

City of Newaygo
Newaygo County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

June 30, 2019



City of Newaygo

TABLE OF CONTENTS

Independent Auditor’s Report..... 1

Management’s Discussion and Analysis..... 4

Basic Financial Statements

 Government-wide Financial Statements

 Statement of Net Position..... 13

 Statement of Activities 14

 Fund Financial Statements

 Governmental Funds

 Balance Sheet..... 15

 Reconciliation of the Governmental Funds Balance Sheet

 to the Statement of Net Position 16

 Statement of Revenues, Expenditures and Changes

 in Fund Balances..... 17

 Reconciliation of the Governmental Funds Statement of Revenues,

 Expenditures and Changes in Fund Balances to the Statement of

 Activities 18

 Proprietary Funds

 Statement of Net Position..... 19

 Statement of Revenues, Expenses and Changes in Net Position 20

 Statement of Cash Flows..... 21

 Fiduciary Funds

 Statement of Fiduciary Assets and Liabilities..... 22

Component Units

 Statement of Net Position..... 23

 Statement of Activities 24

Notes to Financial Statements 25

Required Supplementary Information

 Budgetary Comparison Schedule—General Fund..... 43

 Budgetary Comparison Schedule—Major Streets Fund..... 44

 Budgetary Comparison Schedule—Facade Fund 45

Other Supplementary Information

 Other Governmental Funds

 Combining Balance Sheet 47

 Combining Statement of Revenues, Expenditures and Changes in

 Fund Balances 48

 Combining Statement of Assets and Liabilities—Agency Funds..... 49

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Newaygo
Newaygo, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Honorable Mayor and Members
of the City Council
City of Newaygo
Page 2

Opinions

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

Other Matters

Required Supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 – 12 and 43 – 45 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 of Newaygo, Michigan's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Honorable Mayor and Members
of the City Council
City of Newaygo
Page 3

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2019, on our consideration of the City of Newaygo, Michigan’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the City of Newaygo’s 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 of Newaygo, Michigan’s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Brickley DeLong, P.C." The signature is written in a cursive style.

Muskegon, Michigan
November 18, 2019

CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

The City Manager and staff of the City of Newaygo present to the readers of the City's financial statements this overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2019. We encourage you to consider the information presented in the financial statements along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

Some financial highlights for the fiscal year ended June 30, 2019 include the following:

- The City completed various paving or repair projects on several streets during the year for approximately \$173,000. On-street parking was added on Quarterline, Justice, and Wood streets for approximately \$32,000.
- Some vehicles and equipment were purchased totaling approximately \$191,000. Some used or obsolete equipment was sold. Proceeds from the sales totaled approximately \$41,000.
- The General Fund fund balance increased by approximately \$123,000 for the year mostly due to increased Sales Tax Revenue sharing, grants to the police department, and sale of crushed concrete.
- Sewer system improvements of approximately \$1,500,000 were completed during the year. These included improvements to the Waste Water Treatment plant, sewage lift stations, and sewer mains.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) notes to the financial statements and 3) fund 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 the reader with a broad overview of the City's finances. These statements are similar to those of a private sector business.

The Statement of Net Position presents information on all of the City's assets/deferred outflows of resources and liabilities/deferred inflows or resources, with the difference between the two 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 fiscal year. All changes in net position are reported when the 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 the future fiscal periods.

CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

In the statement of net position and the statement of activities, the City is divided into three kinds of activities:

- Governmental activities - Most of the City's basic services are reported here, including public safety, public works, general administration, community and economic development and culture and recreation. Property taxes and state shared revenues finance most of these activities.
- Business-type activities - The City charges a fee to customers to help it cover all or most of the cost of certain services provided. The City's water and sewer systems are reported here.
- Component Unit activities – Component units are separate legal entities for which the City of Newaygo has some level of financial accountability. The City has two component units, the Tax Increment Finance Authority (TIFA) and Local Development Finance Authority (LDFA). TIFA and LDFA exist primarily for the issuance and repayment of debt to finance improvement projects in specific areas of the City.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant City funds - not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City Council has established several other funds to help it control and manage money for particular purposes. The City has the following kinds of funds:

- Governmental funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and the governmental funds in reconciliation along with the fund financial statements.
- Proprietary funds - When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. The City's Enterprise and Internal Service funds are proprietary funds. The City's water and sewer operations comprise the enterprise funds. The Equipment Pool is the only Internal Service fund. Proprietary funds are reported in the same way activities are reported in the statement of net position and the statement of activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail with additional information, such as a statement of cash flows.
- Fiduciary funds - The City is the trustee, or fiduciary, for certain funds. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

Notes to 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. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General Fund.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on budgetary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis of the government-wide financials focuses mainly on two things, net position (Statement of Net position) and changes in net position (Statement of Activities) of the City's governmental and business-type activities. The Component Units (TIFA and LDFA) are not included in these figures.

Net Position

The first table presented below is a summary of the government-wide statement of net position for the City of Newaygo. As stated earlier, the net position may be used as an indicator of a government's financial health. As of June 30, 2019, the City's net position from governmental activities totaled approximately \$5,913,000 and \$5,288,000 from business-type activities, creating a total government-wide net position total of approximately \$11,200,000.

In examining the composition of net position, the reader should note that net position for governmental activities are mostly invested in capital assets (i.e., streets, buildings, land, vehicles, equipment, etc.). These assets are used to provide services to the City's residents, and they are not available to pay salaries, operational expenses or fund capital projects. Net investment in capital assets is approximately \$4,113,000. Restricted net position, those restricted mainly for streets and highways, debt service, and capital projects were approximately \$822,000. The unrestricted net position for governmental-type activities is approximately \$978,000. This represents the amount of discretionary resources that can be used for general governmental operations.

Some of the more significant changes in activities from last year are as follows:

For governmental activities, current assets and other assets increased due to an increase in cash reserves. Capital assets decreased due to current year depreciation exceeding current year capital additions. Liabilities increased primarily due to increased accounts payable for downtown façade project expenditures, paving projects, and equipment repairs. Restricted and unrestricted net position increased primarily due to an increase in cash reserves.

For business activities, current assets and other assets increased primarily due to an increase in cash and investments. Capital assets increased due to capital investments exceeding current year depreciation. Current liabilities increased due to increased accounts payable for sewer system improvements. Non-current liabilities increased due to new debt incurred on the sewer system.

CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

Net position (in thousands) as of June 30, follows:

	Governmental Activities		Business Activities		Total	
	2019	2018	2019	2018	2019	2018
Current assets and other assets	\$ 1,969	\$ 1,455	\$ 2,657	\$ 1,288	\$ 4,626	\$ 2,743
Capital assets	4,119	4,262	10,323	9,207	14,442	13,469
Total assets	6,088	5,717	12,980	10,495	19,068	16,212
Current liabilities	132	59	1,183	209	1,315	268
Noncurrent liabilities	43	47	6,509	5,076	6,552	5,123
Total liabilities	175	106	7,692	5,285	7,867	5,391
Net position						
Net investment in capital assets	4,113	4,251	3,747	4,031	7,860	8,282
Restricted	822	546	465	464	1,287	1,010
Unrestricted	978	814	1,076	715	2,054	1,529
Total net position	\$ 5,913	\$ 5,611	\$ 5,288	\$ 5,210	\$ 11,201	\$ 10,821

Change in Net Position

Governmental Activities

Regarding revenues, charges for services increased due to charges for school police officer, material sales, and rental inspection revenue. Operating grants and contributions increased due to grants received for public safety and extra money for street operations. Capital grants and contributions increased primarily due to a grant for façade improvements. Grants and contributions not restricted increased due to a larger disbursement from component units and also increased sales tax revenue sharing payments from the State. Other revenues decreased due to sale of land in prior year.

Regarding expenses, general government decreased due to less legal expenses and less maintenance costs. Public safety increased due to more personnel expenses, primarily relating to a new school police officer. Public works increased due to more maintenance, equipment, and utility expenses. Community and economic development increased due to expenses for façade improvements and construction permit services (expansion of Magna and GM Wood Products factories).

Business-Type Activities

Regarding revenues, charges for services increased primarily due to an increase in rates, and receipt of connection fees. Capital grants and contributions increased due to a contribution from TIFA to the sewer system project.

CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

Regarding expenses, sewer and water expenses increased due to personnel and maintenance costs.

Changes in net position (in thousands) as of June 30, follows:

	Governmental Activities		Business Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues						
Charges for services	\$ 459	\$ 223	\$ 1,221	\$ 1,201	\$ 1,680	\$ 1,424
Operating grants and contributions	389	320	-	-	389	320
Capital grants and contributions	545	264	140	10	685	274
General revenues						
Property taxes	302	279	-	-	302	279
Franchise fees	19	19	-	-	19	19
Grants and contributions not restricted	606	555	-	-	606	555
Unrestricted investment earnings	22	11	16	5	38	16
Other	104	195	-	-	104	195
Total revenues	2,446	1,866	1,377	1,216	3,823	3,082
Expenses:						
General government	331	378	-	-	331	378
Public safety	513	473	-	-	513	473
Public works	911	813	-	-	911	813
Community and economic development	266	19	-	-	266	19
Culture and recreation	120	114	-	-	120	114
Interest on long term debt	-	2	-	-	-	2
Sewer	-	-	613	606	613	606
Water	-	-	686	638	686	638
Total expenses	2,141	1,799	1,299	1,244	3,440	3,043
Change in net position	305	67	78	(28)	383	39
Net position - Beginning	5,611	5,544	5,210	5,238	10,821	10,782
Net position - Ending	\$ 5,916	\$ 5,611	\$ 5,288	\$ 5,210	\$ 11,204	\$ 10,821

ANALYSIS OF THE CITY'S INDIVIDUAL FUNDS

As stated earlier in this discussion and analysis, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

Governmental Funds

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

As of June 30, 2019, the City governmental funds reported a combined fund balance of \$1,593,843. This number represents the fund balance of \$771,514 in the General Fund and \$822,329 in other governmental funds. The unassigned fund balance in the General Fund represents what is available for spending at the City's discretion.

The General Fund is the chief operating fund of the City. During the current fiscal year, the General Fund saw a fund balance increase of \$123,393. This increase was primarily the result of sale of crushed concrete, more sales tax revenue sharing from the State, increased property tax revenue, and a larger distribution from component units.

Enterprise Funds

The City's Enterprise funds provide the same type of information found in the governmental financial statements, but in more detail. In the financial statements, Sewer Fund and Water Fund are grouped together as "Enterprise Funds". As of June 30, 2019, unrestricted net position of the Sewer Fund and Water Fund were \$412,366 and \$658,087, respectively.

The largest single expense item for the Water and Sewer Funds is depreciation expense. With large infrastructure improvements and equipment purchases in the last few years, the City has more and newer capital assets that are depreciated each year.

Component Units

TIFA finances many of the City's infrastructure projects through property tax revenues and debt issuance, but TIFA normally does not own any of the improvements. The TIFA had an increase in net position of \$89,040. TIFA continues to assist the City with various infrastructure projects. TIFA also owns and operates a facility that serves as a co-working space, business incubator, and economic development hub for the area. TIFA has made significant progress in repayment of outstanding debt. TIFA repaid principal on long-term debt of \$543,234 during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council made some budget amendments to the General Fund budget. These amendments primarily related to increased public works, capital outlay and law enforcement expenses.

The final amended budget to actual showed some budget variances. Regarding revenues, more than expected state revenues and service revenue were received. Revenue for fines and forfeitures was less than expected. Regarding expenses, law enforcement was under the amended budget due to less than anticipated property maintenance inspection fees, supplies and wages. Public works was under the amended budget primarily due to less than anticipated material expenses. Parks was under the amended budget primarily due to less than anticipated personnel and maintenance costs.

CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2019, the City had \$14,441,713, net of depreciation, invested in a broad range of capital assets including land, buildings, public safety equipment, roads, parks and water and sewer infrastructure. This represents an increase of \$973,123 from last year. This increase was primarily the result of construction in progress for improvements to the City's sewer system. The City had a number of capital asset additions during the year including, but not limited to, street paving (\$151,170), and purchase of vehicles and equipment approximately(\$191,000).

	Governmental Activities		Business Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 600,572	\$ 600,572	\$ 429,500	\$ 429,500	\$ 1,030,072	\$ 1,030,072
Land improvements	332,449	378,211	-	-	332,449	378,211
Building and improvements	607,160	650,703	-	-	607,160	650,703
Furniture, vehicles and equipment	554,503	479,657	1,763	2,725	556,266	482,382
Infrastructure	1,983,885	1,990,620	8,161,481	8,558,941	10,145,366	10,549,561
Shared improvements	40,388	162,027	-	-	40,388	162,027
Construction in progress	-	-	1,730,012	215,634	1,730,012	215,634
Total	\$ 4,118,957	\$ 4,261,790	\$ 10,322,756	\$ 9,206,800	\$ 14,441,713	\$ 13,468,590

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

Long-Term Debt

At June 30, 2019, the City had \$6,751,712 in long-term debt outstanding. This amount is comprised of many different debt obligations, most of which is attributed to debts on infrastructure for water and sanitary sewer systems.

	Governmental Activities		Business Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenue bonds	\$ -	\$ -	\$ 6,666,777	\$ 5,176,000	\$ 6,666,777	\$ 5,176,000
Capital lease	5,905	10,629	-	-	5,905	10,629
Compensated absences	52,065	51,691	26,965	25,381	79,030	77,072
Total	\$ 57,970	\$ 62,320	\$ 6,693,742	\$ 5,201,381	\$ 6,751,712	\$ 5,263,701

In addition to the City's debt, the TIFA component unit had outstanding long-term debt totaling \$1,644,134. \$164,134 of this debt is owed on the Magna Mirrors building which is presently owned by the TIFA. Once this debt is repaid the building will be transferred to Magna Mirrors. The remainder of the debt is for a building owned by TIFA that serves as a business incubator, co-working space, and houses staff whose efforts are focused on economic development. Debt issued by the component unit is typically secured by the limited full faith and credit of the City and so it is an important consideration in assessing the City's overall fiscal health.

Additional information concerning long-term debt can be found in the notes to the financial statements.

GENERAL ECONOMIC OVERVIEW

The City depends on four major sources of income to fund operations: local property taxes, state shared revenues from sales tax, state street funds, and water and sewer utility fees. Clearly, discussion of the City's financial outlook must center on these major income sources.

Local Property Tax

The current 2019-20 City budget maintains the existing City millage rate of 17.75. The City continues to work on reducing the City millage amount as part of an on-going effort by the City Council and staff to decrease the tax burden on taxpayers and promote economic growth. The property tax values for real property are expected to rise slightly due to increased economic activity.

The City of Newaygo in partnership with The Right Place, Inc. continue to work diligently toward economic growth. Good managed growth will add to the tax revenue of the City and help to reduce the tax burden on each individual taxpayer of the City while improving the quality of life for all citizens. Two factories, Magna Mirrors and GM Wood Products have completed major expansion projects that will add to the City's tax revenue and also create more jobs. Besides promotion, the City continues to work on beautification of structures and spaces. In addition, the Stream Building is an innovative office complex located in downtown Newaygo. It is a multi-purpose facility with various working environments. It serves as a business incubator, co-working and remote work space, and a talent development center with staff focused on economic development. This facility will encourage economic growth for the community through education, job creation, and allowing people to remain in the community to work and recreate. These items will influence the need for housing and commercial property which will affect local property tax revenues.

Another factor influencing property tax revenues is Proposal A (1994). The statewide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because certain properties may increase in value by less than inflation, the result is that the City's total taxable value may grow less than inflation. In addition, almost the entire City is part of a TIFA district. This means that most of the tax revenue available to the General Fund for City operations is capped at a certain amount. This has been true since the formation of the TIFA District back in 1985. However, the Riverbank Project land on the west end of the City is not located in the TIFA district and if developed will bring more revenue to the General Fund.

State Shared Revenues

State shared revenues are based on sales tax revenues. Part of the distribution formula is based on population. With new housing being built in the City, population is expected to increase thereby resulting in more revenue for the City. Revenues have increased the last couple years. If the economy continues to be strong, revenues are expected to continue to increase. Management continues to monitor this situation and the affect any changes will have on the City's budget. Currently, State shared sales tax revenues represent approximately 15% of total General Fund revenues.

Street Funds

The State of Michigan also returns to the City a share of gasoline tax revenues to help fund maintenance and construction of major and local streets in the City. The current formula is largely based off of gallons of fuel used. Fuel usage is expected to decline as newer vehicles are more fuel efficient. During 2019-20, sidewalks may be added to some streets and repaired on others. Several roads will be repaired using "chip sealing" or paving. These projects are expected to be paid for primarily with TIFA funds, since funding received from state fuel tax is not adequate enough to cover the costs of major repairs or new construction.

Water and Sewer Fees

The City continues to make improvements in equipment and infrastructure to reduce costs and improve efficiency to prolong the life of the water and sewer systems and reduce the overall burden to users of the system.

In 2019 work began at the Wastewater Treatment Plant (WWTP) to replace lagoon liners that have reached the end of their life. Improvements to sewage lift stations and sewer mains/manholes began as well. Completion of the repairs/upgrades to the sewer system is expected before the end of 2020. The total project is expected to cost approximately \$6.0 million. The City has received assistance from the federal government (USDA Rural Development) to pay for the project. There will be loans in the amount of \$2,467,516 and grants in the amount of \$3,558,519.

Miscellaneous

The City is doing a number of things to exercise good fiscal responsibility. The City operates various maintenance or replacement programs for vehicles, heavy machinery and office equipment in order to keep maintenance expenses down and to eliminate large capital outlays for wide spread replacements. Lastly, the City recognizes the value of its employees and the need for good, well trained, professional people that exhibit leadership and a positive attitude. With this in mind the City has increased its focus on training, safety, risk management, and people skills. This focus has led to greater operational efficiencies that allows the City to provide quality services with less personnel.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designated to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Office at 28 State Road, PO Box 308, Newaygo, Michigan 49337 or call (231) 652-1657 or visit the City website at www.newaygocity.org.

City of Newaygo
STATEMENT OF NET POSITION
June 30, 2019

	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets				
Cash and investments	\$ 1,902,471	\$ 890,961	\$ 2,793,432	\$ 1,402,491
Receivables	17,320	116,958	134,278	3,611
Due from other governmental units	133,111	941,777	1,074,888	-
Internal balances	(84,047)	84,047	-	-
Inventories	-	31,556	31,556	-
Total current assets	1,968,855	2,065,299	4,034,154	1,406,102
Noncurrent assets				
Restricted cash and investments	-	591,856	591,856	8,335
Capital assets, net				
Nondepreciable	600,572	2,159,512	2,760,084	145,733
Depreciable	3,518,385	8,163,244	11,681,629	1,787,311
Total noncurrent assets	4,118,957	10,914,612	15,033,569	1,941,379
Total assets	6,087,812	12,979,911	19,067,723	3,347,481
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	117,015	998,357	1,115,372	205,117
Bonds and other obligations, due within one year	14,724	184,965	199,689	259,134
Total current liabilities	131,739	1,183,322	1,315,061	464,251
Noncurrent liabilities				
Bonds and other obligations, less amounts due within one year	43,246	6,508,777	6,552,023	1,368,266
Total liabilities	174,985	7,692,099	7,867,084	1,832,517
NET POSITION				
Net investment in capital assets	4,113,052	3,746,756	7,859,808	310,644
Restricted				
Streets and highways	541,829	-	541,829	-
Debt service	3,928	157,277	161,205	-
Capital projects	-	307,279	307,279	-
Shopping district	32,938	-	32,938	-
Building inspections	14,231	-	14,231	-
Community and economic development	229,403	-	229,403	-
Unrestricted	977,446	1,076,500	2,053,946	1,204,320
Total net position	\$ 5,912,827	\$ 5,287,812	\$ 11,200,639	\$ 1,514,964

The accompanying notes are an integral part of this statement

City of Newaygo
STATEMENT OF ACTIVITIES
For the year ended June 30, 2019

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants Contributions	Primary Government			Component Units
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 332,381	\$ 104,658	\$ -	\$ -	\$ (227,723)	\$ -	\$ (227,723)	\$ -
Public safety	512,612	74,123	69,561	-	(368,928)	-	(368,928)	-
Public works	910,608	168,386	319,572	169,821	(252,829)	-	(252,829)	-
Community and economic development	265,891	112,016	-	371,391	217,516	-	217,516	-
Culture and recreation	119,593	-	-	-	(119,593)	-	(119,593)	-
Total governmental activities	2,141,085	459,183	389,133	541,212	(751,557)	-	(751,557)	-
Business-type activities								
Sewer	612,820	531,863	-	140,000	-	59,043	59,043	-
Water	685,819	688,820	-	-	-	3,001	3,001	-
Total business-type activities	1,298,639	1,220,683	-	140,000	-	62,044	62,044	-
Total primary government	\$ 3,439,724	\$ 1,679,866	\$ 389,133	\$ 681,212	(751,557)	62,044	(689,513)	-
Component units								
Tax Increment Finance Authority	\$ 2,016,239	\$ 68,213	\$ 5,440	\$ -	-	-	-	(1,942,586)
Local Development Finance Authority	240,515	-	-	-	-	-	-	(240,515)
Total component units	\$ 2,256,754	\$ 68,213	\$ 5,440	\$ -	-	-	-	(2,183,101)
General revenues								
Property taxes					301,849	-	301,849	1,945,963
Franchise fees					19,308	-	19,308	-
Grants and contributions not restricted to specific programs					606,283	-	606,283	309,709
Unrestricted investment earnings					22,098	15,628	37,726	21,638
Gain on sale of capital assets					21,409	-	21,409	-
Miscellaneous					82,198	-	82,198	-
Total general revenues					1,053,145	15,628	1,068,773	2,277,310
Change in net position					301,588	77,672	379,260	94,209
Net position at July 1, 2018					5,611,239	5,210,140	10,821,379	1,420,755
Net position at June 30, 2019					\$ 5,912,827	\$ 5,287,812	\$ 11,200,639	\$ 1,514,964

The accompanying notes are an integral part of this statement

City of Newaygo
BALANCE SHEET
 Governmental Funds
 June 30, 2019

	General Fund	Major Streets Fund	Façade Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 737,718	\$ 350,107	\$ 231,993	\$ 219,893	\$ 1,539,711
Accounts receivable	12,624	-	-	4,696	17,320
Due from other governmental units	34,148	37,118	49,196	12,649	133,111
Total assets	\$ 784,490	\$ 387,225	\$ 281,189	\$ 237,238	\$ 1,690,142
LIABILITIES					
Accounts payable	\$ 9,920	\$ 25,186	\$ 51,786	\$ 6,351	\$ 93,243
Accrued liabilities	3,056	-	-	-	3,056
Total liabilities	12,976	25,186	51,786	6,351	96,299
FUND BALANCES					
Restricted					
Streets and highways	-	362,039	-	179,790	541,829
Debt service	-	-	-	3,928	3,928
Shopping district	-	-	-	32,938	32,938
Building inspection	-	-	-	14,231	14,231
Community and economic development	-	-	229,403	-	229,403
Unassigned	771,514	-	-	-	771,514
Total fund balances	771,514	362,039	229,403	230,887	1,593,843
Total liabilities and fund balances	\$ 784,490	\$ 387,225	\$ 281,189	\$ 237,238	\$ 1,690,142

The accompanying notes are an integral part of this statement

City of Newaygo
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION**
 June 30, 2019

Total fund balances—governmental funds		\$ 1,593,843
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.		
Cost of capital assets	\$ 12,613,924	
Accumulated depreciation	<u>(8,923,348)</u>	3,690,576
Long-term liabilities in governmental activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Compensated absences		(52,065)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported with the governmental activities in the Statement of Net Position.		
Net position of the internal service funds	764,520	
Internal balances representing the cumulative difference between actual costs and amounts charged to business-type activities	<u>(84,047)</u>	<u>680,473</u>
Net position of governmental activities		<u>\$5,912,827</u>

The accompanying notes are an integral part of this statement

City of Newaygo
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Governmental Funds
 For the year ended June 30, 2019

	General Fund	Major Streets Fund	Façade Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 301,849	\$ -	\$ -	\$ -	\$ 301,849
Licenses and permits	24,601	-	-	-	24,601
Intergovernmental revenues					
Federal	28,454	-	71,517	-	99,971
State	199,395	213,233	-	115,899	528,527
Local	415,213	-	-	-	415,213
Charges for services	275,487	1,238	-	171,244	447,969
Fines and forfeitures	15,816	-	-	-	15,816
Investment earnings	12,993	3,941	-	2,062	18,996
Other	138,155	-	299,874	-	438,029
Total revenues	<u>1,411,963</u>	<u>218,412</u>	<u>371,391</u>	<u>289,205</u>	<u>2,290,971</u>
EXPENDITURES					
Current					
General government	297,623	-	-	-	297,623
Public safety	513,675	-	-	-	513,675
Public works	264,103	217,106	-	125,922	607,131
Community and economic development	13,894	-	141,988	117,648	273,530
Culture and recreation	105,940	-	-	-	105,940
Other governmental functions	36,241	-	-	-	36,241
Capital outlay	57,094	-	-	-	57,094
Total expenditures	<u>1,288,570</u>	<u>217,106</u>	<u>141,988</u>	<u>243,570</u>	<u>1,891,234</u>
Excess of revenues over (under) expenditures	123,393	1,306	229,403	45,635	399,737
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	20,000	20,000
Transfers out	-	(20,000)	-	-	(20,000)
Total other financing sources (uses)	<u>-</u>	<u>(20,000)</u>	<u>-</u>	<u>20,000</u>	<u>-</u>
Net change in fund balances	123,393	(18,694)	229,403	65,635	399,737
Fund balances at July 1, 2018	648,121	380,733	-	165,252	1,194,106
Fund balances at June 30, 2019	<u>\$ 771,514</u>	<u>\$ 362,039</u>	<u>\$ 229,403</u>	<u>\$ 230,887</u>	<u>\$ 1,593,843</u>

The accompanying notes are an integral part of this statement

City of Newaygo
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
 For the year ended June 30, 2019

Net change in fund balances—total governmental funds \$ 399,737

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	\$ (483,491)	
Capital outlay	<u>305,614</u>	(177,877)

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 governmental funds.

Change in compensated absences		(373)
--------------------------------	--	-------

The internal service fund is used by management to charge the costs of equipment used to individual funds. The net revenue of certain activities of the internal service fund is reported with governmental activities.

Change in net position of the internal service fund	99,623	
Change in internal balances representing the current year difference between actual costs and amounts charged to business-type activities	<u>(19,522)</u>	<u>80,101</u>

Change in net position of governmental activities		<u>\$ 301,588</u>
---	--	--------------------------

The accompanying notes are an integral part of this statement

City of Newaygo
STATEMENT OF NET POSITION
 Proprietary Funds
 June 30, 2019

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer	Water	Total	
ASSETS				
Current assets				
Cash and investments	\$ 424,986	\$ 465,975	\$ 890,961	\$ 362,760
Accounts receivable	48,124	68,834	116,958	-
Due from other governmental units	941,777	-	941,777	-
Inventories	2,891	28,665	31,556	-
Total current assets	1,417,778	563,474	1,981,252	362,760
Noncurrent assets				
Restricted cash and investments	205,403	386,453	591,856	-
Capital assets				
Land	429,500	-	429,500	-
Utility systems	7,441,278	8,057,372	15,498,650	-
Vehicles and equipment	172,022	94,346	266,368	1,038,303
Construction in progress	1,730,012	-	1,730,012	-
Less accumulated depreciation	(4,531,575)	(3,070,199)	(7,601,774)	(609,922)
Net capital assets	5,241,237	5,081,519	10,322,756	428,381
Total noncurrent assets	5,446,640	5,467,972	10,914,612	428,381
Total assets	6,864,418	6,031,446	12,895,864	791,141
LIABILITIES				
Current liabilities				
Accounts payable	925,158	3,521	928,679	20,716
Accrued liabilities	23,791	45,887	69,678	-
Bonds and other obligations, due within one year	89,800	95,165	184,965	4,724
Total current liabilities	1,038,749	144,573	1,183,322	25,440
Noncurrent liabilities				
Bonds and other obligations, less amounts due within one year	2,575,777	3,933,000	6,508,777	1,181
Total liabilities	3,614,526	4,077,573	7,692,099	26,621
NET POSITION				
Net investment in capital assets	2,679,237	1,067,519	3,746,756	422,476
Restricted				
Debt service	56,862	100,415	157,277	-
Capital projects	101,427	205,852	307,279	-
Unrestricted	412,366	580,087	992,453	342,044
Total net position	\$ 3,249,892	\$ 1,953,873	5,203,765	\$ 764,520
Adjustment to report the cumulative internal balances for the net effect of the activity between the internal service fund and the enterprise funds over time			84,047	
Net position of business type activities			\$ 5,287,812	

The accompanying notes are an integral part of this statement

City of Newaygo
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 Proprietary Funds
 For the year ended June 30, 2019

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer	Water	Total	
OPERATING REVENUES				
Charges for services	\$ 495,385	\$ 629,116	\$ 1,124,501	\$ 287,409
OPERATING EXPENSES				
Administration	100,552	110,622	211,174	-
Operations	261,390	284,281	545,671	132,714
Depreciation	209,065	189,357	398,422	79,579
	571,007	584,260	1,155,267	212,293
Total operating expenses				
Operating income (loss)	(75,622)	44,856	(30,766)	75,116
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	6,121	9,507	15,628	3,098
Connection fees	36,478	59,704	96,182	-
Gain on sale of capital assets	-	-	-	21,409
Interest expense	(51,464)	(111,430)	(162,894)	-
	(8,865)	(42,219)	(51,084)	24,507
Total nonoperating revenue (expenses)				
Income (loss) before contributions	(84,487)	2,637	(81,850)	99,623
CAPITAL CONTRIBUTIONS	140,000	-	140,000	-
Change in net position	55,513	2,637	58,150	99,623
Net position at July 1, 2018	3,194,379	1,951,236		664,897
Net position at June 30, 2019	\$ 3,249,892	\$ 1,953,873		\$ 764,520
Adjustment for the net effect of the current year activities between the internal service fund and the enterprise funds			19,522	
Change in net position of business-type activities			\$ 77,672	

The accompanying notes are an integral part of this statement

City of Newaygo
STATEMENT OF CASHFLOWS
 Proprietary Funds
 For year end June 30, 2019

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer	Water	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 490,365	\$ 622,740	\$ 1,113,105	\$ -
Receipts from interfund services provided	5,020	6,376	11,396	287,409
Payments to suppliers	(135,956)	(127,417)	(263,373)	(90,907)
Payments to employees	(194,559)	(218,109)	(412,668)	(17,241)
Payment for interfund services used	(38,595)	(53,010)	(91,605)	(8,000)
Net cash provided by operating activities	126,275	230,580	356,855	171,261
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital debt	649,000	-	649,000	-
Purchases of capital assets	(594,107)	-	(594,107)	(134,184)
Capital contributions	140,000	-	140,000	-
Connection fees	36,478	59,704	96,182	-
Principal paid on capital debt	(22,000)	(78,000)	(100,000)	(4,724)
Interest paid on capital debt	(51,464)	(111,430)	(162,894)	-
Proceeds from sale of capital assets	-	-	-	40,971
Net cash provided by (used for) capital and related financing activities	157,907	(129,726)	28,181	(97,937)
CASH FLOW FROM INVESTING ACTIVITIES				
Investment earnings	6,121	9,507	15,628	3,098
Net increase (decrease) in cash and investments	290,303	110,361	400,664	76,422
Cash and investments at July 1, 2018	340,086	741,967	1,082,053	286,338
Cash and investments at June 30, 2019	\$ 630,389	\$ 852,328	\$ 1,482,717	\$ 362,760
Reconciliation of cash and investments to the Statement of Net Position				
Cash and investments	\$ 424,986	\$ 465,975	\$ 890,961	\$ 362,760
Restricted cash and investments	205,403	386,453	591,856	-
	\$ 630,389	\$ 852,428	\$ 1,482,817	\$ 362,760
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (75,622)	\$ 44,856	\$ (30,766)	\$ 75,116
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation expense	209,065	189,357	398,422	79,579
Change in assets and liabilities				
Accounts receivable	(2,077)	(5,150)	(7,227)	-
Accounts payable	(10,586)	1,567	(9,019)	16,566
Accrued liabilities	5,495	(50)	5,445	-
Net cash provided by operating activities	\$ 126,275	\$ 230,580	\$ 356,855	\$ 171,261

The accompanying notes are an integral part of this statement

City of Newaygo
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 Proprietary Funds
 For year end June 30, 2019

	Agency Funds
ASSETS	
Cash and investments	\$ 42,516
Due from other governmental units	1,947
Total assets	\$ 44,463
 LIABILITIES	
Due to other governmental units	\$ 3,324
Deposits held for others	41,139
Total liabilities	\$ 44,463

The accompanying notes are an integral part of this statement

City of Newaygo
STATEMENT NET POSITION
Discretely Presented Component Units
June 30, 2019

	Tax Increment Finance Authority	Local Development Finance Authority	Total
ASSETS			
Current assets			
Cash and investments	\$ 1,016,783	\$ 385,708	\$ 1,402,491
Receivables	3,611	-	3,611
Total current assets	1,020,394	385,708	1,406,102
Noncurrent assets			
Restricted cash and investments	8,335	-	8,335
Capital assets, net			
Nondepreciable	145,733	-	145,733
Depreciable	1,787,311	-	1,787,311
Net capital assets	1,933,044	-	1,933,044
Total noncurrent assets	1,941,379	-	1,941,379
Total assets	2,961,773	385,708	3,347,481
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	185,117	20,000	205,117
Bonds and other obligations, due within one year	259,134	-	259,134
Total current liabilities	444,251	20,000	464,251
Noncurrent liabilities			
Bonds and other obligations, less amounts due within one year	1,368,266	-	1,368,266
Total liabilities	1,812,517	20,000	1,832,517
NET POSITION			
Net investment in capital assets	310,644	-	310,644
Unrestricted	838,612	365,708	1,204,320
Total net position	\$1,149,256	\$ 365,708	\$1,514,964

The accompanying notes are an integral part of this statement

City of Newaygo
STATEMENT OF ACTIVITIES
Discretely Presented Component Units
For the year ended June 30, 2019

<u>Functions/Programs</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Tax</u>	<u>Local</u>	<u>Total</u>
				<u>Increment Finance Authority</u>	<u>Development Finance Authority</u>	
Tax Increment Finance Authority						
General government	\$ 227,238	\$ -	\$ -	\$ (227,238)	\$ -	\$ (227,238)
Public works	370,663	-	-	(370,663)	-	(370,663)
Community and economic development	729,734	68,213	5,440	(656,081)	-	(656,081)
Distributions to other taxing authorities	575,245	-	-	(575,245)	-	(575,245)
Interest on long-term debt	113,359	-	-	(113,359)	-	(113,359)
Total Tax Increment Finance Authority	2,016,239	68,213	5,440	(1,942,586)	-	(1,942,586)
Local Development Finance Authority						
General government	10,000	-	-	-	(10,000)	(10,000)
Community and economic development	24,633	-	-	-	(24,633)	(24,633)
Distributions to other taxing authorities	205,882	-	-	-	(205,882)	(205,882)
Total Local Development Finance Authority	240,515	-	-	-	(240,515)	(240,515)
Total discretely presented component units	\$ 2,256,754	\$ 68,213	\$ 5,440	(1,942,586)	(240,515)	(2,183,101)
General revenues						
Property taxes				1,705,248	240,715	1,945,963
Grants and contributions not restricted to specific programs				309,709	-	309,709
Unrestricted investment earnings				16,669	4,969	21,638
Total general revenues				2,031,626	245,684	2,277,310
Change in net position				89,040	5,169	94,209
Net position at July 1, 2018				1,060,216	360,539	1,420,755
Net position at June 30, 2019				\$ 1,149,256	\$ 365,708	\$ 1,514,964

The accompanying notes are an integral part of this statement

City of Newaygo
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Newaygo (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The City is a municipal corporation governed by an elected six member City Council with an elected mayor and is administered by a City Manager appointed by the City Council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Discretely Presented Component Unit

Local Development Finance Authority (LDFA). The LDFA's purpose is the collection of tax increment revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the LDFA's boundaries. Board members of the LDFA are appointed by the City Council, but the LDFA operates as a separate entity. The LDFA can authorize and issue debt independent from the City. The LDFA is presented as a governmental fund type.

Tax Increment Finance Authority (TIFA). The TIFA's purpose is the collection of tax increment revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the TIFA's boundaries. Board members of the TIFA are appointed by the City Council, but the TIFA operates as a separate entity. The TIFA can authorize and issue debt independent from the City. The TIFA is presented as a governmental fund type.

Basis of Presentation—Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other non-exchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the City's enterprise funds. 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.

As discussed earlier, the City's discretely presented component units are reported in a separate column in the government-wide financial statements.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Basis of Presentation—Government-wide and Fund Financial Statements—Continued

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

The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund accounts for money distributed by the State of Michigan for construction and maintenance of major streets within the City.

The Facade Fund is a special revenue fund utilized to account for a federal grant to perform improvements to building exteriors in the downtown area.

The City reports the following major enterprise funds:

The Sewer Fund operates the City's sewer system.

The Water Fund operates the City's water distribution system.

Additionally, the City reports the following fund types:

The Internal Service Fund accounts for equipment management services provided to other funds of the government on a cost reimbursement basis.

The agency funds are custodial in nature and used to account for assets held by the City as agent for another organizations or individuals.

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Basis of Presentation—Government-wide and Fund Financial Statements—Continued

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

Cash and Investments

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

Investments for the City are reported at fair value (generally based on quoted market prices).

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

The component units' cash and investments are maintained within the City's investment pool.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. The cost of such inventories is recorded as expenses when consumed rather than when purchased in the business-type activities.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Restricted Assets

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

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 column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost of the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year).

As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

Capital Assets—Continued

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances.

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

Capital Asset Classes	Years
Land improvements	10-20
Buildings and improvements	10-35
Furniture, vehicles and equipment	5-10
Infrastructure and shared improvements	10-50

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position Flow Assumption

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

Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitation on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City’s highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by formal action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by formal action remains in place until a similar action is taken (another formal action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council has by resolution authorized the city manager to assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as 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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Taxes

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied and lien on July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollected real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all of these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. The City recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

City of Newaygo
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Revenues and Expenditures/Expenses—Continued

Property Taxes—Continued

The 2018 state taxable value for real/personal property of the City totaled approximately \$54,300,000 of which approximately \$38,900,000 was captured by the component units. The ad valorem taxes levied consisted of 17.75 mills for the City's operating purposes. This amount is recognized in the General Fund with the capture amounts shown in the TIFA and LDFA component units.

Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service. Any vacation which has not been used during the calendar year will be transferred to the employee's paid sick day's accumulation at the end of the year. Upon termination, employees are paid for one-half of their accrued sick days as separation pay. If an employee dies, the full amount of accrued sick days will be paid to the employee's designated beneficiary. Sick leave is accumulated at the rate of one day per month of employment. Employees may accrue unused sick days up to a maximum of 156 hours. On the last day of November of any calendar year, employees may elect to be paid for one-half of the unused sick days which they accumulated during the year (up to a maximum payment of six days).

The liability for these compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Proprietary Funds Operating and Nonoperating Revenues and Expenses

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 are charges to customers for sales and services. The enterprise funds also recognize as operating revenue 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.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level.

Appropriations in all budget funds lapse at the end of the fiscal year.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

NOTE C—DEPOSITS AND INVESTMENTS

Deposits and Investment Risks

Interest Rate Risk

The City's formal investment policy limits investment maturities to two years or less based upon the type of investment.

Credit Risk

State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

The City does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2019, \$4,307,206 of the City's bank balance of \$4,846,286 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments

The City does not have a custodial credit risk policy for investments. This 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.

Foreign Currency Risk

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

Restricted Assets

Restrictions are placed on assets by bond ordinance and City Council action. At June 30, 2019, cash and investments in the enterprise funds and TIFA component unit are restricted as follows:

Business-type activities

Water Fund	
Bond and interest redemption	\$ 161,769
Repair and replacement	224,684
	386,453
Sewer Fund	
Bond reserve	86,574
Repair and replacement	118,829
	205,403
	\$591,856
Component units	
TIFA	
Bond interest and redemption	\$ 8,335

City of Newaygo
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Restricted Assets—Continued

After meeting the operation and maintenance and bond and interest redemption requirements of the bond ordinances, all remaining revenues of the system are to be paid to the bond reserve accounts until a sum equal to the maximum annual debt service requirement on the bonds has been accumulated. These amounts were achieved, as required.

NOTE D—CAPITAL ASSETS

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

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 600,572	\$ -	\$ -	\$ 600,572
Capital assets, being depreciated:				
Land improvements	1,549,380	-	-	1,549,380
Buildings and improvements	1,542,749	-	-	1,542,749
Furniture, vehicles and equipment	1,276,556	191,280	95,566	1,372,270
Infrastructure	6,514,151	248,521	-	6,762,672
Shared improvements	1,824,584	-	-	1,824,584
Total capital assets, being depreciated	12,707,420	439,801	95,566	13,051,655
Less accumulated depreciation:				
Land improvements	1,171,169	45,762	-	1,216,931
Buildings and improvements	892,046	43,543	-	935,589
Furniture, vehicles and equipment	796,899	96,869	76,001	817,767
Infrastructure	4,523,531	255,256	-	4,778,787
Shared improvements	1,662,557	121,639	-	1,784,196
Total accumulated depreciation	9,046,202	563,069	76,001	9,533,270
Total capital assets, being depreciated, net	3,661,218	(123,268)	19,565	3,518,385
Capital assets, net	\$ 4,261,790	\$ (123,268)	\$ 19,565	\$ 4,118,957

City of Newaygo
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE D—CAPITAL ASSETS—Continued

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 429,500	\$ -	\$ -	\$ 429,500
Construction in progress	215,634	1,514,378	-	1,730,012
Total capital assets, not being depreciated	645,134	1,514,378	-	2,159,512
Capital assets, being depreciated:				
Sewer system	7,441,277	-	-	7,441,277
Water system	8,057,372	-	-	8,057,372
Equipment	266,368	-	-	266,368
Total capital assets, being depreciated	15,765,017	-	-	15,765,017
Less accumulated depreciation:				
Sewer system	4,150,485	209,065	-	4,359,550
Water system	2,789,223	188,395	-	2,977,618
Equipment	263,643	962	-	264,605
Total accumulated depreciation	7,203,351	398,422	-	7,601,773
Total capital assets, being depreciated, net	8,561,666	(398,422)	-	8,163,244
Capital assets, net	\$ 9,206,800	\$ 1,115,956	\$ -	\$ 10,322,756

Depreciation

Depreciation expense has been charged to functions as follows:

Governmental activities:

General government	\$ 38,601
Public safety	5,111
Public works	420,895
Culture and recreation	18,884
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets	79,578
	\$ 563,069

Business-type activities:

Sewer	\$ 209,065
Water	189,357
	\$ 398,422

City of Newaygo
NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

NOTE D—CAPITAL ASSETS—Continued

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Component units:				
Capital assets, not being depreciated:				
Tax Increment Finance Authority				
Land	\$ 145,733	\$ -	\$ -	\$ 145,733
Capital assets, being depreciated:				
Tax Increment Finance Authority				
Building and improvements	9,641,654	-	-	9,641,654
Less accumulated depreciation:				
Tax Increment Finance Authority				
Buildings and improvements	7,359,524	494,819	-	7,854,343
Total capital assets, being depreciated, net	2,282,130	(494,819)	-	1,787,311
Capital assets, net	\$ 2,427,863	\$ (494,819)	\$ -	\$ 1,933,044

Depreciation

Depreciation expense has been charged to functions as follows:

Community and economic development	\$ 494,819
------------------------------------	-------------------

NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund transfers as of June 30, 2019 is as follows:

Interfund transfers:	Transfers in:
	Other Governmental Funds
Transfers out:	
Major Streets Fund	\$ 20,000
Total	\$ 20,000

The transfer was an operational subsidy.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS—Continued

Component unit transactions:

During the year the TIFA and LDFA contributed the following amounts to the City for the year ended June 30, 2019:

	<u>Governmental Activities</u>
Capital activities	
TIFA	\$ 179,638
Operating activities	
TIFA	32,000
LDFA	<u>10,000</u>
	<u>\$ 221,638</u>

NOTE F—LONG-TERM DEBT

The City issues bonds, notes and other contractual commitments to provide for infrastructure, the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Notes from direct borrowings and direct placements include a capital lease.

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the City for the year ended June 30, 2019:

	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2019</u>	<u>Due Within One Year</u>
Governmental activities:					
Notes from direct borrowings and direct placements	\$ 10,629	\$ -	\$ 4,724	\$ 5,905	\$ 4,724
Compensated absences	51,691	66,062	65,688	52,065	10,000
Governmental activities long-term liabilities	<u>\$ 62,320</u>	<u>\$ 66,062</u>	<u>\$ 70,412</u>	<u>\$ 57,970</u>	<u>\$ 14,724</u>
Business-type activities:					
Revenue bonds	\$ 5,176,000	\$ 1,590,777	\$ 100,000	\$ 6,666,777	\$ 158,000
Compensated absences	25,381	22,426	20,842	26,965	26,965
Business-type activities long-term liabilities	<u>\$ 5,201,381</u>	<u>\$ 1,613,203</u>	<u>\$ 120,842</u>	<u>\$ 6,693,742</u>	<u>\$ 184,965</u>
Component units:					
Tax Increment Bonds	\$ 2,182,368	\$ -	\$ 538,234	\$ 1,644,134	\$ 259,134
Discount	(18,328)	-	(1,594)	(16,734)	-
Component units long-term liabilities	<u>\$ 2,164,040</u>	<u>\$ -</u>	<u>\$ 536,640</u>	<u>\$ 1,627,400</u>	<u>\$ 259,134</u>

City of Newaygo
NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

NOTE F—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

The business-type activities revenue bonds are secured by revenues of the City. If the City defaults, the bonds are callable.

The governmental activities notes from direct borrowings and direct placements are comprised of a capital lease.

The capital lease is non-cancellable by the City and is secured by the equipment.

Revenue bonds, tax increment bonds, and notes from direct borrowings and direct placements consist of the following:

	Interest Rate	Date of Maturity	Balance
Governmental activities:			
Notes from direct borrowings and direct placements	0.0%	August 2020	\$ 5,905
			\$ 5,905
Business-type activities:			
Revenue bonds:			
2003 Sanitary Sewer System Bonds	4.25%	August 2043	\$ 1,062,000
2003 Water Supply System Bonds	4.25%	August 2043	1,222,000
2013 Water Supply System Bonds	2.125%	August 2053	2,792,000
2018A Sanitary Sewer System Bonds	2.125%	August 2058	1,446,000
2018B Sanitary Sewer System Bonds	2.375%	August 2058	144,777
			\$ 6,666,777
Component units:			
Limited tax development:			
1994 Tax Increment Bonds (Series A) variable formula, currently	3.00%	March 2020	\$ 164,134
2010 Tax Increment Bonds	5.60-7%	October 2029	1,480,000
			\$ 1,644,134

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

The special assessment bonds are backed by the full faith and credit of the City.

The \$7,300,000 1994 Tax Increment Limited Obligation Bonds, Series A, which are held by the City of Newaygo Tax Increment Finance Authority, are guaranteed by Magna Mirrors of America Incorporated. If captured tax increment revenue associated with Magna Mirrors of America Incorporated's facility is insufficient to meet the bond's current payment requirements, Magna Mirrors of America Incorporated will cover any shortfalls.

The City was in compliance in all material respects with all the revenue bond ordinances at June 30, 2019.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE F—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Annual requirements of principal and interest to amortize the bonds and notes from direct borrowing and direct placements outstanding as of June 30, 2019 follow:

Year Ending June 30,	Governmental Activities		Business-type Activities		Component Units	
	Notes from Direct Borrowings and Direct Placements		Bonds		Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 4,724	\$ -	\$ 158,000	\$ 188,941	\$ 259,134	\$ 98,565
2021	1,181	-	147,000	184,415	100,000	89,230
2022	-	-	151,000	180,096	105,000	83,180
2023	-	-	155,000	175,648	115,000	76,465
2024	-	-	161,000	171,030	120,000	69,090
2025-2029	-	-	858,777	779,824	755,000	205,540
2030-2034	-	-	937,000	643,651	190,000	6,650
2035-2039	-	-	1,105,000	484,054	-	-
2040-2044	-	-	1,318,000	290,963	-	-
2045-2049	-	-	690,000	144,289	-	-
2050-2054	-	-	771,000	67,065	-	-
2055-2059	-	-	215,000	12,006	-	-
	\$ 5,905	\$ -	\$ 6,666,777	\$ 3,321,982	\$ 1,644,134	\$ 628,720

NOTE G—OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City manages its liability and property risk by participating in the Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE G—OTHER INFORMATION—Continued

Risk Management—Continued

The City carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Leases

The \$7,300,000 1994 Tax Increment Limited Obligation Bonds were issued to construct a manufacturing facility for Magna Mirrors of America Incorporated. All captured tax increment revenues associated with this facility are to be used to repay the bonds issued to construct the facility. The Tax Increment Finance Authority retains ownership of the facility and leases the facility for \$1 per year to Magna Mirrors of America Incorporated for thirty years or until the bonds associated with its construction are retired. Magna Mirrors of America Incorporated is responsible for all operating and maintenance costs. Magna Mirrors of America Incorporated has an option to purchase the facility, upon retirement of the bond issue, for \$1.

Jointly Governed Organizations

The City, in conjunction with other governmental entities, created the Newaygo Community Recreation Authority (NCRA) to operate recreation programs in the area. The Authority is comprised of two members from each participating entity. The NCRA board annually assesses participating entities in projected amounts required to subsidize the Authorities' annual operations.

The City, in conjunction with other governmental entities, created the Newaygo Fire District Command Board to operate a community wide fire protection services. The District is governed by a seven member board and was incorporated under the provisions of MCLA #321 in Michigan for the purpose of providing fire protection and rescue services for the three participating municipalities. The Board annually assesses participating entities in projected amounts required to subsidize the annual operations.

NOTE H—PENSION PLANS

Defined Contribution Plans

The City provides pension benefits for all of its full-time salaried employees through the City of Newaygo Administrative Plan (a defined contribution plan). In the defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Salaried employees, who have attained the age of 18, have completed ninety days of service shall be eligible to participate in the plan. The plan requires the City to contribute an amount equal to 8 percent of the employee's annual compensation each plan year and employees are required to contribute 2 percent of their annual compensation. Plan provisions and contribution requirements are established and may be amended by the City Council. The plan administrator is ICMA-Retirement Corporation. For fiscal year 2019, the City's total contribution was approximately \$25,600, and the employee contributions were approximately \$6,400.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE H—PENSION PLANS—Continued

Defined Contribution Plans—Continued

The City provides pension benefits for all of its full-time hourly employees through the City of Newaygo Hourly Employees Retirement Plan (a defined contribution plan). In the defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Hourly employees, who have attained the age of 18, have completed ninety days of service shall be eligible to participate in the plan. The plan requires the City to contribute an amount equal to 8 percent of the employee's annual compensation each plan year and employees are required to contribute 2 percent of their annual compensation. Hourly employees are 20 percent vested in the City contributions and earnings allocated to the employee account for each year of service. Any forfeitures are reallocated to participants with the regular contribution. Plan provisions and contribution requirements are established and may be amended by the City Council. The plan administrator is ICMA-Retirement Corporation. For fiscal year 2019, the City's total contribution was approximately \$42,300, and the employee contributions were approximately \$10,600.

Employees are immediately vested in their own contributions and earnings on those contributions and become vested in the City's contributions and earnings on the City's contributions by 20 percent for each full year of service, leaving employees fully vested after five years of service. Nonvested City contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the pension plan's administrative expenses. For the year ended June 30, 2019, there were no forfeitures.

Retirement Health Savings Account

The City offers its employees a retirement health savings account which is a defined contribution plan administered by ICMA. The plan, available to all full time City employees, can only be used to fund health care costs during retirement. The plan requires that the City to contribute certain excess compensated absences amounts to the plan each year. For the year ended June 30, 2019, the City's contribution to the plan was approximately \$21,200.

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time City employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

NOTE I—ECONOMIC DEPENDENCY

General Fund

The City's General Fund property tax revenue growth is limited due to the TIFA and LDFA, which capture property tax value increases. The General Fund's property tax value captured by the TIFA and LDFA is approximately 70 percent of the City's property tax value base. Property tax revenues represent approximately 21 percent of the General Fund's revenues.

Tax Increment Finance Authority

The TIFA has a significant economic dependency on a local corporation that is a major employer and taxpayer in the area. The TIFA receives approximately 28 percent of its property tax revenues from this company.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE J—COMMITMENTS

The City has entered into various contracts for a sewer system project of approximately \$6,020,000 with approximately \$4,300,000 still outstanding. The project is being funded with federal grants of \$3,559,000 and Revenue bonds of \$2,467,000.

The City also has outstanding commitments of approximately \$1,970,000 for façade improvements to buildings in the downtown City of Newaygo area. These expenditures will be funded with a federal grant of \$918,000 and special assessments for the balance of the project.

REQUIRED SUPPLEMENTARY INFORMATION

City of Newaygo
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 294,800	\$ 300,800	\$ 301,849	\$ 1,049
Licenses and permits	23,200	23,200	24,601	1,401
Intergovernmental revenues				
Federal	-	27,000	28,454	1,454
State	186,100	191,100	199,395	8,295
Local	415,000	415,000	415,213	213
Charges for services	261,060	261,060	275,487	14,427
Fines and forfeitures	21,000	21,000	15,816	(5,184)
Investment earnings	7,000	12,000	12,993	993
Other	52,600	124,600	138,155	13,555
Total revenues	1,260,760	1,375,760	1,411,963	36,203
EXPENDITURES				
Current				
General government				
City Council	24,268	26,768	23,469	3,299
City manager	40,499	41,499	39,483	2,016
Elections	5,950	5,950	2,406	3,544
Board of review	1,275	1,275	1,194	81
Clerk	32,115	32,115	25,880	6,235
Treasurer	33,999	34,999	32,493	2,506
Assessor	25,800	23,800	20,480	3,320
Attorney	25,000	23,000	19,070	3,930
City offices	79,907	81,907	74,429	7,478
Cemetery	57,610	62,610	58,719	3,891
Public safety				
Law enforcement	490,206	533,206	513,675	19,531
Public works	268,355	278,351	264,103	14,248
Community and economic development				
Planning	9,250	16,250	13,894	2,356
Culture and recreation				
Parks	97,544	117,794	105,940	11,854
Other governmental functions	39,000	39,000	36,241	2,759
Capital outlay	27,000	56,395	57,094	(699)
Total expenditures	1,257,778	1,374,919	1,288,570	86,349
Net change in fund balance	<u>\$ 2,982</u>	<u>\$ 841</u>	123,393	<u>\$ 122,552</u>
Fund balance at July 1, 2018			648,121	
Fund balance at June 30, 2019			<u>\$ 771,514</u>	

City of Newaygo
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Major Streets Fund
For the year ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget- Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
REVENUES				
Intergovernmental revenues				
State	\$ 213,000	\$ 213,000	\$ 213,233	\$ 233
Charges for services	1,000	1,000	1,238	238
Investment earnings	700	700	3,941	3,241
	<hr/>			
Total revenues	214,700	214,700	218,412	3,712
EXPENDITURES				
Current				
Public works	182,692	239,079	217,106	21,973
	<hr/>			
Excess of revenues over expenditures	32,008	(24,379)	1,306	25,685
OTHER FINANCING USES				
Transfers out	(20,000)	(20,000)	(20,000)	-
	<hr/>			
Net change in fund balance	\$ 12,008	\$ (44,379)	(18,694)	\$ 25,685
	<hr/>			
Fund balance at July 1, 2018			380,733	
	<hr/>			
Fund balance at June 30, 2019			\$ 362,039	

City of Newaygo
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Facade Fund
For the year ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental revenues				
Federal	\$ 990,000	\$ 990,000	\$ 71,517	\$ (918,483)
Other	878,418	878,418	299,874	(578,544)
Total revenues	1,868,418	1,868,418	371,391	(1,497,027)
EXPENDITURES				
Current				
Community and economic development				
Planning	1,868,418	1,868,418	141,988	1,726,430
Total expenditures	1,868,418	1,868,418	141,988	1,726,430
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	229,403	<u>\$ 229,403</u>
Fund balance at July 1, 2018			-	
Fund balance at June 30, 2019			<u>\$ 229,403</u>	

OTHER SUPPLEMENTARY INFORMATION

City of Newaygo
COMBINING BALANCE SHEET
 Other Governmental Funds
 June 30, 2019

	Total Other Governmental Funds	Special Revenue Funds			Debt Service Fund
		Local Streets	Principal Shopping District	Building Inspection	Downtown Parking Lot
ASSETS					
Cash and investments	\$ 219,893	\$ 167,141	\$ 32,294	\$ 16,530	\$ 3,928
Accounts receivable	4,696	-	4,696	-	-
Due from other governmental units	12,649	12,649	-	-	-
Total assets	\$ 237,238	\$ 179,790	\$ 36,990	\$ 16,530	\$ 3,928
LIABILITIES					
Accounts payable	\$ 6,351	\$ -	\$ 4,052	\$ 2,299	\$ -
FUND BALANCES					
Restricted					
Streets and highways	179,790	179,790	-	-	-
Debt service	3,928	-	-	-	3,928
Shopping district	32,938	-	32,938	-	-
Building inspection	14,231	-	-	14,231	-
Total fund balances	230,887	179,790	32,938	14,231	3,928
Total liabilities and fund balances	\$ 237,238	\$ 179,790	\$ 36,990	\$ 16,530	\$ 3,928

City of Newaygo
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Other Governmental Funds
 For the year ended June 30, 2019

	Total Other Governmental Funds	Special Revenue Funds			Debt Service Fund
		Local Streets	Principal Shopping District	Building Inspection	Downtown Parking Lot
REVENUES					
Intergovernmental revenues					
State	\$ 115,899	\$ 115,899	\$ -	\$ -	\$ -
Charges for services	171,244	800	46,460	123,984	-
Investment earnings	2,062	1,639	379	-	44
Total revenues	289,205	118,338	46,839	123,984	44
EXPENDITURES					
Current					
Public works	125,922	84,128	41,794	-	-
Community and economic development	117,648	-	-	117,648	-
Total expenditures	243,570	84,128	41,794	117,648	-
Excess of revenues over (under) expenditures	45,635	34,210	5,045	6,336	44
OTHER FINANCING SOURCES					
Transfers in	20,000	20,000	-	-	-
Net change in fund balances	65,635	54,210	5,045	6,336	44
Fund balances at July 1, 2018	165,252	125,580	27,893	7,895	3,884
Fund balances at June 30, 2019	\$ 230,887	\$ 179,790	\$ 32,938	\$ 14,231	\$ 3,928

City of Newaygo
COMBINING STATEMENT OF ASSETS AND LIABILITIES
 Agency Funds
 June 30, 2019

	Total	Tax	Joint	Newaygo
	Agency Funds	Collection	Maintenance	Community
	Agency Funds	Collection	City/Library	Recreation
	Agency Funds	Collection	City/Library	Authority
ASSETS				
Cash and investments	\$ 42,516	\$ 1,377	\$ 11,543	\$ 29,596
Due from other governmental units	1,947	1,947	-	-
Total assets	\$ 44,463	\$ 3,324	\$ 11,543	\$ 29,596
LIABILITIES				
Due to other governmental units	\$ 3,324	\$ 3,324	\$ -	\$ -
Deposits held for others	41,139	-	11,543	29,596
Total liabilities	\$ 44,463	\$ 3,324	\$ 11,543	\$ 29,596