

CITY OF ISHPEMING, MICHIGAN
FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the City Council of the
City of Ishpeming, Michigan
100 East Division Street
Ishpeming, Michigan 49849

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ishpeming, Michigan, as of and for the year ended December 31, 2017, 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ishpeming, Michigan, as of December 31, 2017, 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, budgetary comparison and analyses of funding progress information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ishpeming, Michigan's basic financial statements. The other supplemental information, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the City of Ishpeming, Michigan's basic financial statements for the year ended December 31, 2016, which are not presented with the accompanying financial statements and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ishpeming, Michigan's basic financial statements as a whole. The major governmental funds budgetary comparison schedules and the enterprise funds comparative statement of net position, statement of revenues, expenditures and changes in net position and statement of cash flows related to the 2016 financial statements for the year ended December 31, 2016, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2016 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those 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 2016 major governmental funds budgetary comparison schedules and the enterprise funds comparative statement of net position, statement of revenues, expenditures and changes in net position and statement of cash flows are fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2018, on our consideration of the City of Ishpeming, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Ishpeming, Michigan's internal control over financial reporting and compliance.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

June 28, 2018

City of Ishpeming, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the City of Ishpeming, Michigan's (the City) financial performance provides an overview of the City's financial activities for the year ended December 31, 2017. Please read it in conjunction with the financial statements included below.

FINANCIAL HIGHLIGHTS

- Net position for the City as a whole increased by \$1,041,004 as a result of this year's operations. Net position of our business-type activities increased by \$757,860 or 6 percent, and net position of our governmental activities increased by \$283,144 or 2 percent.
- During the year, the City had expenses for governmental activities that were \$5,384,942 and generated \$5,668,086 in general revenues and other program sources.
- The City's business-type activities had expenses of \$3,111,776 and generated \$3,869,636 in revenues.
- The general fund reported a net change in fund balance of (\$51,222); this is \$283,416 higher than the forecasted decrease of \$334,638.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements are presented below as listed in the table of contents. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for the future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Reporting the City as a Whole

Our analysis of the City as a whole is included below. One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

These two statements present financial information on all of the City's assets/deferred outflows of resources and liabilities/deferred inflows of resources with the difference reported as net position. Over time, *increases or decreases* in the City's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's patron base and the condition of the City's capital assets, to assess the *overall financial health* of the City.

The Statement of Net Position and the Statement of Activities present information about the following:

- *Governmental Activities* – Most of the City's basic services are reported here, including the police, fire, public works and parks departments, and general administration. Property taxes, charges for services and state sources fund 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 it provides. The City's sewer and water systems and activities are reported here.
- *Component Units* – The City includes one separate legal entity in its report – The Downtown Development Authority. Although legally separate, this component unit is included because the City is financially accountable for it

Reporting the City's Most Significant Funds

Our analysis of the City's major funds is presented below. The fund financial statements provide detailed information on the most significant 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 establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using taxes, grants, and other money. The City's two kinds of funds - *governmental* and *proprietary* - use different accounting approaches.

- *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. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you 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 Statement of Activities) and governmental *funds* in a reconciliation which follows 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. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

The City as Trustee

The City is the trustee, or fiduciary, for assets that – because of a trust arrangement – can be used only for the trust beneficiaries. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position.

We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The City as a Whole

Table 1 provides a summary of the City's net position as of December 31, 2017 and 2016.

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$6,137,627	\$5,828,508	\$1,195,302	\$579,676	\$7,332,929	\$6,408,184
Non-current assets	56,617	56,617	7,919,699	7,219,293	7,976,316	7,275,910
Capital assets, net	19,443,837	18,962,719	9,439,452	7,739,742	28,883,289	26,702,461
Total Assets	<u>25,638,081</u>	<u>24,847,844</u>	<u>18,554,453</u>	<u>15,538,711</u>	<u>44,192,534</u>	<u>40,386,555</u>
Deferred outflows of resources	<u>1,159,166</u>	<u>1,303,567</u>	<u>177,831</u>	<u>296,960</u>	<u>1,336,997</u>	<u>1,600,527</u>
Current and other liabilities	848,353	904,835	449,064	711,777	1,297,417	1,616,612
Long-term liabilities	10,988,326	10,028,753	5,487,184	3,048,749	16,475,510	13,077,502
Total Liabilities	<u>11,836,679</u>	<u>10,933,588</u>	<u>5,936,248</u>	<u>3,760,526</u>	<u>17,772,927</u>	<u>14,694,114</u>
Deferred inflows of resources	<u>2,480,907</u>	<u>3,021,306</u>	<u>19,499</u>	<u>56,468</u>	<u>2,500,406</u>	<u>3,077,774</u>
Net Position:						
Net investment in capital assets	15,692,217	15,852,119	13,934,282	14,711,146	29,626,499	30,563,265
Restricted	2,050,151	1,569,865	602,630	-	2,652,781	1,569,865
Unrestricted	<u>(5,262,707)</u>	<u>(5,225,467)</u>	<u>(1,760,375)</u>	<u>(2,692,469)</u>	<u>(7,023,082)</u>	<u>(7,917,936)</u>
Total Net Position	<u>\$12,479,661</u>	<u>\$12,196,517</u>	<u>\$12,776,537</u>	<u>\$12,018,677</u>	<u>\$25,256,198</u>	<u>\$24,215,194</u>

Net position of the City's governmental activities stood at \$12,479,661. *Unrestricted* net position—the part of net position that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at (\$5,262,707).

The (\$5,262,707) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

The net position of our business-type activities stood at \$12,776,537. The City can generally only use these net positions to finance continuing operations of the water and sewer systems.

The results of this year's operations for the City as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net position for fiscal year 2017 and 2016.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Program Revenues:						
Charges for services	\$1,324,829	\$1,290,391	\$3,867,346	\$2,962,268	\$5,192,175	\$4,252,659
Operating grants and contributions	992,306	1,764,226	-	-	992,306	1,764,226
Capital grants and contributions	-	-	-	-	-	-
General Revenues:						
Property taxes	2,079,080	2,057,403	-	-	2,079,080	2,057,403
Unrestricted intergovernmental	857,858	818,817	-	-	857,858	818,817
Investment earnings	15,844	38,923	2,290	1,537	18,134	40,460
Fines and forfeitures	48,992	46,066	-	-	48,992	46,066
Miscellaneous	349,177	56,448	-	-	349,177	56,448
Gain/(loss) on sale of assets	-	-	-	-	-	-
Total Revenues	<u>5,668,086</u>	<u>6,072,274</u>	<u>3,869,636</u>	<u>2,963,805</u>	<u>9,537,722</u>	<u>9,036,079</u>
Program Expenses:						
Legislative	12,560	15,468	-	-	12,560	15,468
General government	1,805,191	1,719,846	-	-	1,805,191	1,719,846
Public safety	275,609	1,001,424	-	-	275,609	1,001,424
Public works	2,420,523	1,869,408	-	-	2,420,523	1,869,408
Community and economic development	32,625	21,912	-	-	32,625	21,912
Recreation and culture	601,752	402,688	-	-	601,752	402,688
Other governmental	53	1,148	-	-	53	1,148
Capital outlay	102,637	546,572	-	-	102,637	546,572
Interest on long-term debt	133,992	103,350	-	-	133,992	103,350
Sewer	-	-	1,556,725	1,504,240	1,556,725	1,504,240
Water	-	-	1,555,051	1,511,243	1,555,051	1,511,243
Total Expenses	<u>5,384,942</u>	<u>5,681,816</u>	<u>3,111,776</u>	<u>3,015,483</u>	<u>8,496,718</u>	<u>8,697,299</u>
Excess (deficiency) before transfers	283,144	390,458	757,860	(51,678)	1,041,004	338,780
Transfers in (out)	-	-	-	-	-	-
Increase (decrease) in net position	283,144	390,458	757,860	(51,678)	1,041,004	338,780
Net Position, Beginning	12,196,517	11,806,059	12,018,677	12,070,355	24,215,194	23,876,414
Net Position, Ending	<u>\$12,479,661</u>	<u>\$12,196,517</u>	<u>\$12,776,537</u>	<u>\$12,018,677</u>	<u>\$25,256,198</u>	<u>\$24,215,194</u>

The City's total revenues were \$9,537,722; the total cost of all programs and services was \$8,496,718 leaving an increase in net position of \$1,041,004. Our analysis below separately considers the operations of governmental and business-type activities:

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Governmental Activities

Government activities net position increased by \$283,144. This overall increase was due to a change in combined governmental fund balance of \$206,654, changes in general fixed assets of \$481,118, proceeds from borrowing of (\$845,000), principal payments on debt of \$161,890, a change in accrued interest of (\$15,075), adjustments due to amortization of deferred amounts on bond of (\$1,112), internal service fund activity of \$30,000, pension liability expense of (\$279,575) related to MERS, pension liability expense related to the Police and Fire Retirement System of \$563,343, and a change in compensated absences of (\$19,099).

Table 3 presents the cost of each of the three largest programs – General Government, Public Safety and Public Works – as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each program placed on the City's operation.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
General Government	\$1,805,191	\$1,602,528
Public Works	2,420,523	408,036
Recreation and Culture	601,752	544,810

Business-type Activities

Business-type activities net position increased by \$757,860. The Sewer Fund and the Water Fund experienced a change in net position of \$330,133 and \$427,727, respectively, resulting in a net increase in Business-Type Activities of \$757,860.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet) reported a *combined* fund balance of \$3,173,262, an increase of \$206,654 from the beginning of the year.

The combined fund balance increase of \$206,654 was due to a decrease in the fund balance of General Fund and the Garbage & Rubbish Fund, offset by increases in the fund balances of the Major Street Fund, Local Street Fund, Public Improvement Fund, and other governmental funds. The increase is primarily attributable to management closely monitoring expenditures in the General Fund resulting in net loss in the General Fund of \$51,222, net income in the Major Street Fund of \$117,726, net income in the Local Street Fund of \$6,843, net loss in the garbage & Rubbish Fund of (\$147,901), net income in the Public Improvement Fund of \$26,187, and net income of \$255,021 in the Other Governmental Funds. A majority of the net income (approximately \$230,000) in the Other Governmental Funds was due to contributions received by the City for the purpose of payments related to Firefighter Longevity.

General Fund Budgetary Highlights

General Fund expenses were \$229,579 less than the final budget because Legislative expenses were \$4,640 less than the final budget; General government expenses were \$70,327 less than the final budget; Public Safety was \$17,840 less than the final budget; Public Works was \$133,054 less than the final budget; Community and economic development was \$3,575 less than the final budget; and Recreation and Culture was \$143 less than the final budget.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

General Fund revenues were \$39,670 more than the final revenue budget mainly due to taxes being \$22,126 more than anticipated, state sources being \$54,855 more than anticipated, other revenues being \$24,666 more than anticipated, interest and rentals being \$76,294 less than anticipated, and all other categories were \$14,317 more than anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2017, the City had \$28,883,289 invested in a variety of capital assets including land, buildings, and other equipment. (See Table 4 below)

Table 4
Capital Assets at Year-End
(Net of Depreciation)

	2017			2016 Total
	Governmental Activities	Business-type Activities	Total	
Land	\$1,280,750	\$10,888	\$1,291,638	\$1,284,667
Historical treasures	135,275	-	135,275	135,275
Construction in progress	818,382	3,064,965	3,883,347	930,307
Buildings and improvements	3,894,213	29,376	3,923,589	4,073,536
Land improvements	2,879,932	-	2,879,932	2,905,270
Equipment and vehicles	758,354	273,123	1,031,477	896,078
Infrastructure	9,676,931	-	9,676,931	9,968,307
Sewer system and equipment	-	4,279,975	4,279,975	4,643,220
Water system and equipment	-	1,781,125	1,781,125	1,865,801
Total	<u>\$19,443,837</u>	<u>\$9,439,452</u>	<u>\$28,883,289</u>	<u>\$26,702,461</u>

In 2017, the City's major capital additions included the purchase of a wheel loader, police interceptor, three new DPW trucks, put in an order for a new fire truck, and costs related to the water replacement project.

Further details on capital assets can be found in the Notes to the Financial Statements.

Debt

At year-end, the City had \$6,348,858 in bonds and notes outstanding as depicted in Table 5 below.

Table 5
Outstanding Debt at Year-End

	2017			2016 Total
	Governmental Activities	Business-type Activities	Total	
Bonds	\$3,658,310	\$2,452,000	\$6,110,310	\$2,950,200
Contracts and notes payable	50,000	188,548	238,548	322,889
Total	<u>\$3,708,310</u>	<u>\$2,640,548</u>	<u>\$6,348,858</u>	<u>\$3,273,089</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

During the year the City made draws on its USDA loans totaling \$2,452,000 related to the water replacement project. Additionally, a millage was approved for the purchase of a new fire truck which was financed through the issuance of the 2017 General Obligation bonds.

During the year the City made principal payments on debt totaling \$221,231.

Further details on long-term debt can be found in the Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City of Ishpeming closed on an \$8,980,000 low-interest loan from the United States Department of Agriculture – Rural Development (RD) to improve the aging water system in July 2017. RD has also awarded the City of Ishpeming a \$3,020,000 grant to bring the total project budget to \$12 million. The City of Ishpeming broke ground on this project in July 2017 with approximately ten percent of the work completed by the end of 2107. The City of Ishpeming anticipates the project to be completed by the end of 2018. As of the date of this report, the City of Ishpeming has drawn down approximately \$2,452,000 in RD loan proceeds.

The Carnegie Library has continued with its multi-year renovations, which are being paid for with donations raised from our generous community. The pillar renovation project that began in 2016 was slated to be finalized during 2017, but, due to unanticipated chemical reactions with the finish coat on the pillars, the project will continue into 2018. Future improvements to the Carnegie Library being discussed include roof repairs to prevent water penetration and tuck-pointing the building.

The City of Ishpeming continues a proactive approach to dealing with financial challenges as a means to improve its overall financial position. The City of Ishpeming is continuing to work with Marquette County Equalization to re-assess the property within the City of Ishpeming, beginning with commercial properties, to ensure the City of Ishpeming is adequately valuing and taxing the properties.

As identified in the notes to the financial statements-Note AB, 2017 was the third year of a multi-year deficit elimination plan for the City of Ishpeming Water Fund. The deficit elimination plan filed for 2016, the second year of deficit, was approved by the Michigan Department of Treasury. This deficit elimination plan anticipated a reported deficit of \$1,117,187 as of December 31, 2016. The actual reportable deficit in the Water Fund as of December 31, 2016 was \$1,078,057, which is \$39,103 better than estimated in the deficit elimination plan. The City of Ishpeming will continue to file with the Michigan Department of Treasury an annual update to the Water Fund deficit elimination plan as required by law. The City of Ishpeming has five years from the year in which the deficit was originally reported to eliminate the deficit, and management believes the deficit will be eliminated within that time period.

Management is continuing its plans to replace the City of Ishpeming's aging equipment. In preparing the 2018 budget, the City of Ishpeming established a Motor Pool and Equipment Fund as an internal service fund in order to better track and manage equipment costs and to provide a dedicated funding source for equipment replacement. In May 2018, the city council approved the purchase of a 2019 single axle Peterbilt plow truck at a cost of \$195,617. The plow truck will be paid for with a \$45,000 down payment from the Motor Pool and Equipment Fund and the remaining portion financed over a period of five years. In August 2017, voters approved a millage for \$850,000 to purchase a new fire truck. The fire truck is currently under construction with an anticipated delivery date of November 2018. The City of Ishpeming evaluates equipment needs as part of the five year capital improvement plan as well as during the budget process.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Management is working in coordination with the community to spur economic development within the City. In March 2017, the City of Ishpeming approved a PILOT ordinance for the Jasperlite Senior Living project, which will be a \$5.3 million project to bring 36 ADA compliant senior housing units to the City of Ishpeming at the site of the former hospital located near the downtown district. The Anderson Building, a historic brick and sandstone building located on the city's Main Street in the heart of the downtown, was recently purchased by local entrepreneurs who are committed to its restoration and revitalization. An urban farm has been established in downtown Ishpeming that states its mission "is dedicated to improving local access to fresh produce, building a healthy community, and promoting education on sustainable food systems." Additional economic development projects are pending.

The City of Ishpeming is continuing its work, in conjunction with Marquette County, on eliminating blight issues and unsafe buildings in order to improve the overall look of the community. Along those lines, The City of Ishpeming beautification initiative continues to flourish with the help of volunteers and support from the community. These are just several of the many exciting changes taking place within the City of Ishpeming.

The City of Ishpeming is also supporting further development of the ski and biking trails within the city, including the Iron Ore Heritage Trail and the RAMBA trail network just to name a few. Biking events such as the Marji Gesick and the 906 Polar Roll are helping to establish the City of Ishpeming as a mountain biking destination. The City of Ishpeming hosted its second U. S. Ski & Snowboard Association (USSA) SuperTour event due to the success of the first event in 2017.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager at City of Ishpeming, 100 East Division Street, Ishpeming, Michigan 49849.

City of Ishpeming, Michigan

STATEMENT OF NET POSITION

December 31, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 2,829,625	\$ 562,695	\$ 3,392,320	\$ 245,892
Investments	933,554	53,008	986,562	268,242
Receivables, net	2,253,476	635,157	2,888,633	123,784
Primary government internal balances	55,558	(55,558)	-	-
Due from primary government	-	-	-	633,202
Prepaid expenses and other assets	65,414	-	65,414	-
Non-current Assets:				
Cash and cash equivalents - restricted	-	784,321	784,321	-
Long-term receivables	56,617	-	56,617	-
Investment in Wastewater Treatment Facility	-	3,628,055	3,628,055	-
Investment in Joint Water Authority	-	3,507,323	3,507,323	-
Capital assets:				
Land, construction in progress and other non-depreciable assets	2,234,407	3,075,853	5,310,260	-
Other capital assets, net of depreciation	17,209,430	6,363,599	23,573,029	1,969,027
Total Capital Assets	19,443,837	9,439,452	28,883,289	1,969,027
TOTAL ASSETS	25,638,081	18,554,453	44,192,534	3,240,147
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amounts related to pension	995,646	177,831	1,173,477	-
Contributions subsequent to measurement date	163,520	-	163,520	-
Deferred amounts on refunding	-	-	-	-
Premium on investment	-	-	-	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,159,166	177,831	1,336,997	-
LIABILITIES				
Current Liabilities:				
Cash overdrafts	-	-	-	-
Accounts payable	99,263	293,690	392,953	-
Due to component unit	633,202	-	633,202	-
Customer deposits payable	-	122,970	122,970	-
Accrued liabilities	69,158	18,045	87,203	418
Accrued interest	42,230	14,359	56,589	26,813
Unearned revenue	4,500	-	4,500	3,600
Non-current Liabilities:				
Portion due or payable within one year:				
Notes payable	25,000	61,062	86,062	-
Bonds payable	203,510	145,000	348,510	126,490
Compensated absences	19,012	1,577	20,589	-
Portion due or payable after one year:				
Notes payable	25,000	127,486	152,486	-
Bonds payable	3,440,902	2,307,000	5,747,902	1,668,200
Compensated absences	219,978	8,170	228,148	-
Net pension liability	7,054,924	2,836,889	9,891,813	-
TOTAL LIABILITIES	11,836,679	5,936,248	17,772,927	1,825,521
DEFERRED INFLOWS OF RESOURCES				
Taxes levied for a subsequent period	2,165,847	-	2,165,847	223,244
Transportation appropriation	-	-	-	-
Deferred amounts related to pension	315,060	19,499	334,559	-
Discount on investment	-	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	2,480,907	19,499	2,500,406	223,244
NET POSITION				
Net investment in capital assets	15,692,217	13,934,282	29,626,499	174,337
Restricted	2,050,151	602,630	2,652,781	883,202
Unrestricted	(5,262,707)	(1,760,375)	(7,023,082)	133,843
TOTAL NET POSITION	\$ 12,479,661	\$ 12,776,537	\$ 25,256,198	\$ 1,191,382

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

City of Ishpeming, Michigan

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

Function / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 12,560	\$ -	\$ -	\$ -	\$ (12,560)	\$ -	\$ (12,560)	\$ -
General government	1,805,191	202,663	-	-	(1,602,528)	-	(1,602,528)	-
Public safety	275,609	2,010	8,617	-	(264,982)	-	(264,982)	-
Public works	2,420,523	1,048,234	964,253	-	(408,036)	-	(408,036)	-
Community and economic development	32,625	-	16,541	-	(16,084)	-	(16,084)	-
Recreation and culture	601,752	54,047	2,895	-	(544,810)	-	(544,810)	-
Other governmental	53	17,875	-	-	17,822	-	17,822	-
Capital outlay	102,637	-	-	-	(102,637)	-	(102,637)	-
Interest on long-term debt	133,992	-	-	-	(133,992)	-	(133,992)	-
Total Governmental Activities	5,384,942	1,324,829	992,306	-	(3,067,807)	-	(3,067,807)	-
Business-Type Activities:								
Sewer	1,556,725	1,884,568	-	-	-	327,843	327,843	-
Water	1,555,051	1,982,778	-	-	-	427,727	427,727	-
Total Business-Type Activities	3,111,776	3,867,346	-	-	-	755,570	755,570	-
TOTAL PRIMARY GOVERNMENT	\$ 8,496,718	\$ 5,192,175	\$ 992,306	\$ -	(3,067,807)	755,570	(2,312,237)	-
Component Unit:								
Downtown Development Authority	\$ 229,565	\$ -	\$ 2,050	\$ -	-	-	-	(227,515)
General Revenues:								
Taxes:								
Property taxes					2,079,080	-	2,079,080	250,459
Unrestricted intergovernmental sources					857,858	-	857,858	-
Interest and investment earnings					15,844	2,290	18,134	1,589
Fines and Forfeitures					48,992	-	48,992	-
Miscellaneous					349,177	-	349,177	-
Gain/(loss) on sale of assets					-	-	-	-
Transfers					-	-	-	-
TOTAL GENERAL REVENUES & TRANSFERS					3,350,951	2,290	3,353,241	252,048
CHANGE IN NET POSITION					283,144	757,860	1,041,004	24,533
Net position, beginning of year					12,196,517	12,018,677	24,215,194	1,166,849
NET POSITION, END OF YEAR	\$ 12,479,661	\$ 12,776,537	\$ 25,256,198	\$ 1,191,382				

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

City of Ishpeming, Michigan

GOVERNMENTAL FUNDS

BALANCE SHEET

December 31, 2017

	Special Revenue				Capital Projects	Other Governmental Funds	Total Governmental Funds
	General Fund	Major Street Fund	Local Street Fund	Garbage & Rubbish Fund	Public Improvement Fund		
ASSETS							
Cash and cash equivalents	\$ 1,486,735	\$ 43,397	\$ 152,800	\$ 226,908	\$ 205,175	\$ 714,610	\$ 2,829,625
Investments	48,000	-	-	-	-	885,554	933,554
Accounts receivable, net	38,529	-	-	29,301	217	185	68,232
Taxes receivable	1,363,290	-	-	-	448,164	94,201	1,905,655
Other receivable	-	-	-	24,483	-	-	24,483
Due from other governments	141,877	77,372	31,376	-	-	-	250,625
Due from other funds	199,766	-	-	-	100,000	-	299,766
Inventory	39,482	-	-	-	-	-	39,482
Prepaid expenses	-	-	-	25,932	-	-	25,932
Notes receivable	56,617	-	-	-	-	-	56,617
TOTAL ASSETS	3,374,296	120,769	184,176	306,624	753,556	1,694,550	6,433,971
DEFERRED OUTFLOWS OF RESOURCES							
Premium on investment	-	-	-	-	-	-	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 3,374,296	\$ 120,769	\$ 184,176	\$ 306,624	\$ 753,556	\$ 1,694,550	\$ 6,433,971
LIABILITIES							
Cash overdrafts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	86,906	-	-	-	11,992	365	99,263
Due to component unit	633,202	-	-	-	-	-	633,202
Accrued payroll	63,958	3,043	2,020	137	-	-	69,158
Accrued sick and vacation leave	19,012	-	-	-	-	-	19,012
Accrued liabilities	-	-	-	-	-	-	-
Due to other funds	130,902	-	-	2,500	-	136,325	269,727
TOTAL LIABILITIES	933,980	3,043	2,020	2,637	11,992	136,690	1,090,362
DEFERRED INFLOWS OF RESOURCES							
Taxes levied for a subsequent period	1,550,154	-	-	-	509,228	106,465	2,165,847
Unearned revenue	4,500	-	-	-	-	-	4,500
Transportation appropriation	-	-	-	-	-	-	-
Discount on investment	-	-	-	-	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	1,554,654	-	-	-	509,228	106,465	2,170,347
FUND BALANCE							
Non-spendable	96,099	-	-	25,932	-	988,983	1,111,014
Restricted	-	117,726	182,156	-	232,336	406,919	939,137
Committed	-	-	-	-	-	-	-
Assigned	33,000	-	-	278,055	-	55,493	366,548
Unassigned	756,563	-	-	-	-	-	756,563
TOTAL FUND BALANCE	885,662	117,726	182,156	303,987	232,336	1,451,395	3,173,262
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 3,374,296	\$ 120,769	\$ 184,176	\$ 306,624	\$ 753,556	\$ 1,694,550	\$ 6,433,971

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

City of Ishpeming, Michigan

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

December 31, 2017

Total Fund Balances for Governmental Funds **\$ 3,173,262**

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Land, construction in progress and historical treasures	\$ 2,234,407	
Other capital assets, net of depreciation	<u>17,209,430</u>	19,443,837

Net pension liability, and related deferred (outflows)/inflows of resources, is not due and payable in the current period and is not reported in the funds.

Net pension liability -		
Michigan Municipal Employees' Retirement System	(5,010,724)	
Police and Fire Retirement System	(2,044,200)	
Deferred outflows of resources related to pension -		
Michigan Municipal Employees' Retirement System	409,845	
Police and Fire Retirement System	585,801	
Employer contributions subsequent to measurement date		
Police and Fire Retirement System	163,520	
Deferred (inflows) of resources related to net pension liability		
Michigan Municipal Employees' Retirement System	(141,097)	
Police and Fire Retirement System	<u>(173,963)</u>	(6,210,818)

Internal service funds are used by management to charge the costs of certain activities, such as the purchase and maintenance of equipment and vehicles, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position, net of capital assets.

Net position	<u>30,000</u>	30,000
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Current portion of bonds payable	(203,510)	
Current portion of notes and contracts payable	(25,000)	
Accrued interest on debt	(42,230)	
Compensated absences	(219,978)	
Bonds payable	(3,454,800)	
Long-term contracts and notes payable	(25,000)	
Deferred amounts on bonds	13,898	
Deferred gain on refunding	<u>-</u>	<u>(3,956,620)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 12,479,661**

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

City of Ishpeming, Michigan

GOVERNMENTAL FUNDS

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended December 31, 2017

	Special Revenue				Capital Projects	Other Governmental Funds	Total Governmental Funds
	General Fund	Major Street Fund	Local Street Fund	Garbage & Rubbish Fund	Public Improvement Fund		
REVENUES:							
Taxes	\$ 1,580,157	\$ -	\$ -	\$ -	\$ 498,921	\$ -	\$ 2,079,078
Federal sources	-	-	-	-	2,895	-	2,895
State sources	866,475	676,393	287,860	-	-	8,895	1,839,623
Licenses and permits	186,496	-	-	-	-	-	186,496
Charges for service	65,841	-	-	532,594	110,702	17,875	727,012
Interest income and rentals	411,061	151	375	523	659	10,764	423,533
Contributions	7,455	-	-	-	11,177	233,082	251,714
Fines and forfeitures	55,916	-	-	-	-	-	55,916
Other revenues	51,666	-	-	1,284	-	-	52,950
TOTAL REVENUES	3,225,067	676,544	288,235	534,401	624,354	270,616	5,619,217
EXPENDITURES:							
Current Operations:							
Legislative	12,560	-	-	-	-	-	12,560
General government	1,323,409	-	-	-	-	-	1,323,409
Public safety	789,501	-	-	-	-	1,080	790,581
Public works	646,291	523,592	270,899	682,302	-	-	2,123,084
Community and economic development	32,625	-	-	-	-	-	32,625
Recreation and culture	385,998	-	-	-	-	25,115	411,113
Other governmental	-	-	-	-	-	53	53
Debt service:							
Principal	-	32,430	9,660	-	53,800	66,000	161,890
Interest and fiscal charges	-	2,796	833	-	28,893	85,283	117,805
Capital outlay	-	-	-	-	464,960	838,352	1,303,312
TOTAL EXPENDITURES	3,190,384	558,818	281,392	682,302	547,653	1,015,883	6,276,432
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	34,683	117,726	6,843	(147,901)	76,701	(745,267)	(657,215)
OTHER FINANCING SOURCES (USES):							
Proceeds from borrowing	-	-	-	-	-	845,000	845,000
Premium on bond	-	-	-	-	-	4,037	4,037
Proceeds from sale of capital assets	-	-	-	-	-	-	-
Insurance recoveries	44,832	-	-	-	-	-	44,832
Transfers in	5,566	-	-	-	100,000	156,817	262,383
Transfers (out)	(136,303)	-	-	-	(150,514)	(5,566)	(292,383)
TOTAL OTHER FINANCING SOURCES (USES)	(85,905)	-	-	-	(50,514)	1,000,288	863,869
CHANGE IN FUND BALANCE	(51,222)	117,726	6,843	(147,901)	26,187	255,021	206,654
Fund balance, beginning of year	936,884	-	175,313	451,888	206,149	1,196,374	2,966,608
FUND BALANCE, END OF YEAR	\$ 885,662	\$ 117,726	\$ 182,156	\$ 303,987	\$ 232,336	\$ 1,451,395	\$ 3,173,262

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

City of Ishpeming, Michigan

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

Net Change in Fund Balances - Total Governmental Funds \$ 206,654

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	\$ 1,200,675	
Depreciation expense	(719,557)	
Net book value of disposed assets	<u>-</u>	481,118

Proceeds of borrowing are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net position. (845,000)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 161,890

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (15,075)

Governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the net effect of these differences in the treatment of long-term debt.

Current year amortization of deferred amounts on bond	(1,112)	
Current year amortization of premium on refunding	<u>-</u>	(1,112)

Internal service funds are used by management to charge costs of certain activities, such as the purchase and maintenance of equipment and vehicles and the operation of the Municipal Building, to individual funds. The net revenue of the Internal Service Funds is reported with governmental activities net of depreciation expense.

Change in net position	30,000	
Capital Outlays	-	
Depreciation expense	<u>-</u>	30,000

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

Pension liability expense	(279,575)	
Pension liability expense - Fire-Police Retirement	563,343	
Compensated absences	<u>(19,099)</u>	<u>264,669</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 283,144

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

City of Ishpeming, Michigan

PROPRIETARY FUNDS

STATEMENTS OF NET POSITION

December 31, 2017

	Business-type Activities Enterprise Funds			Internal Service Funds
	Sewer Fund	Water Fund	Total	Motor Pool
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 1,221,008	\$ -	\$ 1,221,008	\$ -
Investments	53,008	-	53,008	-
Accounts receivable	104,681	411,790	516,471	-
Allowance for uncollectible accounts	-	-	-	-
Delinquent utilities	-	64,686	64,686	-
Due from other funds	-	902	902	30,000
Due from other governmental units	-	54,000	54,000	-
Non-current Assets:				
Cash and cash equivalents - restricted	-	784,321	784,321	-
Investment in Wastewater Treatment Facility	3,628,055	-	3,628,055	-
Investment in Joint Water Authority	-	3,507,323	3,507,323	-
Capital Assets:				
Land and construction in progress	551,723	2,524,130	3,075,853	-
Other capital assets, net of depreciation	4,580,957	1,782,642	6,363,599	-
Total Capital Assets	5,132,680	4,306,772	9,439,452	-
TOTAL ASSETS	10,139,432	9,129,794	19,269,226	30,000
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amounts related to pension	50,373	127,458	177,831	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	50,373	127,458	177,831	-
LIABILITIES				
Current Liabilities:				
Cash overdrafts	-	658,313	658,313	-
Accounts payable	55,584	238,106	293,690	-
Customer deposits payable	-	122,970	122,970	-
Accrued payroll	5,997	12,048	18,045	-
Accrued interest	-	14,359	14,359	-
Due to other funds	36,230	20,230	56,460	-
Non-current Liabilities:				
Portion due or payable within one year				
Bonds payable	-	145,000	145,000	-
Notes payable	61,062	-	61,062	-
Compensated absences	87	1,490	1,577	-
Portion due or payable after one year				
Bonds payable	-	2,307,000	2,307,000	-
Notes payable	127,486	-	127,486	-
Compensated absences	841	7,329	8,170	-
Net pension liability	904,673	1,932,216	2,836,889	-
TOTAL LIABILITIES	1,191,960	5,459,061	6,651,021	-
DEFERRED INFLOWS OF RESOURCES				
Deferred amounts related to pension	-	19,499	19,499	-
TOTAL DEFERRED INFLOWS OF RESOURCES	-	19,499	19,499	-
NET POSITION				
Net investment in capital assets	8,572,187	5,362,095	13,934,282	-
Restricted:				
Debt service	-	602,630	602,630	-
Unrestricted	425,658	(2,186,033)	(1,760,375)	30,000
TOTAL NET POSITION	\$ 8,997,845	\$ 3,778,692	\$ 12,776,537	\$ 30,000

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

City of Ishpeming, Michigan

PROPRIETARY FUNDS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2017

	Business-type Activities			Internal Service Funds Motor Pool
	Enterprise Funds			
	Sewer Fund	Water Fund	Total	
OPERATING REVENUES:				
Federal sources	\$ -	\$ -	\$ -	\$ -
State sources	449,922	-	449,922	-
Charges for services	1,434,646	1,978,774	3,413,420	-
Other operating revenue	-	4,004	4,004	-
TOTAL OPERATING REVENUES	1,884,568	1,982,778	3,867,346	-
OPERATING EXPENSES:				
Personal services	349,055	702,387	1,051,442	-
Contractual services	583,304	440,141	1,023,445	-
Supplies	19,153	79,774	98,927	-
Utilities	1,816	11,721	13,537	-
Depreciation	398,924	86,193	485,117	-
Other expenses	113,369	220,476	333,845	-
TOTAL OPERATING EXPENSES	1,465,621	1,540,692	3,006,313	-
OPERATING INCOME (LOSS)	418,947	442,086	861,033	-
NON-OPERATING REVENUES (EXPENSES):				
Interest expense	(7,189)	(14,359)	(21,548)	-
Gain/(loss) on wastewater facility	(83,915)	-	(83,915)	-
Interest income and rentals	2,290	-	2,290	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	(88,814)	(14,359)	(103,173)	-
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	330,133	427,727	757,860	-
Transfers in	-	-	-	30,000
Transfers (out)	-	-	-	-
CHANGE IN NET POSITION	330,133	427,727	757,860	30,000
Net position, beginning of year	8,667,712	3,350,965	12,018,677	-
NET POSITION, END OF YEAR	\$ 8,997,845	\$ 3,778,692	\$ 12,776,537	\$ 30,000

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

City of Ishpeming, Michigan

PROPRIETARY FUNDS

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2017

	Business-type Activities Enterprise Funds			Internal Service Funds
	Sewer Fund	Water Fund	Total	Motor Pool
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from fees and charges for services	\$ 1,450,419	\$ 1,906,238	\$ 3,356,657	\$ -
Other operating revenues	449,922	(49,996)	399,926	-
Cash payments to employees for services	(302,625)	(622,453)	(925,078)	-
Cash payments to suppliers for goods and services	(677,800)	(557,884)	(1,235,684)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	919,916	675,905	1,595,821	-
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Increase (decrease) in cash overdraft	-	(630,844)	(630,844)	-
(Increase) decrease in due from	-	1,614	1,614	(30,000)
Increase (decrease) in due to other funds	36,230	20,230	56,460	-
Transfers in (out)	-	-	-	30,000
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	36,230	(609,000)	(572,770)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Principal payments on debt	(59,341)	-	(59,341)	-
Interest paid on debt	(7,189)	(14,359)	(21,548)	-
Proceeds from borrowing	-	2,452,000	2,452,000	-
Cash payments for capital assets	(464,602)	(1,720,225)	(2,184,827)	-
Proceeds sale of capital assets	-	-	-	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(531,132)	717,416	186,284	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
(Increase) decrease in investments	(242)	-	(242)	-
Investment income	2,290	-	2,290	-
(Increase) decrease in restricted assets	-	(784,321)	(784,321)	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	2,048	(784,321)	(782,273)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	427,062	-	427,062	-
Cash and cash equivalents, beginning of year	793,946	-	793,946	-
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,221,008	\$ -	\$ 1,221,008	\$ -
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 418,947	\$ 442,086	\$ 861,033	\$ -
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	398,924	86,193	485,117	-
Change in assets and liabilities:				
(Increase) decrease in accounts receivable, net	15,773	(72,536)	(56,763)	-
(Increase) decrease in due from other governmental units	-	(54,000)	(54,000)	-
Increase (decrease) in accounts payable	39,842	163,294	203,136	-
Increase (decrease) in customer deposits payable	-	16,575	16,575	-
Increase (decrease) in accrued payroll	529	(2,101)	(1,572)	-
Increase (decrease) in accrued interest	-	14,359	14,359	-
Increase (decrease) in accrued sick and vacation	209	(12,419)	(12,210)	-
Increase (decrease) in net pension liability and related	45,692	94,454	140,146	-
NET ADJUSTMENTS	500,969	233,819	734,788	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 919,916	\$ 675,905	\$ 1,595,821	\$ -

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

City of Ishpeming, Michigan

FIDUCIARY FUNDS

STATEMENTS OF FIDUCIARY NET POSITION

December 31, 2017

	Pension Trust Fund	Agency Funds
	<hr/>	<hr/>
ASSETS		
Cash and equivalents	\$ 152,035	\$ 922,406
Investments	4,570,443	-
Taxes receivable	148,687	1,916,189
Other receivables	58	-
Due from other governments	-	-
Due from other funds	-	-
	<hr/>	<hr/>
TOTAL ASSETS	4,871,223	\$ 2,838,595
	<hr/>	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	-	
	<hr/>	
LIABILITIES		
Due to other funds	-	\$ 4,481
Due to others	-	15,507
Due to other governmental units	-	2,818,607
	<hr/>	<hr/>
TOTAL LIABILITIES	-	\$ 2,838,595
	<hr/>	<hr/>
DEFERRED INFLOWS OF RESOURCES		
Taxes levied for a subsequent period	169,536	
	<hr/>	
TOTAL DEFERRED INFLOWS OF RESOURCES	169,536	
	<hr/>	
NET POSITION		
Restricted for pension benefits	4,701,687	
	<hr/>	
TOTAL NET POSITION	\$ 4,701,687	
	<hr/>	

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

City of Ishpeming, Michigan

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended December 31, 2017

	Pension Trust Fund
	<u> </u>
ADDITIONS:	
Contributions:	
Taxes	\$ 163,490
Employee	24,927
Gifts, bequests and endowments	30
Total Contributions	<u>188,447</u>
Investment Income:	
Net appreciation (depreciation) in fair value of investments	443,939
Interest and dividends	142,776
Administrative expense	<u>(36,796)</u>
Net Investment Income (Loss)	<u>549,919</u>
TOTAL ADDITIONS	<u>738,366</u>
DEDUCTIONS:	
Benefits and annuity withdrawals	457,440
Refunds of contributions	-
Other expenditures	<u>-</u>
TOTAL DEDUCTIONS	<u>457,440</u>
CHANGE IN NET POSITION	280,926
Net position, beginning of year	<u>4,420,761</u>
NET POSITION, END OF YEAR	<u><u>\$ 4,701,687</u></u>

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

CITY OF ISHPEMING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the City of Ishpeming, Michigan (the City) conform to accounting principles generally accepted in the United States of America applicable to local governmental units as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The following is a summary of the more significant policies.

REPORTING ENTITY

The City of Ishpeming, Michigan was incorporated in 1873 in accordance with the laws of the State of Michigan and operates under a Council-Manager form of government. As required by generally accepted accounting principles, the City's financial statements present the City (the primary government) and its component units. In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which the City may or may not be financially accountable and, as such, be includable within the City's financial statements. In accordance with GASB Statement No. 14, the City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Blended component units, although legally separate entities, are, in substance, part of the government's operations, therefore data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. Each blended and discretely presented component unit has a December 31st year-end.

Policemen and Firemen Retirement System – The City of Ishpeming is the administrator of a single-employer public employee retirement system established and administered by the City to provide pension benefits for the Police and Fire Department employees. The Policemen and Firemen Retirement System is considered part of the City of Ishpeming financial reporting entity and is included in the City's financial report as a pension trust fund.

BLENDED COMPONENT UNITS

Governmental Fund Type

City of Ishpeming Building Authority – The Building Authority's governing body consists of the City Manager, Finance Director, and City Treasurer which are appointed by the governing board of the reporting entity. Although it is legally separate from the City, the Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings.

The reporting entity has guaranteed the debt issues of the Authority.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

DISCRETELY PRESENTED COMPONENT UNITS

Governmental Fund Type

City of Ishpeming Downtown Development Authority – The Downtown Development Authority’s governing board is appointed by the City’s Mayor with the confirmation of the Commission and includes the City Manager of the reporting entity. The reporting entity has the responsibility to fund deficits and operating deficiencies, as well as guarantee for any debt the Authority issues.

Separate financial statements for the City of Ishpeming Downtown Development Authority are not developed; however, information can be obtained from the City’s Finance Department upon request located at 100 East Division Street, Ishpeming, Michigan 49849.

RELATED ORGANIZATIONS

Ishpeming Housing Commission – The Ishpeming Housing Commission was created to provide low-income housing for the City residents. The Ishpeming Housing Commission’s governing board is appointed by the City Mayor with the confirmation of the Commission; however, the City does not provide any financial assistance to the Housing Commission. Management of the Housing Commission is not designated by the City nor does the City have the ability to significantly influence operations. The City does not subsidize the operations of the Housing Commission and does not guarantee its debt service. The Ishpeming Housing Commission has not been included as a component unit of the City’s reporting entity because there is no accountability for fiscal matters to the City.

Summary financial information as of and for the fiscal year ended December 31, 2016, is as follows:

Total Assets	\$3,553,972
Total Liabilities	293,058
Total Net Position	3,260,914
Total Operating Revenues	723,375
Total Operating Expenses	1,207,964
Total Non-Operating Revenues(expenses)	6,158
Capital Grant Contributions	40,235
Net Increase (Decrease) in Net Position	(438,196)

BASIS OF PRESENTATION

Government-Wide Financial Statements

The City of Ishpeming, Michigan’s basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City’s major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City’s police and fire protection, public works, culture and recreation, and general administrative services are classified as governmental activities. The City’s sewer and water services are classified as business-type activities.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

as long-term debt and obligations. The City's net position are reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities. The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenue.

The government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities. For the most part, the effect of interfund activities has been removed from these statements.

Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures, or expenses, as appropriate. The various funds are reported by generic classification within the financial statements. The City uses the following fund types:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

- *General Fund* – The General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.
- *Special Revenue Funds* – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.
- *Capital Projects Funds* – Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).
- *Permanent Funds* – Permanent Funds are used to account for assets held by the City pursuant to a trust agreement. The principle portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position and cash flows. The generally accepted accounting principles applicable are those similar to business in the private sector. The following is a description of the proprietary funds of the City:

- *Enterprise Funds* – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Funds:

Fiduciary funds are used to report the assets held by the City in a trustee capacity or as an agent for others and therefore are not available to support the City's programs. The reporting focus is on net position and changes in net position and is reported using accounting principles similar to proprietary funds.

Major Funds:

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Non-major funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

The City reports the following major governmental funds:

- The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The **Major Street Fund** accounts for the activities related to receipt of allocated state shared gas and weight taxes to be spent on certain "mile" roads designated as major under contractual agreement with the State of Michigan.
- The **Local Street Fund** accounts for the allocated state shared gas and weight taxes for remaining City roads.
- The **Garbage & Rubbish Fund** accounts for activities related to garbage and rubbish collection and disposal.
- The **Public Improvement Fund** accounts for the activities related to development and improvement of the City's general capital assets.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The City reports the following major proprietary funds:

- The **Sewer Fund** accounts for the activities related to sanitary sewer operation and booster stations and billing for services.
- The **Water Fund** accounts for the activities related to water treatment and distribution and billing for services.

The City's fiduciary funds are presented in the fiduciary fund financial statements by type (pension and agency). Since by definition these assets are being held for the benefit of a third-party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the City, these funds are not incorporated into the government-wide statements.

BASIS OF ACCOUNTING

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

All enterprise funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Unbilled water and sewer services are accrued as revenue in the Water and Sewer Funds based upon estimated consumption at year-end.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period. "Available" means collectible within the current period or within 60 days of the end of the current fiscal period. Significant revenues susceptible to accrual include payments in lieu of taxes, state and federal sources, and intergovernmental revenues. Other revenue sources such as licenses, permits, charges for services, sales, fees, fines, rentals, and other are recorded as revenues when received in cash because they are generally not measurable until actually received. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred with certain exceptions such as interest on long-term debt, compensated absences and claims and judgments which are generally recognized when payment is due.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

FINANCIAL STATEMENT AMOUNTS

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are stated at fair value. The fair value measurements of investments is based on the hierarchy established by generally accepted accounting principles, which has three levels based on the valuation inputs used to measure an asset's fair value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Inventory

Inventory costs are recorded as expenditures when incurred.

Interfund Receivables/Payables

During the course of its operations, the City has numerous transactions between funds to finance operations, to provide services, construct assets and service debt. To the extent that certain transactions between funds had not been paid or received as of fiscal year end, balances of interfund accounts receivable or payable have been recorded and are subject to elimination upon consolidation.

Interfund receivables and payables have been eliminated from the Statement of Net Position.

Capital Assets

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. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Assets acquired by gift or bequest are recorded at their estimated fair value on the date of transfer.

Depreciation on all exhaustible capital assets is charged as an expense against their operations in government-wide statements and proprietary fund financial statements. Accumulated depreciation is reported on government-wide and proprietary fund statement of net position. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

	<u>Depreciation Life</u>
Buildings, structures, and improvements	20-50 years
Vehicles and equipment	5-15 years
Water supply and sewage disposal systems	20-50 years

GASB No. 34 requires the City to report and depreciate new infrastructure assets placed in service after January 1, 2004. Infrastructure assets include roads, bridges and traffic signals, etc. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is optional for the City under GASB No. 34 and the City has elected not to retroactively report infrastructure assets prior to January 1, 2004.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government only has three items that qualify for reporting in this category.

In the financial statements, the net difference between projected and actual pension plan investment earnings, differences between expected and actual experience, changes in assumptions and changes in proportion and differences between employer contributions and proportionate share of contributions create a deferred inflow of resources.

The deferred charge on refunding reported in the governmental statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

The deferred premium on investments reported in the governmental balance sheet. A premium on investment results from the difference in the fair market value of the investment and its acquisition price. This amount is amortized over the life of the asset.

Long-Term Liabilities

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as insurance costs, are deferred and amortized over the life of the bonds using straight line amortization. Bonds payable are reported net of the applicable bond premium or discount. Bond insurance costs are reported as a prepaid and amortized over the term of the related debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond insurance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources and bond discounts are reported as other financing uses.

Bond issuance costs whether or not withheld from the actual debt received, are reported as debt service and expensed the year incurred.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has three types of items that qualify for reporting in this category:

In the government-wide and governmental fund financial statements property taxes levied during the year that were intended to finance future periods, which arises only under a modified accrual basis of accounting are deferred and recognized as an inflow of resources in the period that the amount becomes available.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

In the government-wide and governmental fund financial statements transportation appropriations from the State applicable to future periods are deferred and recognized as an inflow of resources in the period that the amount becomes available.

In the government-wide and governmental fund financial statements the deferred discount on investments results from the difference in the fair market value of the investment and its acquisition price. This amount is amortized over the life of the asset.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City of Ishpeming because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control.

Compensated Absences

The City accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The non-current portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

Equity Classification

Government-Wide Statements

Equity is classified as net position and displayed in three components:

1. Net Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation. These amounts are derived from the fund financial statements by combining non-spendable and restricted fund balance classifications.
3. Unrestricted Net Position – All other net assets that do not meet the definition of “restricted” or “net invested in capital assets.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as non-spendable, restricted, committed, assigned, and unassigned. Proprietary fund equity is classified the same as in the government-wide statements.

Revenues

Government-Wide Statements

In the government-wide Statement of Activities, revenues are segregated by activity, and are classified as either program revenue or general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions, and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fund Statements

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the City's policy to use the restricted resources first.

Property Taxes

The City bills and collects its own property taxes and also the taxes for the local school district, the intermediate school district, and the county. Collections of local school taxes, intermediate school district taxes, Iron Ore Heritage Trail Authority taxes, and county taxes and remittance of them are accounted for in the Trust and Agency Fund. Property taxes are levied on December 1st based on the taxable value of property. City property tax revenues are recognized when levied to the extent that they result in current receivables.

Expenses/Expenditures

Government-Wide Statements

In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

In the proprietary fund financial statements, expenses are classified by operating and non-operating and are sub-classified by function such as personnel services and other services and charges.

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are (1) activities between funds reported as governmental activities and funds reported as business-type activities; and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets between funds without equivalent flows of assets in return or a requirement for repayment.

Budgets and Budgetary Accounting

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

1. Not later than October 15, the City Manager submits to the City Council a proposed operating budget for the ensuing fiscal year commencing January 1 in accordance with the City Charter. The operating budget includes proposed expenditures and the means of financing them.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

2. Prior to its adoption, a public hearing is conducted at City Hall to obtain taxpayer comments.
3. Not later than November 30, the budget is adopted by the City Council in accordance with the provisions of the City Charter.
4. The City Council adopts the budget by functional categories. Any transfers of appropriations between functions must be approved by the City Council. All unencumbered and unexpended appropriations lapse at year end.
5. Formal budgetary integration is employed as a management control device for the general fund and all special revenue funds. The budgets for the capital projects and enterprise funds are informational summaries only and are not covered under the City's General Appropriations Act or the State's Public Act 621.
6. The City Council has the authority to amend the budget when it becomes apparent that deviations in the original budget will occur and the amount of the deviation can be determined. Once originally adopted, the budget was formally amended during the fiscal year.
7. The legally adopted budgets and informational budget summaries for the funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) as applicable to each funds method of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through June 28, 2018, which is the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

NOTE B – CASH AND EQUIVALENTS:

The composition of cash and cash equivalents reported on the Statement of Net Position are as follows:

Cash and cash equivalents:	
Primary government	\$4,176,641
Fiduciary funds	1,074,441
Component unit	245,892
TOTAL REPORTING ENTITY	\$5,496,974

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State law does not require and the City does not have a deposit policy for custodial credit risk. As of December 31, 2017, the carrying amount of the City's deposits with financial institutions was \$5,496,974 and the bank balance

NOTE B – CASH AND EQUIVALENTS (Continued):

was \$5,630,077. Of the bank balance, \$495,167 or approximately 9% was covered by federal depository insurance according to FDIC regulations. The bank balance is categorized as follows:

Amount insured by the FDIC or uncollateralized with securities held by the City in its name	\$495,167
Amount collateralized with securities held by the pledging financial institutions trust department in the City's name:	
Collateralized and uninsured	5,134,910
TOTAL REPORTING ENTITY	<u><u>\$5,630,077</u></u>

NOTE C – INVESTMENTS:

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of December 31, 2017, the City had the following investments:

	Fair Value	Investment Maturity (in Years)			
		Less Than 1	1-5	6-10	More Than 10
PRIMARY GOVERNMENT:					
CDs and money market ²	\$608,651	\$553,608	\$55,043	\$-	\$-
U.S. Government Agencies ¹	294,396	42,148	147,952	104,296	-
U.S. Treasury Bonds ¹	83,515	-	83,515	-	-
TOTAL PRIMARY GOVERNMENT	<u>\$986,562</u>	<u>\$595,756</u>	<u>\$286,510</u>	<u>\$104,296</u>	<u>\$-</u>
FIDUCIARY FUNDS:					
Mutual Equity Funds ¹	\$3,226,228	\$-	\$-	\$-	\$3,226,228
Mutual Equity Index Funds ¹	1,344,215	-	-	-	1,344,215
TOTAL FIDUCIARY	<u>\$4,570,443</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$4,570,443</u>
COMPONENT UNIT:					
CDs and money market ²	\$268,242	\$268,242	\$-	\$-	\$-
TOTAL COMPONENT UNIT	<u>\$268,242</u>	<u>\$268,242</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>

- 1 – Level 1 input
- 2 – Level 2 input
- 3 – Level 3 input

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the City's investments. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE C – INVESTMENTS (Continued):

Credit Risk – Michigan statutes (Act 196, PA 1997) authorize the City to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

Michigan statute (Act 314, PA 1965, as amended) authorizes the pension trust to invest in, with certain restrictions, stocks and mutual funds up to 60% of the system's assets; investments in the general or separate account of life insurance companies; fixed income securities; investments in leased property; direct investments in property; investments in real estate loans; investments in small business or venture capital firms in Michigan; surplus funds pooled accounts; and bank or trust company collective investment funds.

The City has no investment policy that would further limit its investment choices. The City's investments are in accordance with statutory authority.

Concentration of Credit Risk – The City places no limit on the amount the City may invest in any one issuer. There were no investments subject to concentration credit risk disclosure.

NOTE D – RESTRICTED ASSETS:

Certain resources set aside for the repayment of debt proceeds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Assets restricted by applicable bond covenants are as follows:

	December 31, 2017	
	Required Balance	Actual Balance
I. Construction accounts		
These accounts are used to receive loan/grant proceeds and pay construction costs.		
a. To be used for the monies received from the utility system construction.	\$167,572	\$167,572
II. Bond payment accounts		
These accounts are required to be funded per bond issues. The fund shall be used solely for payment of principal and interest on the bonds as to which would otherwise be in default.		
a. 2017 Water Supply System Revenue Bond, ½ of interest due on next payment and not less than ¼ of the principal due the next year.	48,142	185,668

NOTE D – RESTRICTED ASSETS (Continued):

		December 31, 2017	
		Required Balance	Actual Balance
III. Bond reserve accounts			
These accounts are required to be funded per bond issues. The fund shall be used solely for payment of principal and interest on the bonds as to which would otherwise be in default.			
a. 2017 Water Supply System Revenue Bond, \$8,400 quarterly up to \$336,000.		\$8,400	\$8,500
IV. Capital improvement accounts			
These accounts are required to be funded per bond. These funds are to be used for repairs, replacement, or improvements to the water system. If the amounts in the bond reserve accounts are not sufficient to pay on the bonds when due, these monies may be transferred for that purpose.			
a. 2017 Water Supply System Revenue Bond, \$17,281.25 per quarter less the amount deposited in the Reserve Account (\$8,400 quarterly) or \$8,881.25 quarterly.		8,881	8,981
V. Operations and maintenance accounts			
These accounts are required to be funded per bond issues. The fund shall be used solely for the operation and maintenance of the System.			
a. 2017 Water Supply System Revenue Bond, sum sufficient to provide for payment of next quarter's expenses of administration and operation		369,635	413,600
Total		\$602,630	\$784,321

NOTE E – ACCOUNTS RECEIVABLE AND TAXES RECEIVABLE:

Receivables as of year-end for the government's individual major funds, aggregate non-major governmental funds, and major proprietary funds, including applicable allowances for uncollectible accounts, are as follows:

Type	Governmental Activities	Business- Type Activities	Total Primary Government
Property taxes – current	\$1,905,655	\$-	\$1,905,655
Accounts receivable	68,232	-	68,232
Utilities receivable	24,483	516,471	540,954
Delinquent utilities receivable	-	64,686	64,686
Other receivables	-	-	-
Due from other government units	250,625	54,000	304,625
Receivable from fiduciary funds	4,481	-	4,481
Total	\$2,253,476	\$635,157	\$2,888,633

Receivable balances have been disaggregated by type and presented separately in the financial statements.

NOTE F – LONG-TERM RECEIVABLES:

Loans made to individual businesses in the City of Ishpeming, Michigan by the Revolving Loan Fund are recorded as long-term receivables. The Revolving Loan Fund was closed during fiscal year 2016 and the amounts recorded as long-term receivables are now being accounted for in the General Fund. The total outstanding amount of loans issued as of December 31, 2017 was \$56,617.

A summary of notes receivable recorded in the General Fund at December 31, 2017 is as follows:

Debtor	Balance December 31, 2017	Year of Award	Interest Rate	Terms in Years
Argall	\$56,617	2000	2.0%	15
Total	<u>\$56,617</u>			

NOTE G – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS IN/OUT:

City of Ishpeming, Michigan reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds.

A summary of the interfund receivables and payables at December 31, 2017 is as follows:

		DUE FROM OTHER FUNDS				
		General Fund	Capital Projects	Water	Internal Service	Total Due To Other Funds
DUE TO OTHER FUNDS	General Fund	\$-	\$100,000	\$902	\$30,000	\$130,902
	Garbage	2,500	-	-	-	2,500
	Other Governmental	136,325	-	-	-	136,325
	Fiduciary	4,481	-	-	-	4,481
	Water	20,230	-	-	-	20,230
	Sewer	36,230	-	-	-	36,230
	Total Due From	<u>\$199,766</u>	<u>\$100,000</u>	<u>\$902</u>	<u>\$30,000</u>	<u>\$330,668</u>

All internal balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The transfers between funds for the year ended December 31, 2017 are as follows:

		TRANSFERS IN FROM OTHER FUNDS				
		General Fund	Capital Projects	Other Governmental	Internal Service	Total Transfers Out
TRANSFERS OUT TO OTHER FUNDS	General Fund	\$-	\$100,000	\$6,303	\$30,000	\$136,303
	Capital Projects	-	-	150,514	-	150,514
	Non-Major Governmental	5,566	-	-	-	5,566
	Total Transfers In	<u>\$5,566</u>	<u>\$100,000</u>	<u>\$156,817</u>	<u>\$30,000</u>	<u>\$292,383</u>

NOTE G – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS IN/OUT (Continued):

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorization.

NOTE H – CAPITAL ASSETS:

A summary of the changes in governmental activities capital assets for the year ended December 31, 2017 is as follows:

	Balance January 1, 2017	Additions	Deductions	Balance December 31, 2017
GOVERNMENTAL ACTIVITIES:				
Capital assets not being depreciated:				
Land	\$1,273,779	\$6,971	\$-	\$1,280,750
Historical treasures	135,275	-	-	135,275
Construction in progress	50,169	818,382	(50,169)	818,382
Subtotal	<u>1,459,223</u>	<u>825,353</u>	<u>(50,169)</u>	<u>2,234,407</u>
Capital assets being depreciated:				
Buildings and improvements	12,269,376	72,481	(6,441)	12,335,416
Land improvements	3,211,036	69,454	-	3,280,490
Equipment and vehicles	5,185,689	283,556	(98,386)	5,370,859
Infrastructure	10,861,559	-	-	10,861,559
Subtotal	<u>31,527,660</u>	<u>425,491</u>	<u>(104,827)</u>	<u>31,848,324</u>
Total Capital Assets	<u>32,986,883</u>	<u>1,250,844</u>	<u>(154,996)</u>	<u>34,082,731</u>
Less accumulated depreciation:				
Buildings and improvements	(8,226,944)	(220,700)	6,441	(8,441,203)
Land improvements	(305,766)	(94,792)	-	(400,558)
Equipment and vehicles	(4,598,202)	(112,689)	98,386	(4,612,505)
Infrastructure	(893,252)	(291,376)	-	(1,184,628)
Total Accumulated Depreciation	<u>(14,024,164)</u>	<u>(719,557)</u>	<u>104,827</u>	<u>(14,638,894)</u>
CAPITAL ASSETS, NET	<u>\$18,962,719</u>	<u>\$531,287</u>	<u>(\$50,169)</u>	<u>\$19,443,837</u>

Depreciation expense for the governmental activities was charged to the following functions and activities of the primary government:

Governmental Activities:	
General Government	\$414,895
Public Works	165,218
Public Safety	41,791
Recreation and Culture	97,653
Total Depreciation Expense	<u>\$719,557</u>

NOTE H – CAPITAL ASSETS (Continued):

A summary of changes in business-type activities capital assets as of December 31, 2017 is as follows:

	Balance January 1, 2017	Additions	Deductions	Balance December 31, 2017
BUSINESS-TYPE ACTIVITIES:				
Capital assets not being depreciated:				
Land	\$10,888	\$-	\$-	\$10,888
Construction in progress	880,138	2,184,827	-	3,064,965
Subtotal	<u>891,026</u>	<u>2,184,827</u>	<u>-</u>	<u>3,075,853</u>
Capital assets being depreciated:				
Building and improvements	68,793	-	-	68,793
Equipment	447,228	-	-	447,228
Sewer system	14,738,040	-	-	14,738,040
Water system	4,290,204	-	-	4,290,204
Subtotal	<u>19,544,265</u>	<u>-</u>	<u>-</u>	<u>19,544,265</u>
Total Capital Assets	<u>20,435,291</u>	<u>2,184,827</u>	<u>-</u>	<u>22,620,118</u>
Less accumulated depreciation:				
Building and improvements	(37,689)	(1,728)	-	(39,417)
Equipment	(138,637)	(35,468)	-	(174,105)
Sewer system	(10,094,820)	(363,245)	-	(10,458,065)
Water system	(2,424,403)	(84,676)	-	(2,509,079)
Total Accumulated Depreciation	<u>(12,695,549)</u>	<u>(485,117)</u>	<u>-</u>	<u>(13,180,666)</u>
CAPITAL ASSETS, NET	<u>\$7,739,742</u>	<u>\$1,699,710</u>	<u>\$-</u>	<u>\$9,439,452</u>

Depreciation expense for the business-type activities was charged to the following functions and activities of the primary government:

Business-type Activities:	
Sewer	\$398,924
Water	86,193
Total Depreciation Expense	<u>\$485,117</u>

A summary of the changes in component unit activities capital assets for the year ended December 31, 2017 is as follows:

	Balance January 1, 2017	Additions	Deductions	Balance December 31, 2017
COMPONENT UNIT:				
Capital assets not being depreciated:				
Land	\$-	\$-	\$-	\$-
Construction in progress	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTE H – CAPITAL ASSETS (Continued):

	Balance January 1, 2017	Additions	Deductions	Balance December 31, 2017
Capital assets being depreciated:				
Land improvements	\$139,829	\$-	\$-	\$139,829
Infrastructure	2,169,572	-	-	2,169,572
Subtotal	<u>2,309,401</u>	<u>-</u>	<u>-</u>	<u>2,309,401</u>
 Total Capital Assets	 <u>2,309,401</u>	 <u>-</u>	 <u>-</u>	 <u>2,309,401</u>
Less accumulated depreciation:				
Land improvements	(7,144)	(7,947)	-	(15,091)
Infrastructure	(219,812)	(105,471)	-	(325,283)
Total Accumulated Depreciation	<u>(226,956)</u>	<u>(113,418)</u>	<u>-</u>	<u>(340,374)</u>
 CAPITAL ASSETS, NET	 <u>\$2,082,445</u>	 <u>(\$113,418)</u>	 <u>\$-</u>	 <u>\$1,969,027</u>

Depreciation expense for the component unit activities was charged to the following functions and activities of the primary government:

Component Unit Activities:	
DDA	<u>\$113,418</u>
Total Depreciation Expense	<u>\$113,418</u>

NOTE I – CONSTRUCTION IN PROGRESS:

The City has a number of projects underway which involve additions, extensions, and improvements to the City Library, City's streets, sanitary sewer, and water systems. Major construction projects in progress as of December 31, 2017 include the following:

Fire Truck, \$818,382; in fiscal year 2017 the City proposed a millage for the purchase of a new fire truck. The millage passed and the City placed an order for the construction of a new fire truck. It is anticipated that the fire truck will be complete and placed into service at the end of fiscal year 2018.

Water Improvement Project-SAW grant, \$551,723; in conjunction with the City's Water Improvement Project (see below) the City began replacing sewer lines that are degraded. The City is utilizing a Stormwater, Asset Management, and Wastewater (SAW) grant through Michigan Department of Environmental Quality (MDEQ).

Water Improvement Project, \$2,513,242; the City has secured grant and USDA funding for a large water line replacement project within the City. The project is estimated to cost approximately \$12,000,000 with funding being provided through a USDA loan totaling \$8,980,000 and a USDA grant totaling \$3,020,000. It is anticipated that the project will be complete in fiscal year 2019.

As of December 31, 2017, total construction in progress costs incurred amounted to \$818,382 in the governmental type activities, \$3,064,965 in the business-type activities, and \$-0- in the component unit.

NOTE J – LONG-TERM PAYABLE TO DDA:

In the past the DDA loaned the City money to finance various City projects. In 2015, the City Council agreed to a 20-year payment plan schedule to pay back the DDA the amount owed with annual payments of \$37,247 beginning in 2015. The balance outstanding as of December 31, 2017 is \$633,202.

NOTE K – LONG -TERM DEBT:

A summary of long-term obligations at December 31, 2017 and transactions related thereto for the year then ended is as follows:

	Balance January 1, 2017	Additions	Reductions	Balance December 31, 2017	Due Within One Year
GOVERNMENTAL ACTIVITIES:					
Installment payable for purchase of fire truck. Payable annually beginning January 1, 2006 including 4.375%. Secured by equipment.	\$75,000	\$-	(\$25,000)	\$50,000	\$25,000
Limited Tax General Obligation Building Authority Bonds, Series 2000. Payable semi-annually including interest of 4.25% per annum.	597,000	-	(30,000)	567,000	32,000
Limited Tax General Obligation Building Authority Bonds, Series 2002. Payable semi-annually including interest of 4.75% per annum.	63,000	-	(3,000)	60,000	3,000
Michigan Transportation Fund Bonds, Series 2003. Payable semi-annually including interest of 4.25%.	85,400	-	(42,090)	43,310	43,310
General Obligation Limited Tax Capital Improvement Bonds, Series 2011. Payable semi-annually including interest of 3.00% to 5.00% per annum.	586,800	-	(28,800)	558,000	31,200
Building Authority Bonds, Series 2015. Payable semi-annually including interest of 3.25% per annum.	1,373,000	-	(28,000)	1,345,000	29,000
Building Authority Bonds, Series 2016. Payable semi-annually including interest of 3.125% per annum.	245,000	-	(5,000)	240,000	5,000
General Obligation Unlimited Tax Bonds, Series 2017. Payable semi-annually including interest of 3.00% to 3.125% per annum.	-	845,000	-	845,000	60,000
SUBTOTAL	<u>3,025,200</u>	<u>845,000</u>	<u>(161,890)</u>	<u>3,708,310</u>	<u>228,510</u>
Less: Premium on bonds	(15,010)	-	1,112	(13,898)	-
SUBTOTAL	<u>3,010,190</u>	<u>845,000</u>	<u>(160,778)</u>	<u>3,694,412</u>	<u>228,510</u>
Compensated absences	212,037	26,953	-	238,990	19,012
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$3,222,227</u>	<u>\$871,953</u>	<u>(\$160,778)</u>	<u>\$3,933,402</u>	<u>\$247,522</u>

NOTE K – LONG -TERM DEBT (Continued):

	Balance January 1, 2017	Additions	Reductions	Balance December 31, 2017	Due Within One Year
BUSINESS-TYPE ACTIVITIES:					
Installment payable for purchase of Vacall Freightliner. Payable annually beginning November 1, 2016 including interest of 2.9%. Secured by equipment.	\$247,889	-	(\$59,341)	\$188,548	\$61,062
Water Revenue Bonds, Series 2017. Payable semi-annually beginning June 1, 2018 including interest of 2.125%	-	2,452,000	-	2,452,000	145,000
SUBTOTAL	<u>247,889</u>	<u>2,452,000</u>	<u>(59,341)</u>	<u>2,640,548</u>	<u>206,062</u>
Compensated absences	21,957	209	(12,419)	9,747	1,577
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$269,846</u>	<u>\$2,452,209</u>	<u>(\$71,760)</u>	<u>\$2,650,295</u>	<u>\$207,639</u>
COMPONENT UNIT:					
Michigan Transportation Fund Bonds, Series 2003. Payable semi-annually including interest of 4.25% per annum.	\$54,600	\$-	(\$26,910)	\$27,690	\$27,690
General Obligation Limited Tax Capital Improvement Bonds, 2011 Series. Payable semi-annually including interest of 3.00% to 5.00% per annum.	1,858,200	-	(91,200)	1,767,000	98,800
TOTAL COMPONENT UNIT	<u>\$1,912,800</u>	<u>\$-</u>	<u>(\$118,110)</u>	<u>\$1,794,690</u>	<u>\$126,490</u>

The annual principal and interest requirements for the years ending December 31, 2017 and thereafter, excluding accrued compensated absences, are as follows:

	Governmental Activities		Business-Type Activities		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$228,510	\$135,896	\$206,062	\$5,468	\$126,490	\$78,462
2019	207,400	125,948	210,832	106,798	159,600	71,910
2020	192,800	117,801	215,654	184,869	167,200	65,165
2021	197,000	110,398	154,000	179,754	171,000	57,978
2022	185,800	103,170	157,000	176,450	110,200	52,003
2023-2027	1,023,600	404,087	839,000	850,081	619,400	183,038
2028-2032	747,200	207,176	931,000	736,110	440,800	33,250
2033-2037	309,000	130,290	1,035,000	631,796	-	-
2038-2042	368,000	76,784	1,150,000	515,845	-	-
2043-2047	249,000	16,126	1,277,000	386,974	-	-
2048-2052	-	-	1,420,000	243,844	-	-
2053-2057	-	-	1,573,000	84,817	-	-
Sub-Totals	<u>3,708,310</u>	<u>1,427,676</u>	<u>9,168,548</u>	<u>4,102,806</u>	<u>1,794,690</u>	<u>541,806</u>
Less: amounts to be drawn	-	-	(6,528,000)	-	-	-
Totals	<u>\$3,708,310</u>	<u>\$1,427,676</u>	<u>\$2,640,548</u>	<u>\$4,102,806</u>	<u>\$1,794,690</u>	<u>\$541,806</u>

NOTE L – COMPENSATED ABSENCES:

The City accrues the liability for earned sick leave using the vesting method. The liability is accrued as the benefits are earned if it is probable that the City will compensate the employees conditioned upon retirement, death or termination of employment. Employees earn sick leave at the rate of one (1) day per month, not to exceed 12 days per year. Upon termination in good standing, retirement, death, or disability, employees or their estates, shall be paid for sick leave accumulated at their current rate of pay as dictated by the respective union contract or employment agreement.

Employees earn vacation leave at various schedules dependent upon their length of employment. Upon retirement, death, termination or disability, employees or their estates are paid for all outstanding vacation days accumulated at their current rate of pay.

The current portion of the liability for governmental fund types and the entire liability for proprietary fund types are reported as part of the accrued expenses in the respective funds. The long-term portion of the liability applicable to the governmental fund types is reported in the Statement of Net Position. The liability is recorded as follows:

	<u>Sick</u>	<u>Vacation</u>	<u>Total</u>
Current Portion:			
General Fund	\$-	\$19,012	\$19,012
Sewer Fund	-	87	87
Water Fund	-	1,490	1,490
Long-term Portion:			
Governmental Activities	140,595	79,383	219,978
Sewer Fund	144	697	841
Water Fund	1,605	5,724	7,329
TOTAL	<u>\$142,344</u>	<u>\$106,393</u>	<u>\$248,737</u>

NOTE M – TAXES LEVIED FOR A SUBSEQUENT PERIOD:

Property taxes levied on December 1, 2017 have met all criteria related to revenue recognition except for time and as such are recorded as a deferred inflow of resources under GASB 65. The amount of taxes levied for a subsequent period is as follows:

Primary Government:	
General Fund	\$1,550,154
Public Improvement Fund	509,228
Fire Fund	106,465
Subtotal	<u>2,165,847</u>
Fiduciary:	
Pension Trust Fund	169,536
Component Unit:	
DDA Fund	223,244
TOTAL	<u>\$2,558,627</u>

NOTE N – FUND BALANCES – GOVERNMENTAL FUNDS:

As of December 31, 2017, fund balances of the governmental funds are classified as follows:

Non-spendable — amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed — amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

Assigned — amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the City’s adopted policy, only the City Manager or the City Council may assign amounts for specific purposes.

Unassigned — all other spendable amounts.

As of December 31, 2017, fund balances are composed of the following:

	General Fund	Major Special Revenue Funds	Major Capital Projects Funds	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable:					
Prepaid expenses	\$-	\$25,932	\$-	\$-	\$25,932
Inventory	39,482	-	-	-	39,482
Corpus	-	-	-	988,983	988,983
Long-term note receivable	56,617	-	-	-	56,617
Restricted:					
Transportation Funds	-	299,882	-	-	299,882
Public Improvement Levy	-	-	232,336	-	232,336
Fire Levy	-	-	-	8,844	8,844
Firefighter Longevity	-	-	-	232,476	232,476
Library State Aid	-	-	-	-	-
Perpetual Care	-	-	-	157,294	157,294
Cemetery Care	-	-	-	8,305	8,305
Committed					
	-	-	-	-	-
Assigned:					
Garbage Activities	-	278,055	-	-	278,055
Building Authority	-	-	-	-	-
Library Improvements	-	-	-	50,495	50,495
Lake Bancroft	-	-	-	4,998	4,998
DEQ Monitoring	33,000	-	-	-	33,000
Unassigned					
	756,563	-	-	-	756,563
Total fund balances	\$885,662	\$603,869	\$232,336	\$1,451,395	\$3,173,262

NOTE N – FUND BALANCES – GOVERNMENTAL FUNDS (Continued):

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the City Council through amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

NOTE O – DEFINED BENEFIT PENSION PLAN:

The following information is based upon the latest available actuarial valuation (as of December 31, 2016).

Summary of Significant Accounting Policies

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

General Information about the Pension Plan

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

Benefits Provided:

	2016 Valuation		
	01 – CI & Pub Wks: Open Division	10 – Supervisory: Open Division	11 – Union/Supervisor: Open Division
Benefit Multiplier:	2.50% Multiplier (80% max)	2.50% Multiplier (80% max)	2.50% Multiplier (80% max)
Normal Retirement Age:	60	60	60
Vesting:	10 years	10 years	10 years
Early Retirement (Unreduced):	50/25	50/25	50/25
Early Retirement (Reduced):	55/15	55/15	55/15
Final Average Compensation:	3 years	3 years	3 years
COLA for Future Retirees:	2.50% (Non-compound)	2.50% (Non-compound)	2.50% (Non-compound)
Employee Contributions:	5.35%	7.51%	9.70%
Act 88:	Yes (Adopted 2/3/1965)	Yes (Adopted 2/3/1965)	Yes (Adopted 2/3/1965)

NOTE O – DEFINED BENEFIT PENSION PLAN (Continued):

Employees covered by benefit terms – At the December 31, 2016 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits:	39
Inactive employees entitled to but not yet receiving:	4
Active employees:	<u>27</u>
Total	<u>70</u>

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

The contribution rates as a percentage of payroll as December 31, 2016 are as follows:

<u>Division</u>	<u>Employer Contribution</u>	<u>Employee Contribution</u>
01 – CI & Pub Wks	37.94%	5.39%
10 – Supervisory	51.41%	7.51%
11 – Union/Supervisor	95.83%	9.70%

There were no contributions requirements for closed divisions.

Net Pension Liability – The employer’s Net Pension Liability was measured as of December 31, 2017, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as December 31, 2016.

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

Inflation: 2.5%

Salary Increases: 3.75% in the long-term

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

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

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

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2009-2013.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected

NOTE O – DEFINED BENEFIT PENSION PLAN (Continued):

returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount rate – The discount rate used to measure the total pension liability is 8.00%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

Changes in Net Pension Liability	Calculating the Net Pension Liability		
	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 12/31/2016	\$15,519,743	\$7,845,799	\$7,673,944
Changes for the Year			
Service Cost	200,575	-	200,575
Interest on Total Pension Liability	1,209,026	-	1,209,026
Changes in benefits	(131)	-	(131)
Difference between expected and actual experience	426,449	-	426,449
Change in assumptions	-	-	-
Employer Contributions	-	565,838	(565,838)
Employee Contributions	-	81,314	(81,314)
Net Investment Income	-	1,019,969	(1,019,969)
Benefit payments, including employee refunds	(1,014,405)	(1,014,405)	-
Administrative expense	-	(16,175)	16,175
Other changes	(11,304)	-	(11,304)
Net Changes	810,210	636,541	173,669
Balances at 12/31/2017	\$16,329,953	\$8,482,340	\$7,847,613

NOTE O – DEFINED BENEFIT PENSION PLAN (Continued):

Net Pension Liability (NPL):	
MERS – Primary Government	\$7,847,613
Police-Fire – Primary Government (see Note P)	2,044,200
NPL reported in the Statement of Net Position	<u>\$9,891,813</u>

Sensitivity of the Net Pension Liability to changes in the discount rate. The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.00%, as well as what the employer’s Net Pension Liability would be using a discount rate that is one percentage point lower (7.00%) or 1% higher (9.00%) than the current rate.

	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
Net Pension Liability at 12/31/2017	<u>\$7,847,613</u>	<u>\$7,847,613</u>	<u>\$7,847,613</u>
Change in Net Pension Liability	<u>1,831,906</u>	<u>-</u>	<u>(1,538,008)</u>
Calculated Net Pension Liability	<u>\$9,679,519</u>	<u>\$7,847,613</u>	<u>\$6,309,605</u>

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

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

For the year ended 2017 the employer recognized pension expense of \$419,721. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference in experience	\$199,717	\$-
Difference in assumptions	402,535	-
Excess (Deficit) Investment Returns	-	(175,172)
Subtotal	<u>602,252</u>	<u>(175,172)</u>
Contributions subsequent to the measurement date*	-	-
Total	<u>\$602,252</u>	<u>(\$175,172)</u>

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending 2018.

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
MERS – Primary Government	\$602,252	(\$175,172)
Police-Fire – Primary Government (see Note P)	585,801	(173,963)
Total	<u>\$1,188,053</u>	<u>(\$349,135)</u>
Contributions subsequent to the measurement date:		
Police-Fire – Primary Government (see Note P)	<u>\$163,520</u>	

NOTE O – DEFINED BENEFIT PENSION PLAN (Continued):

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

Plan Year Ended:	Amount
2018	\$264,860
2019	264,861
2020	(21,112)
2021	(81,529)
2022	-
Thereafter	-
Total	<u>\$427,080</u>

Payable to the Pension Plan

At December 31, 2017, there was a reported payable of \$42,761 for the outstanding amount of contributions to the pension plan.

NOTE P – POLICEMEN AND FIREMEN – DEFINED BENEFIT PENSION PLAN:

Summary of Significant Accounting Policies

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

General Information about the Pension Plan

Plan Description – The City of Ishpeming is the administrator of a single-employer public employee retirement system that covers all Police and Fire Department employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries. Management of the System is vested in City of Ishpeming ACT 345 Police-Fire Pension Board of the City of Ishpeming, Michigan Policemen and Firemen Retirement System, which consist of five members: two that are elected (two representing police employees), two that are appointed by the City Council of the City of Ishpeming and one that is the Treasurer of the City of Ishpeming.

Benefits Provided:

	<u>2016 Valuation</u>
Benefit Multiplier:	2.50% Multiplier (plus 1% for years in excess of 25 years)
Normal Retirement Age:	60
Vesting:	10 years
Early Retirement (Unreduced):	50/25
Early Retirement (Reduced):	Not applicable
Average Final Compensation (AFC):	3 years
COLA for Future Retirees:	None
Employee Contributions:	5.00%
	To age 55: 1.5% multiple
Non-duty Disability:	At age 55: same as above

NOTE P – POLICEMEN AND FIREMEN – DEFINED BENEFIT PENSION PLAN (Continued):

	2016 Valuation
	To age 55: 50% AFC
Duty Disability:	At age 55: same as above w/ service credit from date of disability to age 55.

Employees covered by benefit terms – At the December 31, 2016 valuation date, the latest actuarial valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits:	21
Inactive employees entitled to but not yet receiving:	5
Active employees:	8
Total	<u>34</u>

Contributions – The obligation to contribute to and maintain the system for these employees was established by negotiation with the City’s competitive bargaining units, and requires a contribution from the employees of 5% of gross wages.

The contribution rates as a percentage of payroll as December 31, 2016 are as follows: employer 35.87% and employee 5.00%.

There were no contributions requirements for closed divisions.

Net Pension Liability – The employer’s Net Pension Liability was measured as of December 31, 2016, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

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

Inflation: 3.5%

Salary Increases: 3.5% in the long-term

Investment rate of return: 7.0%, net of investment expense, including inflation

Although no specific price inflation assumptions are needed for the valuation, the 3.5% long-term wage inflation assumption would be consistent with a price inflation of 2.75%.

Mortality rates used were based on the RP-2014 Healthy Annuitant Mortality Table, projected to the year 2017 using Projection MP-2015, set back 0 years for men and 0 years for women.

Disability rates: It is assumed that 20% of disabilities before retirement are duty related. These rates were first used for the December 31, 1985 valuation.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2003.

NOTE P – POLICEMEN AND FIREMEN – DEFINED BENEFIT PENSION PLAN (Continued):

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocations were estimated based on the asset allocation provided by the City as of December 31, 2016. Best estimates of arithmetic real rates of return were approximated using expected returns from eight investment consultants. For each major asset class that is included in the pension plan’s target asset allocation as of December 31, 2016, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	2.00%	0.10%
Domestic Equity – Large Cap	26.94%	5.68%
Domestic Equity – Small Cap	26.94%	6.51%
International Equity	6.73%	6.66%
Emerging Markets	6.73%	8.84%
Domestic Corporate Fixed Income	14.72 %	1.42%
Domestic Government Fixed Income	7.36%	0.85%
Treasury Inflation Protected Securities	0.00%	1.01%
High Yield Bonds	0.00%	4.08%
Real Estate	3.32%	4.24%
Private Equity	0.00%	9.19%
Hedge Funds	0.00%	3.92%
Other Alternatives	5.27%	4.57%
TOTAL	100.00%	
Total Real Rate of Return		4.98%

Deposits and Investments – Michigan statute (Act 314, PA 1965, as amended) authorizes the System to invest in, with certain restrictions, stocks and mutual funds up to 60% of the system’s assets; investments in the general or separate account of life insurance companies; fixed income securities; investments in leased property; direct investments in property; investments in real estate loans; investments in small business or venture capital firms in Michigan; surplus funds pooled accounts; and bank or trust company collective investment funds. The City of Ishpeming ACT 345 Police-Fire Pension Board has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the System’s assets. All investment decisions are subject to Michigan law and the investment policy established by the City of Ishpeming ACT 345 Police-Fire Pension Board.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value, which is determined by the System custodian in consultation with the System’s investment managers. When sold, the cost of common stock sold is determined on the average cost method. Realized and unrealized gains or losses are reflected in revenues.

NOTE P – POLICEMEN AND FIREMEN – DEFINED BENEFIT PENSION PLAN (Continued):

Concentration of Investments – The fair value of individual investments that represent 5.0% or more of the Plan’s net position is as follows:

Wisdomtree Dynamic Intl –	15,721.0000 units	\$480,119
Doubleline Total Return –	47,384.2710 units	503,695
JPMorgan Core Bond Index –	21,746.0980 units	251,820
AQR Intl Equity CL –	26,255.8260 units	287,764
JohCM Gbl Eqty Fd –	18,497.7060 units	294,991
Schwab Fundamental US –	32,735.9970 units	565,023
Tortoise MLP & Pipeline –	18,058.3260 units	243,246

Discount rate – A single discount rate of 7.00% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.78%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2116. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2116, and the municipal bond rate was applied to all benefit payments after that date.

Changes in Net Pension Liability

Changes in Net Pension Liability	Calculating the Net Pension Liability		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 12/31/2015	\$6,337,539	\$4,426,054	\$1,911,485
Changes for the Year			
Service Cost	91,455	-	91,455
Interest on Total Pension Liability	431,723	-	431,723
Changes in benefits	-	-	-
Difference between expected and actual experience	(142,763)	-	(142,763)
Change in assumptions	178,587	-	178,587
Employer Contributions	-	188,906	(188,906)
Employee Contributions	-	26,124	(26,124)
Net Investment Income	-	211,257	(211,257)
Benefit payments, including employee refunds	(431,579)	(431,579)	-
Administrative expense	-	-	-
Other changes	(1)	(1)	-
Net Changes	127,422	(5,293)	132,715
Balances at 12/31/2016	\$6,464,961	\$4,420,761	\$2,044,200

Note: Based on December 31, 2016 actuarial valuation, the most recent actuarial report available.

NOTE P – POLICEMEN AND FIREMEN – DEFINED BENEFIT PENSION PLAN (Continued):

Sensitivity of the Net Pension Liability to changes in the discount rate. The following presents the Net Pension Liability of the employer, calculated using the discount rate of 7.00%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net Pension Liability at 12/31/2016	\$2,044,200	\$2,044,200	\$2,044,200
Change in Net Pension Liability	762,878	-	(637,313)
Calculated Net Pension Liability	<u>\$2,807,078</u>	<u>\$2,044,200</u>	<u>\$1,406,887</u>

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

For the year ended 2017 the employer recognized pension expense of (\$563,343). The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference in experience	\$-	(\$173,963)
Difference in assumptions	106,117	-
Excess (Deficit) Investment Returns	479,684	-
Subtotal	<u>585,801</u>	<u>(173,963)</u>
Contributions subsequent to the measurement date*	163,520	-
Total	<u>\$749,321</u>	<u>(\$173,963)</u>

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the plan year ending 2017.

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

Plan Year Ended:	Amount
2017	\$119,626
2018	144,939
2019	129,074
2020	18,199
2021	-
Thereafter	-
Total	<u>\$411,838</u>

Payable to the Pension Plan

At December 31, 2016, there was a reported payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2016.

NOTE Q – NET PENSION LIABILITY OF THE CITY (UNDER GASB 67):

The components of the net pension liability of the City at December 31, 2017, are as follows:

Total pension liability	\$6,464,961 *
Plan fiduciary net position	4,420,761
City's net pension liability	<u>\$2,044,200</u>

Plan fiduciary net position as
a percentage of the total pension liability 68.38%

*As of December 31, 2016, the most recent actuarial report available.

NOTE R – DEFERRED COMPENSATION PLAN:

The City offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The plan is available to all City employees, and it permits them to defer a portion of their current earnings until the employee's termination, retirement, death or unforeseeable emergency. The amounts deferred under the plan are held in a trust for the exclusive benefit of plan participants and their beneficiaries.

Due to changes in the Internal Revenue Code, the Plan's assets are considered to be property of the Plan's participants and are no longer subject to the City's general creditors. However, the Plan continues to be presented in these financial statements, as the City retains a fiduciary duty of care over the Plan. In the past, the plan assets have been used for no purpose other than to pay benefits and administrative costs.

The Plan's participants have the right to designate how the funds will be invested. Accordingly, the City has no liability for losses under the Plan. The Plan's assets are held in trust for the exclusive benefit of the Plan's participants and their beneficiaries.

The plan is administered by the Nationwide Retirement Solutions (formerly known as PEBSCO). Nationwide Retirement Solutions, as plan administrator, agrees to hold harmless and indemnify the City, its appointed and elected officers and participating employees from any loss resulting from Nationwide Retirement Solutions or its agents' failure to perform their duties and services pursuant to the Nationwide Retirement Solutions program.

NOTE S – OTHER POST-EMPLOYMENT BENEFITS:

The City provides post-employment health benefits to eligible retirees, terminated employees and their dependents. The benefits are provided in accordance with City ordinances, collective bargaining agreements and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The criteria to determine eligibility is defined in the Employer Participation Agreement for the Post-Employment Health Plan for Public Employees. The plan is administered by Nationwide Retirement Solutions. During 2017, expenses of \$28,490 were recognized for post-employment health benefits. Expenses for post-retirement health care benefits are recognized as employer contributions made to the Plan.

NOTE T – PROPERTY TAXES:

The City of Ishpeming levied 13.4433 mills for the General Fund, 4.4810 mills for the Public Improvement Fund, 0.9000 mills for Fire Equipment, and 1.5300 mills for the Policemen and Firemen Retirement Fund for calendar year 2017. The millage rate is based on each \$1,000.00 of property assessed valuation and the current Taxable Value of the City is \$117,469,637.

NOTE U – IRON ORE HERITAGE RECREATION AUTHORITY:

In November 2008, the City of Ishpeming, Michigan joined with other municipalities to create the Iron Ore Heritage Recreation Authority. The Authority was created pursuant to Act 321 of 2000 (the "Recreation Authorities Act") to acquire, construct, operate, maintain or improve a public park for recreational purposes, specifically limited to a permanent, year-round signed and surfaced trail system open to the public, to provide amenities along the trail, to encourage tourism development along the trail system, to encourage municipalities to tie compatible links into the trail system allowing for greater access to businesses, parks and schools and to conduct other activities permitted under Act 321 of 2000.

The authority is governed by a Board of Directors consisting of an odd number of members, with one (1) member to be appointed by the legislative body of each participating municipality. All Authority decisions must be passed by a majority of the members of the Board.

The Board shall obtain an annual audit of the Authority. A summary of financial information from the separately audited financial statements of the Authority for the year ended December 31, 2017 is as follows:

Assets	\$3,337,077
Deferred Outflows of Resources	-
Liabilities	7,751
Deferred Inflows of Resources	324,731
Net Position	3,004,595
Operating Revenues	376,694
Operating Expenses	288,726

NOTE V – JOINT VENTURES:

Ishpeming Area Joint Wastewater Treatment Facility

The City of Ishpeming and the Township of Ishpeming entered into an agreement on December 10, 1981 for the purpose of creating the Ishpeming Area Joint Wastewater Treatment Board (Board). The Facility shall design, construct, operate and maintain a joint wastewater treatment plant and related facilities. Unless otherwise agreed by the City and Township, the Board shall not levy or assess user charges, sewer rates, or fees directly against individual users of the wastewater treatment plant, but shall instead be reimbursed by contract payments from the City and Township.

The City and Township shall be responsible for collecting user charges, sewer rates, fees, penalties and the like from their respective residents and users of the system.

The City utilizes the equity method of accounting for the activity in its investment in the Facility. Under the equity method the investment is adjusted for any additional capital investments made and its proportionate share of the Facility's results of operations.

A summary of condensed financial information of the Facility, in the aggregate, as of December 31, 2017, is as follows:

NOTE V – JOINT VENTURES (Continued):

Assets	\$6,876,019
Deferred Outflows of Resources	61,993
Liabilities	202,027
Deferred Inflows of Resources	49,620
Equity - All local units	6,686,365
Operating Revenues	1,157,409
Operating Expenses	1,489,408
Other Income	53,568
Increase (decrease) in net position	(278,431)
City's Share of Net Income (loss)	(83,915)

Marquette County Solid Waste Management Authority

In February 1990, the City of Ishpeming joined 21 other municipalities in the Marquette County Solid Waste Management Authority ("Authority"). The Authority was created pursuant to Act 233 of 1955 to plan for, acquire, construct, finance, operate, maintain, repair and dispose of, whether by sale, lease, or otherwise, an Act 641 landfill, including all improvements, appurtenances, easements, accessory facilities and structure, equipment, and other property part of or incidental to the landfill sufficient to satisfy the requirements of, and function as a solid waste disposal area under Act 641 and to establish and administer procedures providing for the separation, recycling, recovery, conversion of solid waste to energy and for the disposition of such energy output and disposal at the site of Non-toxic Type II and Type III Solid Waste, to fund all of the above activities, to charge and collect fees in connection with the operation of the landfill and to provide for the reimbursement with receipt of bond proceeds to the City of Marquette and Sands Township of their respective costs and expenses incurred in connection with the establishment and administration of the Solid Waste Authority and the System Facility.

The Authority is governed by a Board of Trustees consisting of one (1) member (who shall be the Chairperson of the Board of Trustees) designated by the Sands Township Supervisor on behalf of the Sands Township, two (2) members designated by the Marquette City Commission; three (3) members designated by the Marquette County Board of Commissioners, and one resident of the City of Marquette appointed by other six Authority Board members. All decisions of the Board are made by majority vote, consisting of at least four of its members.

The City's share of assets, liabilities, and fund equity is 10.16 percent. Summary financial information as of and for the fiscal year ended June 30, 2017 is as follows:

Assets	\$13,625,188
Deferred Outflows of Resources	192,557
Liabilities	3,152,954
Deferred Inflows of Resources	64,945
Net Position	10,599,846
Operating Revenues	3,641,072
Operating Expenses	3,728,965
Non-operating Revenues (Expenses)	2,633,489
Net Income (Loss)	2,545,596

NOTE V – JOINT VENTURES (Continued):

Negaunee - Ishpeming Water Authority Board

The City of Ishpeming and the City of Negaunee entered into an intergovernmental agreement dated January 7, 1988, and amended on July 31, 1991, for the purpose of creating the Negaunee-Ishpeming Water Authority Board (Board), a corporate public body. The Board is to design, construct, own, operate and maintain a joint municipal water supply system and related facility. As part of the agreement, the City paid 50% of the preliminary engineering, design engineering, and bidding costs, and 60% of the capital costs.

On January 11, 1993, the County of Marquette issued Ishpeming/Negaunee Water Supply System Bonds – 1992 Issue of \$4,660,000 for the purpose of constructing a Water Plant and establishing a new water source for the City of Ishpeming and the City of Negaunee. Under the contract the City of Negaunee is obligated to pay \$2,860,000 over the next 20 years with interest rates ranging from 4.00% to 6.90% and the City of Ishpeming is obligated to pay \$1,800,000 over the next 10 years with interest rates ranging from 4.00% to 6.10%. The City of Ishpeming has fulfilled its obligation as of December 31, 2004.

The total cost of construction of the project was approximately \$7,000,000. The funding sources, in addition to the bond offering, consist of a \$1,000,000 U.S. Economic Development Administration Grant; a \$500,000 Michigan Community Development Block Grant; and \$840,000 in local funds.

A summary of the audited financial statements of the Board as of and for the year ended December 31, 2017 is as follows:

Total Assets	\$2,369,020
Total Liabilities	26,795
Total Net Position	2,342,225
Total Operating Revenues	590,975
Total Operating Expenses	631,629
Other Revenues and (Expenses)	3,281
Change in Net Position	(37,373)

The balance of the investment in Board for the year ended December 31, 2017 of \$3,507,323 represents the City's net investment in the Board.

NOTE W – CONTINGENT LIABILITIES:

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 was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The City joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

The City continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE W – CONTINGENT LIABILITIES (Continued):

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The City is unable to provide an estimate of the amounts of additional assessments that may be required to make the pool self-sustaining.

Grant Assistance – The City has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City.

NOTE X – TAX ABATEMENTS

The City receives reduced property tax revenues as a result of Industrial Facilities Tax (IFT) exemptions, Brownfield exemptions, Neighborhood Enterprise Zone (NEZ) exemptions, Obsolete Property Rehabilitation Act (OPRA) exemptions, and Eligible Manufacturing Personal Property (EMPP) exemptions granted by other governmental agencies within the City in accordance with State laws. These tax exemptions are intended to promote economic development and/or growth within the issuing government's jurisdiction.

For purposes of disclosure under GASB 77, the City discloses tax abatements by issuing government and type greater than \$5,000 in the aggregate. For the fiscal year ended December 31, 2017, there were no other significant tax abatements made by the City or any other governmental unit within the City.

NOTE Y – SINGLE AUDIT:

During the year ended December 31, 2017, the Federal aid received and expended by the City was \$2,454,895. This is greater than the single audit threshold of \$750,000; therefore the City is subject to a single audit under the Uniform Guidance.

NOTE Z – NEW GASB STANDARDS:

Recently Issued and Adopted Accounting Pronouncements

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The standard requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This statement is effective for periods beginning after December 15, 2015. See Note X for the City's tax abatement disclosures.

Other Recently Issued Accounting Pronouncements

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Others than Pension Plans*. GASB 74 replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet certain criteria. It also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB

NOTE Z – NEW GASB STANDARDS (Continued):

plans that are *not* administered through trusts that meet the specified criteria. This statement is effective for periods beginning after June 15, 2016. The City does not have any postemployment plans that meet the criteria for GASB 74; therefore, GASB 74 is not applicable to the City.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—An Amendment of GASB Statement No. 14*. GASB 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement is effective for periods beginning after June 15, 2016. The City does not have any component units that meet the criteria of GASB 80; therefore, GASB 80 is not applicable to the City.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. GASB 81 provides recognition and measurement guidance when a government is the beneficiary of an irrevocable split-interest agreement. The additional criteria requires governments that receive irrevocable split-interest agreement resources to recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The government is also required to recognize revenue when resources become applicable to the reporting period. This statement is effective for periods beginning after December 15, 2016. The City does not have any irrevocable split-interest agreements that meet the criteria for GASB 81; therefore, GASB 81 is not applicable to the City.

NOTE AA – UPCOMING STANDARDS:

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the City in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the City.

GASB 75: Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

Effective for fiscal years beginning after June 15, 2017 (City's fiscal year 2018)

This standard replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

NOTE AA – UPCOMING STANDARDS (Continued):

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

GASB 75 also requires more extensive note disclosures and required supplementary information, including 10 years of historical information. The particular accounting and financial reporting requirements and footnote disclosures are dependent upon the type of plan being used (defined benefit, defined contribution, or special funding situations) and whether the OPEB plans are administered through trusts meeting certain criteria.

GASB 83: Certain Asset Retirement Obligations

Effective for fiscal years beginning after June 15, 2018 (City's fiscal year 2019)

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. It requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. A deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This current value of a government's AROs are required to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays.

The statement also gives guidance on situations in which a government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. The government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

NOTE AA – UPCOMING STANDARDS (Continued):

GASB 84: Fiduciary Activities

Effective for fiscal years beginning after December 15, 2018 (City's fiscal year 2019)

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The Statement identifies four types of fiduciary funds that should be reported, as applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

GASB 85: Omnibus 2017

Effective for fiscal years beginning after June 15, 2017 (City's fiscal year 2018)

This statement address issues that have been identified during the implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Some of the items specifically addressed relate to the following:

- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pension or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

GASB 86: Certain Debt Extinguishment Issues

Effective for fiscal years beginning after June 15, 2017 (City's fiscal year 2018)

This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

NOTE AA – UPCOMING STANDARDS (Continued):

GASB 87: Leases

Effective for fiscal years beginning after December 15, 2019 (City's fiscal year 2020)

This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financing of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

NOTE AB – UNRESTRICTED NET POSITION DEFICIT:

In accordance with Public Act 140 of 1970, the City is required to file a deficit elimination plan for all funds that have a deficit at the end of the fiscal year. As of December 31, 2017 the City had unrestricted net position deficit in the Water Fund totaling \$2,186,033.

For purposes of determining if a fund is in a deficit position, the Michigan Department of Treasury's Local Audit and Finance Division issued Numbered Letter 2016-1. For governmental funds, "unrestricted fund balance" is the sum of the Committed, Assigned, and Unassigned balances.

For proprietary funds, fiduciary funds, and discretely presented component units the Department of Treasury created a deficit test for determining if a fund is in a deficit position and the deficit amount for which a deficit elimination plan must be submitted. The test is summarized as below:

- Step 1: Does the "unrestricted net position" or "total net position" have a deficit? If both are "no", no plan is necessary. If one is "yes", is the "deferred inflows of resources minus taxes and special assessments receivable" greater than either deficit? If "yes", no plan is necessary. If "no", proceed to Step 2.
- Step 2: Calculated current assets minus current liabilities. For this calculation, current liabilities should not include the current portion of long-term obligations. If the answer is positive, no plan is necessary. If the answer is negative, proceed to Step 3.
- Step 3: Compare A) the larger deficit between the "unrestricted net position" and the "total net position", and B) current assets minus current liabilities.
- Step 4: Submit a plan to eliminate the smaller deficit between A and B.

The results of performing the deficit test revealed the Water Fund is required to file a deficit elimination plan with the Department of Treasury for \$534,648. A deficit elimination plan has been filed.

REQUIRED SUPPLEMENTARY INFORMATION

City of Ishpeming, Michigan

MICHIGAN MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

DEFINED BENEFIT PENSION PLAN

ANALYSIS OF FUNDING INFORMATION

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS

(Ultimately 10 years will be displayed)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Change in total pension liability			
Service cost	\$ 200,575	\$ 183,436	\$ 176,348
Interest	1,209,026	1,177,043	1,111,444
Change in benefit terms	(131)	-	-
Differences between expected and actual experience	426,449	(240,242)	-
Changes in assumptions	-	805,071	-
Benefit payments, including refunds of member contributions	(1,014,405)	(969,793)	(896,652)
Other	<u>(11,304)</u>	<u>(96,136)</u>	<u>16,018</u>
Net change in total pension liability	810,210	859,379	407,158
Total pension liability, beginning of year	<u>15,519,743</u>	<u>14,660,364</u>	<u>14,253,206</u>
Total pension liability, end of year (a)	<u>16,329,953</u>	<u>15,519,743</u>	<u>14,660,364</u>
Change in plan fiduciary net position			
Contributions – employer	565,838	537,665	474,475
Contributions – member	81,314	141,948	73,403
Net investment income	1,019,969	822,998	(113,758)
Benefit payments, including refunds of member contributions	(1,014,405)	(969,793)	(896,652)
Administrative expense	<u>(16,175)</u>	<u>(16,241)</u>	<u>(16,811)</u>
Net change in plan fiduciary net position	636,541	516,577	(479,343)
Plan fiduciary net position, beginning of year	<u>7,845,799</u>	<u>7,329,222</u>	<u>7,808,565</u>
Plan fiduciary net position, end of year (b)	<u>8,482,340</u>	<u>7,845,799</u>	<u>7,329,222</u>
City's net pension liability, end of year (a)-(b)	<u>\$ 7,847,613</u>	<u>\$ 7,673,944</u>	<u>\$ 7,331,142</u>
Plan fiduciary net position as a percentage of the total pension liability	51.94%	50.55%	49.99%
Covered-employee payroll	\$ 1,296,057	\$ 1,229,890	\$ 1,195,774
City's net pension liability as a percentage of covered payroll	605.50%	623.95%	613.09%

Notes to Schedules:

City's net pension liability is based on most recent actuarial valuation date, December 31, 2016.

City of Ishpeming, Michigan

MICHIGAN MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

DEFINED BENEFIT PENSION PLAN

ANALYSIS OF FUNDING INFORMATION

SCHEDULE OF CONTRIBUTIONS

(Ultimately 10 years will be displayed)

<u>Fiscal Year Ending</u>	<u>Actuarial Determined Contribution</u>	<u>Contribution in Relation to the Actuarial Determined Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contribution as Percentage of Covered Payroll</u>
2015	\$ 474,475	\$ 474,475	\$ -	\$ 1,195,774	39.68%
2016	537,665	537,665	-	1,229,890	43.72%
2017	565,838	565,838	-	1,296,057	43.66%

City of Ishpeming, Michigan

POLICE AND FIRE RETIREMENT SYSTEM

DEFINED BENEFIT PENSION PLAN

ANALYSIS OF FUNDING INFORMATION

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS

(Ultimately 10 years will be displayed)

	Plan Year Ending December 31,			
	2017	2016	2015	2014
Change in total pension liability				
Service cost	Not Available *	\$ 91,455	\$ 111,812	\$ 114,128
Interest	Not Available *	431,723	438,498	477,261
Change in benefit terms	Not Available *	-	-	-
Differences between expected and actual experience	Not Available *	(142,763)	(157,156)	(333,359)
Changes in assumptions	Not Available *	178,587	(56,392)	(387,579)
Benefit payments, including refunds of member contributions	Not Available *	(431,579)	(415,168)	(430,902)
Other changes	Not Available	(1)	1	-
Net change in total pension liability	Not Available *	127,422	(78,405)	(560,451)
Total pension liability, beginning of year	Not Available *	6,337,539	6,415,944	6,976,395
Total pension liability, end of year (a)	Not Available *	6,464,961	6,337,539	6,415,944
Change in plan fiduciary net position				
Contributions – employer	163,520	188,906	199,322	201,791
Contributions – member	24,927	26,124	23,844	22,745
Net investment income	549,919	211,257	(187,393)	101,472
Benefit payments, including refunds of member contributions	(457,440)	(431,579)	(415,168)	(430,902)
Administrative expense	-	-	(42,723)	(39,761)
Other changes	-	(1)	1	-
Net change in plan fiduciary net position	280,926	(5,293)	(422,117)	(144,655)
Plan fiduciary net position, beginning of year	4,420,761	4,426,054	4,848,171	4,992,826
Plan fiduciary net position, end of year (b)	4,701,687	4,420,761	4,426,054	4,848,171
City's net pension liability, end of year (a)-(b)	Not Available *	\$ 2,044,200	\$ 1,911,485	\$ 1,567,773
Plan fiduciary net position as a percentage of the total pension liability	Not Available *	68.38%	69.84%	75.56%
Covered-employee payroll	Not Available *	\$ 424,035	\$ 458,896	\$ 462,485
City's net pension liability as a percentage of covered payroll	Not Available *	482.08%	416.54%	338.99%

*Actuarial information not available

Notes to Schedules:

City's net pension liability is based on most recent actuarial valuation date, December 31, 2016.

City of Ishpeming, Michigan

POLICE AND FIRE RETIREMENT SYSTEM

DEFINED BENEFIT PENSION PLAN

ANALYSIS OF FUNDING INFORMATION

SCHEDULE OF CITY CONTRIBUTIONS

Fiscal Year Ending	Actuarial Determined Contribution	Contribution in Relation to the Actuarial Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as Percentage of Covered Payroll
2008	\$ 108,895	\$ 108,895	\$ -	\$ 450,111	24.19%
2009	113,460	113,460	-	490,598	23.13%
2010	139,448	139,448	-	441,036	31.62%
2011	160,724	160,724	-	407,599	39.43%
2012	149,207	149,207	-	475,834	31.36%
2013	158,948	158,948	-	487,529	32.60%
2014	197,820	201,791	(3,971)	462,485	43.63%
2015	192,780	199,322	(6,542)	458,896	43.44%
2016	181,160	188,906	(7,746)	424,035	44.55%
2017	171,758	163,520	8,238	498,530	32.80%
2018	178,606				

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date: December 31, 2016

Notes: None

Methods and Assumptions Used to Determine Contributions Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 Years
Asset Valuation Method	5-Year smoothed market; 20% corridor
Inflation	3.5% wage inflation; 2.75% price inflation
Salary Increases	3.5% to 7.3% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience - based table of rates that are specific to the type of eligible condition. Last updated for the 2003 valuation.
Mortality	The RP-2014 Healthy Annuitant Mortality Table (adjusted back to 2006), set back 0 years for men and 0 years of women. Future mortality improvements are assumed each year based on the 2-dimensional sex-distinct mortality improvement scale MP-2015.

Other Information:

Notes

There were no benefit changes during the year.

Beginning with valuation date December 31, 2015 assumed wage inflation reduced from 4.5% to 3.5%.

City of Ishpeming, Michigan

POLICE AND FIRE RETIREMENT SYSTEM

DEFINED BENEFIT PENSION PLAN

ANALYSIS OF FUNDING INFORMATION

SCHEDULE OF INVESTMENT RETURNS

(Ultimately 10 years will be displayed)

<u>Plan Year Ended December 31,</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expense</u>
2014	4.71%
2015	5.40%
2016	4.98%
2017	Not available

City of Ishpeming, Michigan

MAJOR GOVERNMENTAL FUNDS

GENERAL FUND

The function of the GENERAL FUND is to record all revenues and expenditures of the City which are not accounted for in other funds. The General Fund receives revenue from many sources which are used to finance a wide range of City activities.

The major activities financed by the General Fund are Legislative, Fire and Police Protection, Public Works, Parks and Recreation, City Administration and most public services.

SPECIAL REVENUE FUNDS

The function of the Special Revenue Funds is to record revenues and expenditures for specific functions or activities within restrictions imposed by City Charter, ordinances, resolutions and/or Federal and State statutes. The modified accrual basis of accounting is used in recording Special Revenue Fund transactions. The MAJOR STREET FUND, LOCAL STREET FUND, and GARBAGE & RUBBISH FUND are Major Special Revenue Fund types.

City of Ishpeming, Michigan

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2017

With Comparative Actual Amounts for the Year Ended December 31, 2016

	2017				2016
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	
REVENUES:					
Taxes	\$ 1,668,420	\$ 1,558,031	\$ 1,580,157	\$ 22,126	\$ 1,566,721
State sources	811,120	811,620	866,475	54,855	827,939
Licenses and permits	160,300	182,930	186,496	3,566	158,525
Service charges	82,900	63,087	65,841	2,754	74,566
Interest income and rentals	487,200	487,355	411,061	(76,294)	436,945
Contributions	-	7,065	7,455	390	5,721
Fines and forfeitures	46,600	48,309	55,916	7,607	52,946
Other revenues	32,000	27,000	51,666	24,666	40,861
TOTAL REVENUES	3,288,540	3,185,397	3,225,067	39,670	3,164,224
EXPENDITURES:					
Current Operations:					
Legislative	18,600	17,200	12,560	4,640	15,468
General government	1,310,775	1,393,736	1,323,409	70,327	1,291,965
Public safety	806,689	807,341	789,501	17,840	791,885
Public works	765,050	779,345	646,291	133,054	640,410
Community and economic development	26,565	36,200	32,625	3,575	21,912
Recreation and culture	342,300	386,141	385,998	143	359,736
Debt Service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Capital outlay	-	-	-	-	-
TOTAL EXPENDITURES	3,269,979	3,419,963	3,190,384	229,579	3,121,376
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	18,561	(234,566)	34,683	269,249	42,848
OTHER FINANCING SOURCES (USES):					
Proceeds from sale of capital assets	-	-	-	-	-
Insurance recoveries	-	14,728	44,832	30,104	-
Transfers in	23,400	23,400	5,566	(17,834)	85,902
Transfers (out)	(9,000)	(138,200)	(136,303)	1,897	(7,414)
TOTAL OTHER FINANCING SOURCES (USES)	14,400	(100,072)	(85,905)	14,167	78,488
CHANGE IN FUND BALANCE	32,961	(334,638)	(51,222)	283,416	121,336
Fund balance, beginning of year	936,884	936,884	936,884	-	815,548
FUND BALANCE, END OF YEAR	\$ 969,845	\$ 602,246	\$ 885,662	\$ 283,416	\$ 936,884

City of Ishpeming, Michigan

MAJOR SPECIAL REVENUE FUNDS

MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2017

With Comparative Actual Amounts for the Year Ended December 31, 2016

	2017				2016
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	
REVENUES:					
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ 756,975
State sources	430,100	659,376	676,393	17,017	718,717
Interest income and rentals	-	130	151	21	9
Other revenue	-	-	-	-	5,600
TOTAL REVENUES	430,100	659,506	676,544	17,038	1,481,301
EXPENDITURES:					
Public Works:					
Construction	-	6,030	5,293	737	1,261,011
Routine maintenance	30,700	80,200	70,949	9,251	50,562
Traffic service	13,800	16,000	15,111	889	8,858
Winter maintenance	296,000	336,500	324,745	11,755	327,301
Administration	15,200	15,600	16,634	(1,034)	25,577
State trunkline	45,980	113,566	90,860	22,706	41,327
Total Public Works	401,680	567,896	523,592	44,304	1,714,636
Debt Service:					
Principal	32,430	32,430	32,430	-	31,020
Interest and fiscal charges	3,046	2,798	2,796	2	4,115
Total Debt Service	35,476	35,228	35,226	2	35,135
TOTAL EXPENDITURES	437,156	603,124	558,818	44,306	1,749,771
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(7,056)	56,382	117,726	61,344	(268,470)
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	-	-	-	-	-
Transfers in	-	-	-	-	242,463
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	242,463
CHANGE IN FUND BALANCE	(7,056)	56,382	117,726	61,344	(26,007)
Fund balance, beginning of year	-	-	-	-	26,007
FUND BALANCE, END OF YEAR	\$ (7,056)	\$ 56,382	\$ 117,726	\$ 61,344	\$ -

City of Ishpeming, Michigan

MAJOR SPECIAL REVENUE FUNDS

LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2017

With Comparative Actual Amounts for the Year Ended December 31, 2016

	2017				2016
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	
REVENUES:					
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	223,500	290,188	287,860	(2,328)	251,689
Interest income and rentals	-	280	375	95	377
Other revenue	-	-	-	-	-
TOTAL REVENUES	<u>223,500</u>	<u>290,468</u>	<u>288,235</u>	<u>(2,233)</u>	<u>252,066</u>
EXPENDITURES:					
Public Works:					
Construction	10,000	1,000	179	821	2,773
Routine maintenance	47,900	41,900	19,035	22,865	80,219
Traffic service	15,900	18,950	16,286	2,664	12,789
Winter maintenance	256,000	250,000	221,606	28,394	225,993
Administration	-	14,600	13,793	807	21,256
Total Public Works	<u>329,800</u>	<u>326,450</u>	<u>270,899</u>	<u>55,551</u>	<u>343,030</u>
Debt Service:					
Principal	9,660	9,660	9,660	-	9,240
Interest and fiscal charges	910	835	833	2	1,226
Total Debt Service	<u>10,570</u>	<u>10,495</u>	<u>10,493</u>	<u>2</u>	<u>10,466</u>
TOTAL EXPENDITURES	<u>340,370</u>	<u>336,945</u>	<u>281,392</u>	<u>55,553</u>	<u>353,496</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(116,870)</u>	<u>(46,477)</u>	<u>6,843</u>	<u>53,320</u>	<u>(101,430)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	20,000	20,000	-	(20,000)	-
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>20,000</u>	<u>20,000</u>	<u>-</u>	<u>(20,000)</u>	<u>-</u>
CHANGE IN FUND BALANCE	<u>(96,870)</u>	<u>(26,477)</u>	<u>6,843</u>	<u>33,320</u>	<u>(101,430)</u>
Fund balance, beginning of year	<u>175,313</u>	<u>175,313</u>	<u>175,313</u>	<u>-</u>	<u>276,743</u>
FUND BALANCE, END OF YEAR	<u>\$ 78,443</u>	<u>\$ 148,836</u>	<u>\$ 182,156</u>	<u>\$ 33,320</u>	<u>\$ 175,313</u>

City of Ishpeming, Michigan

MAJOR SPECIAL REVENUE FUNDS

GARBAGE & RUBBISH FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2017

With Comparative Actual Amounts for the Year Ended December 31, 2016

	2017			Variance with Final Budget Positive (Negative)	2016
	Original Budget	Final Budget	Actual GAAP Basis		
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	452,000	525,000	532,594	7,594	492,533
Interest income and rentals	870	410	523	113	709
Contributions	-	-	-	-	-
Other revenue	800	1,284	1,284	-	764
TOTAL REVENUES	453,670	526,694	534,401	7,707	494,006
EXPENDITURES:					
Current Operations:					
Public Works	589,700	694,800	682,302	12,498	587,620
TOTAL EXPENDITURES	589,700	694,800	682,302	12,498	587,620
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(136,030)	(168,106)	(147,901)	20,205	(93,614)
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-
CHANGE IN FUND BALANCE	(136,030)	(168,106)	(147,901)	20,205	(93,614)
Fund balance, beginning of year	451,888	451,888	451,888	-	545,502
FUND BALANCE, END OF YEAR	\$ 315,858	\$ 283,782	\$ 303,987	\$ 20,205	\$ 451,888

OTHER FINANCIAL INFORMATION

City of Ishpeming, Michigan

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The function of the SPECIAL REVENUE FUNDS is to record revenues and expenditures for specific functions or activities within restrictions imposed by City Charter, ordinances, resolutions and/or Federal and State statutes. The modified accrual basis of accounting is used in recording Special Revenue Fund transactions. The FIRE FUND, FIREFIGHTER LONGEVITY FUND, LAKE BANCROFT FUND, BUILDING AUTHORITY FUND, CARNEGIE LIBRARY FUND, and LIBRARY STATE AID FUND are Non-major Special Revenue Fund types.

PERMANENT FUNDS

The function of Permanent Funds is to account for funds where only the interest and earnings may be used. The principal cannot be spent. The accrual basis of accounting is used in recording Permanent Funds transactions. The PERPETUAL CARE FUND and CEMETERY CARE FUND are Permanent Fund types.

City of Ishpeming, Michigan

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

December 31, 2017

	Special Revenue Funds	Permanent Funds Perpetual Care Fund	Cemetery Care Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 309,257	\$ 330,781	\$ 74,572	\$ 714,610
Investments	-	783,812	101,742	885,554
Accounts receivable, net	185	-	-	185
Taxes receivable	94,201	-	-	94,201
Other receivable	-	-	-	-
Due from other governments	-	-	-	-
Due from other funds	-	-	-	-
Notes receivable	-	-	-	-
TOTAL ASSETS	403,643	1,114,593	176,314	1,694,550
DEFERRED OUTFLOWS OF RESOURCES				
Premium on investment	-	-	-	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 403,643	\$ 1,114,593	\$ 176,314	\$ 1,694,550
LIABILITIES				
Cash overdrafts	\$ -	\$ -	\$ -	\$ -
Accounts payable	365	-	-	365
Accrued payroll	-	-	-	-
Accrued sick and vacation	-	-	-	-
Due to other funds	-	114,013	22,312	136,325
TOTAL LIABILITIES	365	114,013	22,312	136,690
DEFERRED INFLOWS OF RESOURCES				
Taxes levied for a subsequent period	106,465	-	-	106,465
Discount on investment	-	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	106,465	-	-	106,465
FUND BALANCE				
Non-spendable	-	843,286	145,697	988,983
Restricted	241,320	157,294	8,305	406,919
Committed	-	-	-	-
Assigned	55,493	-	-	55,493
Unassigned	-	-	-	-
TOTAL FUND BALANCE	296,813	1,000,580	154,002	1,451,395
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 403,643	\$ 1,114,593	\$ 176,314	\$ 1,694,550

City of Ishpeming, Michigan

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended December 31, 2017

	Special Revenue Funds	Permanent Funds Perpetual Care Fund	Cemetery Care Fund	Total Non-Major Governmental Funds
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-
State sources	8,895	-	-	8,895
Charges for services	-	17,875	-	17,875
Interest income and rentals	224	9,467	1,073	10,764
Contributions	233,082	-	-	233,082
Other revenues	-	-	-	-
TOTAL REVENUES	242,201	27,342	1,073	270,616
EXPENDITURES:				
Current Operations:				
Public safety	1,080	-	-	1,080
Public works	-	-	-	-
Recreation and culture	25,115	-	-	25,115
Other governmental	-	-	53	53
Debt Service:				
Principal	66,000	-	-	66,000
Interest and fiscal charges	85,283	-	-	85,283
Capital outlay	838,352	-	-	838,352
TOTAL EXPENDITURES	1,015,830	-	53	1,015,883
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(773,629)	27,342	1,020	(745,267)
OTHER FINANCING SOURCES (USES):				
Proceeds from borrowing	845,000	-	-	845,000
Premium on bond	4,037	-	-	4,037
Transfers in	156,817	-	-	156,817
Transfers (out)	-	(4,860)	(706)	(5,566)
TOTAL OTHER FINANCING SOURCES (USES)	1,005,854	(4,860)	(706)	1,000,288
CHANGE IN FUND BALANCE	232,225	22,482	314	255,021
Fund balance, beginning of year	64,588	978,098	153,688	1,196,374
FUND BALANCE, END OF YEAR	\$ 296,813	\$ 1,000,580	\$ 154,002	\$ 1,451,395

City of Ishpeming, Michigan

NON-MAJOR SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

December 31, 2017

	Fire Fund	Firefighter Longevity Fund	Lake Bancroft Fund	Building Authority Fund	Carnegie Library Fund	Library State Aid Fund	Total
ASSETS							
Cash and cash equivalents	\$ 21,108	\$ 232,476	\$ 4,998	\$ -	\$ 50,542	\$ 133	\$ 309,257
Investments	-	-	-	-	-	-	-
Accounts receivable, net	-	-	-	-	185	-	185
Taxes receivable	94,201	-	-	-	-	-	94,201
Other receivable	-	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-	-
TOTAL ASSETS	115,309	232,476	4,998	-	50,727	133	403,643
DEFERRED OUTFLOWS OF RESOURCES							
	-	-	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 115,309	\$ 232,476	\$ 4,998	\$ -	\$ 50,727	\$ 133	\$ 403,643
LIABILITIES							
Cash overdrafts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	-	-	-	-	232	133	365
Accrued payroll	-	-	-	-	-	-	-
Accrued sick and vacation	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-
TOTAL LIABILITIES	-	-	-	-	232	133	365
DEFERRED INFLOWS OF RESOURCES							
Taxes levied for a subsequent period	106,465	-	-	-	-	-	106,465
TOTAL DEFERRED INFLOWS OF RESOURCES	106,465	-	-	-	-	-	106,465
FUND BALANCE							
Non-spendable	-	-	-	-	-	-	-
Restricted	8,844	232,476	-	-	-	-	241,320
Committed	-	-	-	-	-	-	-
Assigned	-	-	4,998	-	50,495	-	55,493
Unassigned	-	-	-	-	-	-	-
TOTAL FUND BALANCE	8,844	232,476	4,998	-	50,495	-	296,813
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 115,309	\$ 232,476	\$ 4,998	\$ -	\$ 50,727	\$ 133	\$ 403,643

City of Ishpeming, Michigan

NON-MAJOR SPECIAL REVENUE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended December 31, 2017

	Fire Fund	Firefighter Longevity Fund	Lake Bancroft Fund	Building Authority Fund	Carnegie Library Fund	Library State Aid Fund	Total
REVENUES:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-	-	-	-
State sources	-	-	-	-	-	8,895	8,895
Charges for services	-	-	-	-	-	-	-
Interest and rentals	8	116	10	-	90	-	224
Contributions	-	232,360	-	-	722	-	233,082
Fines and forfeitures	-	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-	-
TOTAL REVENUES	8	232,476	10	-	812	8,895	242,201
EXPENDITURES:							
Current Operations:							
Public safety	1,080	-	-	-	-	-	1,080
Public works	-	-	-	-	-	-	-
Recreation and culture	-	-	6,062	-	3,855	15,198	25,115
Other governmental	-	-	-	-	-	-	-
Debt Service:							
Principal	-	-	-	66,000	-	-	66,000
Interest and fiscal charges	769	-	-	84,514	-	-	85,283
Capital outlay	838,352	-	-	-	-	-	838,352
TOTAL EXPENDITURES	840,201	-	6,062	150,514	3,855	15,198	1,015,830
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(840,193)	232,476	(6,052)	(150,514)	(3,043)	(6,303)	(773,629)
OTHER FINANCING SOURCES:							
Proceeds from borrowing	845,000	-	-	-	-	-	845,000
Premium on bond	4,037	-	-	-	-	-	4,037
Transfers in	-	-	-	150,514	-	6,303	156,817
Transfers (out)	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	849,037	-	-	150,514	-	6,303	1,005,854
CHANGE IN FUND BALANCE	8,844	232,476	(6,052)	-	(3,043)	-	232,225
Fund balance, beginning of year	-	-	11,050	-	53,538	-	64,588
FUND BALANCE, END OF YEAR	\$ 8,844	\$ 232,476	\$ 4,998	\$ -	\$ 50,495	\$ -	\$ 296,813

City of Ishpeming, Michigan

ENTERPRISE FUNDS

The function of the ENTERPRISE FUNDS is to record the financing, acquisition, operation and maintenance of the City activities that are predominantly self-supporting from user charges. The accrual basis of accounting is used in recording Enterprise Fund transactions.

The major Enterprise Funds of the City are the SEWER FUND and WATER FUND.

SEWER FUND to account for the management of the sanitary sewer operation and booster station related activities including billing, maintenance, and construction.

WATER FUND to account for the management of the water treatment and distribution related activities including billing, maintenance, and construction.

City of Ishpeming, Michigan

SEWER FUND

COMPARATIVE STATEMENT OF NET POSITION

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,221,008	\$ 793,946
Investments	53,008	52,766
Accounts receivable	104,681	120,454
Allowance for uncollectible accounts	-	-
Non-current Assets:		
Investment in Wastewater Treatment Facility	3,628,055	3,711,970
Capital Assets:		
Land and construction in progress	551,723	87,121
Other capital assets, net of depreciation	<u>4,580,957</u>	<u>4,979,881</u>
Total Capital Assets	<u>5,132,680</u>	<u>5,067,002</u>
TOTAL ASSETS	<u>10,139,432</u>	<u>9,746,138</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts related to pension	<u>50,373</u>	<u>96,515</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>50,373</u>	<u>96,515</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	55,584	15,742
Accrued payroll	5,997	5,468
Due to other funds	36,230	-
Non-current Liabilities:		
Portion due or payable within one year		
Notes payable	61,062	59,341
Compensated absences	87	225
Portion due or payable after one year		
Notes payable	127,486	188,548
Compensated absences	841	494
Net pension liability	<u>904,673</u>	<u>885,769</u>
TOTAL LIABILITIES	<u>1,191,960</u>	<u>1,155,587</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts related to pension	<u>-</u>	<u>19,354</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>19,354</u>
NET POSITION		
Net investment in capital assets	8,572,187	8,531,083
Unrestricted	<u>425,658</u>	<u>136,629</u>
TOTAL NET POSITION	<u>\$ 8,997,845</u>	<u>\$ 8,667,712</u>

City of Ishpeming, Michigan

SEWER FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2017

With Comparative Actual Amounts for the Year Ended December 31, 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES:		
Federal sources	\$ -	\$ -
State sources	449,922	-
Charges for services	1,434,646	1,410,052
Other revenue	<u>-</u>	<u>150</u>
TOTAL OPERATING REVENUES	<u>1,884,568</u>	<u>1,410,202</u>
OPERATING EXPENSES:		
Personal services	349,055	313,282
Contractual services	583,304	580,294
Supplies	19,153	23,291
Utilities	1,816	2,088
Depreciation	398,924	394,893
Other expenses	<u>113,369</u>	<u>105,176</u>
TOTAL OPERATING EXPENSES	<u>1,465,621</u>	<u>1,419,024</u>
OPERATING INCOME (LOSS)	<u>418,947</u>	<u>(8,822)</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest expense	(7,189)	(8,861)
Gain/(Loss) on wastewater facility	(83,915)	(76,355)
Interest income and rentals	<u>2,290</u>	<u>1,537</u>
TOTAL NON-OPERATING (EXPENSES)	<u>(88,814)</u>	<u>(83,679)</u>
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	330,133	(92,501)
Transfers in	-	-
Transfers (out)	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	330,133	(92,501)
Net position, beginning of year	<u>8,667,712</u>	<u>8,760,213</u>
NET POSITION, END OF YEAR	<u><u>\$ 8,997,845</u></u>	<u><u>\$ 8,667,712</u></u>

City of Ishpeming, Michigan

SEWER FUND

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017

With Comparative Actual Amounts for the Year Ended December 31, 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fees and charges for services	\$ 1,450,419	\$ 1,396,476
Other operating revenues	449,922	150
Cash payments to employees for services	(302,625)	(284,937)
Cash payments to suppliers for goods and services	<u>(677,800)</u>	<u>(699,220)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>919,916</u>	<u>412,469</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers in (out)	-	-
Increase (decrease) in due to other funds	<u>36,230</u>	<u>-</u>
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	<u>36,230</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on debt	(59,341)	(57,669)
Interest paid on debt	(7,189)	(8,861)
Proceeds from borrowing	-	-
Cash payments for capital assets	(464,602)	(253,005)
Proceeds from sale of capital assets	<u>-</u>	<u>-</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(531,132)</u>	<u>(319,535)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in investments	(242)	(211)
Investment income	<u>2,290</u>	<u>1,537</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>2,048</u>	<u>1,326</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	427,062	94,260
Cash and cash equivalents, beginning of year	<u>793,946</u>	<u>699,686</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,221,008</u>	<u>\$ 793,946</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 418,947	\$ (8,822)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	398,924	394,893
Change in assets and liabilities:		
(Increase) decrease in accounts receivable, net	15,773	(13,576)
Increase (decrease) in accounts payable	39,842	11,629
Increase (decrease) in accrued payroll	529	1,801
Increase (decrease) in accrued sick and vacation	209	(173)
Increase (decrease) in net pension liability and related	<u>45,692</u>	<u>26,717</u>
NET ADJUSTMENTS	<u>500,969</u>	<u>421,291</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 919,916</u>	<u>\$ 412,469</u>

City of Ishpeming, Michigan

WATER FUND

COMPARATIVE STATEMENT OF NET POSITION

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable	411,790	357,034
Allowance for uncollectible accounts	-	-
Delinquent utilities	64,686	46,906
Due from other funds	902	2,516
Due from other governmental units	54,000	-
Non-current Assets:		
Cash and cash equivalents - restricted	784,321	-
Investment in Joint Water Authority	3,507,323	3,507,323
Capital Assets:		
Land and construction in progress	2,524,130	803,905
Other capital assets, net of depreciation	<u>1,782,642</u>	<u>1,868,835</u>
Total Capital Assets	<u>4,306,772</u>	<u>2,672,740</u>
TOTAL ASSETS	<u>9,129,794</u>	<u>6,586,519</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts related to pension	<u>127,458</u>	<u>200,445</u>
	<u>127,458</u>	<u>200,445</u>
LIABILITIES		
Current Liabilities:		
Cash overdrafts	658,313	1,289,157
Accounts payable	238,106	74,812
Customer deposits payable	122,970	106,395
Accrued payroll	12,048	14,149
Accrued interest	14,359	-
Due to other funds	20,230	-
Non-current Liabilities:		
Portion due or payable within one year		
Bonds payable	145,000	-
Compensated absences	1,490	1,445
Portion due or payable after one year		
Bonds payable	2,307,000	-
Compensated absences	7,329	19,793
Net pension liability	<u>1,932,216</u>	<u>1,893,134</u>
TOTAL LIABILITIES	<u>5,459,061</u>	<u>3,398,885</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts related to pension	<u>19,499</u>	<u>37,114</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>19,499</u>	<u>37,114</u>
NET POSITION		
Net investment in capital assets	5,362,095	6,180,063
Restricted for:		
Debt service	602,630	-
Unrestricted (deficit)	<u>(2,186,033)</u>	<u>(2,829,098)</u>
TOTAL NET POSITION	<u>\$ 3,778,692</u>	<u>\$ 3,350,965</u>

City of Ishpeming, Michigan

WATER FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2017

With Comparative Actual Amounts for the Year Ended December 31, 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES:		
Federal sources	\$ -	\$ -
State sources	-	-
Charges for services	1,978,774	1,544,436
Other revenue	<u>4,004</u>	<u>7,630</u>
TOTAL OPERATING REVENUES	<u>1,982,778</u>	<u>1,552,066</u>
OPERATING EXPENSES:		
Personal services	702,387	586,500
Contractual services	440,141	499,292
Supplies	79,774	78,131
Utilities	11,721	15,031
Depreciation	86,193	73,525
Other expenses	<u>220,476</u>	<u>258,764</u>
TOTAL OPERATING EXPENSES	<u>1,540,692</u>	<u>1,511,243</u>
OPERATING INCOME (LOSS)	<u>442,086</u>	<u>40,823</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest expense	(14,359)	-
Interest income and rentals	<u>-</u>	<u>-</u>
TOTAL NON-OPERATING (EXPENSES)	<u>(14,359)</u>	<u>-</u>
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	427,727	40,823
Transfers in	-	-
Transfers (out)	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	427,727	40,823
Net position, beginning of year	<u>3,350,965</u>	<u>3,310,142</u>
NET POSITION, END OF YEAR	<u><u>\$ 3,778,692</u></u>	<u><u>\$ 3,350,965</u></u>

City of Ishpeming, Michigan

WATER FUND

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017

With Comparative Actual Amounts for the Year Ended December 31, 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fees and charges for services	\$ 1,906,238	\$ 1,562,896
Other operating revenues	(49,996)	7,630
Cash payments to employees for services	(622,453)	(544,655)
Cash payments to suppliers for goods and services	<u>(557,884)</u>	<u>(830,775)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>675,905</u>	<u>195,096</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Increase (decrease) in cash overdraft	(630,844)	986,795
(Increase) decrease in due from other funds	1,614	(2,516)
Increase (decrease) in due to	20,230	-
Transfers in (out)	<u>-</u>	<u>-</u>
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	<u>(609,000)</u>	<u>984,279</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on debt	-	-
Interest paid on debt	(14,359)	-
Proceeds from borrowing	2,452,000	-
Cash payments for capital assets	(1,720,225)	(1,179,375)
Proceeds from sale of capital assets	<u>-</u>	<u>-</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>717,416</u>	<u>(1,179,375)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	-	-
(Increase) decrease in restricted assets	<u>(784,321)</u>	<u>-</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(784,321)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	-	-
Cash and cash equivalents, beginning of year	<u>-</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 442,086	\$ 40,823
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	86,193	73,525
Change in assets and liabilities:		
(Increase) decrease in accounts receivable, net	(72,536)	18,460
(Increase) decrease in due from other governmental units	(54,000)	-
Increase (decrease) in accounts payable	163,294	12,448
Increase (decrease) in customer deposits payable	16,575	7,995
Increase (decrease) in accrued payroll	(2,101)	3,633
Increase (decrease) in accrued interest	14,359	-
Increase (decrease) in accrued sick and vacation	(12,419)	(13,022)
Increase (decrease) in net pension liability and related	<u>94,454</u>	<u>51,234</u>
NET ADJUSTMENTS	<u>233,819</u>	<u>154,273</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 675,905</u>	<u>\$ 195,096</u>

City of Ishpeming, Michigan

FIDUCIARY FUNDS

The function of FIDUCIARY FUNDS is to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. These include (a) private-purpose trust funds, (b) pension trust funds, and (c) agency funds.

City of Ishpeming, Michigan

FIDUCIARY FUNDS

COMBINING STATEMENT OF FIDUCIARY NET POSITION

December 31, 2017

	<u>Agency Funds</u>		
	<u>Trust & Agency Fund</u>	<u>Tax Collection Fund</u>	<u>Totals</u>
ASSETS			
Cash and equivalents	\$ 17,019	\$ 905,387	\$ 922,406
Taxes receivable	-	1,916,189	1,916,189
Due from other governments	-	-	-
Due from other funds	-	-	-
TOTAL ASSETS	\$ 17,019	\$ 2,821,576	\$ 2,838,595
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	1,512	2,969	4,481
Due to others	15,507	-	15,507
Due to other governmental units	-	2,818,607	2,818,607
TOTAL LIABILITIES	\$ 17,019	\$ 2,821,576	\$ 2,838,595

City of Ishpeming, Michigan

DISCRETELY PRESENTED COMPONENT UNIT

The function of DISCRETELY PRESENTED COMPONENT UNIT is to account for assets and liabilities held by the component unit as well as activity conducted under the component unit. This includes the Downtown Development Authority.

City of Ishpeming, Michigan

DISCRETELY PRESENTED COMPONENT UNIT

DOWNTOWN DEVELOPMENT AUTHORITY

COMPARATIVE BALANCE SHEET

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 245,892	\$ 144,585
Investments	268,242	266,920
Accounts receivable, net	-	-
Taxes receivable	123,784	196,404
Other receivable	-	-
Due from other governments	-	-
Primary government internal balances	633,202	670,449
Prepaid expenditures	-	-
Notes receivable	-	-
	<hr/>	<hr/>
TOTAL ASSETS	1,271,120	1,278,358
	<hr/>	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	-	-
	<hr/>	<hr/>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,271,120	\$ 1,278,358
	<hr/>	<hr/>
LIABILITIES		
Cash overdrafts	\$ -	\$ -
Accounts payable	-	156
Due to comp unit	-	-
Accrued payroll	418	1,041
Accrued sick and vacation leave	-	-
Accrued liabilities	-	-
Unearned revenue	3,600	-
Due to other funds	-	-
	<hr/>	<hr/>
TOTAL LIABILITIES	4,018	1,197
	<hr/>	<hr/>
DEFERRED INFLOWS OF RESOURCES		
Taxes levied for a subsequent period	223,244	250,499
	<hr/>	<hr/>
TOTAL DEFERRED INFLOWS OF RESOURCES	223,244	250,499
	<hr/>	<hr/>
FUND BALANCE		
Non-spendable	633,202	670,449
Restricted	250,000	250,000
Committed	50,000	50,000
Assigned	-	-
Unassigned	110,656	56,213
	<hr/>	<hr/>
TOTAL FUND BALANCE	1,043,858	1,026,662
	<hr/>	<hr/>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 1,271,120	\$ 1,278,358
	<hr/>	<hr/>

City of Ishpeming, Michigan

RECONCILIATION OF THE BALANCE SHEET OF THE DOWNTOWN DEVELOPMENT
AUTHORITY TO THE STATEMENT OF NET POSITION

December 31, 2017

Total Fund Balances for Downtown Development Authority		\$ 1,043,858
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Land, construction in progress and historical treasurers	\$ -	
Other capital assets, net of depreciation	<u>1,969,027</u>	1,969,027
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Current portion of bonds payable	(126,490)	
Accrued interest on debt	(26,813)	
Bonds payable	<u>(1,668,200)</u>	<u>(1,821,503)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 1,191,382</u></u>

City of Ishpeming, Michigan

DISCRETELY PRESENTED COMPONENT UNIT

DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended December 31, 2017

With Comparative Actual Amounts for the Year Ended December 31, 2016

	2017			Variance with Final Budget Positive (Negative)	2016
	Original Budget	Final Budget	Actual GAAP Basis		
REVENUES:					
Taxes	\$ 236,930	\$ 250,435	\$ 250,459	\$ 24	\$ 251,982
Federal sources	-	-	-	-	-
State sources	-	-	-	-	-
Interest income and rentals	500	1,400	1,589	189	2,103
Contributions	-	2,050	2,050	-	100
Other revenue	-	-	-	-	-
TOTAL REVENUES	237,430	253,885	254,098	213	254,185
EXPENDITURES:					
Other governmental	30,570	38,898	35,936	2,962	171,409
Debt service:					
Principal	118,010	118,110	118,110	-	116,940
Interest and fiscal charges	83,063	83,063	82,856	207	86,801
Total Debt Service	201,073	201,173	200,966	207	203,741
TOTAL EXPENDITURES	231,643	240,071	236,902	3,169	375,150
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	5,787	13,814	17,196	3,382	(120,965)
OTHER FINANCING SOURCES (USES):					
Proceeds from sale of capital assets	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-
CHANGE IN FUND BALANCE	5,787	13,814	17,196	3,382	(120,965)
Fund balance, beginning of year	1,026,662	1,026,662	1,026,662	-	1,147,627
FUND BALANCE, END OF YEAR	\$ 1,032,449	\$ 1,040,476	\$ 1,043,858	\$ 3,382	\$ 1,026,662

City of Ishpeming, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF THE DOWNTOWN DEVELOPMENT AUTHORITY TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

Net Change in Fund Balances - Total Governmental Funds \$ 17,196

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	\$ -	
Depreciation expense	(113,418)	
Net book value of disposed assets	<u>-</u>	(113,418)

Repayment of principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position. 118,110

Proceeds of borrowing are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net position. -

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 2,645

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. -

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 24,533

COMPLIANCE SUPPLEMENTS



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

To the City Council of the
City of Ishpeming, Michigan
100 East Division Street
Ishpeming, Michigan 49849

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ishpeming, Michigan (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 28, 2018.

Internal Control over Financial Reporting

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

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

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

To the City Council of the
City of Ishpeming, Michigan

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Report to Management as items 2017-001 and 2017-002.

City of Ishpeming, Michigan's Response to Findings

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

Purpose of this Report

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

Anderson, Tackman & Company, PLLC
Certified Public Accountants

June 28, 2018



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the City Council of the
City of Ishpeming, Michigan
100 East Division Street
Ishpeming, Michigan 49849

Report on Compliance for Each Major Federal Program

We have audited the City of Ishpeming, Michigan's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

To the City Council of the
City of Ishpeming, Michigan

Opinion on Each Major Federal Program

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

June 28, 2018

City of Ishpeming, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2017

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	Current Year Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<i>Direct Award</i>			
Water and Waste Disposal Systems for Rural Communities			
Loan Portion	10.760	\$ 8,980,000	\$ 2,452,000
Grant Portion	10.760	<u>3,020,000</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>12,000,000</u>	<u>2,452,000</u>
U.S. DEPARTMENT OF JUSTICE			
<i>Direct Award</i>			
Bulletproof Vest Partnership Program	16.607	<u>2,895</u>	<u>2,895</u>
Subtotal		<u>2,895</u>	<u>2,895</u>
TOTAL U.S. DEPARTMENT OF JUSTICE		<u>2,895</u>	<u>2,895</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>\$ 12,002,895</u>	<u>\$ 2,454,895</u>

CITY OF ISHPEMING, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2017

NOTE A – BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Ishpeming, Michigan (the City) for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts on the schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The City has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE C – OVERSIGHT AGENCY:

The U.S. Department of Agriculture is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the City's federal financial assistance.

CITY OF ISHPEMING, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year December 31, 2017

SECTION I – SUMMARY OF AUDITORS’ RESULTS

General Purpose Financial Statements

- Type of auditors’ report issued: *Unmodified*
- Internal control over financial reporting:
 No material weaknesses were reported.
 No significant deficiencies were reported.
- There were instances of noncompliance material to the financial statements reported.

Federal Awards

- Types of auditors’ report issued on compliance for major programs: *Unmodified*
- Internal control over major programs:
 No material weaknesses were reported.
 No significant deficiencies were reported.
- Audit findings that are required to be reported in accordance with the Uniform Guidance:
 None reported.

Major Programs

- The programs tested as a major program were:

Program	CFDA #
Water and Waste Disposal Systems for Rural Communities	10.760

- Dollar threshold used to distinguish between Type A and Type B Programs: *\$750,000*
- Auditee qualified as low-risk auditee? *NO*.

SECTION II – FINANCIAL STATEMENT FINDINGS

INSTANCES OF NON-COMPLIANCE

2017-001 – UNRESTRICTED DEFICIT NET POSITION (REPEAT)

Condition/Criteria: Public Act 275 of 1980 requires that a corrective action plan for the deficit to be filed with the State Treasurer within 90 days of the end of the fiscal year. As enumerated upon in the notes to the financial statements, at the end of the fiscal year, the City of Ishpeming, Michigan had an unrestricted equity deficit of \$2,186,033 in the Water Fund. As of this time, the City of Ishpeming, Michigan has filed a plan with the State Treasurer.

Cause of Condition: Failure of operating revenues to cover operating expenditures in the current year.

Effect: The City was found to be in violation of the provisions of Public Act 275.

Recommendation: We recommend that the City monitor the fund closer in future years to ensure there are sufficient revenues to cover the expenditures each year.

CITY OF ISHPEMING, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year December 31, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - Finance Director
- Corrective Action Planned:
 - See separate Corrective Action Plan.
- Anticipated Completion Date:
 - December 31, 2018

2017-002 – ACT 345 PENSION CONTRIBUTIONS

Condition/Criteria: According to the City's actuarial valuation related the policeman and fireman pension plan for the year ended December 31, 2015 the City's annual required contribution for the fiscal year beginning January 1, 2017 was \$171,758 (or 34.94%). The actual contribution to the pension plan for the fiscal year was \$163,520.

Cause of Condition: Failure to properly adjust for the DDA recapture amounts when finalizing millage rate for the Policeman and Fireman Retirement.

Effect: The City under-contributed for the employer portion of the pension plan in the amount of \$8,238. The City was found to be in violation of the provisions of the State Constitution, Article 9, Section 24.

Recommendation: The City should contribute the \$8,238 from the General Fund for fiscal year 2017 to the pension plan as soon as possible. Additionally, the City should review the calculation for fiscal year 2018 to ensure that the amount of the taxes collected will be sufficient to make the employer's 2018 contribution amount. If the amount levied is not sufficient, the City should budget for and make the appropriate contribution to the pension plan from the General Fund.

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - Finance Director
- Corrective Action Planned:
 - See separate Corrective Action Plan.
- Anticipated Completion Date:
 - December 31, 2018

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- None reported.

CITY OF ISHPEMING, MICHIGAN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year December 31, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS

2016-001 – ACT 51 EQUIPMENT RENTALS

Condition/Criteria: Charge rates being applied to equipment rentals should agree to the rates listed on Report 375 Equipment Rental Rates Schedule C provided by the Michigan Department of Transportation. There were three items selected in our sample whose charge rates did not agree to Schedule C.

Cause of Condition: Asset identification errors and rate calculation errors were found in the City's spreadsheet used to track and charge equipment rentals. Rental rates were not being reconciled back to the Schedule C Report and agreed to asset numbers given by the City.

Effect: The City is not in compliance with Act 51. The differences in the charge rates were immaterial in the aggregated and did not require an adjustment for financial statement purposes.

Recommendation: We recommend a system be put in place to reconcile rates for equipment rentals to rates provided by Schedule C. Unit equipment numbers assigned by the City should define all Schedule C code number combinations to arrive at the rate being applied.

Management Response:

- Contact person(s) Responsible for Correction:
 - Finance Director
 - DPW Director

- Corrective Action Planned:
 - Management concurs

- Anticipated Completion Date:
 - December 31, 2017

Status: Corrected.

2016-002 – UNRESTRICTED DEFICIT NET POSITION (REPEAT)

Condition/Criteria: As enumerated upon in Note Z to the financial statements, at the end of the fiscal year, the City of Ishpeming, Michigan had an unrestricted equity deficit of \$1,764,071 in the Water Fund. Public Act 275 of 1980 requires that all deficits in any fund balance of local units be disclosed and enumerated upon in the Footnotes of the financial statements. In accordance with the Act, a corrective action plan for the deficit is required to be filed with the State Treasurer within 90 days of the end of the fiscal year. As of this time, the City of Ishpeming, Michigan has filed such a plan.

Cause of Condition: Failure of operating revenues to cover operating expenditures in the current year.

Effect: The City was found to be in violation of the provisions of Public Act 275.

CITY OF ISHPEMING, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

For the year December 31, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Recommendation: We recommend that the City monitor the fund closer in future years to ensure there are sufficient revenues to cover the expenditures each year.

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - Finance Director

- Corrective Action Planned:
 - The 2016 fiscal year marks the second year of a multi-year deficit elimination plan for the City's Water Fund. The deficit elimination plan filed for 2015, the initial year of deficit, was approved by the Michigan Department of Treasury and anticipated a reported deficit of \$1,117,187 as of December 31, 2016. At December 31, 2016 the City's actual deficit was \$1,078,057, which is \$39,103 better than estimated in the deficit elimination plan. The City will continue to file annual updates with the Michigan Department of Treasury to its deficit elimination plan as required by law. The City has five years from the year in which the deficit was originally reported to eliminate the deficit, and management believes the deficit will be eliminated within that time period.

- Anticipated Completion Date:
 - December 31, 2017

Status: Repeated; refer to current year finding 2017-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- Not applicable; Single Audit not required for the fiscal year ended December 31, 2016.



CITY OF ISHPEMING, MICHIGAN

100 East Division Street • Ishpeming, Michigan 49849

City Manager	485 -1091	Police	486-4416	Library	486-4381
City Clerk	485 -1091	Fire	486-4426	Cemetery	486-6181
Treasurer	485- 1091	Public Works	486-9371	Al Quaal Recreation	486 -8301
City Attorney	485 -1091	Assessor	485-1091	Fax	485-6246

Corrective Action Plan

For the year December 31, 2017

June 28, 2018

In response to the findings disclosed in the audited financial statements for the year ended December 31, 2017:

2017-001 – UNRESTRICTED DEFICIT NET POSITION (REPEAT)

Corrective Action Plan:

The 2017 fiscal year marks the third year in a row the Water Fund has had a reportable deficit. The multi-year deficit elimination plan filed in 2016 for the deficit identified in fiscal year 2015, the initial year of deficit, was approved by the Michigan Department of Treasury as well as the subsequent annual updates to the deficit elimination plan. As of December 31, 2016, the reportable Water Fund deficit was (\$1,078,057), which was \$39,103 better than the approved deficit elimination plan budget for 2016 of (\$1,117,187). As of December 31, 2017, the reportable Water Fund deficit was (\$534,648), which is \$27,426 better than the approved deficit elimination plan budget for 2017 of (\$562,074). Management will continue to file annual updates to its deficit elimination plan with the Michigan Department of Treasury as required by law. The City of Ishpeming has five years from the year in which the deficit was originally reported to eliminate the deficit, and management believes the deficit will be eliminated within that time period.

2017-002 – ACT 345 PENSION CONTRIBUTIONS

Corrective Action Plan:

Management agrees that due to an oversight that occurred with the DDA recapture the 2017 contribution to the Act 345 Policeman and Fireman Retirement plan of \$163,520 was \$8,238 or 5% less than the estimated actuarial annual required contribution of \$171,758. However, this shortfall in the 2017 contribution is mitigated by the fact that in the three preceding years there were additional contributions made to the plan totaling \$18,259 that were in excess of the annual required contributions as enumerated in the Schedule of City Contributions listed on page 70 of this report. Management will monitor this area more closely to prevent future oversights from occurring, and management will ensure the full amount of the annual required contribution is paid to the plan each year.

*The City of Ishpeming is an equal opportunity program/employer.
Auxiliary aids and service are available upon request-to individuals with disabilities.*

HOME OF THE U.S. NATIONAL SKI HALL OF FAME & SKI MUSEUM

COMMUNICATIONS SECTION



City of Ishpeming, Michigan
Report to Management
For the Year Ended December 31, 2017

To the City Council of the
City of Ishpeming, Michigan
100 East Division Street
Ishpeming, Michigan 49849

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ishpeming, Michigan (the City) as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in internal control as listed in the schedule of findings and questioned costs to be significant deficiencies, (items 2017-001 and 2017-002).

The City's written response to the significant deficiencies identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

City Council of the
City of Ishpeming, Michigan

This communication is intended solely for the information and use of management, the City Council, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

June 28, 2018



City of Ishpeming, Michigan
Communication with Those Charged with Governance
For the Year Ended December 31, 2017

June 28, 2018

To the City Council of the
City of Ishpeming, Michigan
100 East Division Street
Ishpeming, MI 49849

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ishpeming, Michigan (the City) for the year ended December 31, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 2, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in the notes to financial statements. New accounting pronouncements are disclosed in the notes to the financial statements. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the allowance for doubtful accounts is based on historical charges for services, historical loss levels, and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions

used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of accumulated depreciation is based on historical cost and estimated useful life. We evaluated the key factors and assumptions used to develop the accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the accrued sick and vacation is based on employee pay rates, union contracts, retirement probabilities, and the various subsidiary ledgers maintained for hour balances. We evaluated the key factors and assumptions used to develop the accrued employee benefit balances in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the City's Net Pension Liability is based on an actuarial performed for the Municipal Employees' Retirement System of Michigan to determine its liability. We evaluated the key factors and assumptions used to develop the Net Pension Liability, based on information provided by the CBIZ Retirement Plan Services, in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the City's portion of the Net Pension Liability (under GASB 67) for the Police and Fire Retirement System is based on an actuarial performed for the City of Ishpeming Police and Fire Retirement System Defined Benefit Retirement Plan to determine the City's Net Pension Liability. We evaluated the key factors and assumptions used to develop the City's Net Pension Liability, based on information provided by the Gabriel Roeder Smith & Company, in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of Defined Benefit Retirement Plan in the Notes to the financial statements includes significant actuarial assumptions used in calculating the valuation. Municipal Employees' Retirement System of Michigan was the actuarial company hired for preparation of the annual actuarial valuation. The disclosures made in Note O were based on information included their report.

The disclosure of the Policemen and Firemen Retirement System Defined Benefit Retirement Plan in the Notes to the financial statements includes significant actuarial assumptions used in calculating the valuation. Gabriel Roeder Smith & Company was the actuarial company hired for preparation of the annual actuarial valuation. The disclosures made in Note P were based on information included their report.

The disclosure of the City's Pension Liability related to the Police and Firemen Retirement System Defined Benefit Retirement Plan in the Notes to the financial statements includes significant actuarial assumptions used in calculating the

valuation. Gabriel Roeder Smith & Company was the actuarial company hired for preparation of the annual actuarial valuation in accordance with GASB 67. The disclosures made in Note O were based on information included their report as of December 31, 2016. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 28, 2018.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Our consideration of internal control was for the limited purpose described in an accompanying letter and was not designed to identify all deficiencies in internal control that might be material

weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did not identify certain deficiencies in internal control that we consider to be significant deficiencies.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, described in the accompanying schedule of findings and questioned costs (items 2017-001 and 2017-002).

Other Matters

We applied certain limited procedures to the *Required Supplementary Information* as listed in the table of contents, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on *Other Financial Information*, as listed in the table of contents, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Our consideration of internal control over compliance was for the limited purpose described in a separate letter and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Restriction on Use

This information is intended solely for the use of City Council and management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Anderson, Tackman & Company, PLLC
Certified Public Accountants