

City of Escanaba,  
Michigan



Year Ended  
June 30, 2018

Financial  
Statements



# CITY OF ESCANABA, MICHIGAN

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# CITY OF ESCANABA, MICHIGAN

## List of Elected and Appointed Officials

### Elected Officials

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Mayor	Marc Tall
Mayor Pro Tem	Ronald Beauchamp
Council Member	Peggy O'Connell-Schumann
Council Member	Ralph Blasier
Council Member	Michael Sattem

### Appointed Officials

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City Manager	Patrick Jordan
Clerk	Tammy Weissert
Treasurer	Robert Valentine
Controller	Melissa Becotte
Planning Director/Zoning Administrator	Blaine DeGrave
Director of Public Safety	Robert LaMarche
Director of DPW	Robert Becotte
Electric Superintendent	Mike Furmanski
Assessor	Vacant
WWTP/WTP Superintendent	Jeff Lampi
Harbormaster	Larry Gravatt
Recreation Director	Kim Peterson
Library Director	Carolyn Stacey
Attorney	Ralph Peterson

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**INDEPENDENT AUDITORS' REPORT**

December 31, 2018

City Council  
City of Escanaba, Michigan**Report on the Financial Statements**

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 Escanaba, Michigan (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

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

*Independent Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Escanaba Housing Commission (the "Commission") discretely presented component unit, which is a major component unit, and therefore its own opinion unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinions*

In our opinion, based on our audit and the report of other auditors, 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, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### *Required Supplementary Information*

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

### *Other Information*

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



The combining fund financial statements 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 combining fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2018, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Rehmann Johnson LLC*

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

# CITY OF ESCANABA, MICHIGAN

## Management's Discussion and Analysis

These financial statements are the responsibility of the City of Escanaba, Michigan's (the "City") management. We offer readers this narrative overview and analysis for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

· Total net position	\$ 59,880,601
· Change in total net position	4,146,821
· Fund balances, governmental funds	14,093,838
· Change in fund balances, governmental funds	1,436,096
· Unassigned fund balance, general fund	3,823,649
· Change in fund balance, general fund	413,535
· Bonded debt outstanding	4,930,000
· Change in bonded debt	(495,000)

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The *statement of net position* presents information on all of the City's assets, liabilities, and deferred outflows/inflows, with the residual reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, highways, streets and public works, sanitation, community services, recreation and culture, community and economic development and other functions. The business-type activities of the City include electric, utility, waste water utility, water utility and the marina operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate component unit - the Escanaba Housing Commission - for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

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

## CITY OF ESCANABA, MICHIGAN

### Management's Discussion and Analysis

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long term impact of the government's near term financing decisions. Following both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances are reconciliations to facilitate this comparison between *governmental funds* and *governmental activities*.

Information for the general fund, the City's only major governmental fund, and the aggregate nonmajor governmental funds are presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund and special revenue funds. Budgetary comparisons statements have been provided herein to demonstrate its compliance with those budgets.

**Proprietary funds.** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, waste water disposal, water distribution and marina operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its public building financing, motor vehicle and equipment usage, office equipment, self-insured general liability and property coverage, self-insured worker's compensation and self-insured unemployment compensation. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, sewage disposal, water distribution and marina operations, each of which are considered to be major funds of the City.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information includes this management's discussion and analysis, MERS Agent Multiple-Employer Defined Benefit Pension Plan, and the Public Safety Officer Retirement System.

# CITY OF ESCANABA, MICHIGAN

## Management's Discussion and Analysis

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows by approximately \$59,881,000 as of June 30, 2018.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Assets</b>						
Current and other assets	\$ 16,667,298	\$ 15,298,946	\$ 18,794,520	\$ 20,778,346	\$ 35,461,818	\$ 36,077,292
Capital assets, net	24,375,862	24,399,318	28,913,569	26,594,455	53,289,431	50,993,773
	<u>41,043,160</u>	<u>39,698,264</u>	<u>47,708,089</u>	<u>47,372,801</u>	<u>88,751,249</u>	<u>87,071,065</u>
Deferred outflows of resources	531,904	1,843,446	292,722	406,779	824,626	2,250,225
<b>Liabilities</b>						
Long-term liabilities	760,430	732,942	5,138,469	5,614,219	5,898,899	6,347,161
Other liabilities	14,979,696	18,578,454	8,111,064	6,104,901	23,090,760	24,683,355
	<u>15,740,126</u>	<u>19,311,396</u>	<u>13,249,533</u>	<u>11,719,120</u>	<u>28,989,659</u>	<u>31,030,516</u>
Deferred inflows of resources	557,643	2,557,737	147,972	(743)	705,615	2,556,994
<b>Net position</b>						
Net investment in capital assets	24,375,862	24,399,318	23,983,569	21,169,455	48,359,431	45,568,773
Restricted	5,905,075	6,359,327	1,359,443	1,408,767	7,264,518	7,768,094
Unrestricted (deficit)	(5,003,642)	(11,086,068)	9,260,294	13,482,981	4,256,652	2,396,913
<b>Total net position</b>	<u>\$ 25,277,295</u>	<u>\$ 19,672,577</u>	<u>\$ 34,603,306</u>	<u>\$ 36,061,203</u>	<u>\$ 59,880,601</u>	<u>\$ 55,733,780</u>

The largest portion of the City's net position (80 percent) reflects its investment in capital assets (e.g., land, construction in progress, infrastructure, buildings, equipment, and vehicles); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

An additional portion of the City's net position (12 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (8 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

# CITY OF ESCANABA, MICHIGAN

## Management's Discussion and Analysis

The following condensed financial information was derived from the government-wide statement of activities and reflects how the City's net position changed during the fiscal year:

	Change in Net position					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Program revenues						
Charges for services	\$ 1,423,532	\$ 1,580,183	\$ 17,556,157	\$ 17,284,186	\$ 18,979,689	\$ 18,864,369
Operating grants, restricted	893,429	1,920,181	58,703	60,988	952,132	1,981,169
Capital grants	343,801	350,437	-	-	343,801	350,437
General revenues						
Property taxes	6,567,329	5,609,332	-	-	6,567,329	5,609,332
State shared revenue	1,388,427	1,351,986	-	-	1,388,427	1,351,986
Unrestricted grants and contributions	1,252,876	1,486,485	-	-	1,252,876	1,486,485
Unrestricted investment earnings (loss)	147,015	(26,250)	82,857	(75,937)	229,872	(102,187)
<b>Total revenues</b>	<b>12,016,409</b>	<b>12,272,354</b>	<b>17,697,717</b>	<b>17,269,237</b>	<b>29,714,126</b>	<b>29,541,591</b>
Expenses:						
General government	334,729	1,196,311	-	-	334,729	1,196,311
Public safety	2,777,174	4,861,310	-	-	2,777,174	4,861,310
Highways, streets and public works	1,605,217	2,486,686	-	-	1,605,217	2,486,686
Sanitation	723,113	693,815	-	-	723,113	693,815
Community services	27,807	21,126	-	-	27,807	21,126
Recreation and culture	1,326,596	1,719,483	-	-	1,326,596	1,719,483
Community and economic development	383,383	1,036,529	-	-	383,383	1,036,529
Other functions	4,921	4,826	-	-	4,921	4,826
Interest	26,112	29,648	-	-	26,112	29,648
Electric utility	-	-	13,954,399	12,489,233	13,954,399	12,489,233
Waste water utility	-	-	1,958,331	1,464,489	1,958,331	1,464,489
Water utility	-	-	2,193,877	2,231,561	2,193,877	2,231,561
Marina	-	-	251,646	237,971	251,646	237,971
<b>Total expenses</b>	<b>7,209,052</b>	<b>12,049,734</b>	<b>18,358,253</b>	<b>16,423,254</b>	<b>25,567,305</b>	<b>28,472,988</b>

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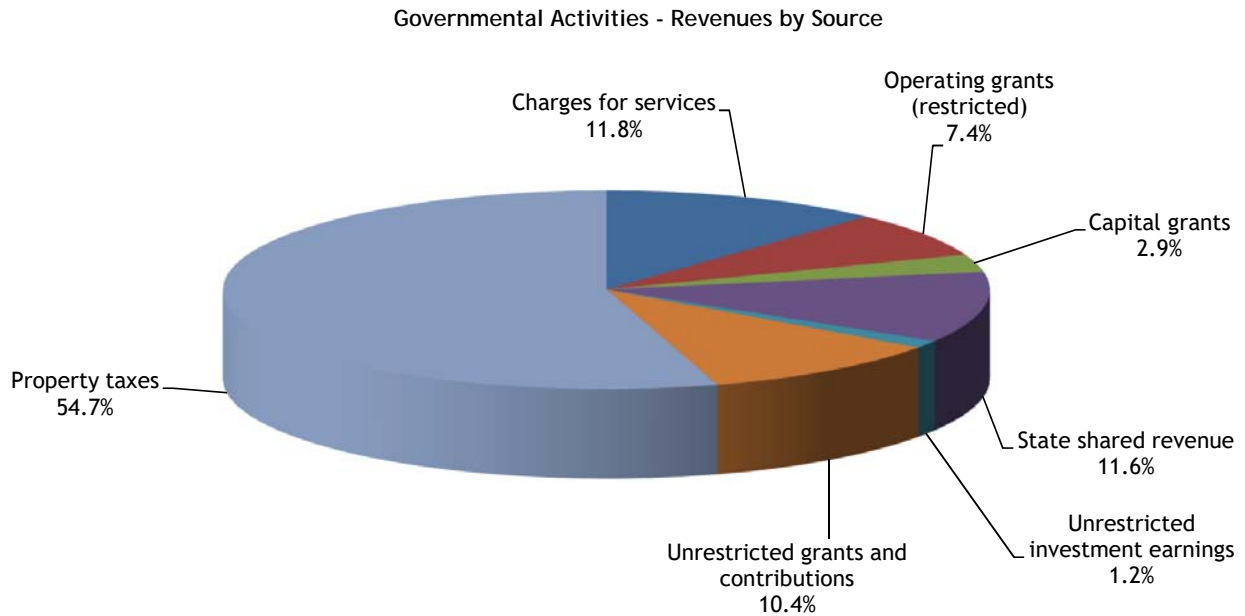
CITY OF ESCANABA, MICHIGAN

Management's Discussion and Analysis

	Change in Net Position (concluded)					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Change in net position, before transfers	\$ 4,807,357	\$ 222,620	\$ (660,536)	\$ 845,983	\$ 4,146,821	\$ 1,068,603
Transfers	797,361	902,819	(797,361)	(902,819)	-	-
Change in net position	<u>5,604,718</u>	<u>1,125,439</u>	<u>(1,457,897)</u>	<u>(56,836)</u>	<u>4,146,821</u>	<u>1,068,603</u>
Net position:						
Beginning of year	19,672,577	18,547,138	36,061,203	36,118,039	55,733,780	54,665,177
End of year	<u>\$ 25,277,295</u>	<u>\$ 19,672,577</u>	<u>\$ 34,603,306</u>	<u>\$ 36,061,203</u>	<u>\$ 59,880,601</u>	<u>\$ 55,733,780</u>

Concluded

Governmental Activities. The following chart presents revenues of governmental activities for the fiscal year:



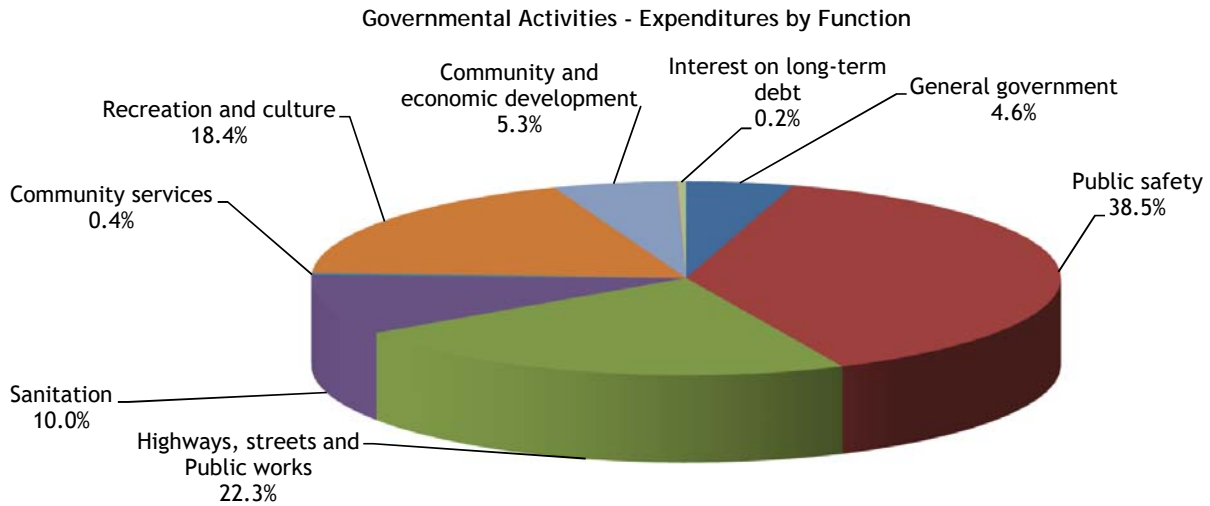
- Total governmental activities revenue decreased by approximately \$256,000 or 2% compared to prior year. The City is seeing a significant increase in Act 51 funding due to the changes in the gas tax. Unrestricted investment earnings increased by approximately \$173,000 attributable to upturns in the market in 2018. These items were offset by a large decrease in grant funding due to the completion of a large scale facade improvement project as well as the completion of construction on the new downtown Marketplace. Both of these projects were started in the 2017 fiscal year and most of the grant reimbursement occurred in that year. The SAW grant will be wrapping up in fiscal 2019, so the grant funding can be expected to decline again next year.



# CITY OF ESCANABA, MICHIGAN

## Management's Discussion and Analysis

The following chart presents expenses of the governmental activities for the fiscal year:



- Total expenses for governmental activities decreased by approximately \$4,841,000. The bulk of this reduction is due to the change in net pension liability. There also were fewer expenditures due to the completion of a couple projects during the fiscal year.

**Business-type Activities.** Net position of the business-type activities decreased by approximately \$1,458,000 in fiscal 2018. The primary reason for this is the change in net pension liability and related deferred outflows and inflows of resources resulting from a current year allocation adjustment to MERS pension amounts, which resulted in the following current year increases in payroll expenses negatively affecting net position in the individual enterprise funds is as follows:

Enterprise Fund	Payroll expense Increase
Electric	\$ 1,059,755
Waste water	219,332
Water	404,400
Marina	11,731
<b>Total</b>	<b><u>\$ 1,695,218</u></b>

### Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Governmental funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

# CITY OF ESCANABA, MICHIGAN

## Management's Discussion and Analysis

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$14,094,000, an increase of approximately \$1,436,000 from prior year. During the year, a special assessment payment was made in the amount of \$875,000. The City is also seeing the benefit of the gas tax. We collected nearly \$370,000 more Act 51 revenue than in the prior year. However along with these increased revenue sources the City saw decreases in certain grant activity resulting in the overall increase in revenues and other financing sources of approximately \$47,000. Although the overall revenue and other financing sources available did not experience a significant change from the prior year governmental fund amounts, expenditures for public safety, Highway, streets & public works and community and economic development experienced a decrease in expenditures of 13%, 24% and 69%, respectively. The overall reduction in expenditures of governmental funds compared to the prior year was approximately \$2.5 million.

### General Fund Budgetary Highlights

Generally, as additional information became known during the fiscal year, budget amendments were made as deemed necessary. A statement showing the City's original and final budget amounts, compared with actual amounts is provided in the basic financial statements.

In comparison of the final budget to actual results, total expenditures were under budget by approximately \$307,000. The City does budget amendments in May of each year. When these are done, we do not decrease budgets where expenditures are known to be lower than the budgeted amount. We only increase budgets where necessary. This should always result in expenditures being less than budget.

The following were the differences between the actual and original budget:

- Revenues from taxes were \$5,322,000 rather than the \$5,035,100 original budgeted amount, an increase of \$286,000, which was primarily attributable to the State of Michigan distributing extra funding to municipalities for the small taxpayer personal property tax reimbursements.
- Intergovernmental revenues were \$1,527,000 rather than the \$1,399,500 budgeted amount, an increase of \$127,500. The increase was attributable to Risk Avoidance Program grant funding, public safety grant funding, revenue sharing increase and Hannahville grant funding.
- General Government had increases in the original budget amount mainly due to the costs of the Menards lawsuit and the change to full-time status of an employee who was previously part time.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements business-type activities, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to approximately \$9,260,000 and the net investment in capital assets was approximately \$23,984,000. In addition enterprise funds reported restricted net position of approximately \$1,359,000 related to Electric Utility Fund surcharge revenues collected that are required to be used for energy optimization and renewable energy purposes. The changes in enterprise fund net positions were as follows:

- Electric utility activities decreased the City's net position by approximately \$1,300,000. The main factor in this is the change in net pension liability of nearly \$1,060,000. The bulk of the remaining decrease in net position is attributed to an increase in depreciation expense of approximately \$190,000 in 2018.
- Waste water utility activities decreased the City's net position by approximately \$430,000. This was due to an increase in contracted services of nearly \$78,000, reduced sales of approximately \$110,000 and increases in net pension liability and overhead costs of \$219,000 and \$44,000, respectively.
- Water utility activities increased the City's net position by approximately \$300,000. This increase can be attributed to a raise in water rates. The purpose of the increase is to try and build up the net position of this fund.
- Marina activities had a minimal negative impact to the City's net position of approximately \$26,000.

# CITY OF ESCANABA, MICHIGAN

## Management's Discussion and Analysis

### 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, 2018 amounted to approximately \$48,359,000 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, transmission and water and waste water distribution systems, machinery and equipment, vehicles, and infrastructure including park facilities, roads, highways, and bridges.

Major capital asset events during the current fiscal year included the following:

- Water main casing project
- Street construction projects
- Completion of the Marketplace project
- Continued development of a sewer line mapping system
- Ongoing utility meter replacement
- Electric pole replacement and distribution system upgrades
- Installation of a Solar Farm
- Relined sewer pipes
- Purchase of a new automated garbage truck

	Capital Assets (Net of Depreciation, Where Applicable)					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 1,332,769	\$ 1,332,769	\$ 56,953	\$ 56,953	\$ 1,389,722	\$ 1,389,722
Construction in progress	140,332	2,587,458	1,307,847	2,512,965	1,448,179	5,100,423
Land improvements	3,271,636	3,437,503	696,191	732,558	3,967,827	4,170,061
Infrastructure	12,167,193	9,816,911	-	-	12,167,193	9,816,911
Buildings and improvements	5,575,028	4,719,074	11,548,863	11,876,620	17,123,891	16,595,694
Water and waste water transmission and distribution system	-	-	15,037,607	11,075,858	15,037,607	11,075,858
Machinery, vehicles and equipment	1,710,192	2,312,198	266,108	339,501	1,976,300	2,651,699
Parking lot	178,712	193,405	-	-	178,712	193,405
<b>Total capital assets, net</b>	<b>\$ 24,375,862</b>	<b>\$ 24,399,318</b>	<b>\$ 28,913,569</b>	<b>\$ 26,594,455</b>	<b>\$ 53,289,431</b>	<b>\$ 50,993,773</b>

Additional information on the City's capital assets can be found in the notes to the financial statements.

# CITY OF ESCANABA, MICHIGAN

## Management's Discussion and Analysis

Long-term debt. At the end of the current fiscal year, the City had bonds related to various construction projects at the Water plant with a balance of \$4,870,000 and a bond for a project at the Wastewater plant with a balance of \$60,000. The City has pledged its full faith and credit towards the above obligations.

	General Obligations and Other Long Term Debt					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Waste water utility fund revenue bonds	\$ -	\$ -	\$ 60,000	\$ 120,000	\$ 60,000	\$ 120,000
Water utility fund revenue bonds	-	-	2,605,000	2,900,000	2,605,000	2,900,000
Water utility fund capital improvement bonds	-	-	2,265,000	2,405,000	2,265,000	2,405,000
Compensated absences	760,430	732,942	208,469	189,219	968,899	922,161
<b>Total</b>	<b>\$ 760,430</b>	<b>\$ 732,942</b>	<b>\$ 5,138,469</b>	<b>\$ 5,614,219</b>	<b>\$ 5,898,899</b>	<b>\$ 6,347,161</b>

Additional information on the City's long-term debt can be found in the notes to the financial statement.

### Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the fiscal 2019:

- The unemployment rate for Michigan is currently 3.9% and the national average rate is 3.7%.
- The local, state and national economies continue to slowly improve. The City's taxable values continue to rise slowly but still have not reached the values prior to the recession of 2008. The City continues to have a small number of new construction projects.
- The tax collection rate for the year was 95.0% of billed taxes. The County tax revolving fund reimburses the City for delinquent real property taxes in April each year following the March settlement.
- For the 2018 tax year, the operating millage of 14.03 mills remained the same as the 2017 tax year to enable the same level of service to taxpayers provided by the general fund. The City bond millage remained at .13 mills. The Library millage remained at .84 mills. The Public Safety Pension millage remained at 2.0 mills. Overall, the 2018 tax rates remained the same as 2017.
- The City anticipates sewer rates to increase by 10% to cover additional operational costs as well as maintenance costs. Major upgrades to the Wastewater plant will be needed soon. We hope to be able to pay for some or all of the those upgrades without the use of loans or bonds.
- The City anticipates water rates to increase by 10% to cover additional operational costs. The City needs to prepare for upcoming system upgrades. We plan to continue to increase the fund balance in an effort to reduce the need for future bonding.
- Because electric rates did not increase during the 2018 fiscal year, in fiscal 2019, the City anticipates meter charges to increase by 23.4% to cover additional operational costs and costs associated with purchasing power. This increase equates to \$2.56-\$3.22 per month for a residential customer.
- Wage rates increased 2.0% for all Teamster employees per their labor contracts with the City. The City's non-union employees also received a 2.0% rate increase effective July 1, 2018. Electric employees received a 6% wage increase effective July 1, 2018.

## CITY OF ESCANABA, MICHIGAN

### Management's Discussion and Analysis

- The City offers its full-time employees hired prior to 7/1/2005 a defined benefit retirement pension through the Municipal Employees' Retirement System of Michigan (MERS). Based on the latest annual actuarial valuation report from MERS dated December 31, 2017, the City's plan is 58.3% funded which is up from 54.9% in the previous year. Employees all full-time and part-time employees hired 7/1/2005 or later are provided with a MERS defined contribution plan. The City contributes a mandatory 4% of wages and will match the employee up to an additional 3%.
- Public Safety officers hired prior to 7/1/14 participate in the Act 345 pension. Based on the latest annual actuarial valuation report date June 30, 2017, the plan is 86.4% funded, up from the 83.5% reported the previous year. Public Safety officers hired 7/1/14 or later are provided with a defined contribution plan through ICMA. The City contributes a mandatory 10% of wages and the employee contributes a mandatory 6% of wages with the option to contribute as much as they like.

#### Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Controller, 410 Ludington Street, P.O. Box 948, Escanaba, MI 49829 or by calling (906) 786-0605.

## BASIC FINANCIAL STATEMENTS

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

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CITY OF ESCANABA, MICHIGAN

Statement of Net Position

June 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents and investments	\$ 14,635,794	\$ 15,195,180	\$ 29,830,974	\$ 675,085
Receivables, net	1,670,052	2,463,879	4,133,931	4,394
Internal balances	(652,258)	652,258	-	-
Inventory	139,634	473,220	612,854	-
Other assets	874,076	9,983	884,059	36,326
Capital assets not being depreciated	1,473,101	1,364,800	2,837,901	380,172
Capital assets being depreciated, net	22,902,761	27,548,769	50,451,530	1,400,084
<b>Total assets</b>	<b>41,043,160</b>	<b>47,708,089</b>	<b>88,751,249</b>	<b>2,496,061</b>
<b>Deferred outflows of resources</b>				
Deferred pension amounts	531,904	292,722	824,626	-
<b>Liabilities</b>				
Accounts payable and accrued liabilities	939,050	2,084,771	3,023,821	122,061
Unearned revenue	235,494	4,762	240,256	-
Long-term liabilities:				
Compensated absences, due within one year	158,696	37,313	196,009	9,420
Compensated absences, due in more than one year	601,734	171,156	772,890	945
Due within one year	-	505,000	505,000	-
Due in more than one year	-	4,425,000	4,425,000	-
Net pension liability, due in more than one year	13,805,152	6,021,531	19,826,683	-
<b>Total liabilities</b>	<b>15,740,126</b>	<b>13,249,533</b>	<b>28,989,659</b>	<b>132,426</b>
<b>Deferred inflows of resources</b>				
Deferred pension amounts	557,643	147,972	705,615	-
<b>Net position</b>				
Net investment in capital assets	24,375,862	23,983,569	48,359,431	1,780,256
Restricted	5,905,075	1,359,443	7,264,518	-
Unrestricted (deficit)	(5,003,642)	9,260,294	4,256,652	583,379
<b>Total net position</b>	<b>\$ 25,277,295</b>	<b>\$ 34,603,306</b>	<b>\$ 59,880,601</b>	<b>\$ 2,363,635</b>

The accompanying notes are an integral part of these financial statements.

CITY OF ESCANABA, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2018

Functions / Programs	Expenses	Program Revenues			Net Revenue (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 334,729	\$ 216,042	\$ 169,915	\$ -	\$ 51,228
Public safety	2,777,174	799,781	-	-	(1,977,393)
Highways, streets and public works	1,605,217	42,999	548,728	28,238	(985,252)
Sanitation	723,113	222,287	-	-	(500,826)
Community services	27,807	-	-	-	(27,807)
Recreation and culture	1,326,596	134,423	34,545	-	(1,157,628)
Community and economic development	383,383	8,000	140,241	315,563	80,421
Other functions	4,921	-	-	-	(4,921)
Interest on long-term debt	26,112	-	-	-	(26,112)
<b>Total governmental activities</b>	<b>7,209,052</b>	<b>1,423,532</b>	<b>893,429</b>	<b>343,801</b>	<b>(4,548,290)</b>
Business-type activities:					
Electric utility	13,954,399	13,350,826	-	-	(603,573)
Waste water utility	1,958,331	1,549,110	-	-	(409,221)
Water utility	2,193,877	2,432,037	58,703	-	296,863
Marina	251,646	224,184	-	-	(27,462)
<b>Total business-type activities</b>	<b>18,358,253</b>	<b>17,556,157</b>	<b>58,703</b>	<b>-</b>	<b>(743,393)</b>
<b>Total primary government</b>	<b>\$ 25,567,305</b>	<b>\$ 18,979,689</b>	<b>\$ 952,132</b>	<b>\$ 343,801</b>	<b>\$ (5,291,683)</b>
Component unit					
Escanaba Housing Commission	\$ 1,147,203	\$ 849,073	\$ -	\$ 31,741	\$ (266,389)

Continued...

CITY OF ESCANABA, MICHIGAN

**Statement of Activities**

For the Year Ended June 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Change in net position				
Net expense	\$ (4,548,290)	\$ (743,393)	\$ (5,291,683)	\$ (266,389)
General revenues:				
Property taxes	6,567,329	-	6,567,329	-
State shared revenues	1,388,427	-	1,388,427	-
Unrestricted grants and contributions	1,252,876	-	1,252,876	-
Unrestricted investment earnings	147,015	82,857	229,872	-
Transfers - internal activities	797,361	(797,361)	-	-
Total general revenues and transfers	10,153,008	(714,504)	9,438,504	-
Change in net position	5,604,718	(1,457,897)	4,146,821	(266,389)
Net position, beginning of year	19,672,577	36,061,203	55,733,780	2,630,024
Net position, end of year	\$ 25,277,295	\$ 34,603,306	\$ 59,880,601	\$ 2,363,635

Concluded

The accompanying notes are an integral part of these financial statements.

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## FUND FINANCIAL STATEMENTS

CITY OF ESCANABA, MICHIGAN

**Balance Sheet**  
 Governmental Funds  
 June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents and investments	\$ 4,691,638	\$ 8,189,758	\$ 12,881,396
Accounts receivable, net	49,402	34,822	84,224
Loans receivable	-	637,068	637,068
Accrued interest receivable	9,741	19,142	28,883
Other receivables	98,387	-	98,387
Other assets	155,663	1,177	156,840
Due from other funds	67,086	750	67,836
Due from other governments	293,762	470,760	764,522
Inventory	139,634	-	139,634
Advances to other funds	160,076	645,170	805,246
<b>Total assets</b>	<b>\$ 5,665,389</b>	<b>\$ 9,998,647</b>	<b>\$ 15,664,036</b>
<b>Liabilities</b>			
Accounts payable	\$ 174,829	\$ 269,247	\$ 444,076
Accrued liabilities	287,457	-	287,457
Due to other governments	1,580	-	1,580
Due to other funds	-	67,161	67,161
Unearned revenue	187,389	46,155	233,544
Advance from other funds	123,112	413,268	536,380
<b>Total liabilities</b>	<b>774,367</b>	<b>795,831</b>	<b>1,570,198</b>
<b>Fund balances</b>			
Nonspendable	455,373	2,378,049	2,833,422
Restricted	-	4,810,441	4,810,441
Committed	-	2,260,366	2,260,366
Assigned for funding pension liability	612,000	-	612,000
Unassigned (deficit)	3,823,649	(246,040)	3,577,609
<b>Total fund balances</b>	<b>4,891,022</b>	<b>9,202,816</b>	<b>14,093,838</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,665,389</b>	<b>\$ 9,998,647</b>	<b>\$ 15,664,036</b>

The accompanying notes are an integral part of these basic financial statements.

# CITY OF ESCANABA, MICHIGAN

## Reconciliation

Fund Balances for Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2018

Fund balances - total governmental funds	\$ 14,093,838
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds.	
Capital assets not being depreciated	1,473,101
Capital assets being depreciated, net	22,902,761
Capital assets accounted for in internal service funds, net	(4,905,626)
Internal service funds are used by management to charge the costs of certain employee benefits, building rental costs and equipment usage to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net position.	
	6,269,743
Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(13,805,152)
Deferred inflows related to the net pension liability	(557,643)
Deferred outflows related to the net pension liability	531,904
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Compensated absences	(760,430)
Compensated absences accounted for in internal service funds	34,799
Net position of governmental activities	<u><u>\$ 25,277,295</u></u>

The accompanying notes are an integral part of these basic financial statements.

CITY OF ESCANABA, MICHIGAN

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

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes	\$ 5,322,114	\$ 1,245,215	\$ 6,567,329
Intergovernmental	1,526,737	2,079,814	3,606,551
Charges for services	180,525	1,037,271	1,217,796
Fines and fees	178,819	153,967	332,786
Investment earnings (loss)	42,807	78,362	121,169
Other revenues	35,514	109,418	144,932
<b>Total revenues</b>	<u>7,286,516</u>	<u>4,704,047</u>	<u>11,990,563</u>
<b>Expenditures</b>			
Current:			
General government	865,787	-	865,787
Public safety	4,475,195	803,972	5,279,167
Highway, streets & public works	486,680	1,724,689	2,211,369
Sanitation	723,043	70	723,113
Community services	27,807	-	27,807
Recreation and culture	801,716	572,088	1,373,804
Community and economic development	18,051	753,859	771,910
Other functions	4,921	-	4,921
<b>Total expenditures</b>	<u>7,403,200</u>	<u>3,854,678</u>	<u>11,257,878</u>
Revenues over (under) expenditures	<u>(116,684)</u>	<u>849,369</u>	<u>732,685</u>
<b>Other financing sources (uses)</b>			
Transfers in	1,098,285	455,287	1,553,572
Transfers out	(568,066)	(282,095)	(850,161)
<b>Total other financing sources</b>	<u>530,219</u>	<u>173,192</u>	<u>703,411</u>
<b>Net change in fund balances</b>	413,535	1,022,561	1,436,096
Fund balances, beginning of year	4,477,487	8,180,255	12,657,742
<b>Fund balances, end of year</b>	<u>\$ 4,891,022</u>	<u>\$ 9,202,816</u>	<u>\$ 14,093,838</u>

The accompanying notes are an integral part of these basic financial statements.



# CITY OF ESCANABA, MICHIGAN

## Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended June 30, 2018

Net change in fund balances - total governmental funds \$ 1,436,096

Amounts reported for *governmental activities* in the statement of activities are different because:

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

Capital assets purchased/constructed	1,068,853
Depreciation expense	(1,065,622)

Internal service funds are used by management to charge the costs of certain equipment maintenance to individual funds. The net increase (decrease) in the net position of the internal service funds is reported with governmental activities.

Net operating income from governmental internal service funds	6,570
Nonoperating loss from governmental internal service funds	(11,383)
Transfers in from governmental internal service funds	93,950

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

Change in net pension liabilities and related deferral amounts.	4,098,101
Change in accrual of compensated absences	(21,847)

Change in net position of governmental activities \$ 5,604,718

The accompanying notes are an integral part of these basic financial statements.

CITY OF ESCANABA, MICHIGAN

**Statement of Revenues, Expenditures and Changes in Fund Balance**  
 Budget and Actual - General Fund  
 For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Taxes	\$ 5,035,100	\$ 5,310,100	\$ 5,322,114	\$ 12,014
Intergovernmental	1,399,500	1,529,500	1,526,737	(2,763)
Charges for services	281,150	168,750	180,525	11,775
Fines and fees	94,100	165,000	178,819	13,819
Investment earnings	45,600	80,000	42,807	(37,193)
Other revenues	9,400	16,500	35,514	19,014
<b>Total revenues</b>	<b>6,864,850</b>	<b>7,269,850</b>	<b>7,286,516</b>	<b>16,666</b>
<b>Expenditures</b>				
<b>Current:</b>				
<b>General government:</b>				
City Council	29,892	29,892	26,303	(3,589)
City Manager	216,865	65,099	62,632	(2,467)
Elections	15,573	15,573	11,066	(4,507)
City Controller	303,690	121,668	123,933	2,265
Auditors	13,975	6,987	6,184	(803)
Assessors	204,717	274,717	268,459	(6,258)
Attorneys	52,520	26,347	27,091	744
City Clerk	144,035	174,035	166,838	(7,197)
Human Resources	123,066	84,500	81,944	(2,556)
Board of Review	2,550	2,550	2,043	(507)
City Treasurer	252,496	26,500	26,168	(332)
Billing	351,968	35,197	31,874	(3,323)
City Hall and Grounds	81,252	81,252	81,252	-
Less: overhead to utilities	(1,004,358)	(50,000)	(50,000)	-
<b>Total general government</b>	<b>788,241</b>	<b>894,317</b>	<b>865,787</b>	<b>(28,530)</b>
<b>Public safety</b>				
Public Safety	4,456,169	4,456,169	4,372,207	(83,962)
Community Preservation	73,074	131,074	77,682	(53,392)
Crossing Guards	26,000	26,000	25,306	(694)
<b>Total public safety</b>	<b>4,555,243</b>	<b>4,613,243</b>	<b>4,475,195</b>	<b>(138,048)</b>
<b>Highway, streets &amp; public works</b>				
Care of Trees & Shrubs	91,905	91,905	50,410	(41,495)
Sidewalks	5,825	10,575	8,828	(1,747)
Engineer	283,133	283,133	262,581	(20,552)
Street Lighting	165,750	165,750	159,693	(6,057)
Cross walks	-	250	2,213	1,963
Alley Paving	7,115	7,115	2,955	(4,160)
<b>Total highway, streets &amp; public works</b>	<b>553,728</b>	<b>558,728</b>	<b>486,680</b>	<b>(72,048)</b>

Continued...

CITY OF ESCANABA, MICHIGAN

**Statement of Revenues, Expenditures and Changes in Fund Balance**  
 Budget and Actual - General Fund  
 For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Expenditures (Continued)</b>				
<b>Sanitation</b>				
Solid Waste Collection	\$ 423,386	\$ 435,933	\$ 433,727	\$ (2,206)
Composting	65,966	65,966	57,834	(8,132)
Snowplowing for garbage collection	19,062	19,062	10,695	(8,367)
Sanitary Landfill	225,000	228,453	220,787	(7,666)
<b>Total sanitation</b>	<b>733,414</b>	<b>749,414</b>	<b>723,043</b>	<b>(26,371)</b>
<b>Community services</b>				
Community Promotional	5,423	7,423	6,659	(764)
Community Services	21,148	21,148	21,148	-
<b>Total community services</b>	<b>26,571</b>	<b>28,571</b>	<b>27,807</b>	<b>(764)</b>
<b>Recreation and culture</b>				
Civic center	57,647	57,647	54,646	(3,001)
Celebration Flags	2,456	5,456	3,030	(2,426)
Fourth of July	20,763	22,763	22,435	(328)
Recreation Admin	437,240	444,740	440,412	(4,328)
Parks	225,152	225,152	204,256	(20,896)
Band	40,985	40,985	38,439	(2,546)
Historical Museum	323	323	171	(152)
Tourism Promotion	21,300	29,300	26,484	(2,816)
Boat launches	13,754	13,754	11,843	(1,911)
<b>Total recreation and culture</b>	<b>819,620</b>	<b>840,120</b>	<b>801,716</b>	<b>(38,404)</b>
<b>Community and economic development</b>				
Planning Commission	10,625	20,625	18,051	(2,574)
<b>Total community and economic development</b>	<b>10,625</b>	<b>20,625</b>	<b>18,051</b>	<b>(2,574)</b>
<b>Other functions</b>				
Bad debts	50,000	-	-	-
Insurance & Bonds	5,000	5,000	4,921	(79)
<b>Total other functions</b>	<b>55,000</b>	<b>5,000</b>	<b>4,921</b>	<b>(79)</b>
<b>Total expenditures</b>	<b>7,542,442</b>	<b>7,710,018</b>	<b>7,403,200</b>	<b>(306,818)</b>
<b>Revenues over (under) expenditures</b>	<b>(677,592)</b>	<b>(440,168)</b>	<b>(116,684)</b>	<b>323,484</b>

Continued...

CITY OF ESCANABA, MICHIGAN

**Statement of Revenues, Expenditures and Changes in Fund Balance**  
 Budget and Actual - General Fund  
 For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Other financing sources (uses)				
Transfers in	\$ 1,094,990	\$ 1,105,190	\$ 1,098,285	\$ (6,905)
Transfers out	(573,850)	(583,850)	(568,066)	15,784
Total other financing sources (uses)	<u>521,140</u>	<u>521,340</u>	<u>530,219</u>	<u>8,879</u>
Net change in fund balance	(156,452)	81,172	413,535	332,363
Fund balance, beginning of year	<u>4,477,487</u>	<u>4,477,487</u>	<u>4,477,487</u>	-
Fund balance, end of year	<u>\$ 4,321,035</u>	<u>\$ 4,558,659</u>	<u>\$ 4,891,022</u>	<u>\$ 332,363</u>

Concluded

The accompanying notes are an integral part of these basic financial statements.

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CITY OF ESCANABA, MICHIGAN

Statement of Net Position

Proprietary Funds

June 30, 2018

	Business-type Activities - Enterprise Funds		
	Electric Utility Fund	Waste Water Utility Fund	Water Utility Fund
<b>Assets</b>			
Current assets:			
Cash and cash equivalents and investments	\$ 11,265,032	\$ 2,736,609	\$ 1,002,390
Accrued interest receivable	22,166	5,955	2,015
Receivables, net	1,691,726	235,432	382,954
Due from other funds	11,048	-	-
Inventory	313,163	12,288	138,334
Due from other governments	3,052	-	105,510
Other assets	9,195	2	786
Total current assets	<u>13,315,382</u>	<u>2,990,286</u>	<u>1,631,989</u>
Noncurrent assets:			
Advance to other funds	873,112	-	-
Capital assets not being depreciated	1,357,327	1,873	5,600
Capital assets being depreciated, net	8,401,356	5,668,961	12,161,415
Total noncurrent assets	<u>10,631,795</u>	<u>5,670,834</u>	<u>12,167,015</u>
Total assets	<u>23,947,177</u>	<u>8,661,120</u>	<u>13,799,004</u>
Deferred outflows of resources			
Deferred pension amounts	<u>132,161</u>	<u>79,840</u>	<u>79,840</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued liabilities	1,828,368	66,822	161,255
Due to other funds	-	-	-
Accrued interest	-	338	26,406
Unearned revenue	-	-	1,300
Compensated absences-current	18,758	12,331	6,224
Current portion of bonds and notes payable	-	60,000	445,000
Total current liabilities	<u>1,847,126</u>	<u>139,491</u>	<u>640,185</u>
Noncurrent liabilities:			
Advance from other funds	-	-	-
Compensated absences, net of current portion	80,530	42,839	47,787
Bonds payable, net of current portion	-	-	4,425,000
Net pension liability	2,718,671	1,642,374	1,642,372
Total noncurrent liabilities	<u>2,799,201</u>	<u>1,685,213</u>	<u>6,115,159</u>
Total liabilities	<u>4,646,327</u>	<u>1,824,704</u>	<u>6,755,344</u>
Deferred inflows of resources			
Deferred pension amounts	<u>66,616</u>	<u>40,456</u>	<u>40,456</u>
<b>Net position</b>			
Net investment in capital assets	9,758,683	5,610,834	7,297,015
Restricted for Electric utility surcharge uses	1,359,443	-	-
Unrestricted (deficit)	8,248,269	1,264,966	(213,971)
Total net position	<u>\$ 19,366,395</u>	<u>\$ 6,875,800</u>	<u>\$ 7,083,044</u>

The accompanying notes are an integral part of these basic financial statements.

Business-type Activities - Enterprise Funds		Governmental Activities
Nonmajor Marina Fund	Total	Internal Service Funds
\$ 191,149	\$ 15,195,180	\$ 1,754,398
351	30,487	3,805
14,718	2,324,830	53,163
-	11,048	-
9,435	473,220	-
-	108,562	-
-	9,983	717,236
<u>215,653</u>	<u>18,153,310</u>	<u>2,528,602</u>
-	873,112	-
-	1,364,800	625,731
1,317,037	27,548,769	4,279,895
<u>1,317,037</u>	<u>29,786,681</u>	<u>4,905,626</u>
1,532,690	47,939,991	7,434,228
<u>881</u>	<u>292,722</u>	<u>-</u>
1,582	2,058,027	205,937
-	-	11,723
-	26,744	-
3,462	4,762	1,950
-	37,313	9,262
-	505,000	-
<u>5,044</u>	<u>2,631,846</u>	<u>228,872</u>
231,902	231,902	910,076
-	171,156	25,537
-	4,425,000	-
18,114	6,021,531	-
<u>250,016</u>	<u>10,849,589</u>	<u>935,613</u>
255,060	13,481,435	1,164,485
<u>444</u>	<u>147,972</u>	<u>-</u>
1,317,037	23,983,569	4,905,626
-	1,359,443	-
(38,970)	9,260,294	1,364,117
<u>\$ 1,278,067</u>	<u>\$ 34,603,306</u>	<u>\$ 6,269,743</u>

CITY OF ESCANABA, MICHIGAN

Statement of Revenues, Expenses and Change in Fund Net Position  
 Proprietary Funds  
 For the Year Ended June 30, 2018

	Business-type Activities - Enterprise Funds		
	Electric Utility Fund	Waste Water Utility Fund	Water Utility Fund
Operating revenues			
Charges for services	\$ 13,202,031	\$ 1,525,987	\$ 2,416,044
Provisions for self-insurance	-	-	-
Other revenue	148,795	23,123	15,993
<b>Total operating revenues</b>	<b>13,350,826</b>	<b>1,549,110</b>	<b>2,432,037</b>
Operating expenses			
Production	9,859,706	-	-
Personnel services	1,365,747	689,398	497,535
Overhead	1,241,831	426,788	347,636
Fuel	-	1,107	1,421
Contracted services	138,179	200,008	394,266
Insurance	257,497	86,713	74,912
Bank charges	37,105	-	-
Dues & training	68,904	4,294	12,328
Sales & promotion	311,092	435	4,226
Repairs & maintenance	39,508	144,866	44,891
Claims	-	-	-
Equipment rental	8,297	37,749	17,961
Depreciation	597,306	271,920	411,397
Supplies	16,242	93,365	189,985
Other	9,710	-	8,378
<b>Total operating expenses</b>	<b>13,951,124</b>	<b>1,956,643</b>	<b>2,004,936</b>
Operating income (loss)	(600,298)	(407,533)	427,101
Nonoperating revenues expenses			
Loss on disposal of capital assets	-	-	-
Intergovernmental	-	-	58,703
Inventory obsolescence	(3,275)	-	-
Investment earnings	67,051	11,013	3,641
Interest expense	-	(1,688)	(188,941)
<b>Total nonoperating (expenses)</b>	<b>63,776</b>	<b>9,325</b>	<b>(126,597)</b>
Income (loss) before transfers	(536,522)	(398,208)	300,504
Transfers in	-	-	-
Transfers out	(765,790)	(31,571)	-
Change in net position	(1,302,312)	(429,779)	300,504
Net position, beginning of year	20,668,707	7,305,579	6,782,540
Net position, end of year	\$ 19,366,395	\$ 6,875,800	\$ 7,083,044

The accompanying notes are an integral part of these basic financial statements.



Business-type Activities - Enterprise Funds		Governmental Activities
Nonmajor Marina Fund	Total	Internal Service Funds
\$ 221,707	\$ 17,365,769	\$ 1,129,727
-	-	290,718
2,477	190,388	198,309
<u>224,184</u>	<u>17,556,157</u>	<u>1,618,754</u>
-	9,859,706	-
69,606	2,622,286	218,663
15,764	2,032,019	171,999
60,307	62,835	128,679
20,145	752,598	95,971
1,861	420,983	255,854
-	37,105	-
-	85,526	3,632
-	315,753	1,009
5,557	234,822	302,431
-	-	25,837
4,802	68,809	1,954
58,475	1,339,098	333,656
2,284	301,876	62,585
5,456	23,544	9,914
<u>244,257</u>	<u>18,156,960</u>	<u>1,612,184</u>
<u>(20,073)</u>	<u>(600,803)</u>	<u>6,570</u>
-	-	(11,117)
-	58,703	-
-	(3,275)	-
1,152	82,857	25,846
<u>(7,389)</u>	<u>(198,018)</u>	<u>(26,112)</u>
<u>(6,237)</u>	<u>(59,733)</u>	<u>(11,383)</u>
(26,310)	(660,536)	(4,813)
-	-	145,850
-	(797,361)	(51,900)
(26,310)	(1,457,897)	89,137
<u>1,304,377</u>	<u>36,061,203</u>	<u>6,180,606</u>
<u>\$ 1,278,067</u>	<u>\$ 34,603,306</u>	<u>\$ 6,269,743</u>

CITY OF ESCANABA, MICHIGAN

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

	Business-type Activities - Enterprise Funds		
	Electric Utility Fund	Waste Water Utility Fund	Water Utility Fund
Cash flows from operating activities			
Cash received from customers	\$ 13,363,120	\$ 1,525,823	\$ 2,272,077
Cash received from interfund services	-	-	-
Cash payments to employees	(2,422,207)	(21,162)	(552,455)
Cash payments for goods and services	(9,454,501)	(1,223,562)	(756,496)
Net cash provided by operating activities	<u>1,486,412</u>	<u>281,099</u>	<u>963,126</u>
Cash flows from noncapital financing activities			
Intergovernmental receipts	-	-	58,703
Repayment on advance from other funds	-	-	-
Receipt on advance to other funds	120,840	-	-
Transfers in	-	-	-
Transfers out	(765,790)	(31,571)	-
Net cash provided by (used in) noncapital financing activities	<u>(644,950)</u>	<u>(31,571)</u>	<u>58,703</u>
Cash flows from capital and related financing activities			
Proceeds from disposal of capital assets	-	-	-
Purchase of capital assets	(3,000,306)	(342,786)	(315,120)
Principal payments	-	(60,000)	(435,000)
Interest payments	-	(2,025)	(202,304)
Net cash used in capital and related financing activities	<u>(3,000,306)</u>	<u>(404,811)</u>	<u>(952,424)</u>
Cash flows from investing activities			
Gain on sale of investment	<u>374,654</u>	<u>76,116</u>	<u>21,349</u>
Net increase (decrease) in cash and cash equivalents and investments	<u>(1,784,190)</u>	<u>(79,167)</u>	<u>90,754</u>
Cash and cash equivalents and investments , beginning of year	<u>13,049,222</u>	<u>2,815,776</u>	<u>911,636</u>
Cash and cash equivalents and investments, end of year	<u>\$ 11,265,032</u>	<u>\$ 2,736,609</u>	<u>\$ 1,002,390</u>

Business-type Activities - Enterprise Funds		Governmental Activities
Nonmajor Marina Fund	Total	Internal Service Funds
\$ 224,004	\$ 17,385,024	\$ -
-	-	1,585,645
(4,032)	(2,999,856)	(213,022)
<u>(171,566)</u>	<u>(11,606,125)</u>	<u>(1,106,989)</u>
48,406	2,779,043	265,634
-	58,703	-
(14,416)	(14,416)	(139,967)
-	120,840	-
-	-	145,850
-	(797,361)	(51,900)
<u>(14,416)</u>	<u>(632,234)</u>	<u>(46,017)</u>
-	-	27,541
-	(3,658,212)	(345,627)
-	(495,000)	-
<u>(7,389)</u>	<u>(211,718)</u>	<u>(26,112)</u>
<u>(7,389)</u>	<u>(4,364,930)</u>	<u>(344,198)</u>
2,773	474,892	67,109
29,374	(1,743,229)	(57,472)
<u>161,775</u>	<u>16,938,409</u>	<u>1,811,870</u>
<u>\$ 191,149</u>	<u>\$ 15,195,180</u>	<u>\$ 1,754,398</u>

Continued...

CITY OF ESCANABA, MICHIGAN

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

	Business-type Activities - Enterprise Funds		
	Electric Utility Fund	Waste Water Utility Fund	Water Utility Fund
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ (600,298)	\$ (407,533)	\$ 427,101
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	597,306	271,920	411,397
Change in operating assets and liabilities that provided (used) cash:			
Receivables, net	11,682	(23,287)	(54,450)
Due from other governments	612	-	(105,510)
Other assets	5,069	378	(405)
Inventory	(70,800)	(5,853)	(20,252)
Accounts payable and accrued liabilities	479,325	39,848	70,908
Compensated absences	3,478	1,013	14,759
Change in unearned revenue	-	-	-
Internal balances	-	-	-
Change in net pension liability and deferred amounts	1,060,038	404,613	219,578
<b>Net cash provided by operating activities</b>	<b>\$ 1,486,412</b>	<b>\$ 281,099</b>	<b>\$ 963,126</b>
<b>Noncash capital and related financing activities</b>			
Loss on disposal of capital assets	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these basic financial statements.



Business-type Activities - Enterprise Funds		Governmental Activities
Nonmajor Marina Fund	Total	Internal Service Funds

\$ (20,073)    \$ (600,803)    \$ 6,570

58,475            1,339,098            333,656

(1,085)            (67,140)            (33,109)

-            (104,898)            -

-            5,042            80,411

2,764            (94,141)            -

(4,312)            585,769            (26,141)

-            19,250            5,641

905            905            -

-            -            (101,394)

11,732            1,695,961            -

\$ 48,406            \$ 2,779,043            \$ 265,634

\$ -            \$ -            \$ 11,117

Concluded

CITY OF ESCANABA, MICHIGAN

**Statement of Fiduciary Net Position**  
 Fiduciary Funds  
 June 30, 2018

	Fiduciary Funds		
	Private Purpose Trust Fund	Pension Trust Fund	Agency Fund
<b>Assets</b>			
Cash and investments	\$ 259,968	\$ 30,180,423	\$ 1,429
Accrued interest receivable	553	-	-
<b>Total assets</b>	<u>260,521</u>	<u>30,180,423</u>	<u>1,429</u>
<b>Liabilities</b>			
Due to others	506	-	\$ 1,429
<b>Net position</b>			
Restricted for:			
Bezold Trust	260,015	-	
Retiree pension benefits	-	30,180,423	
<b>Total net position</b>	<u>\$ 260,015</u>	<u>\$ 30,180,423</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF ESCANABA, MICHIGAN

**Statement of Changes in Fiduciary Net Position**  
 Fiduciary Funds  
 For the year ended June 30, 2017

	Fiduciary Funds	
	Private Purpose Trust Fund	Pension Trust Fund
<b>Additions</b>		
Investment income:		
Investment earnings	\$ 1,011	\$ 2,243,475
Contributions:		
Employer	-	1,068,469
Plan members	-	99,809
Total contributions	-	1,168,278
<b>Total additions</b>	<b>1,011</b>	<b>3,411,753</b>
<b>Deductions</b>		
Benefit payments	-	1,810,470
General and administrative expense	3,105	29,035
<b>Total deductions</b>	<b>3,105</b>	<b>1,839,505</b>
<b>Change in net position</b>	<b>(2,094)</b>	<b>1,572,248</b>
Net position, beginning of year	262,109	28,608,175
<b>Net position, end of year</b>	<b>\$ 260,015</b>	<b>\$ 30,180,423</b>

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS



# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The *City of Escanaba, Michigan* (the "City") was incorporated in 1883. In 1921, the City adopted a new city charter and a council-manager form of government. The City is directed by a four-member City Council and a Mayor elected by the community at large. This legislative body appoints a City Manager to administer the affairs of the City. The City provides the following services: general government (planning & zoning, public improvement and general administrative services), public safety (police and fire), public works (highways and streets, brush pick-up, sanitation), municipal marina (slip accommodations, gasoline and diesel fuel sales), recreation-culture, public library, downtown development authority and water and waste water service.

The accounting and reporting policies of the City conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). Following is a summary of the significant policies:

#### Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City and its component unit, for which the City is considered to be financially accountable. The financial data of the component unit is included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

#### *Blended Component Units*

A blended component unit is a legally separate entity from the City but is so intertwined with the City that it is, in substance, the same as the City. It is reported as part of the City and its financial data is combined with data of the appropriate funds. The City has two blended component units, the Downtown Development Authority and the Escanaba Building Authority, both with a fiscal June 30 year-end. These component units provide services primarily to benefit the City. The blended component units are described as follows:

The Downtown Development Authority (the "DDA") promotes and provides financial support to the downtown merchants.

The Escanaba Building Authority (the "EBA") was established to account for the financing of the Public Works Complex and the financing and maintenance of the City Hall/Library Complex.

#### *Discretely Presented Component Units*

Discretely presented component units are entities that are legally separate from the City but for which the City is financially accountable, or their relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The discretely presented component unit, with a September 30, 2017 fiscal year end, is as follows:

Escanaba Housing Commission - The Escanaba Housing Commission ("Commission") is responsible for providing low rent public housing to individuals that present a need for financial assistance. The Commission manages 175 units, which include all of the activities relevant to its operations. The members of the Commission's governing board are appointed by the City of Escanaba and therefore the Commission is reported as a discretely presented component unit. The City also has the ability to significantly influence the operations of the Commission.

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

### *Component Unit Financial Statements*

Complete financial statements for the Commission component unit may be obtained from the entity's administrative office at Escanaba Housing Commission, 110 South 5th Street, Escanaba, MI 49829.

### *Government-wide and Fund Financial Statements*

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

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

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

### *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenues reported in the governmental funds to be available if they are collected within three months after year-end, except for income taxes that use a 45-day collection period, property taxes that use a 60-day collection period, and reimbursement-based grants that use a one year collection period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and as such have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

## CITY OF ESCANABA, MICHIGAN

### Notes to the Financial Statements

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund and only major governmental fund. It accounts for all the financial resources of the government, except those accounted for and reported in another fund.

The City reports the following major enterprise funds:

The *electric utility fund* accounts for the activities of the City's electrical utility system.

The *waste water utility fund* accounts for the activities of the City's sewage disposal and treatment system.

The *water utility fund* accounts for the activities of the City's water distribution and treatment system.

Additionally, the City reports the following fund types:

*Special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted, committed or assigned to expenditure for specified purposes other than debt service or capital projects.

The *permanent fund* accounts for the assets that are restricted in the City's Gas Retirement Fund. The principal portion of these funds must stay intact, but the interest earnings must be used to provide for capital improvements only.

*Internal service funds* include the Escanaba Building Authority, Motor Vehicle and Equipment, Office Equipment, Risk Retention, Worker's Compensation and Unemployment Compensation account for goods and services provided to other departments, agencies or funds of the City, on a cost reimbursement basis. In the government-wide financial statements, internal service fund activity is included with the governmental activities.

*Agency funds* are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the City holds for others in an agency capacity (such as taxes collected for other governments).

*Private purpose and pension trust funds* are used to account for assets held by the City in a trustee capacity for individuals, private organizations, other governments and/or other funds.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water, waste water disposal, and electric utility, cost of building rent and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 electric utility, waste water utility, water utility and marina enterprise funds and of the City's internal service funds are charges to customers or other funds for goods and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service 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.

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized on an accrual basis, in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Restricted net position includes assets that are subject to restrictions beyond the City's control. The restrictions may be externally imposed or imposed by law. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

### Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

#### *Deposits and Investments*

The City's cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

State statutes authorize the City to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

Unrealized appreciation or depreciation on pension trust fund investments due to changes in fair value are recognized each year.

### *Receivables and Payables*

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. As of June 30, 2018, the general fund receivable is shown net of an estimated allowance for uncollectible accounts of \$37,678. The receivables for the electric utility is also shown net of an estimated allowance for uncollectible accounts of \$29,200. Management of the waste water utility, water utility and marina consider the entire receivable balance to be collectible and have not reported any allowance for uncollectible accounts.

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Amounts due from other governments include amounts due from the State for state shared revenue, gas and weight tax and from grantors for specific programs and capital projects. Program grants and capital grants for capital assets are recorded as receivables and revenues at the time reimbursable project costs are incurred. Revenues received in advance of project costs being incurred are reported as "unearned."

### *Inventories*

Inventories are valued using the weighted average method. Inventories of governmental funds are recorded as an expenditures at the time the individual items are consumed.

### *Other Assets*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as other assets in both the government-wide and fund financial statements.

### *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition cost at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

Capital assets of the primary government and component unit are depreciated using the straight-line method over the following estimated useful lives:

	Years
Land improvements	30 - 50
Infrastructure	20 - 50
Buildings and improvements	20 - 50
Transmission and distribution systems	5 - 20
Other machinery and equipment	5 - 10
Vehicles and equipment	3 - 25

The City reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its fair value. If it is determined that an impairment loss has occurred, the asset is written down to its net realizable value and a current charge to income is recognized.

### *Deferred Outflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension plans.

### *Compensated Absences*

The City's policies regarding vacation and sick time allow employees to accumulate earned but unused vacation and sick time. The governmental funds do not report a liability for these compensated absences as they are not payable from current available financial resources. The liability for governmental activity compensated absences is recorded as long-term debt in government-wide financial statements. Proprietary funds report the liability as incurred. Amounts payable within one year are reported as the current portion of compensated absences and the remainder is reported as noncurrent.

### *Unearned Revenue*

Unearned revenue consists of amounts received prior to the delivery of goods/services or allowable costs.

### *Long-term Obligations*

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

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

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

### *Deferred Inflows of Resources*

In addition to liabilities, the statements of net position or balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until a future period. The governmental funds report unavailable revenues, which arises only under modified accrual basis of accounting, from certain long-term receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

### *Fund Balances*

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or 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 City Council (the City's highest level of decision-making authority). A formal resolution of the City Council is required to establish, modify, or rescind a fund balance commitment. The City reports assigned fund balance for amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has delegated the authority to assign fund balance to the City Treasurer or his designee (City Controller). Unassigned fund balance is the residual classification for the General Fund. The City does not require the general fund to maintain a minimum unassigned fund balance.

When the City incurs an expenditure for purposes for which various fund balance classifications can be used, it is the City's procedure to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

### *Interfund Transactions*

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements. Internal service funds are used to record charges for services to all City funds as operating revenue. All City funds record these payments to the internal service funds as operating expenditures/expenses.

### *Pensions*

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

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

### *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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates. Significant estimates are listed below:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- The assumptions used in the actuarial valuations of the pension and other postemployment benefits plans are based on historical trends and industry standards.

## 2. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year-end.

The City Charter requires submission of the budget to the City Council no later than two months prior to the beginning of the next fiscal year (April 30). Publicized public hearings are held on the budgets from January through April encouraging public input. The City Charter and state law also require that an appropriations ordinance be adopted based on the approved budgets not later than one month prior to the ensuing fiscal year (June 30).

The budget document presents information by fund, function, activity, department, and line items. The legal level of budgetary control adopted by City Council is the activity level, which is the level at which expenditures may not legally exceed appropriations. The City Manager may make transfers of appropriations between departments within any funds; however, any supplemental appropriations that amend the total expenditures of any fund require City Council resolution.



# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

### 3. ACCOUNTABILITY AND BUDGETARY COMPLIANCE

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2018, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General fund			
General government:			
City Controller	\$ 121,668	\$ 123,933	\$ 2,265
Attorneys	26,347	27,091	744
Highway, streets & public works:			
Cross walks	250	2,213	1,963

The above budgeted amounts are presented at the activity level, which is the required minimum level of control per the Michigan Uniform Budget Manual.

### 4. DEFICIT FUND EQUITY

#### *Deficit Fund Balance / Net Position*

Governmental activities reported total net position of \$25.3 million and deficit in unrestricted net position of \$5.0 million at June 30, 2018. The Water Utility and Marina enterprise funds reported total net position of \$7.0 million and \$1.3 million, and a deficit unrestricted fund net position of \$213,971 and \$38,970, respectively. The Escanaba Building Authority internal service fund reported a total net position of \$3.4 million and a deficit unrestricted net position of \$460,089. In addition, the Down Town Development Authority nonmajor governmental fund reported a deficit fund balance of \$246,046.

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

### 5. CASH AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of June 30, 2018:

	Primary Government	Component Unit	Total
<b>Statement of Net Position</b>			
Cash and cash equivalents and investments	\$ 29,830,974	\$ 675,085	\$ 30,506,059
<b>Statement of Fiduciary Net Position</b>			
Cash and cash equivalents investments	30,441,820	-	30,441,820
<b>Total</b>	<u>\$ 60,272,794</u>	<u>\$ 675,085</u>	<u>\$ 60,947,879</u>
<b>Deposits and investments</b>			
Bank deposits:			
Checking / savings accounts			\$ 2,242,785
Certificates of deposit/ money market funds			10,296,290
Investment in securities and mutual funds:			
Pooled investments			48,404,519
Cash on hand			4,285
<b>Total</b>			<u>\$ 60,947,879</u>

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end, \$6,519,423 of the City's bank balance of \$6,773,019 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The City's investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

*Custodial Credit Risk - Investments.* As of June 30, 2018, the City's pooled investments consisted entirely of United States Government backed securities and equity/mutual funds totaling \$18,207,020 and \$30,188,724, respectively.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

*Credit Risk.* State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The City’s investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings, where applicable, are summarized as follows:

	Amount
Not Rated	\$ 30,188,724
S&P AA+	<u>18,207,020</u>
<b>Total</b>	<b><u>\$ 48,395,744</u></b>

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The City’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates for investments held at year-end are summarized as follows:

	Amount
No maturity	\$ 30,188,724
Due within 1-5 years	6,521,400
Due within 6-10 years	<u>11,685,620</u>
<b>Total</b>	<b><u>\$ 48,395,744</u></b>

*Fair Value.* 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. As of year end, the City’s investments in governmental securities were considered Level 2 investments and the remaining investments were all considered to be Level 1.

The City is authorized by statute to invest surplus funds in the following:

- a. Bonds, securities, and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the highest graded classification by Standard & Poor’s or by Moody’s.
- d. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- e. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

The City Council is authorized to designate depositories for City funds, and to determine that the funds are invested in accordance with State of Michigan authority.

The City's deposits are in accordance with statutory authority.

### 6. RECEIVABLES

Receivables are comprised of the following as of June 30, 2018:

	Governmental Activities	Business-type Activities	Component Unit
Accounts receivable	\$ 175,065	\$ 2,354,030	\$ 4,394
Taxes - special assessments	3,809	-	-
Interest receivable	32,688	30,487	-
Loans receivable	637,068	-	-
Other receivables	94,578	-	-
Due from other governmental units	764,522	108,562	-
Allowance for doubtful accounts	(37,678)	(29,200)	-
	<u>\$ 1,670,052</u>	<u>\$ 2,463,879</u>	<u>\$ 4,394</u>

### 7. CAPITAL ASSETS

#### Primary Government

Capital assets activity for the primary government for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Governmental activities</b>					
Capital assets not being depreciated:					
Land	\$ 1,332,769	\$ -	\$ -	\$ -	\$ 1,332,769
Construction in progress	2,587,458	-	-	(2,447,126)	140,332
	<u>3,920,227</u>	<u>-</u>	<u>-</u>	<u>(2,447,126)</u>	<u>1,473,101</u>
 Capital assets being depreciated:					
Land improvements	6,087,349	-	-	5,348	6,092,697
Infrastructure	19,219,305	1,023,510	-	2,031,906	22,274,721
Buildings and improvements	9,918,216	69,113	-	1,026,380	11,013,709
Vehicles and equipment	9,874,263	321,857	(787,548)	(616,508)	8,792,064
Parking lots	439,709	-	-	-	439,709
	<u>45,538,842</u>	<u>1,414,480</u>	<u>(787,548)</u>	<u>2,447,126</u>	<u>48,612,900</u>

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Less accumulated depreciation for:					
Land improvements	\$ (2,649,846)	\$ (171,215)	\$ -	\$ -	\$ (2,821,061)
Infrastructure	(9,402,394)	(705,134)		-	(10,107,528)
Buildings and improvements	(5,199,142)	(239,539)		-	(5,438,681)
Vehicles and equipment	(7,562,065)	(268,697)	748,890	-	(7,081,872)
Parking lots	(246,304)	(14,693)		-	(260,997)
	<u>(25,059,751)</u>	<u>(1,399,278)</u>	<u>748,890</u>	<u>-</u>	<u>(25,710,139)</u>
Total capital assets being depreciated, net	<u>20,479,091</u>	<u>15,202</u>	<u>(38,658)</u>	<u>2,447,126</u>	<u>22,902,761</u>
Governmental activities capital assets, net	<u>\$ 24,399,318</u>	<u>\$ 15,202</u>	<u>\$ (38,658)</u>	<u>\$ -</u>	<u>\$ 24,375,862</u>

During the year, the City determined that land reported as held for sale should be included in capital assets, consequently an adjustment of \$8,200 was made to increase capital assets and decrease assets held for sale.

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type activities					
Capital assets not being depreciated:					
Land	\$ 56,953	\$ -	\$ -	\$ -	\$ 56,953
Construction in progress	2,512,965	1,307,847	-	(2,512,965)	1,307,847
	<u>2,569,918</u>	<u>1,307,847</u>	<u>-</u>	<u>(2,512,965)</u>	<u>1,364,800</u>
Capital assets being depreciated:					
Land improvements	1,830,326	-	-	-	1,830,326
Buildings and improvements	22,598,129	163,365	-	-	22,761,494
Transmission and distribution systems	25,301,698	2,187,000	(105,629)	2,512,965	29,896,034
Other machinery and equipment	1,709,234	-	(112,531)	-	1,596,703
	<u>51,439,387</u>	<u>2,350,365</u>	<u>(218,160)</u>	<u>2,512,965</u>	<u>56,084,557</u>

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Less accumulated depreciation for:					
Land improvements	\$ (1,097,768)	\$ (36,367)	\$ -	\$ -	\$ (1,134,135)
Buildings and improvements	(10,721,509)	(491,122)	-	-	(11,212,631)
Transmission and distribution systems	(14,225,840)	(738,216)	105,629	-	(14,858,427)
Other machinery and equipment	(1,369,733)	(73,393)	112,531	-	(1,330,595)
	<u>(27,414,850)</u>	<u>(1,339,098)</u>	<u>218,160</u>	<u>-</u>	<u>(28,535,788)</u>
Total capital assets being depreciated, net	<u>24,024,537</u>	<u>1,011,267</u>	<u>-</u>	<u>2,512,965</u>	<u>27,548,769</u>
Business-type activities capital assets, net	<u>\$ 26,594,455</u>	<u>\$ 2,319,114</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,913,569</u>

Depreciation expense for the year ended June 30, 2018 was charged to functions/programs of the primary government as follows:

	Amount
Depreciation of governmental activities by function	
Public safety	\$ 70,982
Highway, streets & public works	732,273
Recreation and culture	262,367
Capital assets held by the governmental activity internal service funds are charged to the various functions based on their usage of the assets	<u>333,656</u>
	<u>\$ 1,399,278</u>
Depreciation of business-type activities by function	
Electric utility	\$ 597,306
Waste water utility	271,920
Water utility	411,397
Marina	<u>58,475</u>
	<u>\$ 1,339,098</u>

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

### Discretely presented component unit

Capital assets activity for the Escanaba Housing Commission ("Commission") component unit for the year ended September 30, 2017, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 380,172	\$ -	\$ -	\$ -	\$ 380,172
	<u>380,172</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>380,172</u>
Capital assets being depreciated:					
Buildings and improvements	8,196,313	44,147	-	-	8,240,460
Machinery and equipment	303,661	19,665	(6,180)	-	317,146
	<u>8,499,974</u>	<u>63,812</u>	<u>(6,180)</u>	<u>-</u>	<u>8,557,606</u>
Less accumulated depreciation	<u>(6,873,633)</u>	<u>(290,069)</u>	<u>6,180</u>	<u>-</u>	<u>(7,157,522)</u>
Total capital assets being depreciated, net	<u>1,626,341</u>	<u>(226,257)</u>	<u>-</u>	<u>-</u>	<u>1,400,084</u>
Component unit capital assets, net	<u>\$ 2,006,513</u>	<u>\$ (226,257)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,780,256</u>

Depreciation expense for the component unit, included in the statement of activities, was \$290,069 for fiscal 2017.

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following as of June 30, 2018:

	Governmental Activities	Business-type Activities	Component Unit
Accounts payable and accrued liabilities	\$ 937,470	\$ 2,058,027	\$ 122,061
Due to other governmental units	1,580	-	-
Accrued interest	-	26,744	-
	<u>\$ 939,050</u>	<u>\$ 2,084,771</u>	<u>\$ 122,061</u>

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

### 9. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2018, was as follows:

#### Due to and from other funds

	Due From Other Funds	Due to Other Funds
General fund	\$ 67,086	\$ -
Nonmajor governmental funds	750	67,161
Electric utility fund	11,048	-
Internal service funds	-	11,723
	<u>\$ 78,884</u>	<u>\$ 78,884</u>

The above balances generally resulted from a time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

#### Advances to and from other funds

	Advance to Other Funds	Advance From Other Funds
General fund	\$ 160,076	\$ 123,112
Nonmajor governmental funds	645,170	413,268
Electric utility fund	873,112	-
Marina fund	-	231,902
Internal service funds	-	910,076
	<u>\$ 1,678,358</u>	<u>\$ 1,678,358</u>

For the year ended June 30, 2018, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General fund	\$ 1,098,285	\$ 568,066
Nonmajor governmental funds	455,287	282,095
Electric utility fund	-	765,790
Waste water utility fund	-	31,571
Internal service funds	145,850	51,900
	<u>\$ 1,699,422</u>	<u>\$ 1,699,422</u>



# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

### 10. LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	(Reductions)	Ending Balance	Due in One Year
<b>Primary Government</b>					
<b>Governmental activities:</b>					
Compensated absences	\$ 732,942	\$ 486,186	\$ (458,698)	\$ 760,430	\$ 158,696
<b>Business-type activities:</b>					
Compensated absences	189,219	119,102	(99,952)	208,469	37,313
Revenue and capital improvement bonds	5,425,000	-	(495,000)	4,930,000	505,000
<b>Total business-type activities</b>	<b>5,614,219</b>	<b>119,102</b>	<b>(594,952)</b>	<b>5,138,469</b>	<b>542,313</b>
<b>Total primary government</b>	<b>\$ 6,347,161</b>	<b>\$ 605,288</b>	<b>\$ (1,053,650)</b>	<b>\$ 5,898,899</b>	<b>\$ 701,009</b>

Revenue and capital improvement bonds are direct obligations and pledge the full faith and credit of the City. Revenue and capital improvement bonds currently outstanding at June 30, 2018 are as follows:

Purpose	Matures	Interest Rates	Amount
<b>Business-type activities</b>			
1998 Waste water utility - revenue bonds	October 2018	2.25%	\$ 60,000
2002 Water utility - revenue bonds	October 2023	2.25%	970,000
2009 Water utility - revenue bonds	October 2027	2.13%	1,635,000
2010 Water utility - capital improvement bonds	May 2031	3.30%	2,265,000
			<u>\$ 4,930,000</u>

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

Annual debt service requirements to maturity for the revenue and capital improvement bonds are as follows:

Year Ending June 30,	Business-Type Activities	
	Principal	Interest
2019	\$ 505,000	\$ 189,795
2020	455,000	175,016
2021	470,000	160,038
2022	480,000	144,258
2023	490,000	127,990
2024-2028	1,920,000	409,902
2029-2031	610,000	79,475
	<u>\$ 4,930,000</u>	<u>\$ 1,286,474</u>

### 11. RISK MANAGEMENT

The City maintains self insurance programs for worker's compensation and unemployment compensation that are reported as internal service funds. All fund types are charged premiums at rebates determined using established insurance rates and other factors which, in management's opinion, warrant consideration.

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, for which the City participates as a member in the Michigan Municipal Risk Management Authority. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and auto liability, motor vehicle physical damage, and property. Settled claims have not exceeded the amount of insurance coverage in any of the past four fiscal years.

### 12. PROPERTY TAXES

The City's property taxes are levied no later than each June 1 and become an enforceable lien on July 10, payable by September 15. The tax levies are based on the taxable valuation of property located in the City as of the preceding December 31. Property taxes are payable without penalty and interest through September 15; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Delta County. Collections of community college, school, and county taxes and remittances are accounted for in the Tax Collection Agency Fund. City property tax revenues are recognized in the fiscal year for which the taxes are levied to the extent that they result in current receivables (i.e., are collected within 60 days after fiscal year-end).

The City is permitted by charter and state law to levy taxes up to \$20.000 per \$1,000 of assessed valuation for general operations other than the payment of principal and interest on long-term debt. The tax rate to finance general governmental services other than the payment of principal and interest on long-term debt for the year ended June 30, 2018 was \$17.00 per \$1,000 of taxable value.

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

### 13. PENSION PLANS

#### Agent Multiple-Employer Plan (MERS)

##### *General Information About the Plan*

*Plan Description.* The City participates in the Municipal Employees' Retirement System (MERS) of Michigan, a defined benefit pension plan providing certain retirement, disability and death benefits to plan members and beneficiaries. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

*Benefits Provided.* Pension benefits vary by division/bargaining unit and are calculated as final average compensation (based on a 3 year period) and multipliers ranging from 2.0% to 2.5%. Participants are considered to be fully vested in the plan after 10 years. Normal retirement age is 60 with early retirement at age 55 with 25 years of service or any age with 25 years or service.

*Employees Covered by Benefit Terms.* As of December 31, 2016, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	119
Inactive employees entitled to but not yet receiving benefits	13
Active employees	38
 Total membership	 170

*Contributions.* The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees. Five of the six divisions are closed to new entrants.

All defined benefit divisions are now closed to new hires. New hires are now being covered with a defined contribution retirement plan.

*Net Pension Liability.* The City's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions.* The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment expense and including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.50% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

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

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study performed for 2009-2013.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	57.50%	5.02%	2.89%
Global fixed income	20.00%	2.18%	0.44%
Real assets	12.50%	4.23%	0.53%
Diversifying strategies	10.00%	6.56%	0.64%
	<u>100.00%</u>		
Inflation			3.25%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u>8.00%</u>

*Discount Rate.* The discount rate used to measure the total pension liability as of December 31 2017 was 8.0%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

### *Changes in Net Pension Liability*

The components of the change in the net pension liability are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2016	\$ 35,812,343	\$ 19,677,756	\$ 16,134,587
Changes for the year:			
Service cost	192,629	-	192,629
Interest	2,774,891	-	2,774,891
Change in benefits	-	-	-
Differences between expected and actual experience	(98,457)	-	(98,457)
Changes in assumptions	-	-	-
Employer contributions	-	1,399,555	(1,399,555)
Net investment income (loss)	-	2,549,195	(2,549,195)
Benefit payments, including refunds of employee contributions	(2,445,052)	(2,445,052)	-
Administrative expense	-	(40,443)	40,443
Net changes	<u>424,011</u>	<u>1,463,255</u>	<u>(1,039,244)</u>
Balances at December 31, 2017	<u>\$ 36,236,354</u>	<u>\$ 21,141,011</u>	<u>\$ 15,095,343</u>

The General Fund and certain special revenue funds have typically been used to liquidate the MERS net pension liability in the governmental funds.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate.* The following presents the net pension liability of the City, calculated using the discount rate of 8.00%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.00%) or 1% higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net pension liability	\$ 18,683,437	\$ 15,095,343	\$ 11,947,966

*Pension Plan Fiduciary Net Position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

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

For the year ended June 30, 2018, the City recognized pension expense of \$1,493,006. The City reported deferred outflows of resources and deferred inflows of resources related to the MERS pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 369,885	\$ (369,885)
Contributions subsequent to the measurement date	733,820	-	733,820
<b>Total</b>	<b>\$ 733,820</b>	<b>\$ 369,885</b>	<b>\$ 363,935</b>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2018. Other amounts reported as pension-related deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	\$ -	\$ (116,897)
2020	-	(46,315)
2021	-	329,416
2022	-	203,681
<b>Total</b>	<b>\$ -</b>	<b>\$ 369,885</b>

### Defined Contribution Plan

The defined contribution plan requires the City to contribute four percent of the employee's qualified wages, with an additional matching contribution of up to three percent based on the employee's contribution. The employee vests in the City portion of the contributions after one year of service. For this fiscal year the City contributed \$207,826 to the plan and the employees contributed \$81,983.

### Public Safety Pension Plan

*Plan Description.* The City of Escanaba (the "City") Public Safety Officer Retirement System - Defined Benefit Plan (the "Plan") is a single employer public employee retirement system established and administered by the City to provide pension benefits exclusively for all of its public safety officers. The Plan is accounted for as a pension trust fund.

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

The Public Safety Pension Fund provides retirement benefits as well as death and disability benefits. Employees who retire at any age with 25 or more years of service or age 60 regardless of service are entitled to an annual retirement benefit, payable for life, in an amount equal to 3.0% (2.5% for members hired on or after July 1, 2011) of their three-year average final compensation (AFC) multiplied by their first 25 years of service, for a maximum benefit of 75% of final average compensation. A deferred retirement is earned by an employee who terminates before retirement age and has 10 or more years of service. The plan provides for a minimum retiree pension amount of \$500 per month. This minimum is also applicable to surviving spouses. The annual retirement benefit payable to a qualifying retiree is increased by 1.0% (1.5% for those retirees and beneficiaries retiring after July 1, 2002) per year, compounded annually.

As of June 30, 2014 the defined benefit plan is closed. Employees who are hired as of July 1, 2014 or later are now being covered with a defined contribution retirement plan.

*Summary of Significant Accounting Policies.* The financial statements of the Plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contribution has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Administration of the Plan is funded through the Plan's investment earnings.

*Method Used to Value Investments.* Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments for which market quotations are not readily available are valued at their fair values as determined by the custodian under the direction of the Plan Board of Trustees, with the assistance of a valuation service.

*Employees Covered by Benefit Terms.* At June 30, 2018, plan membership consisted of the following:

Retiree and beneficiaries	
currently receiving benefits	54
Terminated vested members	3
Active plan members	<u>22</u>
Total membership	<u><u>79</u></u>

*Contributions.* Covered employees are required to contribute 5.0% of their compensation to the plan if the City's contribution rate is below 6.83%. If the City's contribution rate rises above 6.83%, then members are required to contribute 6.0% to the plan. If an employee leaves covered employment or dies before 10 years of credited service, accumulated employee contributions plus related investment earnings are refunded to the employee or designated beneficiary. City contributions are actuarially determined and based on the individual entry-age method. During the fiscal year ended June 30, 2018, the City contributed \$1,068,469 or 66.6% as a percentage of covered payroll.

## CITY OF ESCANABA, MICHIGAN

### Notes to the Financial Statements

*Investment Policy.* The plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Trustees. The investment policy has been formulated based on consideration of a wide range of policies and describes the prudent investment process that the Board deems appropriate. The Plan's asset allocation policy is as follows:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
US Large Cap	22.61%	7.61%	1.72%
US Mid Cap	19.57%	9.69%	1.90%
US Small Cap	11.47%	9.77%	1.12%
Global Equity ex US	4.97%	7.82%	0.39%
Aggregate Bonds	13.77%	0.24%	0.03%
Short US Credit	12.80%	1.03%	0.13%
US High Yield	9.44%	3.17%	0.30%
REIT	5.37%	5.04%	0.27%
	100.00%		
Inflation			3.00%
Risk adjustments			-0.92%
Total rate of return			7.94%

*Rate of Return.* For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.94%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

*Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Plan is limited to investments in commercial paper of the top two ratings issued by nationally recognized rating organizations. All of the Plan's assets are invested in mutual funds, which are not rated.

*Custodial Credit Risk.* For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a policy for custodial credit risk. The Plan's investment accounts are in mutual fund investment pools, which is evidenced by shares in the pool, not by securities that physically exist or are in book-entry form.

*Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. The Plan's investment policy prohibits any one security exceeding five percent of an overall fund. Additionally, no one industry can represent more than twenty percent of an individual fund.



# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

*Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Plan's investment are in mutual fund investment pools which are not subject to interest rate risk disclosure.

*Fair Value Measurements.* The Plan 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. As of year end, all of the Plan's investments are in mutual funds which are all considered to be Level 1.

*Net Pension Liability.* The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 and rolled forward to June 30, 2018.

*Actuarial Assumptions.* The following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry-age
Amortization method	Level Dollar, Closed
Remaining amortization period	16 years
Asset valuation method	Fair market basis, no actuarial smoothing
Inflation	3.25% wage inflation
Salary increases	3.45% to 7.25%, including inflation
Investment rate of return	7.5%

Mortality for non-disabled members and surviving beneficiaries is based on the RP-2014 Employee and Healthy Annuitant Mortality Tables rolled back to 2006 and projected with Mortality Improvement Scale MP-2015. For disabled participants, mortality is based on the RP-2014 Disabled Retiree Mortality Table rolled back to 2006 and projected with Mortality Improvement Scale MP-2015. (Effective June 30, 2015).

*Summary of Changes from the June 30, 2017 Valuation.* The assumptions and methods are, generally, the same as used for the June 30, 2017 funding valuation, as described in Section 4.3 of the June 30, 2017 Funding Report.

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

*Changes in the Net Pension Liability.* The components of the changes in the net pension liability at June 30, 2018, are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2017	\$ 34,276,630	\$ 28,608,173	\$ 5,668,457
Changes for the year:			
Service cost	489,653	-	489,653
Interest	2,539,579	-	2,539,579
Differences between expected and actual experience	(583,630)	-	(583,630)
Changes in assumptions			-
Employer contributions	-	1,068,469	(1,068,469)
Plan member contributions	-	99,809	(99,809)
Net investment income	-	2,243,475	(2,243,475)
Benefit payments, including refunds of Plan member contributions	(1,810,470)	(1,810,470)	-
Administrative expenses	-	(29,035)	29,035
Net changes	635,132	1,572,248	(937,116)
Balances at June 30, 2018	\$ 34,911,762	\$ 30,180,421	\$ 4,731,341

*Discount Rate.* A single discount rate of 7.5% was used to measure the total pension liability. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate.* The following presents the City's net pension liability, calculated using a single discount rate of 7.50%, as well as what the City's net pension liability would be if it were calculated using a single discount rate that is one percent lower or one percent higher:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability	\$ 9,211,060	\$ 4,731,341	\$ 1,056,345

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

### *Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.*

For the year ended June 30, 2018, the City recognized pension expense of \$(1,358,706). At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience			
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 335,304	\$ (335,304)
Changes in assumptions	624,936	603,488	21,448
	<u>69,358</u>	<u>-</u>	<u>69,358</u>
<b>Total</b>	<b><u>\$ 694,294</u></b>	<b><u>\$ 938,792</u></b>	<b><u>\$ (244,498)</u></b>

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

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	\$ 452,442	\$ 522,486
2020	241,852	198,738
2021	-	192,961
2022	<u>-</u>	<u>24,607</u>
<b>Total</b>	<b><u>\$ 694,294</u></b>	<b><u>\$ 938,792</u></b>

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

### 14. COMMITMENTS AND SUBSEQUENT EVENTS

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and contracts. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the City.

The City is involved in certain tax tribunal disputes wherein taxpayers have petitioned the courts to reduce the amount of property taxes that have been paid to the City and to receive reimbursement from the City. No liability has been recorded related to these disputes as the outcome and amount of any potential liability can not readily be determined.

On July 31, 2018 the D.C. Circuit ruled against the City of Escanaba in an appeal related to a Federal Energy Regulatory Commission (FERC) order directing and implementing the reallocation the costs of power produced from various power plants that had been allocated to Wisconsin tax payers. As a result, the City of Escanaba may be liable for additional costs. The City has not reported any liability in relation to this matter as the amount of any potential liability cannot be readily determined.

On October 4, 2018 at the regular City Council meeting, Council approved a resolution for a lump sum payment to Municipal Employee's Retirement System in the amount of \$2.5 million in an effort to reduce the unfunded liability related to the retirement program.

### 15. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2018, was as follows:

	Governmental Activities	Business-type Activities	Component Unit
Capital assets:			
Capital assets, not being depreciated	\$ 1,473,101	\$ 1,364,800	\$ 380,172
Capital assets being depreciated, net	22,902,761	27,548,769	1,400,084
	<u>24,375,862</u>	<u>28,913,569</u>	<u>1,780,256</u>
Long-term liabilities:			
Due within one year	-	505,000	-
Due in more than one year	-	4,425,000	-
	-	<u>4,930,000</u>	-
Net investment in capital assets	<u>\$ 24,375,862</u>	<u>\$ 23,983,569</u>	<u>\$ 1,780,256</u>

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

### 16. FUND BALANCES - GOVERNMENTAL FUNDS

Detailed information on fund balances of governmental funds is as follows:

	General Fund	Nonmajor Governmental Funds	Total
<b>Nonspendable:</b>			
Gas permanent fund	\$ -	\$ 1,094,634	\$ 1,094,634
Prepays	155,663	1,177	156,840
Inventory	139,634	-	139,634
Loans receivable	-	637,068	637,068
Advance to other funds	160,076	645,170	805,246
<b>Total nonspendable</b>	<b>455,373</b>	<b>2,378,049</b>	<b>2,833,422</b>
<b>Restricted:</b>			
Economic development (UDAG/DIAL Grant)	-	1,470,470	1,470,470
UPSET expenditures/building	-	35,864	35,864
Brownfield	-	27,457	27,457
Capital improvements	-	65,403	65,403
Highways, streets, and public works	-	3,211,247	3,211,247
	-	4,810,441	4,810,441
<b>Committed:</b>			
Highways, streets and public works	-	56	56
Recreation and culture	-	214,236	214,236
Economic development	-	2,046,074	2,046,074
<b>Total restricted</b>	<b>-</b>	<b>2,260,366</b>	<b>2,260,366</b>
Assigned for pension contributions	612,000	-	612,000
Unassigned	3,823,649	(246,040)	3,577,609
<b>Total fund balances, governmental funds</b>	<b>\$ 4,891,022</b>	<b>\$ 9,202,816</b>	<b>\$ 14,093,838</b>

# CITY OF ESCANABA, MICHIGAN

## Notes to the Financial Statements

### 17. RESTRICTED NET POSITION

*Restricted Net Position*

The composition of the City's restricted net position as of June 30, 2018, was as follows:

	Governmental Activities	Business-type Activities
Restricted for:		
Public safety	\$ 35,864	\$ -
Streets, highways and public works	3,211,247	-
Community development	1,497,927	-
Capital improvements	65,403	-
Energy optimization and renewable energy	-	1,359,443
Gas permanent fund (nonexpendable)	1,094,634	-
	<u>\$ 5,905,075</u>	<u>\$ 1,359,443</u>

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## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ESCANABA, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Changes in City's Net Pension Liability and Related Ratios

	Fiscal Year Ended June 30,			
	2018	2017	2016	2015
Total pension liability				
Service cost	\$ 192,629	\$ 208,945	\$ 233,003	\$ 256,475
Interest	2,774,891	2,718,466	2,604,321	2,543,881
Changes in benefit terms		136,249	-	-
Differences between expected and actual experience	(98,457)	(5,233)	(100,016)	-
Changes of assumptions		-	1,862,283	-
Benefit payments, including refunds of employee contributions	(2,445,052)	(2,244,879)	(2,103,652)	(2,008,357)
Other		-	-	(1)
Net change in total pension liability	424,011	813,548	2,495,939	791,998
Total pension liability, beginning of year	35,812,343	34,998,795	32,502,856	31,710,858
Total pension liability, end of year	\$ 36,236,354	\$ 35,812,343	\$ 34,998,795	\$ 32,502,856
Plan fiduciary net position				
Employer contributions	\$ 1,399,555	\$ 1,328,965	\$ 1,293,868	\$ 1,194,312
Net investment income	2,549,195	2,075,153	(288,545)	1,208,114
Benefit payments, including refunds of employee contributions	(2,445,052)	(2,244,879)	(2,103,652)	(2,008,357)
Administrative expense	(40,443)	(40,989)	(42,547)	(44,231)
Net change in plan fiduciary net position	1,463,255	1,118,250	(1,140,876)	349,838
Plan fiduciary net position, beginning of year	19,677,756	18,559,506	19,700,382	19,350,544
Plan fiduciary net position, end of year	\$ 21,141,011	\$ 19,677,756	\$ 18,559,506	\$ 19,700,382
City's net pension liability	\$ 15,095,343	\$ 16,134,587	\$ 16,439,289	\$ 12,802,474
Plan fiduciary net position as a percentage of total pension liability	58.3%	54.9%	53.0%	60.6%
Covered-employee payroll	\$ 1,882,609	\$ 2,074,943	\$ 2,342,307	\$ 2,580,370
City's net pension liability as a percentage of covered-employee payroll	801.8%	777.6%	701.8%	496.1%

Notes:

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

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



CITY OF ESCANABA, MICHIGAN

**Required Supplementary Information**

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of the Net Pension Liability

Fiscal Year Ended June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered-Employee Payroll	Net Pension Liability as Percentage of Covered Payroll
2015	\$ 32,502,856	\$ 19,700,382	\$ 12,802,474	60.6%	\$ 2,580,370	496.15%
2016	34,998,795	18,559,506	16,439,289	53.0%	2,342,307	701.84%
2017	35,812,343	19,677,756	16,134,587	54.9%	2,074,943	777.59%
2018	36,236,354	21,141,011	15,095,343	58.3%	1,882,609	801.83%

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

Note: GASB 68 was implemented in fiscal year 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF ESCANABA, MICHIGAN

**Required Supplementary Information**  
MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Contributions

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as Percentage of Covered-Employee Payroll
2015	\$ 1,194,312	\$ 1,194,312	\$ -	\$ 2,580,370	46.3%
2016	1,293,868	1,293,868	-	2,342,307	55.2%
2017	1,328,965	1,328,965	-	2,074,943	64.0%
2018	1,399,555	1,399,555	-	1,882,609	74.3%

Note: GASB 68 was implemented in fiscal year 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated as of December 31, which is 18 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates (2018, based on the 12/31/2015 actuarial valuation):

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, closed
Remaining amortization period	23 years
Asset valuation method	Open; 10-year smooth market
Inflation	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
Retirement age	Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement rates were first used for the December 31, 2015 actuarial valuations. The Early Retirement rates were first used for the December 31, 2015 actuarial valuations.
Mortality	2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend. The mortality tables were first used for the December 31, 2015 actuarial valuations.

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CITY OF ESCANABA , MICHIGAN

**Required Supplementary Information**

City of Escanaba Public Safety Officer Retirement System Defined Benefit Plan

Schedule of Changes in the City's Net Pension Liability and Related Ratios

	Fiscal Year Ended June 30,	
	2018	2017
Total pension liability		
Service cost	\$ 489,653	\$ 514,868
Interest	2,539,579	2,436,105
Differences between expected and actual experience	(583,630)	(352,923)
Changes of assumptions	-	602,882
Benefit payments, including refunds of Plan member contributions	(1,810,470)	(1,781,664)
Net change in total pension liability	635,132	1,419,268
Total pension liability, beginning of year	34,276,630	32,857,362
Total pension liability, end of year	34,911,762	34,276,630
Plan fiduciary net position		
Employer contributions	1,068,469	1,134,353
Plan member contributions	99,809	102,635
Net investment income	2,243,475	2,798,889
Benefit payments, including refunds of Plan member contributions	(1,810,470)	(1,781,664)
Administrative expenses	(29,035)	(26,691)
Net change in plan fiduciary net position	1,572,248	2,227,522
Plan fiduciary net position, beginning of year	28,608,173	26,380,651
Plan fiduciary net position, end of year	30,180,421	28,608,173
City's net pension liability	\$ 4,731,341	\$ 5,668,457
Plan fiduciary net position as a percentage of total pension liability	86.4%	83.5%
Covered-employee payroll	\$ 1,603,361	\$ 1,708,313
City's net pension liability as a percentage of covered-employee payroll	295.1%	331.8%

Note: GASB 67 was implemented in fiscal year 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.



Fiscal Year Ended June 30,		
2016	2015	2014
\$ 597,406	\$ 727,549	\$ 708,122
2,347,872	2,270,399	2,171,492
(1,120,348)	(321,158)	-
(6,227,926)	5,861,409	-
<u>(1,590,935)</u>	<u>(1,538,201)</u>	<u>(1,500,644)</u>
(5,993,931)	6,999,998	1,378,970
<u>38,851,293</u>	<u>31,851,295</u>	<u>30,472,325</u>
<u>32,857,362</u>	<u>38,851,293</u>	<u>31,851,295</u>
969,387	1,033,739	1,058,517
149,195	124,797	123,571
550,663	1,126,473	3,747,259
<u>(1,590,935)</u>	<u>(1,538,201)</u>	<u>(1,500,644)</u>
(13,650)	(6,835)	(12,702)
<u>64,660</u>	<u>739,973</u>	<u>3,416,001</u>
<u>26,315,991</u>	<u>25,576,018</u>	<u>22,160,017</u>
<u>26,380,651</u>	<u>26,315,991</u>	<u>25,576,018</u>
<u>\$ 6,476,711</u>	<u>\$ 12,535,302</u>	<u>\$ 6,275,277</u>
80.3%	67.7%	80.3%
<u>\$ 2,105,983</u>	<u>\$ 2,055,865</u>	<u>\$ 2,028,519</u>
307.5%	609.7%	309.4%

# CITY OF ESCANABA, MICHIGAN

## Required Supplementary Information

### City of Escanaba Public Safety Officer Retirement System Defined Benefit Plan

#### Schedule of the City's Net Pension Liability

Fiscal Year Ended June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered-Employee Payroll	Net Pension Liability as Percentage of Covered Payroll
2014	\$ 31,851,295	\$ 25,576,018	\$ 6,275,277	80.3%	\$ 2,028,519	309.4%
2015	38,851,293	26,315,991	12,535,302	67.7%	2,055,865	609.7%
2016	32,857,362	26,380,651	6,476,711	80.3%	2,105,983	307.5%
2017	34,276,630	28,608,173	5,668,457	83.5%	1,708,313	331.8%
2018	34,911,762	30,180,421	4,731,341	86.4%	1,603,361	295.1%

Note: GASB 67 was implemented in fiscal year 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

# CITY OF ESCANABA, MICHIGAN

## Required Supplementary Information

### City of Escanaba Public Safety Officer Retirement System Defined Benefit Plan

#### Schedule of the City's Contributions

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as Percentage of Covered-Employee Payroll
2014	\$ 1,058,517	\$ 1,058,517	\$ -	\$ 2,028,519	52.2%
2015	1,033,739	1,033,739	-	2,055,865	50.3%
2016	969,387	969,387	-	2,105,983	46.0%
2017	1,134,353	1,134,353	-	1,708,313	66.4%
2018	1,068,469	1,068,469	-	1,603,361	66.6%

Note: GASB 67 was implemented in fiscal year 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

#### Notes to Schedule of Contributions

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

#### Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level Dollar, Closed
Remaining amortization period	16 years
Asset valuation method	5-year smoothed market value of assets (Effective June 30, 2017)
Inflation	3.25%
Salary increases	3.45% to 7.25%, including inflation
Investment rate of return	7.5%
Retirement age	Age-based table of rates that are specific to the type of eligibility condition. Last updated for the December 31, 2016 valuation.
Mortality	RP-2014 Employee and Healthy Annuitant Mortality Tables rolled back to 2006 and projected with Mortality Improvement Scale MP-2015. For disabled participants, mortality is based on the RP-2014 Disabled Retiree Mortality Table rolled back to 2006 and projected with Mortality Improvement Scale MP-2015. (Effective June 30, 2015)

# CITY OF ESCANABA, MICHIGAN

## Required Supplementary Information City of Escanaba Public Safety Officer Retirement System Defined Benefit Plan

### Schedule of Investment Returns

Fiscal Year Ending June 30,	Annual Return <sup>(1)</sup>
2014	17.0%
2015	4.4%
2016	2.2%
2017	10.7%
2018	7.9%

<sup>(1)</sup> Annual money-weighted rate of return, net of investment expenses

Note: GASB 68 was implemented in fiscal year 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.



**COMBINING FUND  
FINANCIAL STATEMENTS**

CITY OF ESCANABA, MICHIGAN

**Combining Balance Sheet**  
 Nonmajor Governmental Funds  
 June 30, 2018

	Special Revenue Funds				
	Major Streets	Local Streets	Parking Maintenance	Downtown Development Authority	Brownfield
<b>Assets</b>					
Cash and investments	\$ 2,225,776	\$ 942,242	\$ 2,842	\$ 170,975	\$ 27,398
Accounts receivable	-	-	-	-	-
Loans receivable	-	-	-	-	-
Accrued interest receivable	5,260	2,233	(1)	198	59
Prepaid items	-	-	-	-	-
Due from other funds	-	-	-	-	-
Due from other governmental units	174,817	66,076	-	-	-
Advance to other funds	-	-	-	-	-
<b>Total assets</b>	<u>\$ 2,405,853</u>	<u>\$ 1,010,551</u>	<u>\$ 2,841</u>	<u>\$ 171,173</u>	<u>\$ 27,457</u>
<b>Liabilities</b>					
Accounts payable	\$ 239,393	\$ 3,836	\$ 2,785	\$ 3,869	\$ -
Due to other funds	-	-	-	-	-
Unearned revenue	-	-	-	82	-
Advance from other funds	-	-	-	413,268	-
<b>Total liabilities</b>	<u>239,393</u>	<u>3,836</u>	<u>2,785</u>	<u>417,219</u>	<u>-</u>
<b>Fund balances</b>					
Nonspendable	-	-	-	-	-
Restricted:					
Economic development	-	-	-	-	-
UPSET expenditures/building	-	-	-	-	-
Brownfield	-	-	-	-	27,457
Capital improvements	-	-	-	-	-
Highways, streets, and public works	2,166,460	1,006,715	-	-	-
Committed:					
Highways, streets, and public works	-	-	56	-	-
Recreation and culture	-	-	-	-	-
Economic development	-	-	-	-	-
Unassigned (deficit)	-	-	-	(246,046)	-
<b>Total fund balances</b>	<u>2,166,460</u>	<u>1,006,715</u>	<u>56</u>	<u>(246,046)</u>	<u>27,457</u>
<b>Total liabilities and fund balances</b>	<u>\$ 2,405,853</u>	<u>\$ 1,010,551</u>	<u>\$ 2,841</u>	<u>\$ 171,173</u>	<u>\$ 27,457</u>

Special Revenue Funds							
Drug Law Enforcement	Delta County Central Dispatch Authority	Library	Housing Rehabilitation	Grants	UDAG/DIAL Grant	E.D.A Revolving Loan Fund	Farmers Home Grant
\$ 35,789	\$ 1,070	\$ 100,285	\$ 260,742	\$ 67,795	\$ 1,411,948	\$ 380,403	\$ 46,179
-	-	-	-	-	-	-	-
75	114	384	557	55	611,948	810	100
-	-	1,177	-	-	3,466	-	-
-	-	-	-	750	-	-	-
-	71,000	128,089	-	13,043	-	496	-
-	-	-	-	-	413,268	-	-
<u>\$ 35,864</u>	<u>\$ 72,184</u>	<u>\$ 229,935</u>	<u>\$ 261,299</u>	<u>\$ 81,643</u>	<u>\$ 2,440,630</u>	<u>\$ 381,709</u>	<u>\$ 46,279</u>
\$ -	\$ 968	\$ 11,126	\$ -	\$ 5,655	\$ 43	\$ 305	\$ -
-	66,411	-	-	-	-	-	750
-	4,799	3,396	-	20,889	-	-	-
-	-	-	-	-	-	-	-
-	72,178	14,522	-	26,544	43	305	750
-	-	1,177	-	-	1,025,216	-	-
-	-	-	-	55,099	1,415,371	-	-
35,864	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	214,236	-	-	-	-	-
-	-	-	261,299	-	-	381,404	45,529
-	6	-	-	-	-	-	-
<u>35,864</u>	<u>6</u>	<u>215,413</u>	<u>261,299</u>	<u>55,099</u>	<u>2,440,587</u>	<u>381,404</u>	<u>45,529</u>
<u>\$ 35,864</u>	<u>\$ 72,184</u>	<u>\$ 229,935</u>	<u>\$ 261,299</u>	<u>\$ 81,643</u>	<u>\$ 2,440,630</u>	<u>\$ 381,709</u>	<u>\$ 46,279</u>

Special Revenue Funds			Permanent Fund	Total Nonmajor Governmental Funds
M.S.C. Revolving Loan	Land Development	Sanitary Landfill	Gas Retirement	
\$ 114,160	\$ 1,241,617	\$ 2,954	\$ 1,157,583	\$ 8,189,758
-	-	34,822	-	34,822
25,120	-	-	-	637,068
255	2,827	296	2,454	19,142
-	-	-	-	1,177
-	-	-	-	750
-	17,239	-	-	470,760
-	231,902	-	-	645,170
<u>\$ 139,535</u>	<u>\$ 1,493,585</u>	<u>\$ 38,072</u>	<u>\$ 1,160,037</u>	<u>\$ 9,998,647</u>
\$ -	\$ 1,267	\$ -	\$ -	\$ 269,247
-	-	-	-	67,161
-	16,989	-	-	46,155
-	-	-	-	413,268
-	18,256	-	-	795,831
25,120	231,902	-	1,094,634	2,378,049
-	-	-	-	1,470,470
-	-	-	-	35,864
-	-	-	-	27,457
-	-	-	65,403	65,403
-	-	38,072	-	3,211,247
-	-	-	-	56
-	-	-	-	214,236
114,415	1,243,427	-	-	2,046,074
-	-	-	-	(246,040)
<u>139,535</u>	<u>1,475,329</u>	<u>38,072</u>	<u>1,160,037</u>	<u>9,202,816</u>
<u>\$ 139,535</u>	<u>\$ 1,493,585</u>	<u>\$ 38,072</u>	<u>\$ 1,160,037</u>	<u>\$ 9,998,647</u>

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CITY OF ESCANABA, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
 Nonmajor Special Governmental Funds  
 For the Year Ended June 30, 2018

	Special Revenue Funds				
	Major Streets	Local Streets	Parking Maintenance	Downtown Development Authority	Brownfield
<b>Revenues</b>					
Taxes	\$ -	\$ -	\$ -	\$ 311,013	\$ 48,669
Intergovernmental	1,184,232	414,586	-	14,100	-
Charges for services	-	-	15,203	-	-
Fines and fees	-	-	-	-	-
Investment earnings (loss)	8,926	4,851	2	571	171
Other revenues	-	57,741	-	3,278	-
<b>Total revenues</b>	<b>1,193,158</b>	<b>477,178</b>	<b>15,205</b>	<b>328,962</b>	<b>48,840</b>
<b>Expenditures</b>					
Current:					
Public safety	-	-	-	-	-
Highway, streets & public works	1,157,946	511,334	33,379	-	-
Sanitation	-	-	-	-	-
Recreation and culture	-	-	-	-	-
Community and economic development	-	-	-	232,181	47,520
<b>Total expenditures</b>	<b>1,157,946</b>	<b>511,334</b>	<b>33,379</b>	<b>232,181</b>	<b>47,520</b>
Revenues over (under) expenditures	35,212	(34,156)	(18,174)	96,781	1,320
<b>Other financing sources (uses)</b>					
Transfers in	-	-	18,174	-	-
Transfers out	-	-	-	(2,500)	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>18,174</b>	<b>(2,500)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>35,212</b>	<b>(34,156)</b>	<b>-</b>	<b>94,281</b>	<b>1,320</b>
Fund balances, beginning of year	2,131,248	1,040,871	56	(340,327)	26,137
<b>Fund balances, end of year</b>	<b>\$ 2,166,460</b>	<b>\$ 1,006,715</b>	<b>\$ 56</b>	<b>\$ (246,046)</b>	<b>\$ 27,457</b>

Special Revenue Funds							
Drug Law Enforcement	Delta County Central Dispatch Authority	Library	Housing Rehabilitation	Grants	UDAG/DIAL Grant	E.D.A Revolving Loan Fund	Farmers Home Grant
\$ -	\$ -	\$ 591	\$ -	\$ -	\$ 875,000	\$ -	\$ -
-	-	22,692	-	441,704	-	-	-
-	799,781	-	-	-	-	-	-
19,544	-	134,423	-	-	-	-	-
118	120	639	1,025	(86)	41,767	1,476	182
750	-	11,853	8,000	-	-	-	-
<u>20,412</u>	<u>799,901</u>	<u>170,198</u>	<u>9,025</u>	<u>441,618</u>	<u>916,767</u>	<u>1,476</u>	<u>182</u>
3,941	800,031	-	-	-	-	-	-
-	-	-	-	-	(1)	-	-
-	-	-	-	-	-	-	-
-	-	572,088	-	-	-	-	-
-	-	-	1,683	467,237	1,398	3,770	70
<u>3,941</u>	<u>800,031</u>	<u>572,088</u>	<u>1,683</u>	<u>467,237</u>	<u>1,397</u>	<u>3,770</u>	<u>70</u>
<u>16,471</u>	<u>(130)</u>	<u>(401,890)</u>	<u>7,342</u>	<u>(25,619)</u>	<u>915,370</u>	<u>(2,294)</u>	<u>112</u>
-	-	400,000	-	37,113	-	-	-
-	-	-	-	-	-	-	(1,500)
-	-	400,000	-	37,113	-	-	(1,500)
16,471	(130)	(1,890)	7,342	11,494	915,370	(2,294)	(1,388)
19,393	136	217,303	253,957	43,605	1,525,217	383,698	46,917
<u>\$ 35,864</u>	<u>\$ 6</u>	<u>\$ 215,413</u>	<u>\$ 261,299</u>	<u>\$ 55,099</u>	<u>\$ 2,440,587</u>	<u>\$ 381,404</u>	<u>\$ 45,529</u>

Special Revenue Funds			Permanent Fund	
M.S.C. Revolving Loan	Land Development	Sanitary Landfill	Gas Retirement	Total
\$ -	\$ 9,942	\$ -	\$ -	\$ 1,245,215
-	2,500	-	-	2,079,814
-	-	222,287	-	1,037,271
-	-	-	-	153,967
1,355	12,416	358	4,471	78,362
-	27,796	-	-	109,418
<u>1,355</u>	<u>52,654</u>	<u>222,645</u>	<u>4,471</u>	<u>4,704,047</u>
-	-	-	-	803,972
(1)	22,032	-	-	1,724,689
-	-	70	-	70
-	-	-	-	572,088
-	-	-	-	753,859
<u>(1)</u>	<u>22,032</u>	<u>70</u>	<u>-</u>	<u>3,854,678</u>
<u>1,356</u>	<u>30,622</u>	<u>222,575</u>	<u>4,471</u>	<u>849,369</u>
-	-	-	-	455,287
-	(60,000)	(218,095)	-	(282,095)
-	(60,000)	(218,095)	-	173,192
1,356	(29,378)	4,480	4,471	1,022,561
138,179	1,504,707	33,592	1,155,566	8,180,255
<u>\$ 139,535</u>	<u>\$ 1,475,329</u>	<u>\$ 38,072</u>	<u>\$ 1,160,037</u>	<u>\$ 9,202,816</u>



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CITY OF ESCANABA, MICHIGAN

Combining Statement of Net Position  
Internal Service Funds  
June 30, 2018

	Governmental Activities			
	Escanaba Building Authority	Motor Vehicle	Office Equipment	Risk Retention
<b>Assets</b>				
Current assets:				
Cash and investments	\$ 292,910	\$ 398,379	\$ 369,251	\$ -
Receivables	-	3,466	49,697	-
Accrued interest receivable	458	739	814	361
Other assets	-	(142)	3,433	664,420
Total current assets	<u>293,368</u>	<u>402,442</u>	<u>423,195</u>	<u>664,781</u>
Noncurrent assets:				
Capital assets not being depreciated	625,731	-	-	-
Capital assets being depreciated, net	3,193,055	1,031,364	55,476	-
Total noncurrent assets	<u>3,818,786</u>	<u>1,031,364</u>	<u>55,476</u>	<u>-</u>
<b>Total assets</b>	<u>4,112,154</u>	<u>1,433,806</u>	<u>478,671</u>	<u>664,781</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	3,457	10,934	889	11,142
Due to other funds	-	-	-	11,723
Compensated absences-current	-	9,262	-	-
Unearned revenue	-	1,950	-	-
Total current liabilities	<u>3,457</u>	<u>22,146</u>	<u>889</u>	<u>22,865</u>
Noncurrent liabilities:				
Advances from other funds	750,000	160,076	-	-
Compensated absences-noncurrent	-	25,537	-	-
Total noncurrent liabilities	<u>750,000</u>	<u>185,613</u>	<u>-</u>	<u>-</u>
<b>Total liabilities</b>	<u>753,457</u>	<u>207,759</u>	<u>889</u>	<u>22,865</u>
<b>Net position</b>				
Investment in capital assets	3,818,786	1,031,364	55,476	-
Unrestricted (deficit)	(460,089)	194,683	422,306	641,916
<b>Total net position</b>	<u>\$ 3,358,697</u>	<u>\$ 1,226,047</u>	<u>\$ 477,782</u>	<u>\$ 641,916</u>



Governmental Activities		
Workers Compensation	Unemployment Compensation	Total
\$ 387,180	\$ 306,678	\$ 1,754,398
-	-	53,163
793	640	3,805
49,525	-	717,236
<u>437,498</u>	<u>307,318</u>	<u>2,528,602</u>
-	-	625,731
-	-	4,279,895
-	-	4,905,626
<u>437,498</u>	<u>307,318</u>	<u>7,434,228</u>
174,436	5,079	205,937
-	-	11,723
-	-	9,262
-	-	1,950
<u>174,436</u>	<u>5,079</u>	<u>228,872</u>
-	-	910,076
-	-	25,537
-	-	935,613
<u>174,436</u>	<u>5,079</u>	<u>1,164,485</u>
-	-	4,905,626
<u>263,062</u>	<u>302,239</u>	<u>1,364,117</u>
<u>\$ 263,062</u>	<u>\$ 302,239</u>	<u>\$ 6,269,743</u>

CITY OF ESCANABA, MICHIGAN

Combining Statement of Revenues, Expenses and Changes in Fund Net Position

Internal Service Funds

For the Year Ended June 30, 2018

	Governmental Activities			
	Escanaba Building Authority	Motor Vehicle	Office Equipment	Risk Retention
Operating revenues				
Charges for services	\$ 133,248	\$ 986,735	\$ 9,744	\$ -
Provision for self insurance	-	-	-	138,390
Other revenue	-	30,000	168,309	-
<b>Total operating revenues</b>	<b>133,248</b>	<b>1,016,735</b>	<b>178,053</b>	<b>138,390</b>
Operating expenses				
Personnel services	7,094	202,630	-	-
Overhead	54,241	117,758	-	-
Fuel	-	128,679	-	-
Contracted services	39,160	30,228	10,222	299
Insurance	7,638	79,574	-	117,451
Dues & training	-	3,511	-	-
Sales & promotion	-	1,009	-	-
Repairs & maintenance	26,135	256,399	19,897	-
Claims	-	-	-	25,837
Equipment rental	-	1,954	-	-
Depreciation	148,874	160,189	24,593	-
Supplies	3,658	25,123	114	-
Other	1,246	8,668	-	-
<b>Total operating expenses</b>	<b>288,046</b>	<b>1,015,722</b>	<b>54,826</b>	<b>143,587</b>
Operating income (loss)	(154,798)	1,013	123,227	(5,197)
Nonoperating revenues				
Loss on disposal of assets	-	(11,117)	-	-
Investment earnings (loss)	1,008	1,751	1,408	19,234
Interest expense	(20,833)	(5,279)	-	-
<b>Total nonoperating revenues (expenses)</b>	<b>(19,825)</b>	<b>(14,645)</b>	<b>1,408</b>	<b>19,234</b>
Income (loss) before transfers	(174,623)	(13,632)	124,635	14,037
Transfers in	145,850	-	-	-
Transfers out	-	-	(51,900)	-
Change in net position	(28,773)	(13,632)	72,735	14,037
Net position, beginning of year	3,387,470	1,239,679	405,047	627,879
Net position, end of year	\$ 3,358,697	\$ 1,226,047	\$ 477,782	\$ 641,916

Governmental Activities		
Workers Compensation	Unemployment Compensation	Total
\$ -	\$ -	\$ 1,129,727
152,328	-	290,718
-	-	198,309
152,328	-	1,618,754
8,939	-	218,663
-	-	171,999
-	-	128,679
15,886	176	95,971
51,191	-	255,854
121	-	3,632
-	-	1,009
-	-	302,431
-	-	25,837
-	-	1,954
-	-	333,656
33,690	-	62,585
-	-	9,914
109,827	176	1,612,184
42,501	(176)	6,570
-	-	(11,117)
1,457	988	25,846
-	-	(26,112)
1,457	988	(11,383)
43,958	812	(4,813)
-	-	145,850
-	-	(51,900)
43,958	812	89,137
219,104	301,427	6,180,606
\$ 263,062	\$ 302,239	\$ 6,269,743

# CITY OF ESCANABA, MICHIGAN

## Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2018

	Governmental Activities			
	Escanaba Building Authority	Motor Vehicle	Office Equipment	Risk Retention
<b>Cash flows from operating activities</b>				
Cash received from other funds or services	\$ 133,248	\$ 1,013,453	\$ 148,075	\$ 138,390
Cash payments to employees for services	(7,094)	(196,989)	-	-
Cash payments to suppliers for goods and services	(132,348)	(662,088)	(32,812)	(157,847)
<b>Net cash provided by (used in) operating activities</b>	<b>(6,194)</b>	<b>154,376</b>	<b>115,263</b>	<b>(19,457)</b>
<b>Cash flows from noncapital financing activities</b>				
Repayment on advance from other funds	(125,000)	(14,967)	-	-
Transfers in	145,850	-	-	-
Transfers out	-	-	(51,900)	-
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>20,850</b>	<b>(14,967)</b>	<b>(51,900)</b>	<b>-</b>
<b>Cash flows from capital and related financing activities</b>				
Proceeds from disposal of assets	-	27,541	-	-
Purchase of capital assets	(23,770)	(290,972)	(30,885)	-
Interest payments	(20,833)	(5,279)	-	-
<b>Net cash used in capital and related financing activities</b>	<b>(44,603)</b>	<b>(268,710)</b>	<b>(30,885)</b>	<b>-</b>
<b>Cash flows from investing activities</b>				
Investment earnings (loss)	8,413	13,057	8,356	19,457
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(21,534)</b>	<b>(116,244)</b>	<b>40,834</b>	<b>-</b>
Cash and investments, beginning of year	314,444	514,623	328,417	-
<b>Cash and investments, end of year</b>	<b>\$ 292,910</b>	<b>\$ 398,379</b>	<b>\$ 369,251</b>	<b>\$ -</b>



Governmental Activities		
Workers Compensation	Unemployment Compensation	Total
\$ 152,479	\$ -	\$ 1,585,645
(8,939)	-	(213,022)
<u>(121,729)</u>	<u>(165)</u>	<u>(1,106,989)</u>
21,811	(165)	265,634
-	-	(139,967)
-	-	145,850
<u>-</u>	<u>-</u>	<u>(51,900)</u>
-	-	(46,017)
-	-	27,541
-	-	(345,627)
<u>-</u>	<u>-</u>	<u>(26,112)</u>
-	-	(344,198)
9,893	7,933	67,109
31,704	7,768	(57,472)
<u>355,476</u>	<u>298,910</u>	<u>1,811,870</u>
<u>\$ 387,180</u>	<u>\$ 306,678</u>	<u>\$ 1,754,398</u>

Continued...

CITY OF ESCANABA, MICHIGAN

**Combining Statement of Cash Flows**  
 Internal Service Funds  
 For the Year Ended June 30, 2018

	Governmental Activities			
	Escanaba Building Authority	Motor Vehicle	Office Equipment	Risk Retention
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ (154,798)	\$ 1,013	\$ 123,227	\$ (5,197)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation expense	148,874	160,189	24,593	-
Change in operating assets and liabilities that provided (used) cash:				
Receivables, net	-	(3,282)	(29,978)	-
Other assets	-	2,064	(3,433)	81,780
Accounts payable and accrued payroll	(270)	(11,249)	854	5,354
Compensated absences	-	5,641	-	-
Due to other funds	-	-	-	(101,394)
Net cash provided by (used in) operating activities	<u>\$ (6,194)</u>	<u>\$ 154,376</u>	<u>\$ 115,263</u>	<u>\$ (19,457)</u>
Noncash capital and related financing activities				
Loss on disposal of capital assets	<u>\$ -</u>	<u>\$ 11,117</u>	<u>\$ -</u>	<u>\$ -</u>





Governmental Activities		
Workers Compensation	Unemployment Compensation	Total
\$ 42,501	\$ (176)	\$ 6,570
-	-	333,656
151	-	(33,109)
-	-	80,411
(20,841)	11	(26,141)
-	-	5,641
-	-	(101,394)
<u>\$ 21,811</u>	<u>\$ (165)</u>	<u>\$ 265,634</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,117</u>

Concluded

## INTERNAL CONTROL AND COMPLIANCE

Independent Auditors' Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

December 31, 2018

Honorable members of the City Council  
of the City of Escanaba  
City of Escanaba, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Escanaba* (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 31, 2018. Our report includes a reference to other auditors who audited the financial statements of Escanaba Housing Commission discretely presented component unit, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

#### Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, as items 2018-001 and 2018-002 that we consider to be material weaknesses.

#### Compliance and Other Matters

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

#### City of Escanaba's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### Purpose of this Report

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

A handwritten signature in black ink that reads "Lehmann Lobson LLC". The signature is written in a cursive, flowing style.

## CITY OF ESCANABA, MICHIGAN

### Schedule of Findings and Responses

For the Year Ended June 30, 2018

2018-001 - Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America. (Repeat finding)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. All governmental units are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP") . This is a responsibility of the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition. As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the City's internal controls.

Cause. This condition was caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

Effect. As a result of this condition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation. The City's decision to rely, in part, on its auditors, for the preparation of external financial statements is allowable provided the City accepts responsibility for the financial statements and that it is disclosed as part of the report on internal control and compliance in accordance with *Government Auditing Standards*. Therefore, no specific corrective action is required at this time.

View of Responsible Officials. The City has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

## CITY OF ESCANABA, MICHIGAN

### Schedule of Findings and Responses

For the Year Ended June 30, 2018

2018-002 - Material Audit Adjustments (repeat)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. During our audit, we identified and proposed a material adjustment (which was approved and posted by management) to adjust the City's accounting records.

Cause. The amounts reported for unbilled consumption for the Electric and Water utility were not properly reconciled and reported.

Effect. As a result of this condition, the City's electric and utility funds financial statements were initially misstated by amounts that were considered material. Correcting entries were subsequently posted by management to the City's records and the appropriate balances are presented in the audited financial statements.

Recommendation. Management has already taken appropriate corrective action by posting correcting journal entries. However, we recommend that the City ensure that accounts are reconciled and reviewed.

View of Responsible Officials. The City reviews all accounts on a monthly basis for accuracy. Every attempt is made to ensure all transactions are reported properly. The City will continue to review all accounts to the best of their ability to ensure that all accounts are reconciled at year end.

