

City of Otsego
Allegan County, Michigan

FINANCIAL STATEMENTS

Year ended June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

City Commission
City of Otsego, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Otsego, Michigan, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Otsego, Michigan, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the 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.

Supplementary information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Otsego, Michigan's basic financial statements. The combining nonmajor fund, individual fund, and component unit financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Siegfried Crandall P.C.

October 18, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Otsego, Michigan

Management's Discussion and Analysis

The following discussion and analysis is intended as a narrative overview of the City of Otsego, Michigan's (the City) operations over the fiscal year and its financial condition on June 30, 2019. Please read it in conjunction with the City's financial statements.

Financial Highlights

- The City's total net position increased by \$441,509, or 3 percent, as a result of this year's operations. The net position of the governmental activities increased by \$192,593, and the net position of the business-type activities increased by \$248,916.
- Of the \$15,684,168 total net position reported, \$3,787,425 is available to be used to meet future operating and capital improvement needs, without constraints established by debt covenants, enabling legislation, or other legal requirements.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$742,850, which represents 36 percent of the actual total General Fund expenditures and transfers out for the fiscal year.

Overview of the financial statements

This discussion and analysis introduces the City's basic financial statements, that follow this section, and includes a comparative analysis of the basic financial statements using summarized information from the current and prior year's government-wide financial statements.

The City's annual report is comprised of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. Additional supplementary information is also included to provide a more detailed view of the City's financial structure and to support the information provided in the basic financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a format similar to that of private-sector financial statements. The Statement of Net Position and the Statement of Activities are designed to be corporate-like, in that all the governmental and business-type activities are consolidated into columns that add to a total for the primary government. These statements should help the reader to answer the question: Is the City, as a whole, in a better or worse financial position as a result of this year's activities? These statements include all nonfiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are recognized, regardless of when cash is received or paid.

The Statement of Net Position reports all of the City's assets and liabilities, along with the difference between the two, which is identified as the net position. This statement combines and consolidates short-term spendable resources (e.g., cash, receivables, inventory, etc.) with capital assets. Increases and decreases in net position may serve as an indicator, over time, as to whether the City's financial position is improving or deteriorating. However, other factors must also be considered when evaluating the overall financial position, such as the status of the City's infrastructure and property tax base.

The Statement of Activities reports both the gross and net cost of the various programs and activities of the City that are funded by property taxes and other revenue sources. This presentation is intended to summarize the cost of providing the various governmental services. This Statement also shows the change in the City's net position over the fiscal year. All changes in net position are reported when the underlying events occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both government-wide financial statements report three types of activities:

1. *Governmental activities.* These activities include functions most commonly associated with government (e.g., police, fire, public works, parks, etc.). Property taxes and intergovernmental revenues usually fund these services.
2. *Business-type activities.* These activities provide services that are supported by customer user fees. The user fees are calculated to provide all, or the majority, of the operating costs involved in providing the services. The City operates two business-type activities that reflect the private-sector type operations: water and sewer services. The City operates a third activity, referred to as the Capital Project Fund, which is classified as a business-type activity because it currently involves commercial and residential plat development, the cost of which is recovered through the sale of lots.
3. *Discretely presented component unit.* Component units are legally separate organizations over which the City (the City Commission) can exercise influence and for which the City is financially accountable. The City has one component unit, the City of Otsego Downtown Development Authority/Main Street (DDA). The financial statements are primarily focused on the City. The component unit information, however, is presented to show its activity and relative financial relationship to the primary government.

Fund financial statements

Fund financial statements are presented in a manner similar to the reporting format of prior years. These statements detail the activity that has occurred in the City's most significant funds. Individual funds, or fund accounting, are necessary to track revenues and expenditures that are directly related to specific activities or required by statute/ordinance to be budgeted and accounted for separately. To be reported separately and considered as a major fund, however, a fund's total assets, liabilities, revenues, or expenditures must be at least 10 percent of the total assets, liabilities, revenues, or expenditures for all funds of that category or type.

The City's funds are classified into three categories, which each use a different accounting approach:

1. *Governmental funds.* These funds account for essentially the same functions reported as governmental activities in the government-wide financial statements mentioned above. The governmental funds statements, however, are presented on a modified accrual basis, which focuses on the short-term (60 day) sources and uses of available resources, as well as the balance of spendable resources at the end of the fiscal year. A review of these statements can show if there has been an increase or decrease in the resources available to continue providing services to our residents. The relationship between governmental activities reported in the Statement of Net Position, Statement of Activities, and the governmental funds statements is reconciled in the financial statements. The City's governmental funds include the General Fund, special revenue funds, and capital projects funds.
2. *Proprietary funds.* Proprietary funds account for the expenses involved in providing particular services to customers who are then charged fees calculated to recover the costs of operation. These funds use accrual accounting, which is the same method used by private-sector businesses. The City maintains two different types of proprietary funds: enterprise and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, and land development services. Internal service funds are used to accumulate and allocate costs internally across various City functions. The City uses an internal service fund to account for its DPW Equipment Fund that essentially functions as a motor pool. Because the equipment is rented by the hour to provide services, which predominately benefit governmental rather than business-type functions, it is included within governmental activities of the government-wide financial statements.
3. *Fiduciary funds.* These funds record the collection and disbursement of resources, primarily taxes and insurance premiums, for the benefit of parties outside the City. These funds are not reported in the government-wide financial statements because the resources reported here represent a trust relationship and are not, therefore, available to the City to provide services to residents. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the basic financial statements

The notes provide additional information that is necessary to understand the data reported in the government-wide and fund financial statements.

Required supplementary information

Following the basic financial statements is additional required supplementary information that further explains and supports the information in the financial statements. The required supplementary information includes budgetary comparison schedules.

Supplementary information

Following the required supplementary information are combining financial statements for nonmajor governmental funds. These funds are added together and presented in a single column in the basic financial statements but are not reported individually, as with major funds, on the governmental funds financial statements. This section also includes governmental funds balance sheets, budgetary comparison schedules for each of the City's funds, and financial statements for the component unit.

Financial analysis of the City as a whole

Statement of Net Position

As noted earlier, net position may serve, over time, as a useful indicator of a government's financial position. The Statement of Net Position reveals favorable or positive balances in all three of the government-wide columns (governmental activities, business-type activities, and totals), as well as the component unit column. A negative balance would indicate a deficit situation that would require further disclosure of plans to reverse the balance in the subsequent fiscal year.

A two-year comparison of the Statement of Net Position is shown in Schedule 1. In the City's case, total assets exceeded total liabilities at the end of the fiscal year by \$15,684,168. However, the majority of the City's net position, in the amount of \$11,071,981, (71 percent) represents an investment in capital assets (e.g., land, streets, storm sewers, water and sewer systems, buildings, and equipment), less outstanding debt used to acquire or construct these assets. Because the City uses these capital assets to provide essential services to citizens, these assets are not available to be liquidated for future spending needs. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay the debt must be provided from other sources because the capital assets themselves cannot be used to satisfy these liabilities.

Overall, total net position increased as a result of revenues being greater than expenses for the year.

A total of \$824,762 of the City's net position is restricted for public works. The City may use the remaining balance of unrestricted net position of \$3,787,425 to meet its ongoing obligations to citizens and creditors. The unrestricted net position for the governmental activities increased by 10 percent for the fiscal year, and the unrestricted net position for the business-type activities increased by 18 percent.

The unrestricted net position for governmental activities increased by \$167,684, primarily due to receiving State Local Community Stabilization Authority (LCSA) funding of \$205,275. The current level of unrestricted net position for governmental activities represents 61 percent of the fiscal year's expenses.

The unrestricted net position of the business-type activities increased by \$312,609 during the year, primarily due to increases in utility charges. The ending unrestricted balance of \$2,004,213 represents 149 percent of the actual business-type expenses for the fiscal year. Although the unrestricted net position is not necessarily cash and cash equivalents, this balance could be depleted by one or more significant capital improvement projects.

Schedule 1
Statement of Net Position - Two Year Comparison

Statement of Activities

A similar two-year comparison of the Statement of Activities is shown in Schedule 2. This schedule identifies many of the substantial changes that occurred in revenues and expenses over the fiscal year.

The increase in net position was lower than the prior year, as expenses increased by \$171,732, while revenues only increased by \$132,850.

Governmental activities increased the City's net position by \$192,593 due to receiving the LCSA funding.

Business-type activities increased the City's net position by \$248,916. The increase in net position was \$205,209 less than the prior year, primarily due to increased depreciation expense on the recently completed capital improvement projects and the \$175,000 loan forgiveness in the prior fiscal year.

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 2,781,496	\$ 2,389,742	\$ 2,063,488	\$ 2,459,820	\$ 4,844,984	\$ 4,849,562
Capital assets	<u>5,723,425</u>	<u>5,924,009</u>	<u>6,623,555</u>	<u>6,357,690</u>	<u>12,346,980</u>	<u>12,281,699</u>
Total assets	<u>8,504,921</u>	<u>8,313,751</u>	<u>8,687,043</u>	<u>8,817,510</u>	<u>17,191,964</u>	<u>17,131,261</u>
Current and other liabilities	173,522	174,945	59,275	768,216	232,797	943,161
Long-term debt	-	-	<u>1,274,999</u>	<u>945,441</u>	<u>1,274,999</u>	<u>945,441</u>
Total liabilities	<u>173,522</u>	<u>174,945</u>	<u>1,334,274</u>	<u>1,713,657</u>	<u>1,507,796</u>	<u>1,888,602</u>
Net position:						
Net investment in capital assets	5,723,425	5,924,009	5,348,556	5,412,249	11,071,981	11,336,258
Restricted	824,762	599,269	-	-	824,762	599,269
Unrestricted	<u>1,783,212</u>	<u>1,615,528</u>	<u>2,004,213</u>	<u>1,691,604</u>	<u>3,787,425</u>	<u>3,307,132</u>
Total net position	<u>\$ 8,331,399</u>	<u>\$ 8,138,806</u>	<u>\$ 7,352,769</u>	<u>\$ 7,103,853</u>	<u>\$ 15,684,168</u>	<u>\$ 15,242,659</u>

Schedule 2
Statement of Activities - Two Year Comparison

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Program revenues:						
Charges for services	\$ 272,961	\$ 255,438	\$ 1,650,894	\$ 1,649,799	\$ 1,923,855	\$ 1,905,237
Operating grants	548,645	504,657	-	-	548,645	504,657
Capital grants	-	38,851	-	175,000	-	213,851
General revenues:						
Property taxes	1,396,128	1,419,442	-	-	1,396,128	1,419,442
Community stabilization	205,275	-	-	-	205,275	-
State shared revenue	403,828	391,171	-	-	403,828	391,171
Public service tax	122,176	68,909	-	-	122,176	68,909
Franchise fees	52,354	51,659	-	-	52,354	51,659
Investment earnings	30,329	15,867	17,235	5,742	47,564	21,609
Gain(loss) on sale of assets	10,980	-	(1,420)	-	9,560	-
Total revenues	<u>3,042,676</u>	<u>2,745,994</u>	<u>1,666,709</u>	<u>1,830,541</u>	<u>4,709,385</u>	<u>4,576,535</u>
Expenses:						
General government	551,465	468,305	-	-	551,465	468,305
Public safety	1,184,164	1,153,027	-	-	1,184,164	1,153,027
Public works	1,019,863	955,898	-	-	1,019,863	955,898
Health and welfare	8,797	7,898	-	-	8,797	7,898
Community and economic development	27,677	29,387	-	-	27,677	29,387
Recreation and culture	127,787	104,645	-	-	127,787	104,645
Interest	-	568	-	-	-	568
Land development	-	-	46,568	166,324	46,568	166,324
Sewer	-	-	856,543	742,634	856,543	742,634
Water	-	-	445,012	467,458	445,012	467,458
Total expenses	<u>2,919,753</u>	<u>2,719,728</u>	<u>1,348,123</u>	<u>1,376,416</u>	<u>4,267,876</u>	<u>4,096,144</u>
Excess (deficiency) before transfers	122,923	26,266	318,586	454,125	441,509	480,391
Transfers	69,670	-	(69,670)	-	-	-
Changes in net position	<u>\$ 192,593</u>	<u>\$ 26,266</u>	<u>\$ 248,916</u>	<u>\$ 454,125</u>	<u>\$ 441,509</u>	<u>\$ 480,391</u>
Net position, end of year	<u>\$ 8,331,399</u>	<u>\$ 8,138,806</u>	<u>\$ 7,352,769</u>	<u>\$ 7,103,853</u>	<u>\$ 15,684,168</u>	<u>\$ 15,242,659</u>

Financial analysis of the City's funds

The last section of the financial report, entitled Supplementary Information, includes balance sheets and statements of revenues, expenditures, and changes in fund balances in more detail for each of the City's funds. The latter statements also include the final amended budgets, as adopted and approved for each fund. These reports will likely be more familiar to City commissioners and staff, as they are more closely formatted in a manner similar to the monthly financial reports.

General Fund

The General Fund is the primary operating fund of the City. At the end of the fiscal year, total fund balance decreased by \$50,325 to \$770,013. The ending fund balance represents 37 percent of current year expenditures and transfers out.

The City amended its expenditure budget, increasing appropriations by \$28,735. Total expenditures were \$27,341 less than the final amounts appropriated. The most significant expenditure variance occurred in the general government function where expenditures were \$25,656 (five percent) less than appropriated. No single item accounts for the variance, however, health insurance and website development expenditures were \$12,577 less than projected. Total public works expenditures were \$2,238 (just over one-half percent) more than budgeted. This variance is insignificant, however, upon review of the total public works expenditures. The variance was due to significant overages in electrical utility and lawn care maintenance costs. The latter was due to a change mid-year to a more accurate allocation method. Recreation and culture expenditures were \$878 more than budgeted because of the change in lawn care maintenance contracts at the parks.

Beginning in the last fiscal year, a voter approved millage was levied for public safety which required the police, fire and building inspection services to be moved from the General Fund to a new Public Safety Fund. The removal of the departments, however, only partially removed the General Fund's support of those functions. The General Fund subsidized the Public Safety Fund through a transfer out of \$854,815 which represents 42 percent of total General Fund appropriations.

Major Street Fund

The City receives revenues from the State of Michigan to maintain 8.71 miles of major streets, as defined by Public Act 51 of 1951. Also included in this fund are operating costs to maintain the M-89 State Highway, according to contract. This year's revenues were higher than expenditures by \$237,429. Fund balance at the end of the fiscal year grew to \$431,144, which represents 291 percent of the current year's public works expenditures. Fund balance is accumulated to help offset future capital improvement projects.

Local Street Fund

The City receives revenues from the State of Michigan to maintain 12.64 miles of local streets, as defined by Public Act 51 of 1951. Subsidies are regularly transferred from the Major Street Fund and/or the Street and Bridge Fund to accumulate sufficient resources to cover anticipated street maintenance and capital improvement costs. Revenues and other sources (transfers in of \$60,000), were less than expenditures of \$225,321. Fund balance decreased by \$28,037 to \$249,992 at year end. Fund balance is accumulated to help offset future capital improvement projects or revenue shortfalls resulting from subsidies being temporarily redirected to other projects.

Public Safety Fund

Normal operating costs were \$1,111,286 while transfers out to capital project sinking funds were \$8,670, bringing the total of expenditures plus other uses to \$1,119,956. Tax revenue generated \$189,665, or 17 percent of total uses of funds. The \$854,815 transfer in, from the General Fund, provided 76 percent of the total uses of funds. The fund ended the year with a fund balance of \$168,345 which represents 15 percent of operating costs.

Street and Bridge Fund

Allegan County voters approved a road maintenance millage to be collected as part of property taxes to help maintain and improve roads within the County. Because the County does not maintain any roads within the City, the County provides a portion of these monies to the City for capital improvement projects or road maintenance, in accordance with Michigan Compiled Laws 224.20b. Revenues exceeded expenditures and transfers to the street funds (\$60,000), which caused fund balance to increase by \$61,921. The restricted fund balance amounts to \$135,506.

Governmental Capital Projects Fund

This fund began in the previous year and will be used for future improvements to existing City facilities. Transfers in from the General Fund and Public Safety Fund totaled \$54,005, based on projected depreciation of applicable capital assets. The fund had no revenue, and expenditures related to capital acquisitions totaled \$17,926. This resulted in a year end fund balance of \$52,697.

Equipment Replacement Fund

This is a capital project fund created to accumulate resources over time in order to purchase vehicles and equipment exceeding the \$5,000 capitalization threshold. This fund had a total of \$76,280 transferred in from the General and Public Safety funds, based on estimated annual depreciation of capital assets purchased by these funds. The transfer in, plus interest revenue of \$1,263, resulted in an ending fund balance of \$88,157.

Special Assessment Capital Project Fund

The Fund generated revenues of \$16,556 and incurred \$3,400 in expenditures which caused fund balance to increase by \$13,156. Fund balance available for future capital improvement projects totals \$343,833.

Sewer Fund

Charges for services were \$108,569 more than the prior year, primarily due to rate increases of nearly 7 percent. Operating expenses increased by \$91,483 due to increased maintenance and additional depreciation for a wastewater treatment plant upgrade project completed this year. Operating income amounted to \$145,334 and, together with interest income and a gain on the disposal of capital assets, increased net position by \$130,294 for the fiscal year. Total net position was \$4,574,921 at year end, of which \$685,620 was unrestricted. Unrestricted net position represents 82 percent of operating expenses and is accumulated to offset future capital improvement or maintenance projects. A major capital improvement project was completed during the year which was financed by the issuance of \$1.325M of debt. The balance of long-term debt amounts to \$1,274,999 at year-end. User fees have been increased significantly to provide debt repayment funding while still supporting operating costs.

Water Fund

Charges for services were \$39,066 more than the prior year, primarily due to rate increases of about 14 percent. Operating expenses decreased by \$22,446 primarily due to a reduction in metering system purchases as the City nears completion of upgrading meters to a more efficient radio read system. Operating income amounted to \$195,855 and, together with interest income and a loss on the disposal of capital assets, increased net position by \$198,597 for the fiscal year. Total net position was \$2,528,120 at year end, of which \$1,068,865 was unrestricted. Unrestricted net position represents 240 percent of operating expenses and is accumulated to offset future capital improvement or maintenance projects.

Proprietary Capital Projects Fund

This fund has served as a proprietary fund involved with the development of seven residential plats and three commercial parcels with M-89 frontage. Lot prices in each of the plats have been calculated to offset construction and land acquisition costs. The final two lots were sold during the fiscal year. Development costs and other expenses offset operating income, resulting in a decrease in net position of the land development function of \$10,305. The fund also transferred \$69,670 to the General Fund, which leaves the fund with equity of \$249,728. Because this equity is comprised predominantly of General Fund transfers in and gains resulting from the sale of developed lots, the City Commission has chosen to use it for future improvements to existing city facilities and begin the transition of the proprietary fund to a governmental capital project fund.

Motor Pool Fund

This fund is a proprietary fund used to allocate the costs of public works equipment and supplies to the City's operating departments and component unit. Equipment is charged to departments using rental rates derived by the State. Supplies are charged at actual costs. The fund's net position increased by \$20,671 in the current year, as interfund charges exceeded operating expenses by \$4,551 and the fund recognized nonoperating revenue of \$16,120. Net position is comprised of an investment in capital assets of \$452,072, and unrestricted net position of \$344,155, totaling \$796,227 at year end. The unrestricted net position is accumulated to offset future capital asset purchases.

Capital assets and debt administration

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2019, amounts to \$12,346,980 (net of accumulated depreciation). This investment includes a broad range of assets. Overall, there was a \$65,281 increase in the City's net investment in capital assets in the current fiscal year, comprised of \$848,870 in additions, \$776,867 in current depreciation and \$6,722 in dispositions.

Capital acquisitions during the year included:

- \$495,402 of wastewater treatment plant improvements
- \$100,971 in street resurfacing projects
- \$78,370 of water system improvements
- \$78,065 in new Motor Pool Equipment, and \$72,548 to rebuild and extend the useful life of an existing plow truck with an estimated replacement value of \$150,000.

Additional information regarding the City's capital assets is presented in Note 5 of the notes to the basic financial statements.

Long-term debt

At the end of the fiscal year, the City had total long-term debt outstanding of \$1,274,999, reflecting a net increase of \$329,558. Additional proceeds, from the issuance of a State Revolving Fund loan initiated in 2017, in the amount of \$379,558, were offset by the first principal payment of \$50,000. The debt was issued to make sewer system improvements. The City received an A2 rating from Moody's Investors Services in August of 2017. State statutes limit the amount of general obligation debt the City can issue to 10 percent of its total state equalized assessed value of property, which is equal to \$11,210,100 based upon 2019 property value assessments.

Other long-term debt obligations, totaling \$30,256, represent accrued compensated absences. Additional information is presented in Note 6 of the notes to the basic financial statements.

Economic factors and the 2019-20 budget and rates

The most notable change in the City's General Fund Budget this year was the reinstatement of Local Community Stabilization Authority (LCSA) funding. Pursuant to the personal property tax reforms and reductions that were enacted in 2014, small business and eligible manufacturing personal property is being phased out of the property tax process. The State established the LCSA as a separate legal entity to generate revenue on a different basis, outside of the State budgetary process, and return it to local communities according to the new program. Because of reporting errors to the State, the City received a windfall of \$796,390 in fiscal year 2016-2017. Because of the overpayment in 2016-2017, the City received no State LCSA revenue in the 2017-2018 fiscal year. This year, the City budgeted conservatively to receive \$125,000 and received \$205,275. This fiscal year the City similarly budgeted \$125,000 as a conservative estimate.

Anticipating moderate improvement to the State's economic condition and considering actual revenues received in comparison to State projections, the current General Fund budget for constitutional state shared revenues again set a target seven percent higher than the amount set for 2018 - 2019. Beginning in 2011, the state legislature changed the statutory portion of state shared revenues through the implementation of a new Economic Vitality Incentive Program (EVIP), which the state legislature renamed in 2014 to the Cities, Villages, and Townships Revenue Sharing (CVTRS) program. This program reduced the statutory payments to local units of government by one-third. CVTRS further saved the State funds by eliminating payments to units no longer eligible and those units who fail to meet annual requirements of the program. Although this program provides the City an estimated \$64,000, it requires the City to complete additional reporting and cap employee health insurance benefits. Total anticipated General Fund revenues are nearly eight percent less (\$144,210) than those budgeted in 2018-2019. The revenue decrease is primarily due to reduced property tax collections. The solid waste tax levy (\$122,520 in fiscal year 2018-2019) was moved to the Solid Waste and Recycling Fund, the operating millage was rolled back by the Headlee Amendment, and the City continues to lose personal property taxes as that revenue source is phased out.

The eight percent decrease in anticipated revenues, and a 7 percent increase in appropriations, results in a projected decrease to fund balance of \$180,095. This represents a continued return to the previous trend of using accumulated fund balance to cover revenue shortfalls. While this trend is not sustainable, the City continues to remain hopeful that accurate forecasting becomes available for the LCSA Funding which includes anticipated growth in that funding source.

To bolster tax base, the City continues to pursue capital investment in the community. The City's residential plat development has been very successful. All lots are sold and the majority have new owner occupied single family homes. To further encourage capital investment in the community, the City has been working closely with Allegan County to remediate asbestos and find a developer for the old Rock-Tenn Paper Mill. Over the past year, the County secured federal funds to abate the asbestos and raise the former powerhouse at the mill. Allegan County continues to work with the City to secure a developer to raze the remaining structures and develop the site for residential or mixed use. The City owns additional vacant property adjacent to the area which may also become part of a future development.

The City's Water and Sewer Funds continue to be financially sound. Although the utilities have excess capacity, due to reductions of industrial use, and the respective departments have attempted to maintain aging equipment within reduced operating budgets, the City continues a proactive campaign to update infrastructure. The City competed the major wastewater treatment plant repairs this past spring and the anticipated loan amounted to \$1.325 million. The 20-year loan will be repaid through user fees and rates will continue to be increased again over the next fiscal year to cover loan payments. Nearly a year ago, the water system drilled a new well, as planned. The City just received permission to bring the well on line and will be completing that project in the 2019-2020 fiscal year. In addition, the State of Michigan has issued new lead and copper rules requiring an inventory of possible lead services and a schedule to replace those services. Currently, the City believes the system may still have 26 lead services, and another 274 which are questionable due to lack of complete historical records. Abating these lead services at an average cost of \$5,000 equates to a possible liability of \$1.5M. The City appropriated \$50,000 in the last and current fiscal years to begin service replacement. Confirmation and replacement will be more expensive to do individually, however, possible future street projects may assist in this effort at a lower cost. Historically, these funds have recovered depreciation, which has left both in reasonably strong positions to maintain infrastructure and occasionally fund improvements to their respective systems.

Contacting the City's financial management

This financial report is designed to provide a general overview of the City's finances to its citizens, customers, investors, and creditors and to demonstrate the City's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Matthew Storbeck, Finance Director
City of Otsego
117 East Orleans Street
Otsego, MI 49078-1199

Phone: (269) 692-2741
E-Mail: mstorbeck@cityofotsego.org

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

June 30, 2019

	<i>Primary government</i>			<i>Component unit</i>
	<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>	<i>Downtown Development Authority</i>
ASSETS				
Current assets:				
Cash	\$ 1,670,586	\$ 1,176,988	\$ 2,847,574	\$ 41,851
Investments	741,621	424,424	1,166,045	43,953
Receivables	273,995	416,157	690,152	478
Inventory	10,698	36,523	47,221	-
Prepaid items	49,229	9,553	58,782	3,346
Internal balances	157	(157)	-	-
Total current assets	<u>2,746,286</u>	<u>2,063,488</u>	<u>4,809,774</u>	<u>89,628</u>
Noncurrent assets:				
Receivables	35,210	-	35,210	-
Capital assets not being depreciated	844,578	23,052	867,630	98,069
Capital assets, net of accumulated depreciation	<u>4,878,847</u>	<u>6,600,503</u>	<u>11,479,350</u>	<u>2,139,377</u>
Total noncurrent assets	<u>5,758,635</u>	<u>6,623,555</u>	<u>12,382,190</u>	<u>2,237,446</u>
Total assets	<u>8,504,921</u>	<u>8,687,043</u>	<u>17,191,964</u>	<u>2,327,074</u>
LIABILITIES				
Current liabilities:				
Accounts payable	109,651	44,256	153,907	4,988
Accrued payroll liabilities	41,203	7,431	48,634	1,393
Bonds payable - due within one year	-	55,000	55,000	-
Total current liabilities	<u>150,854</u>	<u>106,687</u>	<u>257,541</u>	<u>6,381</u>
Noncurrent liabilities:				
Compensated absences	22,668	7,588	30,256	1,462
Bonds payable	-	1,219,999	1,219,999	-
Total non-current liabilities	<u>22,668</u>	<u>1,227,587</u>	<u>1,250,255</u>	<u>1,462</u>
Total liabilities	<u>173,522</u>	<u>1,334,274</u>	<u>1,507,796</u>	<u>7,843</u>
NET POSITION				
Net investment in capital assets	5,723,425	5,348,556	11,071,981	2,237,446
Restricted for public works	824,762	-	824,762	-
Unrestricted	<u>1,783,212</u>	<u>2,004,213</u>	<u>3,787,425</u>	<u>81,785</u>
Total net position	<u>\$ 8,331,399</u>	<u>\$ 7,352,769</u>	<u>\$ 15,684,168</u>	<u>\$ 2,319,231</u>

See notes to financial statements

STATEMENT OF ACTIVITIES

Year ended June 30, 2019

Functions/Programs	Net (expenses) revenues and changes in net position							
	Program revenues				Primary government			Component unit
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Totals	Downtown Development Authority
Primary government								
Governmental activities:								
General government	\$ 551,465	\$ 80,067	\$ 2,475	\$ -	\$ (468,923)		\$ (468,923)	
Public safety	1,184,164	164,705	1,205	-	(1,018,254)		(1,018,254)	
Public works	1,019,863	26,084	544,965	-	(448,814)		(448,814)	
Health and welfare	8,797	-	-	-	(8,797)		(8,797)	
Community and economic development	27,677	480	-	-	(27,197)		(27,197)	
Recreation and culture	127,787	1,625	-	-	(126,162)		(126,162)	
Total governmental activities	<u>2,919,753</u>	<u>272,961</u>	<u>548,645</u>	<u>-</u>	<u>(2,098,147)</u>		<u>(2,098,147)</u>	
Business-type activities:								
Land development	46,568	30,576	-	-		\$ (15,992)	(15,992)	
Sewer	856,543	979,451	-	-		122,908	122,908	
Water	445,012	640,867	-	-		195,855	195,855	
Total business-type activities	<u>1,348,123</u>	<u>1,650,894</u>	<u>-</u>	<u>-</u>		<u>302,771</u>	<u>302,771</u>	
Total primary government	<u>\$ 4,267,876</u>	<u>\$ 1,923,855</u>	<u>\$ 548,645</u>	<u>\$ -</u>	<u>(2,098,147)</u>	<u>302,771</u>	<u>(1,795,376)</u>	
Component unit - Downtown Development Authority	<u>\$ 352,469</u>	<u>\$ 68,755</u>	<u>\$ -</u>	<u>\$ -</u>				<u>\$ (283,714)</u>
General revenues:								
Property taxes					1,396,128	-	1,396,128	123,321
State shared revenue					403,828	-	403,828	-
Local community stabilization revenue					205,275	-	205,275	122,814
Public service tax					122,176	-	122,176	-
Franchise fees					52,354	-	52,354	-
Interest income					30,329	17,235	47,564	1,037
Gain (loss) on sales of capital assets					10,980	(1,420)	9,560	-
Transfers					69,670	(69,670)	-	-
Total general revenues, transfers and gain (loss) on sales of capital assets					<u>2,290,740</u>	<u>(53,855)</u>	<u>2,236,885</u>	<u>247,172</u>
Changes in net position					192,593	248,916	441,509	(36,542)
Net position - beginning					<u>8,138,806</u>	<u>7,103,853</u>	<u>15,242,659</u>	<u>2,355,773</u>
Net position - ending					<u>\$ 8,331,399</u>	<u>\$ 7,352,769</u>	<u>\$ 15,684,168</u>	<u>\$ 2,319,231</u>

See notes to financial statements

BALANCE SHEET - governmental funds

June 30, 2019

	<i>Special revenue</i>					<i>Total governmental funds</i>
	<i>General</i>	<i>Major Street</i>	<i>Local Street</i>	<i>Public Safety</i>	<i>Nonmajor funds</i>	
ASSETS						
Cash	\$ 489,869	\$ 336,374	\$ 159,506	\$ 47,993	\$ 459,096	\$ 1,492,838
Investments	256,977	53,047	73,566	50,617	160,885	595,092
Receivables	85,181	61,444	19,507	96,794	46,266	309,192
Due from other funds	-	1	1	-	-	2
Prepays	19,043	1,470	1,075	20,288	-	41,876
Total assets	\$ 851,070	\$ 452,336	\$ 253,655	\$ 215,692	\$ 666,247	\$ 2,439,000
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities:						
Payables	\$ 44,697	\$ 435	\$ 1,957	\$ 21,193	\$ -	\$ 68,282
Accrued payroll liabilities	13,637	684	1,706	24,918	-	40,945
Due to other funds	1,566	3,510	-	1,236	-	6,312
Due to other governmental units	21,157	16,563	-	-	-	37,720
Total liabilities	81,057	21,192	3,663	47,347	-	153,259
Deferred inflows of resources - unavailable special assessment revenue	-	-	-	-	46,054	46,054
Fund balances:						
Nonspendable - prepaid items	19,043	1,470	1,075	20,288	-	41,876
Restricted for public works	8,120	429,674	248,917	-	135,506	822,217
Committed for:						
Public works	-	-	-	-	343,833	343,833
Capital outlay	-	-	-	-	140,854	140,854
Assigned for public safety	-	-	-	148,057	-	148,057
Unassigned	742,850	-	-	-	-	742,850
Total fund balances	770,013	431,144	249,992	168,345	620,193	2,239,687
Total liabilities, deferred inflows of resources, and fund balances	\$ 851,070	\$ 452,336	\$ 253,655	\$ 215,692	\$ 666,247	\$ 2,439,000
Reconciliation of the balance sheet to the statement of net position:						
Total fund balance - total governmental funds						\$ 2,239,687
Amounts reported for <i>governmental activities</i> in the statement of net position (page 14) are different because:						
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds.						5,271,353
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred inflows in the funds.						46,054
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.						(21,922)
The assets and liabilities of the internal service fund are included in <i>governmental activities</i> in the statement of net position.						796,227
Net position of <i>governmental activities</i>						\$ 8,331,399

See notes to financial statements

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCES - governmental funds

Year ended June 30, 2019

	General	Special revenue			Nonmajor funds	Total governmental funds
		Major Street	Local Street	Public Safety		
REVENUES						
Property taxes	\$ 1,251,685	\$ -	\$ -	\$ 189,665	\$ -	\$ 1,441,350
Licenses and permits	53,643	-	-	19,853	-	73,496
State grants	609,103	382,894	133,911	1,205	-	1,127,113
Intergovernmental	28,160	-	-	115,087	122,176	265,423
Charges for services	46,809	-	-	2,296	-	49,105
Fines and forfeitures	-	-	-	17,266	-	17,266
Interest and rentals	16,517	1,735	3,359	1,947	9,591	33,149
Other	8,382	1,057	14	10,201	8,596	28,250
Total revenues	<u>2,014,299</u>	<u>385,686</u>	<u>137,284</u>	<u>357,520</u>	<u>140,363</u>	<u>3,035,152</u>
EXPENDITURES						
Current:						
General government	529,469	-	-	-	-	529,469
Public safety	-	-	-	1,111,286	-	1,111,286
Public works	474,063	127,822	144,785	-	623	747,293
Health and welfare	8,797	-	-	-	-	8,797
Community and economic development	27,677	-	-	-	-	27,677
Recreation and culture	124,318	-	-	-	-	124,318
Capital outlay	-	20,435	80,536	-	21,326	122,297
Total expenditures	<u>1,164,324</u>	<u>148,257</u>	<u>225,321</u>	<u>1,111,286</u>	<u>21,949</u>	<u>2,671,137</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>849,975</u>	<u>237,429</u>	<u>(88,037)</u>	<u>(753,766)</u>	<u>118,414</u>	<u>364,015</u>
OTHER FINANCING SOURCES (USES)						
Insurance proceeds	6,460	-	-	-	-	6,460
Transfers in	-	-	60,000	854,815	130,285	1,045,100
Transfers out	(906,760)	-	-	(8,670)	(60,000)	(975,430)
Net other financing sources (uses)	<u>(900,300)</u>	<u>-</u>	<u>60,000</u>	<u>846,145</u>	<u>70,285</u>	<u>76,130</u>
NET CHANGES IN FUND BALANCES	(50,325)	237,429	(28,037)	92,379	188,699	440,145
FUND BALANCES - BEGINNING	<u>820,338</u>	<u>193,715</u>	<u>278,029</u>	<u>75,966</u>	<u>431,494</u>	<u>1,799,542</u>
FUND BALANCES - ENDING	<u>\$ 770,013</u>	<u>\$ 431,144</u>	<u>\$ 249,992</u>	<u>\$ 168,345</u>	<u>\$ 620,193</u>	<u>\$ 2,239,687</u>

See notes to financial statements

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds (Continued)**

Year ended June 30, 2019

Reconciliation of the statement of revenues, expenditures, and changes
in fund balances to the statement of activities:

Net change in fund balance - total governmental funds (page 17)	\$ 440,145
Amounts reported for <i>governmental activities</i> in the statement of activities (page 15) are different because:	
Capital assets:	
Asset acquisitions	118,897
Provision for depreciation	(409,768)
Deferred inflows of resources - net decrease in unavailable special assessments	(5,196)
Changes in other assets/liabilities - net decrease in compensated absences	27,844
The net revenues of the internal service fund are reported with governmental activities.	<u>20,671</u>
Change in net position of <i>governmental activities</i>	<u><u>\$ 192,593</u></u>

STATEMENT OF NET POSITION - proprietary funds

June 30, 2019

	<i>Business-type activities</i>			<i>Totals</i>	<i>Governmental</i>
	<i>Enterprise funds</i>				<i>activities</i>
	<i>Sewer</i>	<i>Water</i>	<i>Capital Project</i>		<i>Internal service</i>
ASSETS					
Current assets:					
Cash	\$ 416,740	\$ 620,528	\$ 139,720	\$ 1,176,988	\$ 177,748
Investments	23,072	291,590	109,762	424,424	146,529
Receivables	274,609	141,302	246	416,157	13
Due from other funds	4	2	-	6	6,467
Inventory	794	35,729	-	36,523	10,698
Prepays	6,507	3,046	-	9,553	7,353
Total current assets	721,726	1,092,197	249,728	2,063,651	348,808
Noncurrent assets:					
Land	23,052	-	-	23,052	-
Capital assets, net of accumulated depreciation:					
Sewer system	5,141,248	-	-	5,141,248	-
Water system	-	1,459,255	-	1,459,255	-
Buildings and equipment	-	-	-	-	452,072
Total noncurrent assets	5,164,300	1,459,255	-	6,623,555	452,072
Total assets	5,886,026	2,551,452	249,728	8,687,206	800,880
LIABILITIES					
Current liabilities:					
Accounts payable	26,802	17,454	-	44,256	3,649
Accrued payroll liabilities	4,182	3,249	-	7,431	258
Due to other funds	114	49	-	163	-
Bonds payable - due within one year	55,000	-	-	55,000	-
Total current liabilities	86,098	20,752	-	106,850	3,907
Noncurrent liabilities:					
Compensated absences	5,008	2,580	-	7,588	746
Bonds payable	1,219,999	-	-	1,219,999	-
Total noncurrent liabilities	1,225,007	2,580	-	1,227,587	746
Total liabilities	1,311,105	23,332	-	1,334,437	4,653
NET POSITION					
Net investment in capital assets	3,889,301	1,459,255	-	5,348,556	452,072
Unrestricted	685,620	1,068,865	249,728	2,004,213	344,155
Total net position	\$ 4,574,921	\$ 2,528,120	\$ 249,728	\$ 7,352,769	\$ 796,227

See notes to financial statements

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -

proprietary funds

Year ended June 30, 2019

	<i>Business-type activities</i>				<i>Governmental</i>
	<i>Enterprise funds</i>				<i>activities</i>
	<i>Sewer</i>	<i>Water</i>	<i>Capital Projects</i>	<i>Totals</i>	<i>Internal service</i>
OPERATING REVENUES					
Charges for services	\$ 960,203	\$ 624,362	\$ 30,576	\$ 1,615,141	\$ 204,823
Other	19,248	16,505	-	35,753	19,273
Total operating revenues	979,451	640,867	30,576	1,650,894	224,096
OPERATING EXPENSES					
Mains	90,172	193,062	-	283,234	-
Wastewater treatment plant	445,879	-	-	445,879	-
Water pumping	-	125,174	-	125,174	-
Cost of lots sold	-	-	46,568	46,568	-
Administration	64,018	59,639	-	123,657	47,729
Other	-	-	-	-	105,902
Depreciation	234,048	67,137	-	301,185	65,914
Total operating expenses	834,117	445,012	46,568	1,325,697	219,545
OPERATING INCOME (LOSS)	145,334	195,855	(15,992)	325,197	4,551
NONOPERATING REVENUES (EXPENSES)					
Gain (loss) on disposal of capital assets	5,302	(6,722)	-	(1,420)	10,980
Interest income	2,084	9,464	5,687	17,235	5,140
Interest expense	(22,426)	-	-	(22,426)	-
Total nonoperating revenues (expenses)	(15,040)	2,742	5,687	(6,611)	16,120
INCOME (LOSS) BEFORE TRANSFERS	130,294	198,597	(10,305)	318,586	20,671
TRANSFERS OUT	-	-	(69,670)	(69,670)	-
CHANGES IN NET POSITION	130,294	198,597	(79,975)	248,916	20,671
NET POSITION - BEGINNING	4,444,627	2,329,523	329,703	7,103,853	775,556
NET POSITION - ENDING	<u>\$ 4,574,921</u>	<u>\$ 2,528,120</u>	<u>\$ 249,728</u>	<u>\$ 7,352,769</u>	<u>\$ 796,227</u>

See notes to financial statements

STATEMENT OF CASH FLOWS - proprietary funds

Year ended June 30, 2019

	<i>Business-type activities</i>				<i>Governmental</i>
	<i>Enterprise funds</i>				<i>activities</i>
	<i>Sewer</i>	<i>Water</i>	<i>Capital Project</i>	<i>Totals</i>	<i>Internal service</i>
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 957,658	\$ 628,436	\$ 30,576	\$ 1,616,670	\$ 19,691
Receipts from interfund services provided	-	-	-	-	204,823
Payments to suppliers	(382,292)	(229,653)	(23)	(611,968)	(126,361)
Payments to employees	(205,736)	(126,922)	-	(332,658)	(34,275)
Payments for interfund services received	(9,932)	(28,323)	-	(38,255)	-
Net cash provided by (used in) operating activities	<u>359,698</u>	<u>243,538</u>	<u>30,553</u>	<u>633,789</u>	<u>63,878</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Increase (decrease) in due to other funds	(105)	(46)	-	(151)	(4,936)
Transfers out	-	-	(69,670)	(69,670)	-
Net cash provided by (used in) noncapital financing activities	<u>(105)</u>	<u>(46)</u>	<u>(69,670)</u>	<u>(69,821)</u>	<u>(4,936)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from issuance of capital debt	379,558	-	-	379,558	-
Decrease in loan draw receivable	474,902	-	-	474,902	-
Proceeds from sale of capital assets	5,302	-	-	5,302	10,980
Acquisition of capital assets	(495,402)	(62,574)	-	(557,976)	(156,201)
Decrease in payables	(724,189)	-	-	(724,189)	-
Principal payment on debt	(50,000)	-	-	(50,000)	-
Interest payment on debt	(22,426)	-	-	(22,426)	-
Net cash provided by (used in) capital and related financing activities	<u>(432,255)</u>	<u>(62,574)</u>	<u>-</u>	<u>(494,829)</u>	<u>(145,221)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	1,522	2,577	2,849	6,948	1,672
Sale of investments	39,426	-	-	39,426	-
Purchase of investments	(45,013)	-	-	(45,013)	-
Net cash provided by (used in) investing activities	<u>(4,065)</u>	<u>2,577</u>	<u>2,849</u>	<u>1,361</u>	<u>1,672</u>
NET CHANGE IN CASH	<u>(76,727)</u>	<u>183,495</u>	<u>(36,268)</u>	<u>70,500</u>	<u>(84,607)</u>
CASH - BEGINNING	<u>493,467</u>	<u>437,033</u>	<u>175,988</u>	<u>1,106,488</u>	<u>262,355</u>
CASH - ENDING	<u>\$ 416,740</u>	<u>\$ 620,528</u>	<u>\$ 139,720</u>	<u>\$ 1,176,988</u>	<u>\$ 177,748</u>

See notes to financial statements

STATEMENT OF CASH FLOWS - proprietary funds (Continued)

Year ended June 30, 2019

	<i>Business-type activities</i>				<i>Governmental</i>
	<i>Enterprise funds</i>				<i>activities</i>
	<i>Sewer</i>	<i>Water</i>	<i>Capital Project</i>	<i>Totals</i>	<i>Internal service</i>
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ 145,334	\$ 195,855	\$ (15,992)	\$ 325,197	\$ 4,551
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation expense	234,048	67,137	-	301,185	65,914
(Increase) decrease in:					
Receivables	(21,793)	(12,431)	-	(34,224)	418
Inventory	245	(3,079)	46,545	43,711	2,718
Prepaid expenses	(1,084)	(448)	-	(1,532)	(269)
Increase (decrease) in:					
Accounts payable	2,824	(3,733)	-	(909)	(9,401)
Accrued payroll liabilities	(334)	(117)	-	(451)	(236)
Compensated absences	458	354	-	812	183
Net cash provided by (used in) operating activities	<u>\$ 359,698</u>	<u>\$ 243,538</u>	<u>\$ 30,553</u>	<u>\$ 633,789</u>	<u>\$ 63,878</u>
Noncash capital and related financing activities:					
Acquisition of capital assets	\$ -	\$ (78,370)	\$ -	\$ (78,370)	\$ -
Less increase in payables	-	15,796	-	15,796	-
Net cash used	<u>\$ -</u>	<u>\$ (62,574)</u>	<u>\$ -</u>	<u>\$ (62,574)</u>	<u>\$ -</u>

See notes to financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Otsego, Michigan (the City), conform to accounting principles generally accepted in the United States of America (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant accounting policies.

Reporting entity:

The City is governed by an elected five-member Commission. As required by generally accepted accounting principles, these financial statements present the City (the primary government), located in Allegan County, and the component unit described below, for which the City is financially accountable. The component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government.

Otsego Downtown Development Authority:

The Authority was established pursuant to Public Act 197 of 1975, as amended, to correct and prevent deterioration and promote economic growth within the downtown district. The Authority is fiscally dependent on the City because the City Commission appoints the Authority's governing body and approves its budget. The City is also obligated to provide some of its tax revenues to the Authority through tax increment financing, which represents a financial burden on the City. Fiscal dependence and the financial burden relationship make the City financially accountable for the Authority and require the City to report it in its financial statements. Separate financial statements for the component unit have not been issued as management believes that these financial statements, including disclosures, contain complete information to constitute a fair presentation of the component unit.

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 City. The effect of interfund activity has been removed from these statements. Governmental activities, normally 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.

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

Separate financial statements are provided for governmental funds and proprietary funds. 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 funds 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting, and financial statement presentation (continued):

Governmental funds 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 if they are collected within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the City generally considers revenues to be available if they are expected to be 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, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, 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 revenues of the current period. All other revenue items are considered to be measurable only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Major Street Fund, a special revenue fund, accounts for state gas and weight tax revenues that are restricted for expenditures related to maintaining and improving the City's major streets.

The Local Street Fund, a special revenue fund, accounts for state gas and weight tax revenues that are restricted for expenditures related to maintaining and improving the City's local streets.

The Public Safety Fund, a special revenue fund, accounts for operational revenues and expenditures for the public safety functions of the City; the majority of the revenues are derived from property taxes and charges for service.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the City's sewage system and treatment plant.

The Water Fund accounts for the activities of the City's water mains and pumping facilities.

The Capital Project Fund accounts for the development and sale of residential and commercial real estate for purposes of promoting economic development within the City.

Additionally, the City reports the following fund type:

The Internal Service Fund accounts for public works operations and capital asset rentals by various City departments.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting, and financial statement presentation (continued):

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 proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary 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, deferred inflows of resources, and net position or equity:

Cash and investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value. Pooled investment income is proportionately allocated to all funds.

Receivables and payables - In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.” No allowance for uncollectible accounts has been recorded, as the City considers all receivables to be fully collectible.

Prepays - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaids in both government-wide and fund financial statements.

Inventories - The costs of inventories are recorded as assets when purchased and charged to expenses when used. Inventories, reported in the proprietary funds, are valued at the lower of cost or market. Cost is determined under the first-in, first-out method.

Capital assets - Capital assets, which include property, equipment, and infrastructure assets (e.g., streets, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the City as assets with an initial, individual cost of greater than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value as of the date received. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The City has elected to account for infrastructure assets prospectively, beginning July 1, 2003.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 50 years
Furniture, fixtures, and equipment	3 - 20 years
Vehicles	3 - 20 years
Sewer and water systems	50 years

Compensated absences (vacation and sick leave) - It is the City’s policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation has been recorded for the portion due to employees upon separation from service with the City. Vested compensated absences are accrued when earned in the government-wide and proprietary funds financial statements. A liability for these amounts is reported in the governmental funds only for employee terminations as of year end.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, liabilities, deferred inflows of resources, and net position or equity (continued):

Deferred inflows of resources - The governmental funds balance sheet includes a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period. The related revenues will not be recognized until a future event occurs. The City has one item included in this category - special assessments. Special assessment revenues, which are not recognized until available (collected not later than 60 days after the end of the City's fiscal year) are deferred and recognized as an inflow of resources in the period that the assessments become available.

Net position - Net position represents the difference between assets and liabilities. The City reports three categories of net position, as follows: (1) *Net investment in capital assets* consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets; (2) *Restricted net position* is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations, such as federal or state laws or buyers of the City's debt. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets; (3) *Unrestricted net position* consists of all other net position that does not meet the definition of the above components and is available for general use by the City.

Net position flow assumption - Sometimes, the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary funds financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Fund equity - In the fund financial statements, governmental funds report nonspendable fund balance for amounts that cannot be spent because they are not in spendable form. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws and regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Commission. A formal resolution of the City Commission is required to establish, modify, or rescind a fund balance commitment. The City Commission retains the authority to assign fund balance. Unassigned fund balance is the residual classification for the amounts that do not fall into any of the above categories. When the City incurs an expenditure for purposes for which various fund balance classifications can be used, it is the City's policy to use restricted fund balance first, followed by committed fund balance, then assigned fund balance and, finally, unassigned fund balance.

Property tax revenue recognition - Property taxes are levied as of July 1 on property values assessed as of December 31 of the prior year. The billings are due on or before August 15, at which time the bill becomes delinquent and penalties and interest may be assessed by the City. Property tax revenue is recognized in the year for which taxes have been levied and become available. The City levy date is July 1, and, accordingly, the total levy is recognized as revenue in the current year.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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. Accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. The following schedule sets forth the reportable negative budget variances:

<u>Fund</u>	<u>Function</u>	<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	General government	Legislative	\$ 27,540	\$ 31,458	\$ 3,918
	Public works	General services	192,965	195,619	2,654
Special Assessment					
Capital Project	Capital outlay	Capital outlay	-	3,400	3,400

NOTE 3 - CASH AND INVESTMENTS

Cash and investments, as of June 30, 2019, are classified in the accompanying financial statements as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total primary government</u>	<u>Discretely presented component unit</u>	<u>Totals</u>
Cash	\$ 1,670,586	\$ 1,176,988	\$ 2,847,574	\$ 41,851	\$ 2,889,425
Investments	<u>741,621</u>	<u>424,424</u>	<u>1,166,045</u>	<u>43,953</u>	<u>1,209,998</u>
Totals	<u>\$ 2,412,207</u>	<u>\$ 1,601,412</u>	<u>\$ 4,013,619</u>	<u>\$ 85,804</u>	<u>\$ 4,099,423</u>

Cash and investments, as of June 30, 2019, consist of the following:

Cash on hand	\$ 4,542
Deposits with financial institutions	2,884,883
Investments	<u>1,209,998</u>
Total	<u>\$ 4,099,423</u>

Deposits - Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) and the City’s investment policy authorize the City to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The City’s deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the City will not be able to recover its deposits. The City’s investment policy addresses custodial credit risk for deposits, as the City believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the City evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories. At June 30, 2019, \$1,868,171 of the City’s bank balances (including the component unit) of \$2,924,658 was exposed to custodial credit risk because it was uninsured and uncollateralized. The City maintains individual and pooled cash accounts for all its funds and its component unit. Due to the use of pooled deposits, it is not practicable to allocate insured and uninsured portions of certain bank balances between the primary government and its component unit.

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments - State statutes and the City's investment policy authorize the City to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper rated within the two highest rate classifications, which mature not more than 270 days after the date of purchase; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; e) mutual funds composed of otherwise legal investments; and f) investment pools organized under the local government investment pool act.

The City's investments consist of holdings in the Cooperative Liquid Assets Securities System - Michigan (CLASS), which is a local government investment pool established under Michigan state statutes for participating Michigan municipalities. This pool, which is a nonrisk categorized qualifying investment, is carried at fair value. The fair value of the City's position in the pool is the same as the value of its pool shares. The fund operates like a money market fund with each share valued at \$1, and is rated AAAM by Standard and Poor's (credit risk); it is not subject to regulatory oversight and is not registered with the SEC. The pool issues a separate report, which is available at 15309 Meadowwood Drive, Grand Haven, Michigan, 49417.

Fair value measurement - 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; Level 3 inputs are significant unobservable inputs. The CLASS Fund, with a balance of \$1,209,998 at June 30, 2019, was measured at net asset value (or its equivalent) as a practical expedient and, accordingly, has not been classified in the fair value hierarchy.

NOTE 4 - RECEIVABLES

Receivables as of June 30, 2019, for the City's individual major funds and nonmajor funds, in the aggregate, were as follows:

<i>Funds</i>	<i>Accounts</i>	<i>Interest</i>	<i>Property taxes</i>	<i>Special assessments</i>	<i>Inter-governmental</i>	<i>Totals</i>
Governmental:						
General	\$ 14,537	\$ 705	\$ 190	\$ -	\$ 69,749	\$ 85,181
Major Street	1,136	7	-	-	60,301	61,444
Local Street	-	13	-	-	19,494	19,507
Public Safety	500	-	-	-	96,294	96,794
Nonmajor	-	180	-	46,086	-	46,266
Total governmental	<u>\$ 16,173</u>	<u>\$ 905</u>	<u>\$ 190</u>	<u>\$ 46,086</u>	<u>\$ 245,838</u>	<u>\$ 309,192</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,210</u>	<u>\$ -</u>	<u>\$ 35,210</u>
Proprietary:						
Enterprise:						
Sewer	\$ 274,609	\$ -	\$ -	\$ -	\$ -	\$ 274,609
Water	141,302	-	-	-	-	141,302
Capital projects	-	246	-	-	-	246
Total enterprise	415,911	246	-	-	-	416,157
Internal service	-	13	-	-	-	13
Total proprietary	<u>\$ 415,911</u>	<u>\$ 259</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 416,170</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated	\$ 833,212	\$ 11,366	\$ -	\$ 844,578
Capital assets being depreciated:				
Buildings	2,206,896	6,560	(1,573)	2,211,883
Improvements	4,890,358	100,971	(750)	4,990,579
Furniture, fixtures, and equipment	819,379	51,588	(53,397)	817,570
Vehicles	1,547,992	104,613	(1,952)	1,650,653
Subtotal	<u>9,464,625</u>	<u>263,732</u>	<u>(57,672)</u>	<u>9,670,685</u>
Less accumulated depreciation for:				
Buildings	(975,108)	(51,242)	1,573	(1,024,777)
Improvements	(1,756,629)	(300,042)	750	(2,055,921)
Furniture, fixtures, and equipment	(620,735)	(33,621)	53,397	(600,959)
Vehicles	(1,021,356)	(90,777)	1,952	(1,110,181)
Subtotal	<u>(4,373,828)</u>	<u>(475,682)</u>	<u>57,672</u>	<u>(4,791,838)</u>
Total capital assets being depreciated, net	<u>5,090,797</u>	<u>(211,950)</u>	<u>-</u>	<u>4,878,847</u>
Governmental activities capital assets, net	<u>\$ 5,924,009</u>	<u>\$ (200,584)</u>	<u>\$ -</u>	<u>\$ 5,723,425</u>

NOTE 5 - CAPITAL ASSETS (Continued)

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 23,052	\$ -	\$ -	\$ 23,052
Construction in progress	<u>1,328,703</u>	<u>-</u>	<u>(1,328,703)</u>	<u>-</u>
Subtotal	<u>1,351,755</u>	<u>-</u>	<u>(1,328,703)</u>	<u>23,052</u>
Capital assets being depreciated:				
Sewer system	6,354,871	1,824,105	(22,323)	8,156,653
Water system	<u>2,944,581</u>	<u>78,370</u>	<u>(48,020)</u>	<u>2,974,931</u>
Subtotal	<u>9,299,452</u>	<u>1,902,475</u>	<u>(70,343)</u>	<u>11,131,584</u>
Less accumulated depreciation for:				
Sewer system	(2,803,680)	(234,048)	22,323	(3,015,405)
Water system	<u>(1,489,837)</u>	<u>(67,137)</u>	<u>41,298</u>	<u>(1,515,676)</u>
Subtotal	<u>(4,293,517)</u>	<u>(301,185)</u>	<u>63,621</u>	<u>(4,531,081)</u>
Total capital assets being depreciated, net	<u>5,005,935</u>	<u>1,601,290</u>	<u>(6,722)</u>	<u>6,600,503</u>
Business-type activities capital assets, net	<u>\$ 6,357,690</u>	<u>\$ 1,601,290</u>	<u>\$ (1,335,425)</u>	<u>\$ 6,623,555</u>
Component unit:				
Capital assets not being depreciated - land				
	<u>\$ 98,069</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98,069</u>
Capital assets being depreciated:				
Buildings and improvements	2,963,929	59,795	-	3,023,724
Equipment	<u>37,130</u>	<u>-</u>	<u>-</u>	<u>37,130</u>
Subtotal	<u>3,001,059</u>	<u>59,795</u>	<u>-</u>	<u>3,060,854</u>
Less accumulated depreciation for:				
Buildings and improvements	(819,150)	(80,980)	-	(900,130)
Equipment	<u>(19,491)</u>	<u>(1,856)</u>	<u>-</u>	<u>(21,347)</u>
Subtotal	<u>(838,641)</u>	<u>(82,836)</u>	<u>-</u>	<u>(921,477)</u>
Total capital assets being depreciated, net	<u>2,162,418</u>	<u>(23,041)</u>	<u>-</u>	<u>2,139,377</u>
Component unit capital assets, net	<u>\$ 2,260,487</u>	<u>\$ (23,041)</u>	<u>\$ -</u>	<u>\$ 2,237,446</u>

NOTE 5 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions of the City’s governmental activities as follows:

Governmental activities:	
General government	\$ 22,095
Public safety	74,670
Public works	309,780
Recreation and culture	3,223
Depreciation on capital assets held by internal service fund	<u>65,914</u>
 Total governmental activities	 <u>\$ 475,682</u>

NOTE 6 - LONG-TERM DEBT

At June 30, 2019, long-term debt consists of the following individual issue:

Business-type activities:	
\$1,325,000 2017 State Revolving Fund revenue bonds - payable in annual installments ranging from \$50,000 to \$85,000, plus interest at 2.50%, final payment due April, 2038	<u>\$ 1,274,999</u>

Long-term debt activity for the year ended June 30, 2019, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
<i>Primary government:</i>					
Governmental activities - compensated absences	<u>\$ 50,329</u>	<u>\$ 74,663</u>	<u>\$ (102,324)</u>	<u>\$ 22,668</u>	<u>\$ -</u>
 <i>Business-type activities:</i>					
SRF bonds payable	\$ 945,441	\$ 379,558	\$ (50,000)	\$ 1,274,999	\$ 55,000
Compensated absences	<u>6,776</u>	<u>19,598</u>	<u>(18,786)</u>	<u>7,588</u>	<u>-</u>
 Total business-type activities	 <u>\$ 952,217</u>	 <u>\$ 399,156</u>	 <u>\$ (68,786)</u>	 <u>\$ 1,282,587</u>	 <u>\$ 55,000</u>
 <i>Component unit:</i>					
Compensated absences	<u>\$ 876</u>	<u>\$ 3,538</u>	<u>\$ (2,952)</u>	<u>\$ 1,462</u>	<u>\$ -</u>

NOTE 6 - LONG-TERM DEBT (Continued)

Debt service requirements at June 30, 2019, excluding compensated absences, were as follows:

<i>Year ended</i> <u>June 30:</u>	<i>Primary government:</i> <u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 55,000	\$ 31,875
2021	55,000	30,500
2022	55,000	29,125
2023	55,000	27,750
2024	60,000	26,375
2025-2029	315,000	108,999
2030-2034	360,000	67,375
2035-2038	<u>319,999</u>	<u>20,375</u>
Total	<u>\$ 1,274,999</u>	<u>\$ 342,374</u>

All debt of the primary government is secured by the full faith and credit of the City.

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Fund</u>	<u>Interfund receivables</u>	<u>Fund</u>	<u>Interfund payables</u>
DPW Equipment	<u>\$ 6,467</u>	General	\$ 1,558
		Major Street	3,510
		Local Street	-
		Public Safety	1,236
		Sewer	114
		Water	<u>49</u>
			<u>\$ 6,467</u>
Major Street	\$ 1	General	<u>\$ 2</u>
Local Street	<u>1</u>		
	<u>\$ 2</u>		
Sewer	\$ 4	General	<u>\$ 6</u>
Water	<u>2</u>		
	<u>\$ 6</u>		
Totals	<u>\$ 6,475</u>		<u>\$ 6,475</u>

The interfund balances, due to the DPW Equipment Fund, represent current amounts due for equipment charges.

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

Interfund transfers occurred during the year ended June 30, 2019, as follows:

<u>Fund</u>	<u>Transfers in</u>	<u>Fund</u>	<u>Transfers out</u>
Public Safety	\$ 854,815	General	\$ 854,815
Local Street	60,000	Street and Bridge	60,000
Capital Projects	54,005	General	45,335
		Public Safety	8,670
			<u>54,005</u>
Equipment Replacement	76,280	Capital Projects	69,670
		General	6,610
			<u>76,280</u>
Total	<u>\$ 1,045,100</u>		<u>\$ 1,045,100</u>

- The General Fund transfer to the Public Safety Fund represents unrestricted funds to support expenditures recorded in the Public Safety Fund.
- The Street and Bridge Fund, a nonmajor governmental fund, transferred available restricted funds to the Local Street fund to finance local street preservation costs.
- Transfers to the Capital Projects Fund from the General and Public Safety funds represent resources set aside for future capital acquisitions.
- Transfers to the Equipment Replacement Fund, a nonmajor governmental fund, from the Capital Projects and General funds represent support for future capital acquisitions.

NOTE 8 - PROPERTY TAX REVENUES

The taxable valuation of the City, for the 2018 tax year, approximated \$85,404,000, on which ad valorem taxes levied consisted of 11.9719 mills for operating purposes, 1.3585 mills for solid waste/recycling, and 1.9812 mills for public safety, raising approximately \$1,066,000 for operating purposes, \$121,000 for solid waste/recycling, and \$169,000 for public safety. These amounts are recognized in the fund financial statements as property tax revenue.

NOTE 9 - DEFINED CONTRIBUTION PENSION PLAN

The City contributes to the City of Otsego Group Pension Plan (the Plan), a defined contribution pension plan, for all its full-time employees. The Plan is administered by a third-party administrator.

Benefit terms, including contribution requirements, for the Plan are established and may be amended by the City Commission. For each eligible employee in the Plan, the City is required to contribute 10% of covered payroll to the individual employee’s account. Employees are permitted to make contributions to the pension plan, up to applicable Internal Revenue Code limits. For the year ended June 30, 2019, employee contributions totaled \$34,029, and the City recognized pension expense of \$125,524.

Employees are immediately vested in their own contributions and earnings on those contributions and become vested in City contributions and earnings on City contributions after completion of two years of credited service with the City. Nonvested City contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the pension plan’s administrative expenses. For the year ended June 30, 2019, there were no forfeitures and the City reported \$2,556 in accrued liabilities as part of the contributions to the Plan.

NOTE 10 - CONTINGENT LIABILITY

The City is contingently liable to its employees for \$276,773 in accumulated non-vested sick pay benefits.

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to general liability, property and casualty, workers’ compensation, and employee health and medical claims. The risks of loss arising from general liability, building contents, workers’ compensation, employee medical, and casualty are managed through purchased commercial insurance. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 12 - CONSTRUCTION CODE ACT

A summary of construction code enforcement transactions for the year ended June 30, 2019, is as follows. At June 30, 2019, there was a cumulative deficiency of revenues of \$3,321 from construction code enforcement activities.

Revenues	\$ 16,167
Expenses	<u>20,012</u>
Deficiency of revenues over expenses	<u><u>\$ (3,845)</u></u>

NOTE 13 - RESTRICTED NET POSITION

The government-wide statement of net position reports \$824,762 of restricted net position, which is restricted by enabling legislation for public works expenditures.

NOTE 14 - TAX ABATEMENTS

The City enters into property tax abatement agreements with local businesses for the purpose of attracting or retaining businesses within the City. Each agreement was negotiated under a state law, which allows local units to abate property taxes for a variety of economic development purposes. The abatements may be granted to local businesses located within the City or promising to relocate within the City. Depending on the statute referenced for a particular abatement, the City may grant abatements of up to 50 percent of annual property taxes through a direct reduction of the entity's property tax bill or not tax the entity on improvements to a property for a period of time, not to exceed twelve years. Depending on the terms of the agreement and state law, abated taxes may be subject to recapture upon default of the entity.

The City has not made any commitments as part of the agreements other than to reduce taxes. The City is not subject to any tax abatement agreements entered into by other governmental entities.

For the fiscal year ended June 30, 2019, the City abated property taxes totaling \$154,098 under this program, summarized as follows:

<u>Purpose</u>	<u>State statute</u>	<u>Percentage of taxes abated</u>	<u>City taxes abated</u>
Paper Mill - investment in equipment	PA 198 of 1974	50%	\$ 152,956
Industrial building rehabilitation	PA 198 of 1974	31%	1,142
Total taxes abated			\$ 154,098

NOTE 15 - ECONOMIC DEPENDENCY

For the fiscal year ended June 30, 2019, the City received approximately 13 percent of its property tax revenue and 14 percent of its utility revenues from one industrial property owner.

NOTE 16 - PENDING ACCOUNTING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and will be effective for periods beginning after December 15, 2018. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for periods beginning after December 15, 2019. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended June 30, 2019

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<i>Variance with final budget positive (negative)</i>
REVENUES				
Property taxes	\$ 1,253,050	\$ 1,253,050	\$ 1,251,685	\$ (1,365)
Licenses and permits	53,025	53,025	53,643	618
State grants	515,770	596,045	609,103	13,058
Intergovernmental	30,400	30,400	28,160	(2,240)
Charges for services	40,475	40,475	46,809	6,334
Interest and rentals	5,500	5,500	16,517	11,017
Other	2,500	2,500	8,382	5,882
	<u>1,900,720</u>	<u>1,980,995</u>	<u>2,014,299</u>	<u>33,304</u>
EXPENDITURES				
General government	526,390	555,125	529,469	25,656
Public works	471,825	471,825	474,063	(2,238)
Health and welfare	8,800	8,800	8,797	3
Community and economic development	32,475	32,475	27,677	4,798
Recreation and culture	123,440	123,440	124,318	(878)
	<u>1,162,930</u>	<u>1,191,665</u>	<u>1,164,324</u>	<u>27,341</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>737,790</u>	<u>789,330</u>	<u>849,975</u>	<u>60,645</u>
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	-	-	6,460	6,460
Transfers out	(906,760)	(906,760)	(906,760)	-
	<u>(906,760)</u>	<u>(906,760)</u>	<u>(900,300)</u>	<u>6,460</u>
Net other financing sources (uses)	<u>(906,760)</u>	<u>(906,760)</u>	<u>(900,300)</u>	<u>6,460</u>
NET CHANGES IN FUND BALANCES	(168,970)	(117,430)	(50,325)	67,105
FUND BALANCES - BEGINNING	<u>820,338</u>	<u>820,338</u>	<u>820,338</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 651,368</u>	<u>\$ 702,908</u>	<u>\$ 770,013</u>	<u>\$ 67,105</u>

BUDGETARY COMPARISON SCHEDULE - Major Street Fund

Year ended June 30, 2019

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES				
State grants	\$ 342,545	\$ 342,545	\$ 382,894	\$ 40,349
Charges for services	5,000	5,000	-	(5,000)
Interest	300	300	1,735	1,435
Other	-	-	1,057	1,057
Total revenues	<u>347,845</u>	<u>347,845</u>	<u>385,686</u>	<u>37,841</u>
EXPENDITURES				
Public works	216,160	218,360	127,822	90,538
Capital outlay	19,400	20,500	20,435	65
Total expenditures	<u>235,560</u>	<u>238,860</u>	<u>148,257</u>	<u>90,603</u>
NET CHANGES IN FUND BALANCES	112,285	108,985	237,429	128,444
FUND BALANCES - BEGINNING	<u>193,715</u>	<u>193,715</u>	<u>193,715</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 306,000</u>	<u>\$ 302,700</u>	<u>\$ 431,144</u>	<u>\$ 128,444</u>

BUDGETARY COMPARISON SCHEDULE - Local Street Fund

Year ended June 30, 2019

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<i>Variance with final budget positive (negative)</i>
REVENUES				
State grants	\$ 118,165	\$ 118,165	\$ 133,911	\$ 15,746
Charges for services	5,000	5,000	-	(5,000)
Interest	750	750	3,359	2,609
Other	-	-	14	14
	<u>123,915</u>	<u>123,915</u>	<u>137,284</u>	<u>13,369</u>
Total revenues	123,915	123,915	137,284	13,369
EXPENDITURES				
Public works	176,785	190,860	144,785	46,075
Capital outlay	63,075	80,575	80,536	39
	<u>239,860</u>	<u>271,435</u>	<u>225,321</u>	<u>46,114</u>
Total expenditures	239,860	271,435	225,321	46,114
DEFICIENCY OF REVENUES OVER EXPENDITURES				
	(115,945)	(147,520)	(88,037)	59,483
OTHER FINANCING SOURCES				
Transfers in	60,000	60,000	60,000	-
NET CHANGES IN FUND BALANCES				
	(55,945)	(87,520)	(28,037)	59,483
FUND BALANCES - BEGINNING				
	<u>278,029</u>	<u>278,029</u>	<u>278,029</u>	-
FUND BALANCES - ENDING				
	<u>\$ 222,084</u>	<u>\$ 190,509</u>	<u>\$ 249,992</u>	<u>\$ 59,483</u>

BUDGETARY COMPARISON SCHEDULE - Public safety

Year ended June 30, 2019

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES				
Property taxes	\$ 189,540	\$ 189,540	\$ 189,665	\$ 125
Licenses and permits	34,550	34,550	19,853	(14,697)
State grants	800	800	1,205	405
Intergovernmental	96,000	96,000	115,087	19,087
Charges for services	5,250	5,250	2,296	(2,954)
Fines and forfeitures	16,800	16,800	17,266	466
Interest and rentals	-	-	1,947	1,947
Other	-	5,000	10,201	5,201
	<u>342,940</u>	<u>347,940</u>	<u>357,520</u>	<u>9,580</u>
Total revenues				
EXPENDITURES				
Public safety:				
Police Department	878,140	882,930	839,173	43,757
Fire Department	278,190	283,190	252,101	31,089
Building inspections	34,315	34,315	20,012	14,303
	<u>1,190,645</u>	<u>1,200,435</u>	<u>1,111,286</u>	<u>89,149</u>
Total expenditures				
DEFICIENCY OF REVENUES OVER EXPENDITURES				
	<u>(847,705)</u>	<u>(852,495)</u>	<u>(753,766)</u>	<u>98,729</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	854,815	854,815	854,815	-
Transfers out	(8,670)	(8,670)	(8,670)	-
	<u>846,145</u>	<u>846,145</u>	<u>846,145</u>	<u>-</u>
Net other financing sources (uses)				
NET CHANGES IN FUND BALANCES				
	(1,560)	(6,350)	92,379	98,729
FUND BALANCES - BEGINNING				
	<u>75,966</u>	<u>75,966</u>	<u>75,966</u>	<u>-</u>
FUND BALANCES - ENDING				
	<u>\$ 74,406</u>	<u>\$ 69,616</u>	<u>\$ 168,345</u>	<u>\$ 98,729</u>

SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET - nonmajor governmental funds

June 30, 2019

	<u>Special revenue</u>	<u>Capital projects</u>			<u>Totals</u>
	<u>Street and Bridge</u>	<u>Capital Projects</u>	<u>Equipment Replacement</u>	<u>Special Assessment</u>	
ASSETS					
Cash	\$ 131,409	\$ 52,697	\$ 62,310	\$ 212,680	\$ 459,096
Investments	4,097	-	25,667	131,121	160,885
Receivables	-	-	180	46,086	46,266
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 135,506</u>	<u>\$ 52,697</u>	<u>\$ 88,157</u>	<u>\$ 389,887</u>	<u>\$ 666,247</u>
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Deferred inflows of resources - unavailable special assessment revenue	\$ -	\$ -	\$ -	\$ 46,054	\$ 46,054
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund balances:					
Restricted for public works	135,506	-	-	-	135,506
Committed for public works:					
Public works	-	-	-	343,833	343,833
Capital outlay	-	52,697	88,157	-	140,854
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>135,506</u>	<u>52,697</u>	<u>88,157</u>	<u>343,833</u>	<u>620,193</u>
Total deferred inflows of resources and fund balances	<u>\$ 135,506</u>	<u>\$ 52,697</u>	<u>\$ 88,157</u>	<u>\$ 389,887</u>	<u>\$ 666,247</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - nonmajor governmental funds**

Year ended June 30, 2019

	<u>Special revenue</u>	<u>Capital projects</u>			<u>Totals</u>
	<u>Street and Bridge</u>	<u>Capital Projects</u>	<u>Equipment Replacement</u>	<u>Special Assessment</u>	
REVENUES					
Intergovernmental	\$ 122,176	\$ -	\$ -	\$ -	\$ 122,176
Interest	368	-	1,263	7,960	9,591
Other	-	-	-	8,596	8,596
Total revenues	<u>122,544</u>	<u>-</u>	<u>1,263</u>	<u>16,556</u>	<u>140,363</u>
EXPENDITURES					
Current - public works	623	-	-	-	623
Capital outlay	-	17,926	-	3,400	21,326
Total expenditures	<u>623</u>	<u>17,926</u>	<u>-</u>	<u>3,400</u>	<u>21,949</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	<u>121,921</u>	<u>(17,926)</u>	<u>1,263</u>	<u>13,156</u>	<u>118,414</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	54,005	76,280	-	130,285
Transfers out	(60,000)	-	-	-	(60,000)
Net other financing sources (uses)	<u>(60,000)</u>	<u>54,005</u>	<u>76,280</u>	<u>-</u>	<u>70,285</u>
NET CHANGES IN FUND BALANCES					
	61,921	36,079	77,543	13,156	188,699
FUND BALANCES - BEGINNING					
	<u>73,585</u>	<u>16,618</u>	<u>10,614</u>	<u>330,677</u>	<u>431,494</u>
FUND BALANCES - ENDING					
	<u>\$ 135,506</u>	<u>\$ 52,697</u>	<u>\$ 88,157</u>	<u>\$ 343,833</u>	<u>\$ 620,193</u>

BALANCE SHEET - governmental funds

June 30, 2019

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Public Safety</u>	<u>Street and Bridge</u>	<u>Capital Project</u>	<u>Equipment Replacement Capital Project</u>	<u>Special Assessment Capital Project</u>
ASSETS								
Cash	\$ 489,869	\$ 336,374	\$ 159,506	\$ 47,993	\$ 131,409	\$ 52,697	\$ 62,310	\$ 212,680
Investments	256,977	53,047	73,566	50,617	4,097	-	25,667	131,121
Receivables:								
Taxes	190	-	-	-	-	-	-	-
Special assessments	-	-	-	-	-	-	-	46,086
Accounts	14,537	1,136	-	500	-	-	-	-
Interest	705	7	13	-	-	-	180	-
Due from other funds	-	1	1	-	-	-	-	-
Due from other governmental units	69,749	60,301	19,494	96,294	-	-	-	-
Prepays	19,043	1,470	1,075	20,288	-	-	-	-
	<u>19,043</u>	<u>1,470</u>	<u>1,075</u>	<u>20,288</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 851,070</u>	<u>\$ 452,336</u>	<u>\$ 253,655</u>	<u>\$ 215,692</u>	<u>\$ 135,506</u>	<u>\$ 52,697</u>	<u>\$ 88,157</u>	<u>\$ 389,887</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES								
Liabilities:								
Accounts payable	\$ 44,697	\$ 435	\$ 1,957	\$ 21,193	\$ -	\$ -	\$ -	\$ -
Accrued payroll liabilities	13,637	684	1,706	24,918	-	-	-	-
Due to other funds	1,566	3,510	-	1,236	-	-	-	-
Due to other governmental units	21,157	16,563	-	-	-	-	-	-
	<u>21,157</u>	<u>16,563</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>81,057</u>	<u>21,192</u>	<u>3,663</u>	<u>47,347</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources - unavailable special assessments	-	-	-	-	-	-	-	46,054
Fund balances:								
Nonspendable - prepaids	19,043	1,470	1,075	20,288	-	-	-	-
Restricted for public works	8,120	429,674	248,917	-	135,506	-	-	-
Committed for:								
Public works	-	-	-	-	-	-	-	343,833
Capital outlay	-	-	-	-	-	52,697	88,157	-
Assigned for public safety	-	-	-	148,057	-	-	-	-
Unassigned	742,850	-	-	-	-	-	-	-
	<u>742,850</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>770,013</u>	<u>431,144</u>	<u>249,992</u>	<u>168,345</u>	<u>135,506</u>	<u>52,697</u>	<u>88,157</u>	<u>343,833</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 851,070</u>	<u>\$ 452,336</u>	<u>\$ 253,655</u>	<u>\$ 215,692</u>	<u>\$ 135,506</u>	<u>\$ 52,697</u>	<u>\$ 88,157</u>	<u>\$ 389,887</u>

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended June 30, 2019

	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
REVENUES			
Property taxes	\$ 1,253,050	\$ 1,251,685	\$ (1,365)
Licenses and permits	53,025	53,643	618
State grants	596,045	609,103	13,058
Intergovernmental	30,400	28,160	(2,240)
Charges for services	40,475	46,809	6,334
Interest and rentals	5,500	16,517	11,017
Other	2,500	8,382	5,882
Total revenues	<u>1,980,995</u>	<u>2,014,299</u>	<u>33,304</u>
EXPENDITURES			
General government:			
Legislative	27,540	31,458	(3,918)
City manager	105,805	98,051	7,754
Elections	21,715	20,925	790
Assessor	39,215	39,209	6
Clerk	75,160	68,455	6,705
Board of review	1,320	741	579
Treasurer/finance director	195,845	183,263	12,582
Building and grounds	45,775	46,991	(1,216)
Cemetery	42,750	40,376	2,374
Total general government	<u>555,125</u>	<u>529,469</u>	<u>25,656</u>
Public works:			
Department of Public Works	64,430	65,046	(616)
General services	192,965	195,619	(2,654)
Recycling	137,400	138,744	(1,344)
Transfer station	77,030	74,654	2,376
Total public works	<u>471,825</u>	<u>474,063</u>	<u>(2,238)</u>

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended June 30, 2019

	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
EXPENDITURES (Continued)			
Health and welfare - ambulance	\$ 8,800	\$ 8,797	\$ 3
Community and economic development	32,475	27,677	4,798
Recreation and culture - parks and recreation	123,440	124,318	(878)
Total expenditures	1,191,665	1,164,324	27,341
EXCESS OF REVENUES OVER EXPENDITURES	789,330	849,975	60,645
OTHER FINANCING SOURCES (USES)			
Insurance proceeds	-	6,460	6,460
Transfers out	(906,760)	(906,760)	-
Net other financing sources (uses)	(906,760)	(900,300)	6,460
NET CHANGES IN FUND BALANCES	(117,430)	(50,325)	67,105
FUND BALANCES - BEGINNING	820,338	820,338	-
FUND BALANCES - ENDING	\$ 702,908	\$ 770,013	\$ 67,105

BUDGETARY COMPARISON SCHEDULE - Major Street Fund

Year ended June 30, 2019

	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
REVENUES			
State grants	\$ 342,545	\$ 382,894	\$ 40,349
Charges for services	5,000	-	(5,000)
Interest	300	1,735	1,435
Other	-	1,057	1,057
	<u>347,845</u>	<u>385,686</u>	<u>37,841</u>
Total revenues			
EXPENDITURES			
Public works:			
Surface maintenance	49,895	39,148	10,747
Shoulder maintenance	28,425	5,812	22,613
Trees and shrubs	17,425	10,325	7,100
Drainage	18,025	4,144	13,881
Bridge maintenance	8,295	440	7,855
Traffic signs and signals	8,645	6,611	2,034
Winter maintenance	49,100	33,352	15,748
Administration	15,285	15,395	(110)
State trunk line maintenance	23,265	12,595	10,670
	<u>218,360</u>	<u>127,822</u>	<u>90,538</u>
Total public works			
Capital outlay	<u>20,500</u>	<u>20,435</u>	<u>65</u>
Total expenditures	<u>238,860</u>	<u>148,257</u>	<u>90,603</u>
NET CHANGES IN FUND BALANCES	108,985	237,429	128,444
FUND BALANCES - BEGINNING	<u>193,715</u>	<u>193,715</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 302,700</u>	<u>\$ 431,144</u>	<u>\$ 128,444</u>

BUDGETARY COMPARISON SCHEDULE - Local Street Fund

Year ended June 30, 2019

	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
REVENUES			
State grants	\$ 118,165	\$ 133,911	\$ 15,746
Charges for services	5,000	-	(5,000)
Interest	750	3,359	2,609
Other	-	14	14
	<u>123,915</u>	<u>137,284</u>	<u>13,369</u>
Total revenues			
EXPENDITURES			
Public works:			
Surface maintenance	59,760	58,216	1,544
Shoulder maintenance	27,755	14,248	13,507
Trees and shrubs	25,220	21,605	3,615
Drainage	22,100	12,644	9,456
Traffic signs and signals	6,270	2,488	3,782
Winter maintenance	36,540	22,645	13,895
Administration	13,215	12,939	276
	<u>190,860</u>	<u>144,785</u>	<u>46,075</u>
Total public works			
Capital outlay	<u>80,575</u>	<u>80,536</u>	<u>39</u>
Total expenditures	<u>271,435</u>	<u>225,321</u>	<u>46,114</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(147,520)	(88,037)	59,483
OTHER FINANCING SOURCES			
Transfers in	<u>60,000</u>	<u>60,000</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	(87,520)	(28,037)	59,483
FUND BALANCES - BEGINNING	<u>278,029</u>	<u>278,029</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 190,509</u>	<u>\$ 249,992</u>	<u>\$ 59,483</u>

BUDGETARY COMPARISON SCHEDULE - Public Safety Fund

Year ended June 30, 2019

	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
REVENUES			
Property taxes	\$ 189,540	\$ 189,665	\$ 125
Licenses and permits	34,550	19,853	(14,697)
State grants	800	1,205	405
Intergovernmental	96,000	115,087	19,087
Charges for services	5,250	2,296	(2,954)
Fines and forfeitures	16,800	17,266	466
Interest and rentals	-	1,947	1,947
Other	5,000	10,201	5,201
Total revenues	<u>347,940</u>	<u>357,520</u>	<u>9,580</u>
EXPENDITURES			
Public safety:			
Police	882,930	839,173	43,757
Fire	283,190	252,101	31,089
Building inspections	34,315	20,012	14,303
Total public safety	<u>1,200,435</u>	<u>1,111,286</u>	<u>89,149</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(852,495)</u>	<u>(753,766)</u>	<u>98,729</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	854,815	854,815	-
Transfers out	(8,670)	(8,670)	-
Net other financing sources (uses)	<u>846,145</u>	<u>846,145</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	(6,350)	92,379	98,729
FUND BALANCES - BEGINNING	<u>75,966</u>	<u>75,966</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 69,616</u>	<u>\$ 168,345</u>	<u>\$ 98,729</u>

BUDGETARY COMPARISON SCHEDULE - Street and Bridge Fund

Year ended June 30, 2019

	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
REVENUES			
Intergovernmental	\$ 85,000	\$ 122,176	\$ 37,176
Interest	750	368	(382)
Total revenues	85,750	122,544	36,794
EXPENDITURES			
Public works	600	623	(23)
EXCESS OF REVENUES OVER EXPENDITURES	85,150	121,921	36,771
OTHER FINANCING USES			
Transfers out	(60,000)	(60,000)	-
NET CHANGES IN FUND BALANCES	25,150	61,921	36,771
FUND BALANCES - BEGINNING	73,585	73,585	-
FUND BALANCES - ENDING	<u>\$ 98,735</u>	<u>\$ 135,506</u>	<u>\$ 36,771</u>

BUDGETARY COMPARISON SCHEDULE - Capital Projects Fund

Year ended June 30, 2019

	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
EXPENDITURES			
Capital outlay	\$ 24,880	\$ 17,926	\$ 6,954
OTHER FINANCING SOURCES			
Transfers in	<u>54,005</u>	<u>54,005</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	29,125	36,079	6,954
FUND BALANCES - BEGINNING	<u>16,618</u>	<u>16,618</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 45,743</u>	<u>\$ 52,697</u>	<u>\$ 6,954</u>

BUDGETARY COMPARISON SCHEDULE - Equipment Replacement Fund

Year ended June 30, 2019

	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES			
Interest	\$ -	\$ 1,263	\$ 1,263
OTHER FINANCING SOURCES			
Transfers in	<u>76,280</u>	<u>76,280</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	76,280	77,543	1,263
FUND BALANCES - BEGINNING	<u>10,614</u>	<u>10,614</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 86,894</u>	<u>\$ 88,157</u>	<u>\$ 1,263</u>

BUDGETARY COMPARISON SCHEDULE - Special Assessment Capital Project Fund

Year ended June 30, 2019

	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
REVENUES			
Interest	\$ 1,655	\$ 7,960	\$ 6,305
Other - special assessment revenue	<u>7,015</u>	<u>8,596</u>	<u>1,581</u>
Total revenues	8,670	16,556	7,886
EXPENDITURES			
Capital outlay	<u>-</u>	<u>3,400</u>	<u>(3,400)</u>
NET CHANGES IN FUND BALANCES	8,670	13,156	4,486
FUND BALANCES - BEGINNING	<u>330,677</u>	<u>330,677</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 339,347</u>	<u>\$ 343,833</u>	<u>\$ 4,486</u>

BUDGETARY COMPARISON SCHEDULE - Sewer Fund

Year ended June 30, 2019

	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
OPERATING REVENUES			
Charges for services	\$ 912,015	\$ 960,203	\$ 48,188
Delinquent penalties	15,000	17,830	2,830
Other	-	1,418	1,418
	<u>927,015</u>	<u>979,451</u>	<u>52,436</u>
OPERATING EXPENSES			
Mains	129,665	90,172	39,493
Wastewater treatment plant	475,440	445,879	29,561
Administration	64,990	64,018	972
Depreciation	256,000	234,048	21,952
	<u>926,095</u>	<u>834,117</u>	<u>91,978</u>
	<u>920</u>	<u>145,334</u>	<u>144,414</u>
OPERATING INCOME			
NONOPERATING REVENUES			
Gain on sale of capital assets	-	5,302	5,302
Interest income	1,000	2,084	1,084
Interest expense	(22,430)	(22,426)	4
	<u>(21,430)</u>	<u>(15,040)</u>	<u>6,390</u>
	<u>(20,510)</u>	130,294	150,804
CHANGES IN NET POSITION			
	<u>4,444,627</u>	<u>4,444,627</u>	<u>-</u>
NET POSITION - BEGINNING			
	<u>\$ 4,424,117</u>	<u>\$ 4,574,921</u>	<u>\$ 150,804</u>
NET POSITION - ENDING			

BUDGETARY COMPARISON SCHEDULE - Water Fund

Year ended June 30, 2019

	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
OPERATING REVENUES			
Charges for services	\$ 609,805	\$ 624,362	\$ 14,557
Hydrant rentals	7,280	7,280	-
Delinquent penalties	6,000	6,824	824
Other	-	2,401	2,401
	<u>623,085</u>	<u>640,867</u>	<u>17,782</u>
OPERATING EXPENSES			
Mains	447,945	193,062	254,883
Water pumping	147,720	125,174	22,546
Administration	66,010	59,639	6,371
Depreciation	79,570	67,137	12,433
	<u>741,245</u>	<u>445,012</u>	<u>296,233</u>
	<u>(118,160)</u>	<u>195,855</u>	<u>314,015</u>
OPERATING INCOME (LOSS)			
NONOPERATING REVENUE (EXPENSE)			
Gain (loss) on disposal of capital assets	-	(6,722)	(6,722)
Interest income	2,500	9,464	6,964
	<u>2,500</u>	<u>2,742</u>	<u>242</u>
Net nonoperating revenues (expenses)	<u>2,500</u>	<u>2,742</u>	<u>242</u>
CHANGES IN NET POSITION	(115,660)	198,597	314,257
NET POSITION - BEGINNING	2,329,523	2,329,523	-
NET POSITION - ENDING	\$ 2,213,863	\$ 2,528,120	\$ 314,257

BUDGETARY COMPARISON SCHEDULE - Capital Project Fund

Year ended June 30, 2019

	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
OPERATING REVENUES			
Sale of developed lots	\$ 80,000	\$ 30,576	\$ (49,424)
OPERATING EXPENSES			
Cost of developed lots	<u>72,320</u>	<u>46,568</u>	<u>25,752</u>
OPERATING LOSS	7,680	(15,992)	(23,672)
NONOPERATING REVENUE			
Interest income	<u>100</u>	<u>5,687</u>	<u>5,587</u>
INCOME (LOSS) BEFORE TRANSFERS	7,780	(10,305)	(18,085)
TRANSFERS OUT	<u>(69,670)</u>	<u>(69,670)</u>	<u>-</u>
CHANGES IN NET POSITION	(61,890)	(79,975)	(18,085)
NET POSITION - BEGINNING	<u>329,703</u>	<u>329,703</u>	<u>-</u>
NET POSITION - ENDING	<u>\$ 267,813</u>	<u>\$ 249,728</u>	<u>\$ (18,085)</u>

BUDGETARY COMPARISON SCHEDULE - Motor Pool Fund

Year ended June 30, 2019

	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
OPERATING REVENUES			
Equipment rental	\$ 205,000	\$ 204,823	\$ (177)
Fuel and other charges	20,000	19,273	(727)
Total operating revenues	<u>225,000</u>	<u>224,096</u>	<u>(904)</u>
OPERATING EXPENSES			
Equipment pool operations	310,025	153,631	156,394
Depreciation	70,000	65,914	4,086
Total operating expenses	<u>380,025</u>	<u>219,545</u>	<u>160,480</u>
OPERATING INCOME (LOSS)	<u>(155,025)</u>	<u>4,551</u>	<u>159,576</u>
NONOPERATING REVENUE			
Gain on sale of capital assets	-	10,980	10,980
Interest income	1,100	5,140	4,040
Total nonoperating revenues	<u>1,100</u>	<u>16,120</u>	<u>15,020</u>
CHANGES IN NET POSITION	(153,925)	20,671	174,596
NET POSITION - BEGINNING	<u>775,556</u>	<u>775,556</u>	<u>-</u>
NET POSITION - ENDING	<u>\$ 621,631</u>	<u>\$ 796,227</u>	<u>\$ 174,596</u>

BALANCE SHEET - Downtown Development Authority

June 30, 2019

ASSETS

Cash	\$ 41,851
Investments	43,953
Receivables	478
Prepays	<u>3,346</u>
Total assets	<u>\$ 89,628</u>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$ 4,988
Accrued payroll liabilities	<u>1,393</u>
Total liabilities	<u>6,381</u>

Fund balance:

Nonspendable - prepaids	3,346
Unassigned	<u>79,901</u>
Total fund balance	<u>83,247</u>

Total liabilities and fund balance	<u>\$ 89,628</u>
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Total fund balance	\$ 83,247
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Amounts reported for the *component unit* in the statement of net position (page 14) are different because:

Capital assets are not financial resources and, therefore, are not reported in the fund.	2,237,446
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Compensated absences are not due and payable in the current period and, therefore, are not reported in the fund.	<u>(1,462)</u>
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Net position of the <i>component unit</i>	<u>\$ 2,319,231</u>
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BUDGETARY COMPARISON SCHEDULE - Downtown Development Authority

Year ended June 30, 2019

	<u>Final budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
Tax increment financing	\$ 123,150	\$ 123,321	\$ 171
State grant - local community stabilization	80,000	122,814	42,814
Interest and rentals	500	1,037	537
Other	<u>80,500</u>	<u>68,755</u>	<u>(11,745)</u>
Total revenues	<u>284,150</u>	<u>315,927</u>	<u>31,777</u>
EXPENDITURES			
Economic development	319,670	269,047	50,623
Capital outlay	<u>60,000</u>	<u>59,795</u>	<u>205</u>
Total expenditures	<u>379,670</u>	<u>328,842</u>	<u>50,828</u>
NET CHANGES IN FUND BALANCES	(95,520)	(12,915)	82,605
FUND BALANCES - BEGINNING	<u>96,162</u>	<u>96,162</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 642</u>	<u>\$ 83,247</u>	<u>\$ 82,605</u>
Net change in fund balance			\$ (12,915)
Amounts reported for <i>component unit</i> in the statement of activities (page 15) are different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense:			
Asset acquisitions			59,795
Depreciation expense			(82,836)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the fund:			
Increase in accrued compensated absences			<u>(586)</u>
Change in net position of <i>component unit</i>			<u>\$ (36,542)</u>