net position as a percentage of total pension liability	62.85%
Covered employee payroll	\$ 1,149,906
Net pension liability as a percentage of covered employee payroll	438.85%

employer's net pension liability would be using a discount rate that is 1% point lower (4.80%) or 1% higher (6.80%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Net pension liability	<u>\$ 6,880,114</u>	<u>\$ 5,046,336</u>	<u>\$ 3,527,580</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended June 30, 2018 the employer recognized pension expense of \$867,613. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Total to Amortize
Differences in experience	\$ 560,095	\$ 124,909	\$ 435,186
Differences in assumptions	1,590,778	186,770	1,404,008
Net difference between projected and actual earning on plan investments	<u>83,328</u>	<u>-</u>	<u>83,328</u>
Total	<u><u>\$ 2,234,201</u></u>	<u><u>\$ 311,679</u></u>	<u><u>\$ 1,922,522</u></u>

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the employer, calculated using the discount rate of 5.80%, as well as what the

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

Year Ended, June 30	
2019	\$ 501,669
2020	452,534
2021	353,773
2022	322,266
2023	166,255
Thereafter	<u>126,025</u>
	<u>\$ 1,922,522</u>

City of Utica Defined Benefit Pension Plan

Plan Description – All full-time employees other than police officers and fire chiefs are covered by the Municipal Employees Retirement System of Michigan (MERS) Plan which provides retirement and disability benefits and death benefits to Plan members and beneficiaries. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan's Legislature under Public Act 135 of 1945 and administered by a nine (9) member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing MERS website at www.mersofmich.com.

Summary of Significant Accounting Policies – For the 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 purposes, 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.

Benefits Provided – Benefits provided include plans with multipliers ranging from 1.50% to 2.25%. Vesting period of 10 years. Normal retirement age is 60 with early retirement at 50 with 25 years of service. Final average compensation is calculated based on 5 years. Member contributions are 5.00%.

Plan Membership – At the June 30, 2018 valuation date, the following employees were covered by benefit terms:

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to, but not yet receiving benefits	-
Active employees	<u>17</u>
	<u>30</u>

Contributions – The employer 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 employer may establish contribution rates to be paid by its covered employees.

Employer contributions range from 2.67% to 10.15% based on annual payroll for open divisions.

Net Pension Liability – The employer's net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

Actuarial Assumptions – The total pension liability in the December 31, 2017, annual actuarial valuation was determined using the

City of Utica
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June 30, 2018

following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 3%-4%

Salary increases: 4.5% in the long-term (1%, 2%, and 3% for calendar years 2014, 2015, and 2016, respectively).

Investment rate of return: 7.75%, net of investment expenses, including inflation.

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

The mortality table used to project the mortality experience of non-disabled plan members is a 50% Male - 50% Female blend of the following tables: 1. the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%, 2. the RP-2014 Employee Mortality Tables, and 3. the RP-2014 Juvenile Mortality Tables. The mortality tables used to project the mortality experience of disabled plan members is a 50% Male - 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables.

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

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

The target allocation and best estimates or arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	55.5%	8.65%
Global fixed income	18.5%	3.76%
Real assets	13.5%	9.72%
Diversifying strategies	12.5%	7.50%

Discount Rate – The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and the City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the 8.00 percent 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.

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Changes in Net Pension Liability

Total Pension Liability

Service cost	\$ 106,919
Interest on the total pension liability	434,258
Difference between expected and actual experience	17,265
Benefit payments and refunds	<u>(300,718)</u>
Net change in total pension liability	257,724
Total pension liability - beginning	<u>5,525,116</u>
Total pension liability - ending (a)	<u><u>\$ 5,782,840</u></u>

Plan Fiduciary Net Position

Employer contributions	\$ 183,655
Employee contributions	50,779
Pension plan net investment income	444,347
Benefit payments and refunds	(300,718)
Pension plan administrative expense	<u>(7,032)</u>
Net change in plan fiduciary net position	371,031
Plan fiduciary net position - beginning	<u>3,362,260</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 3,733,291</u></u>

Net pension liability (a-b) \$ 2,049,549

Plan fiduciary net position as a percentage of total pension liability 64.56%

Covered employee payroll \$ 1,039,185

Net pension liability as a percentage of covered employee payroll 197.23%

employer's net pension liability would be using a discount rate that is 1% point lower (7.00%) or 1% higher (9.00%) than the current rate.

	1% Decrease	Current Discount rate	1% Increase
Net pension liability	<u>\$ 2,653,224</u>	<u>\$ 2,049,549</u>	<u>\$ 1,532,877</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended June 30, 2018 the employer recognized pension expense of \$168,797. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Total to Amortize
Differences in experience	\$ 12,949	\$ 109,251	\$ (96,302)
Differences in assumptions	64,425	-	64,425
Net difference between projected and actual earning on plan investments	-	75,537	(75,537)
Contributions subsequent to the measurement date*	<u>96,936</u>	<u>-</u>	<u>-</u>
Total	<u><u>\$ 174,310</u></u>	<u><u>\$ 184,788</u></u>	<u><u>\$ (107,414)</u></u>

*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 2019.

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the employer, calculated using the discount rate of 8.00%, as well as what the

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

Year Ended June 30,	
2019	\$ (4,654)
2020	(13,044)
2021	(54,057)
2022	<u>(35,659)</u>
	<u>\$ (107,414)</u>

The total of all defined benefit pension plans are summarized below:

	Net Pension Liability	Deferred Outflows	Deferred Inflows
City of Utica	\$ 2,049,549	\$ 174,310	\$ 184,788
Police and Fire Retirement System	5,046,336	2,234,201	311,679
Total	<u>\$ 7,095,885</u>	<u>\$ 2,408,511</u>	<u>\$ 496,467</u>

Note 10 - Other Postemployment Benefits

Plan Description – The City provides post-employment health benefits to certain retirees and their beneficiaries in accordance with labor contracts. The government pays the full cost of coverage for these benefits up to the cap established by PA152 of 2011, and the retirees pay the portion of premium above the cap. Also, retirees can purchase coverages for their dependents at the City's group rates.

Benefits provided – The Plan provides healthcare and vision benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the plan. Plan benefit provisions are established and may be amended by the City, subject to the City's various collective bargaining agreements.

Employees covered by benefit terms – At June 30, 2018, the plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	35
Inactive plan members entitled to, but not yet receiving benefit payments	5
Active plan members	<u>30</u>
	<u>70</u>

Contributions – The Board establishes rates based on an actuarially determined rate. For the year ended June 30, 2018, the City's average contribution rate was 2.25 percent of covered-employee payroll. Plan members are not required to contribute to the plan.

Net OPEB liability – The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial assumptions – The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	2.50%
Salary increases	3.75%, average, including inflation
	7%, net of OPEB plan investment expense, including inflation
Investment rate of return	8.0% for 2019, decreasing 0.25% per year to a rate of 4.5% in 17 years
Healthcare cost trend rates	

Mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table for males or females, as appropriate, with adjustments for mortality improvements based on Scale AA.

City of Utica
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The Long-Term Rate of Return on Assets is chosen by the plan sponsor along with their investment advisors and reflects their view of the long-term rate of return on assets based on current and target asset allocations.

The investment policy is determined based on the goals and objectives of the Plan and the risk tolerance of plan management. As new information regarding the economic environment becomes available the investment policy may need to be revised. Asset allocations fluctuate due to market performance, however, the target OPEB asset allocation is as described below.

Assets are held in the MERS Retirement Health Funding Vehicle. The City's objective in selecting the Expected Long-Term Rate of Return on Assets is to estimate the single rate of return that reflects the historical returns, future expectations for each asset class, and the asset mix of the plan assets.

The main asset classes held in the MERS RHFV as of June 30, 2018 are provided below. The target allocations and best estimates of arithmetic real rates of return for each asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. cash	1.5%	2.00%
U.S. stocks	22.5%	8.03%
International stocks	12.5%	9.00%
Emerging market stocks	15.5%	11.45%
Private equity	5.0%	9.86%
Global bond	17.0%	2.21%
Global real assets	13.5%	7.22%
Diversifying strategies	12.5%	3.70%

and contributions made by the City of Utica based on their current funding policy are not expected to be sufficient to finance the payment of benefits solely from the trust. As such, a blend of the long-term rate of return on assets and Municipal Bond Rates was used.

Discount rate – The discount rate used to measure the total OPEB liability was 3.32%. The discount rate was chosen because assets

City of Utica
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Changes in Net OPEB Liability

Total OPEB Liability

Service cost	\$ 109,581
Interest on the total OPEB liability	135,355
Difference between expected and actual experience	(322,248)
Changes in assumptions	258,875
Benefit payments and refunds	<u>(260,893)</u>

Net change in total OPEB liability (79,330)

Total OPEB liability - beginning 3,954,026

Total OPEB liability - ending (a) \$ 3,874,696

Plan Fiduciary Net Position

Employer contributions	\$ 316,880
Employee contributions	-
OPEB plan net investment income	89,155
Benefit payments and refunds	(260,893)
OPEB plan administrative expense	<u>(2,944)</u>

Net change in plan fiduciary net position 142,198

Plan fiduciary net position - beginning 1,143,855

Plan fiduciary net position - ending (b) \$ 1,286,053

Net OPEB liability (a-b) \$ 2,588,643

Plan fiduciary net position as a percentage of total OPEB liability 33.19%

Covered employee payroll \$ 2,295,739

Net OPEB liability as a percentage of covered employee payroll 112.76%

Sensitivity of the net OPEB liability to changes in the discount rate – The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.32%) or 1% higher (4.32%) than the current discount rate.

	1% Decrease	Current Discount Rate	1% Increase
Net OPEB liability	<u>\$ 3,092,801</u>	<u>\$ 2,588,643</u>	<u>\$ 2,172,556</u>

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates – The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if were calculated using healthcare cost trend rates that are 1% lower (7.5%) or 1% higher (9.5%) than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Net OPEB liability	<u>\$ 2,148,074</u>	<u>\$ 2,588,643</u>	<u>\$ 3,127,942</u>

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB – For the year ended June 30, 2018 the employer recognized OPEB expense of \$159,105. The employer reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Total to Amortize
Differences in experience	\$ 294,776	\$ -	\$ 294,776
Differences in assumptions	-	236,806	(236,806)
Net difference between projected and actual earning on plan investments	<u>5,783</u>	<u>-</u>	<u>5,783</u>
Total	<u>\$ 300,559</u>	<u>\$ 236,806</u>	<u>\$ 63,753</u>

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

Year Ended June 30,	
2019	\$ 6,849
2020	6,849
2021	6,849
2022	6,848
Thereafter	<u>36,358</u>
	<u>\$ 63,753</u>

Note 11 - Act 425 Agreement

On June 26, 1996, the City entered into a contract for conditional transfer of property pursuant to Public Act 425 of 1984, with the Charter Township of Shelby Township, Michigan (Shelby Township). The term of the contract is from the date of execution through September 30, 2026. Pursuant to this contract, a parcel of land of approximately 305 acres was transferred from the City to Shelby Township for the purpose of an economic development project.

Under the terms of the contract, Shelby Township shall have jurisdiction and be solely responsible for providing water and sewer and cable television services to the east half of the property. All other services, including taxation, shall remain the jurisdiction of the City.

Commencing September 30, 1997, and annually thereafter during the first fifteen (15) years of the contract, the City paid Shelby Township a sum equal to three (3) mills levied on the taxable value of the real and personal property located in the development area, less any tax adjustments. During the final fifteen (15) years of the contract, the City shall pay Shelby Township the sum of \$100 annually. The payment for the fiscal year ended June 30, 2018 was \$100.

Commencing on September 30, 1997, and annually thereafter up to and including the year 2011, Shelby Township paid the City a sum equal to \$26,103 per year up to a total of \$391,546.

Note 12 - Contingent Liabilities

There are various open litigation matters with the City. Due to the inconclusive nature of many of the actions, it is not reasonably possible for Legal Counsel to determine the probable outcome or a reasonable estimate of the City's potential liability, if any. Those actions for which a reasonable estimate can be determined of the City's potential liability and that would not be covered by insurance and reserves, if any, are considered by City Management and Legal Counsel to be immaterial.

Note 13 - Ground Lease

On March 27, 2014, the City entered into an agreement with General Sports Entertainment, LLC (GSE), a for-profit entity, for a term of thirty (30) years to lease property for a planned minor league ballpark. Annual rent of \$1 is payable to the City by GSE. The agreement does not constitute a partnership or joint venture.

Note 14 - Tax Abatements

The City enters into property tax abatement agreements with local businesses under several programs as authorized under Public Act 198 of 1974, as amended (PA 198).

PA198 (Industrial Property Tax Abatement) allows abatements to encourage Michigan manufacturers to build new plans, expand existing plans, renovate aging plants, or add new machinery and equipment. High technology operations are also eligible for the abatement. Once approved the firm pays an Industrial Facilities Tax (IFT), instead of property taxes, which reflects the abatement savings. The exemption covers only the specific project that is the subject of

City of Utica
Notes to the Financial Statements
June 30, 2018

the application. Any buildings and equipment that existed prior to the construction of a new facility are not exempt. Likewise, any structures or equipment added after completion of the project are fully taxable. The IFT on new plant and non-industrial personal property is computed at half the local property mileage rate, resulting in a reduction of property taxes of approximately 50%. For an obsolete plant or machinery that is being replaced or restored, the IFT is frozen at the assessed value of the plant prior to improvement, resulting in a 100% exemption from property tax on the value of the improvements. A speculative building would be eligible for a reduction in property taxes of approximately 50%. Commercial personal property will receive an automatic reduction of 12 mills for local school on their property tax bill.

For the fiscal year ended June 30, 2018, the government abated property taxes totaling \$11,569 under this program, which is described as follows:

- IFT 2008-531: H L Manufacturing was exempt of new industrial real property tax from 50 percent of mills levied against Ad Valorem property from taxes levied from July 2008 through December 2018. In exchange for the abatement, the company was required to build a facility, submit a letter stating the number of existing jobs retained every two years, actual cost of the project vs estimated, and the reasons for any variations.

Note 15 - Change in Accounting Principle

As indicated in Note 1, Governmental Accounting Standards Board Statement 75 has been adopted. This statement requires the net OPEB liability and OPEB expense to be recorded. The standard requires this change be applied retroactively. The impact of this change is to reduce beginning net position in the statement of activities as of July 1, 2017 in the governmental activities by \$2,995,362, restating it from \$8,640,810 to \$5,645,448 and in the business-type activities by \$225,457, restating it from \$4,330,478 to \$4,105,021. The impact also changed the Sewer and Water Fund July 1, 2017 by \$225,457, restating it from \$2,797,809 to \$2,572,352.

City of Utica
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,801,010	\$ 3,801,010	\$ 3,619,628	\$ (181,382)
Licenses and permits	119,550	119,550	123,591	4,041
Federal grants	10,350	10,350	12,616	2,266
State grants	459,990	459,990	482,690	22,700
Charges for services	648,870	651,770	765,385	113,615
Fines and forfeitures	170,200	173,300	178,925	5,625
Interest and rents	432,170	432,170	237,499	(194,671)
Other revenue	250,400	262,750	62,934	(199,816)
Total revenues	5,892,540	5,910,890	5,483,268	(427,622)
Expenditures				
General government				
Legislative and executive	42,750	42,750	39,458	(3,292)
City clerk	171,890	187,190	190,073	2,883
Treasurer	229,570	229,740	227,282	(2,458)
Assessor	36,030	38,430	36,754	(1,676)
Elections	2,550	13,750	10,459	(3,291)
Buildings and grounds	37,740	37,740	31,358	(6,382)
Legal	83,910	83,910	84,135	225
Rubbish disposal	204,020	204,020	205,757	1,737
Total general government	808,460	837,530	825,276	(12,254)
Public safety				
Police	2,552,150	2,550,310	2,507,355	(42,955)
Fire department	450,330	517,200	399,464	(117,736)
Total public safety	3,002,480	3,067,510	2,906,819	(160,691)

City of Utica
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Public works	\$ 568,120	\$ 567,180	\$ 472,101	\$ (95,079)
Health and welfare	251,010	290,410	286,133	(4,277)
Community and economic development	13,480	16,480	18,526	2,046
Parks and recreation	258,590	260,590	220,798	(39,792)
Other	328,800	330,900	228,890	(102,010)
Capital outlay	506,820	515,660	123,535	(392,125)
Debt service				
Principal retirement	250,000	250,000	250,000	-
Interest and fiscal charges	41,680	41,680	41,675	(5)
Total debt service	291,680	291,680	291,675	(5)
Total expenditures	6,029,440	6,177,940	5,373,753	(804,187)
Excess (deficiency) of revenues over (under) expenditures	(136,900)	(267,050)	109,515	376,565
Other financing sources (uses)				
Transfers in	9,800	11,490	-	(11,490)
Transfers out	(32,810)	(37,810)	-	37,810
Net change in fund balance	(159,910)	(293,370)	109,515	402,885
Fund balance - beginning of year	1,975,289	1,975,289	1,975,289	-
Fund balance - end of year	<u>\$ 1,815,379</u>	<u>\$ 1,681,919</u>	<u>\$ 2,084,804</u>	<u>\$ 402,885</u>

City of Utica
Required Supplementary Information
Police and Fire Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios

Fiscal year ended June 30,	2018	2017	2016	2015	2014
Total Pension Liability					
Service cost	288,299	\$ 302,125	\$ 245,052	\$ 183,744	\$ 194,715
Interest on the total pension liability	719,140	703,355	698,612	660,424	642,576
Differences between expected and actual experience	579,465	(178,063)	11,278	143,768	(109,406)
Changes in assumptions	491,740	(266,248)	1,008,842	1,389,305	-
Benefit payments and refunds	<u>(635,038)</u>	<u>(670,846)</u>	<u>(549,234)</u>	<u>(513,583)</u>	<u>(455,294)</u>
Net change in total pension liability	1,443,606	(109,677)	1,414,550	1,863,658	272,591
Total pension liability - beginning	<u>12,139,098</u>	<u>12,248,775</u>	<u>10,834,225</u>	<u>8,970,567</u>	<u>8,697,976</u>
Total pension liability - ending (a)	<u>\$ 13,582,704</u>	<u>\$ 12,139,098</u>	<u>\$ 12,248,775</u>	<u>\$ 10,834,225</u>	<u>\$ 8,970,567</u>
Plan Fiduciary Net Position					
Employer contributions	275,684	\$ 321,782	\$ 297,588	\$ 275,220	\$ 236,006
Employee contributions	142,337	163,527	53,192	152,385	42,946
Pension plan net investment income	530,540	761,421	14,881	268,022	1,133,979
Benefit payments and refunds	(635,038)	(670,846)	(549,234)	(513,583)	(455,294)
Pension plan administrative expense	(12,580)	(29,092)	(14,847)	(17,927)	(14,491)
Other	<u>-</u>	<u>-</u>	<u>2,717</u>	<u>(30)</u>	<u>5,146</u>
Net change in plan fiduciary net position	300,943	546,792	(195,703)	164,087	948,292
Plan fiduciary net position - beginning	<u>8,235,425</u>	<u>7,688,633</u>	<u>7,884,336</u>	<u>7,720,249</u>	<u>6,744,489</u>
Plan fiduciary net position - ending (b)	<u>\$ 8,536,368</u>	<u>\$ 8,235,425</u>	<u>\$ 7,688,633</u>	<u>\$ 7,884,336</u>	<u>\$ 7,692,781</u>
Net pension liability (a-b)	<u>\$ 5,046,336</u>	<u>\$ 3,903,673</u>	<u>\$ 4,560,142</u>	<u>\$ 2,949,889</u>	<u>\$ 1,277,786</u>
Plan fiduciary net position as a percentage of total pension liability	62.85%	67.84%	62.77%	72.77%	85.76%
Covered employee payroll	\$ 1,149,906	\$ 1,190,523	\$ 1,059,118	\$ 1,009,739	\$ 824,398
Net pension liability as a percentage of covered employee payroll	438.85%	327.90%	430.56%	292.14%	155.00%

Note: Data will be added as information is available until 10 years of such data is available.

City of Utica
Required Supplementary Information
Police and Fire Retirement System
Schedule of Employer Contributions

Actuarial Valuation Date	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
6/30/2014	\$ 283,276	\$ 236,006	\$ 47,270	\$ 824,398	28.63%
6/30/2015	264,108	275,220	(11,112)	1,009,739	27.26%
6/30/2016	238,650	297,588	(58,938)	1,059,118	28.10%
6/30/2017	263,025	321,782	(58,757)	1,190,523	27.03%
6/30/2018	275,684	275,684	-	1,149,906	23.97%

Note: Data will be added as information is available until 10 years of such data is available.

City of Utica
Required Supplementary Information
Pension Plan

Schedule of Changes in Net Pension Liability and Related Ratios

Year ended December 31,	2017	2016	2015	2014
Total Pension Liability				
Service cost	\$ 106,919	\$ 103,369	\$ 101,383	\$ 90,643
Interest on the total pension liability	434,258	422,123	417,317	399,779
Differences between expected and actual experience	17,265	(83,545)	(269,909)	-
Changes in assumptions	-	-	257,706	-
Benefit payments and refunds	(300,718)	(283,362)	(290,761)	(275,667)
Other changes	-	-	(2,282)	(12,115)
Net change in total pension liability	257,724	158,585	213,454	202,640
Total pension liability - beginning	5,525,116	5,366,531	5,153,077	4,938,321
Total pension liability - ending (a)	<u>\$ 5,782,840</u>	<u>\$ 5,525,116</u>	<u>\$ 5,366,531</u>	<u>\$ 5,140,961</u>
Plan Fiduciary Net Position				
Employer contributions	\$ 183,655	\$ 170,206	\$ 141,629	\$ 136,773
Employee contributions	50,779	48,091	88,140	49,988
Pension plan net investment income	444,347	349,819	(48,259)	194,752
Benefit payments and refunds	(300,718)	(283,362)	(290,761)	(275,667)
Pension plan administrative expense	(7,032)	(6,904)	(6,982)	(7,144)
Net change in plan fiduciary net position	371,031	277,850	(116,233)	98,702
Plan fiduciary net position - beginning	3,362,261	3,084,411	3,200,644	3,101,942
Plan fiduciary net position - ending (b)	<u>\$ 3,733,292</u>	<u>\$ 3,362,261</u>	<u>\$ 3,084,411</u>	<u>\$ 3,200,644</u>
Net pension liability (a-b)	<u>\$ 2,049,548</u>	<u>\$ 2,162,855</u>	<u>\$ 2,282,120</u>	<u>\$ 1,940,317</u>
Plan fiduciary net position as a percentage of total pension liability	64.56%	60.85%	57.47%	62.26%
Covered employee payroll	\$ 1,039,185	\$ 999,759	\$ 990,270	\$ 854,088
Net pension liability as a percentage of covered employee payroll	197.23%	216.34%	230.45%	227.18%

Note: Data will be added as information is available until 10 years of such data is available.

City of Utica
Required Supplementary Information
Pension Plan
Schedule of Employer Contributions

Actuarial Valuation Date	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
12/31/2014	\$ 136,773	\$ 136,773	\$ -	\$ 854,088	16.01%
12/31/2015	141,629	141,629	-	990,270	14.30%
12/31/2016	170,206	170,206	-	999,759	17.02%
12/31/2017	172,863	183,655	(10,792)	1,039,185	17.67%

Note: Data will be added as information is available until 10 years of such data is available. Actuarially determined contribution amounts are calculated as of December 31 each year, which is 6 months prior to the beginning of the fiscal year in which contributions are reported.

City of Utica
Required Supplementary Information
Other Post Employment Benefits
Schedule of Changes in Net OPEB Liability and Related Ratios

Fiscal year ended June 30,	2018	2017
Total OPEB Liability		
Service cost	\$ 109,581	\$ 140,104
Interest	135,355	132,188
Differences between expected and actual experience	(322,248)	(406,044)
Changes in assumptions	258,875	(304,745)
Benefit payments	(260,893)	(228,690)
Net change in total OPEB liability	(79,330)	(667,187)
Total OPEB liability - beginning	3,954,026	4,621,213
Total OPEB liability - ending (a)	<u>\$ 3,874,696</u>	<u>\$ 3,954,026</u>
Plan Fiduciary Net Position		
Employer contributions	\$ 316,880	\$ 300,418
Net investment income	89,155	123,096
Benefit payments and refunds	(263,837)	(228,690)
Net change in plan fiduciary net position	142,198	194,824
Plan fiduciary net position - beginning	1,143,855	949,031
Plan fiduciary net position - ending (b)	<u>\$ 1,286,053</u>	<u>\$ 1,143,855</u>
Net OPEB liability (a-b)	<u>\$ 2,588,643</u>	<u>\$ 2,810,171</u>
Plan fiduciary net position as a percentage of total OPEB liability	33.19%	28.93%
Covered employee payroll	\$ 2,295,739	\$ 1,979,223
Net OPEB liability as a percentage of covered employee payroll	112.76%	141.98%

Note: Data will be added as information is available until 10 years of such data is available.

City of Utica
Required Supplementary Information
Other Post Employment Benefits
Schedule of Employer Contributions

Actuarial Valuation Date	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
6/30/2017	\$ 175,290	\$ 300,861	\$ (125,571)	\$ 1,979,223	15.20%
6/30/2018	144,401	316,880	(172,479)	2,295,739	13.80%

Note: Data will be added as information is available until 10 years of such data is available.

City of Utica
Note to Required Supplementary Information
For the Year Ended June 30, 2018

Note 1: Excess of Expenditures over Appropriations

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated

The City's budgeted expenditures for the General Fund have been shown at the functional classification level. The approved budgets of the City have been adopted at the activity level for the General Fund.

During the year ended June 30, 2018, the City incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Appropriations</u>		<u>Actual</u>		<u>Budget Variance</u>
General Fund					
Community and economic development	\$ 16,480		\$ 18,526		\$ 2,046

City of Utica
Other Supplementary Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

	Special Revenue Funds					Capital Projects Funds			
	Major Streets	Local Streets	Liquor Law Enforcement	Building Code Enforcement	Drug Law Enforcement	Municipal Building Authority	2001 Street Fund	Priority Road Investment Program	Total
Assets									
Cash and cash equivalents	\$ 420,533	\$ 598,784	\$ 48,993	\$ 208,333	\$ 26,360	\$ 40,019	\$ 15,395	\$ -	\$ 1,358,417
Due from other units of government	48,614	19,970	-	-	-	-	-	-	68,584
Due from other funds	24,804	-	-	-	-	-	-	-	24,804
Prepaid items	-	-	19,046	-	19,046	-	-	-	38,092
 Total assets	 \$ 493,951	 \$ 618,754	 \$ 68,039	 \$ 208,333	 \$ 45,406	 \$ 40,019	 \$ 15,395	 \$ -	 \$ 1,489,897
Liabilities									
Accounts payable	\$ 36,560	\$ 964	\$ 85	\$ 41,676	\$ 85	\$ -	\$ -	\$ -	\$ 79,370
Accrued and other liabilities	-	-	-	746	-	-	-	-	746
 Total liabilities	 36,560	 964	 85	 42,422	 85	 -	 -	 -	 80,116
Fund Balances									
Non-spendable									
Prepaid items	-	-	19,046	-	19,046	-	-	-	38,092
Restricted for									
Streets	457,391	617,790	-	-	-	-	15,395	-	1,090,576
Public safety	-	-	48,908	-	26,275	-	-	-	75,183
Building permits	-	-	-	160,272	-	-	-	-	160,272
Assigned - capital improvements	-	-	-	-	-	40,019	-	-	40,019
Unassigned	-	-	-	5,639	-	-	-	-	5,639
 Total fund balances	 457,391	 617,790	 67,954	 165,911	 45,321	 40,019	 15,395	 -	 1,409,781
 Total liabilities and fund balances	 \$ 493,951	 \$ 618,754	 \$ 68,039	 \$ 208,333	 \$ 45,406	 \$ 40,019	 \$ 15,395	 \$ -	 \$ 1,489,897

City of Utica
Other Supplementary Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2018

	Special Revenue Funds					Capital Projects Funds			
	Major Streets	Local Streets	Liquor Law Enforcement	Building Code Enforcement	Drug Law Enforcement	Municipal Building Authority	2001 Street Fund	Priority Road Investment Program	Total
Revenues									
Licenses and permits	\$ -	\$ -	\$ 15,737	\$ 171,684	\$ -	\$ -	\$ -	\$ -	\$ 187,421
Other state grants	305,006	125,265	-	-	-	-	-	50,195	480,466
Interest income	-	-	-	-	-	13,500	-	-	13,500
Total revenues	305,006	125,265	15,737	171,684	-	13,500	-	50,195	681,387
Expenditures									
Current									
Public safety	-	-	1,110	-	3,260	-	-	-	4,370
Public works	392,648	33,740	-	196,700	-	9,959	-	-	633,047
Capital outlay	-	-	-	-	-	-	-	50,195	50,195
Total expenditures	392,648	33,740	1,110	196,700	3,260	9,959	-	50,195	687,612
Excess (deficiency) of revenues over expenditures	(87,642)	91,525	14,627	(25,016)	(3,260)	3,541	-	-	(6,225)
Fund balances - beginning of year	545,033	526,265	53,327	190,927	48,581	36,478	15,395	-	1,416,006
Fund balances - end of year	\$ 457,391	\$ 617,790	\$ 67,954	\$ 165,911	\$ 45,321	\$ 40,019	\$ 15,395	\$ -	\$ 1,409,781

City of Utica
Other Supplementary Information
Component Unit Fund
Downtown Development Authority
Balance Sheet
June 30, 2018

Assets

Cash and cash equivalents	\$ 220,673
Accounts receivable	29,267
Prepaid items	<u>10,300</u>
Total assets	<u><u>\$ 260,240</u></u>

Liabilities

Accounts payable	\$ 8,256
Accrued and other liabilities	<u>681</u>
Total liabilities	<u>8,937</u>

Fund Balance

Non-spendable	
Prepaid items	10,300
Unassigned	<u>241,003</u>
Total fund balance	<u>251,303</u>
Total liabilities and fund balance	<u><u>\$ 260,240</u></u>

City of Utica
Other Supplementary Information
Component Unit Fund
Downtown Development Authority
Reconciliation of the Balance Sheet to the Statement of Net Position
June 30, 2018

Fund balance for the governmental fund	\$ 251,303
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Total net position for governmental activities in the statement of net position is different because:

Capital assets net of accumulated depreciation used in governmental activities are not financial resources and therefore are not reported in the funds.	2,122,758
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Capital assets not being depreciated used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>587,494</u>
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Net position of governmental activities	<u><u>\$ 2,961,555</u></u>
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City of Utica
Other Supplementary Information
Component Unit Fund
Downtown Development Authority
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2018

Revenues

Taxes	\$ 319,985
Other revenue	<u>58,947</u>
Total revenues	<u>378,932</u>

Expenditures

Current	
Community and economic development	<u>339,754</u>
Net change in fund balance	39,178
Fund balance - beginning of year	<u>212,125</u>
Fund balance - end of year	<u><u>\$ 251,303</u></u>

City of Utica
Other Supplementary Information
Component Unit Fund
Downtown Development Authority
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2018

Net change in fund balance - governmental fund	\$ 39,178
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Total change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(106,800)
Capital outlay	<u>58,034</u>

Change in net position of governmental activities	<u>\$ (9,588)</u>
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City of Utica
Other Supplementary Information
Component Unit Fund
Library
Balance Sheet
June 30, 2018

Assets

Cash and cash equivalents	\$ 79,660
Receivables	
Taxes	<u>1,749</u>
Total assets	<u><u>\$ 81,409</u></u>

Liabilities

Accounts payable	\$ 9,684
Accrued and other liabilities	<u>2,478</u>
Total liabilities	<u>12,162</u>

Fund Balance

Unassigned	<u>69,247</u>
Total liabilities and fund balance	<u><u>\$ 81,409</u></u>

City of Utica
Other Supplementary Information
Component Unit Fund
Library
Reconciliation of the Balance Sheet to the Statement of Net Position
June 30, 2018

Fund balance for the governmental fund	\$ 69,247
Total net position for governmental activities in the statement of net position is different because:	
Capital assets net of accumulated depreciation used in governmental activities are not financial resources and therefore are not reported in the funds.	53,005
Certain liabilities are not due and payable in the current period and are not reported in the funds. Compensated absences	<u>(4,976)</u>
Net position of governmental activities	<u><u>\$ 117,276</u></u>

City of Utica
Other Supplementary Information
Component Unit Fund
Library

Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2018

Revenues

Taxes	\$ 227,823
Federal grants	389
State-shared revenue	4,992
Fines and forfeitures	5,096
Other revenue	<u>9,420</u>
 Total revenues	 <u>247,720</u>

Expenditures

Current	
Recreation and culture	<u>210,157</u>
 Net change in fund balance	 37,563
 Fund balance - beginning of year	 <u>31,684</u>
 Fund balance - end of year	 <u><u>\$ 69,247</u></u>

City of Utica
Other Supplementary Information
Component Unit Fund
Library
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2018

Net change in fund balance - governmental fund	\$ 37,563
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Total change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(23,914)
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Expenses are recorded when incurred in the statement of activities.

Compensated absences	<u>(281)</u>
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Change in net position of governmental activities	<u>\$ 13,368</u>
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December 19, 2018

To the Honorable Mayor and
Members of the City Council
City of Utica
7550 Auburn Road
Utica, MI 48317

We have completed our audit of the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Utica (the City) as of and for the year ended June 30, 2018, and have issued our report dated December 19, 2018. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The first appendix to this letter sets forth those communications as follows:

- I. Auditors' Communication of Significant Matters with Those Charged with Governance
- II. Communication of Internal Control Matters Identified During the Audit

In addition, we have identified additional matters that are not required to be communicated but we believe are valuable for management:

III. Matters for Management's Consideration

We discussed these matters with various personnel in the City during the audit and with management. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, City Council, and others within the City, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Auburn Hills, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 16, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in the footnotes of the financial statements.

We noted no transactions entered into by the City during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Other post-employment benefits and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole and free from bias.

Disclosures in the financial statements are neutral, consistent and clear.

Accounting Standards and Regulatory Updates

Accounting Standards

The Governmental Accounting Standards Board has released additional Statements. Details regarding these Statements are described in Note 1 of the financial statements.

Chart of Accounts

The Michigan Department of Treasury released a new version of the uniform chart of accounts in April 2017. Significant changes were made which expanded the breadth of information now available to governmental entities. We encourage your organization to review the uniform chart of accounts to ensure the accounting records are in compliance with the guidelines set forth in the expanded version. The uniform chart of accounts is available on the Michigan Department of Treasury's website at http://www.michigan.gov/documents/uniformchart_24524_7.pdf. If questions arise from your review of this information please contact us for assistance.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Management has determined that the effects of the uncorrected misstatements below are immaterial both individually and in the aggregate, qualitatively and quantitatively, to the financial statements taken as a whole.

- 2017 prepaid expenses for \$38,092 were not expensed in 2018 and therefore assets are overstated by this amount.
- Beginning fund balance/net position for the Downtown Development Authority component unit was overstated by \$62,870 and current year expense is overstated by the same amount. The differences offset each other and the ending fund balance/net position is correct.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report we had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Emphasis of Matters in Independent Auditors' Report

Our report will include the following emphasis of matter paragraph:

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2018, the City adopted GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Report on Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, pension system schedules, other postemployment benefit schedules, and budgetary comparison information, we 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 regarding 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.

Report on Other Supplementary Information

With respect to the other supplementary information accompanying the financial statements, other than the list of Elected Officials or Members of the Board of Directors, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Appendix II

Communication of Internal Control Matters Identified During the Audit

In planning and performing our audit of the financial statements of City of Utica as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered City of Utica's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Appendix III

Matters for Management's Consideration

In planning and performing our audit of the financial statements of City of Utica as of and for the year ended June 30, 2018, we considered City of Utica's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion 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.

However, during our audit we became aware of the following matter for management's consideration that is an opportunity for strengthening internal controls. This letter does not affect our report dated December 19, 2018, on the financial statements of City of Utica. Our comments and recommendations regarding that matter is:

Purchase Orders

Purchase orders are not being used consistently and with the same software by every department in the City. Currently purchase orders are required for all purposes over \$100, unless there is a contract signed by Council or the Mayor. We recommend that the City utilize the BS&A software and a consistent process for purchase orders. We recommend the City implement procedures that ensure purchase orders are used consistently by all departments in accordance with existing policy.

Conflicts of Interest

Currently, Council members and management are not required to sign an annual conflict of interest disclosure. We recommend, as a best practice, that Council members and management sign an annual conflict of interest disclosure.

Accounts Receivable Reconciliation

During our audit we noted that some receivables may be uncollectable. The amounts are not material to the financial statements and the City has an adequate allowance for doubtful accounts to cover potential write-offs. However, we feel that it is important to periodically reconcile the receivable listings to the general ledger and ensure that all amounts outstanding are valid receivables. Doing so will ensure an accurate depiction of the City's financial position.

Unrestricted Deficits

Municipalities are required to maintain positive fund balance in all funds. However, the City ended the year with an unrestricted deficit in the Sewer and Water fund. In addition, current liabilities exceed current assets by \$536,019 (excluding current portion of long-term debt per Treasury instructions). This resulted from expenditures exceeding revenues over the past several years, causing a decrease in unrestricted net position each year.

The City will be required to file a deficit elimination plan with the State of Michigan. The plan should follow all guidelines and requirements set forth by the State. Additionally, we recommend the City consider all options in order to improve the financial position and health of this fund.

Written Electronic Transactions Policy (ACH Policy)

Currently, the City does not have a formal ACH policy. As technology continues to evolve, more vendors and customers are requiring electronic financial activity. This is a growing area where gaps in internal control can take place as established procedures do not typically include computer controls. All local units of government are required by MCL 124.301 – 124.305 to adopt a formal ACH policy before entering into any electronic transactions.

We recommend the City adopt a formal ACH policy, which would include definitions of the types of transactions that are allowed to be electronically disbursed and from which bank accounts. Implementing an ACH policy will help document the initiation and approval of transactions which occur on a regular basis and prevent unauthorized electronic transactions.

Credit Card Acceptance Policy

During our discussions with management, we noted that the City has not adopted a written policy for credit card acceptance. This policy is required by MCL 129.221-129.224 for any City accepting payments by credit card. The policy should designate a responsible person and determine the types of financial transaction devices that may be accepted.

We recommend the City develop and adopt a resolution for a credit card acceptance policy in accordance the applicable statute.