

CITY OF ISHPEMING, MICHIGAN
FINANCIAL STATEMENTS
For the Year Ended December 31, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members
of the City Council
City of Ishpeming, Michigan
Ishpeming, Michigan 49849

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ishpeming, Michigan, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Ishpeming, Michigan's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, each major fund, and the aggregate remaining fund information of the City of Ishpeming, Michigan as of December 31, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 27, 2012, 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* and should be considered in assessing the results of our audit.

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

To the Honorable Mayor and Members
of the City Council
City of Ishpeming, Michigan

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ishpeming, Michigan's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

June 27, 2012

City of Ishpeming, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the City of Ishpeming's financial performance provides an overview of the City's financial activities for the year ended December 31, 2011. Please read it in conjunction with the financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

- Net assets for the City as a whole increased by \$188,504 as a result of this year's operations. Net assets of our business-type activities decreased by \$439,087, or 3 percent, and net assets of our governmental activities increased by \$627,507, or 7 percent.
- During the year, the City had expenses for governmental activities that were \$4,961,626 and generated \$5,589,133 in general revenues and other program sources.
- The City's business-type activities had expenses of \$2,489,278 and generated \$2,050,191 in revenues.
- The general fund reported a net change in fund balance of \$34,711. This is \$27,180 higher than the forecasted increase of \$7,531.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 13 and 14) 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 start on page 15. 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.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 8. 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 Assets 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 and liabilities 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. These two statements report the City's *net assets* and changes in them. You can think of the City's net assets - the difference between assets and liabilities - as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets 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.

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

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- *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, water and ambulance systems and activities are reported here.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 10. The fund financial statements begin on page 15 and 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 Commission 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 Assets 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 Assets 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

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 Assets and Changes in Fiduciary Net Assets on pages 22 and 23. 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.

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

The City as a Whole

Table 1 provides a summary of the City's net assets as of December 31, 2011 and 2010.

**Table 1
Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$9,006,335	\$6,203,714	\$1,397,812	\$1,604,010	\$10,404,147	\$7,807,724
Non-current assets	173,389	119,743	7,171,118	7,203,643	7,344,507	7,323,386
Capital assets, net	7,532,360	7,098,191	7,962,197	8,387,893	15,494,557	15,486,084
Total Assets	16,712,084	13,421,648	16,531,127	17,195,546	33,243,211	30,617,194
Current Liabilities	2,889,333	2,833,575	146,820	353,152	3,036,153	3,186,727
Non-current liabilities	4,663,086	2,074,915	-	-	4,663,086	2,074,915
Total Liabilities	7,552,419	4,908,490	146,820	353,152	7,699,239	5,261,642
Net Assets:						
Invested in capital assets, net of related debt	6,366,360	5,833,191	15,133,315	15,591,536	21,499,675	21,424,727
Restricted	2,553,206	989,811	-	-	2,553,206	989,811
Unrestricted	240,099	1,690,156	1,250,992	1,250,858	1,491,091	2,941,014
Total Net Assets	\$9,159,665	\$8,513,158	\$16,384,307	\$16,842,394	\$25,543,972	\$25,355,552

Net assets of the City's governmental activities stood at \$9,159,665. *Unrestricted* net assets—the part of net assets that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at \$240,099.

The \$240,099 in unrestricted net assets 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 assets from year to year. The current year was impacted by the implementation of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

The net assets of our business-type activities stood at \$16,384,307. The City can generally only use these net assets to finance continuing operations of the water and sewer and other enterprise operations.

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 assets for fiscal year 2011 and 2010.

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

**Table 2
Change in Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Program revenues:						
Charges for services	\$1,182,764	\$1,059,369	\$2,266,733	\$2,871,492	\$3,449,497	\$3,930,861
Operating grants & contributions	741,841	1,456,698	-	594,310	741,841	2,051,008
Capital grants & contributions	-	-	-	-	-	-
General revenues:						
Taxes	2,558,017	2,769,391	-	-	2,558,017	2,769,391
Unrestricted intergovernmental	759,672	846,445	-	-	759,672	846,445
Investment earnings	54,743	59,185	7,458	12,006	62,201	71,191
Miscellaneous	68,180	81,325	-	-	68,180	81,325
Gain/(loss) on sale of assets	(84)	-	-	-	(84)	-
Total Revenues	5,365,133	6,272,413	2,274,191	3,477,808	7,639,324	9,750,221
Program Expenses:						
Legislative	20,224	17,956	-	-	20,224	17,956
General government	1,485,834	1,503,704	-	-	1,485,834	1,503,704
Public safety	837,496	801,483	-	-	837,496	801,483
Public works	1,828,455	1,922,654	-	-	1,828,455	1,922,654
Recreation and culture	383,190	340,833	-	-	383,190	340,833
Other governmental	222,238	159,457	-	-	222,238	159,457
Interest on long-term debt	184,189	105,820	-	-	184,189	105,820
Tube Slide	-	-	-	54,496	-	54,496
Sewer	-	-	1,419,104	1,330,656	1,419,104	1,330,656
Water	-	-	1,070,174	965,049	1,070,174	965,049
Total Expenses	4,961,626	4,851,907	2,489,278	2,350,201	7,450,904	7,202,108
Excess (deficiency) before transfers	403,507	1,420,506	(215,087)	1,127,607	188,420	2,548,113
Transfers	224,000	111,516	(224,000)	(111,516)	-	-
Increase (decrease) in net assets	627,507	1,532,022	(439,087)	1,016,091	188,420	2,548,113
Net assets, beginning, as restated	8,532,158	6,981,136	16,823,394	15,826,303	25,355,552	22,807,439
Net Assets, Ending	\$9,159,665	\$8,513,158	\$16,384,307	\$16,842,394	\$25,544,056	\$25,355,552

The City's total revenues were \$7,639,324. The total cost of all programs and services was \$7,450,904, leaving an increase in net assets of \$188,420. Our analysis below separately considers the operations of governmental and business-type activities:

Governmental Activities

Government activities net assets increased by \$627,507. This increase was due to an increase in combined governmental fund balance of \$2,877,126, changes in general fixed assets of \$434,169, principal payments on debt of \$282,000, issuance of debt of \$(2,975,000), recording of accrued interest on debt of \$(50,460), amortization of current year's bond issuance costs of \$78,124, adjustments due to amortization of bond issuance costs and deferred gain on refunding of \$(10,212), and an increase in compensated absences of \$8,240.

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

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	\$1,485,834	\$1,309,549
Public Safety	837,496	806,126
Public Works	1,828,455	287,235

Business-type Activities

Business-type activities net assets decreased by \$439,087. The Sewer System and the Water System experienced a change in net assets of \$(451,833) and \$12,746, respectively, bringing the net decrease in Business-Type Activities to \$(439,087).

THE CITY’S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 15) reported a *combined* fund balance of \$6,657,378, an increase of \$2,877,126 from the beginning of the year.

The combined fund balance increase of \$2,877,126 was due to increases in the fund balances of General Fund, Major Street Fund, Local Street Fund, DDA Fund, the Public Improvement Fund, and other governmental funds, as depicted on page 17. The increase is mostly attributable to the issuance of the 2011 Capital Improvement Bonds in the amount of \$2,975,000, which was split in the DDA Fund and the Partridge Creek Capital Projects Fund. The amount of the bond applicable to each fund was: \$\$2,275,000 in the DDA Fund and \$700,000 in the Partridge Creek Capital Projects Fund.

General Fund Budgetary Highlights

General Fund expenses were \$79,194 less than the final budget because Legislative expenses were \$1,076 less than the final budget; General Government expenses were \$66,444 less than the final budget; Public Safety was \$23,405 more than the final budget; Public Works was \$15,395 more than the final budget, and Recreation and Culture was \$19,684 less than the final budget.

General Fund Revenue was \$119,729 less than the final revenue budget mainly due to interest income and rentals being \$122,254 under the final budget.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2011, the City had \$15,494,557 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)**

	Governmental Activities	Business-type Activities	Totals
Land	\$1,128,937	\$10,888	\$1,139,825
Historical treasures	135,275	-	135,275
Construction in progress	1,588,021	-	1,588,021
Buildings	2,057,186	-	2,057,186
Land Improvements	206,395	-	206,395
Equipment and vehicles	822,922	-	822,922
Infrastructure	1,593,624	-	1,593,624
Sewer system and equipment	-	6,231,069	6,231,069
Water system and equipment	-	1,720,240	1,720,240
Totals	<u>\$7,532,360</u>	<u>\$7,962,197</u>	<u>\$15,494,557</u>

In 2011, the City's major capital additions included Pine Street Phase II resurfacing, Partridge Creek Diversion Project (GLRI and USDA Rural Development), Iron Ore Heritage Trail improvements, and various demolition projects. In addition, the City purchased a new loader and truck. The Downtown Development Authority (DDA) started various projects in the downtown area as part of its bond issue. The City also received a Safe Routes to Schools grant in the current year and made various sidewalk improvements. The Police/Fire Hall roof replacement project was also begun in the current year.

Capital projects planned for 2012 include completion of Phase I of the Partridge Creek Diversion Project (GLRI funding) and beginning work on Phase II, road repair utilizing special assessment funding, construction of an ADA handicap-accessible ramp at the Carnegie Library and various DDA projects including Malton Road, US 41 Water/Sewer Extension and entry signage features. Other capital purchases planned for the year include purchasing a Street Sweeper and a Police vehicle.

Further details on capital assets can be found in Note G.

Debt

At year-end, the City had \$4,758,000 in bonds and notes outstanding as depicted in Table 5 below.

**Table 5
Outstanding Debt at Year-End**

	Governmental Activities	Business-type Activities	Totals
Revenue bonds	\$1,418,000	\$-	\$1,418,000
Capital improvement bonds	2,975,000	-	2,975,000
Contracts and notes payable	365,000	-	365,000
Totals	<u>\$4,758,000</u>	<u>\$-</u>	<u>\$4,758,000</u>

Further details on long-term debt can be found in Note H.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In June 2012, the City of Ishpeming was notified that it was the recipient of another U.S. Environmental Protection Agency – Great Lakes Restoration grant of \$6 million. This grant will be used to fund Phase II of the Partridge Creek Diversion Project which will finalize the project and lead to diversion in September 2013.

City of Ishpeming management faces severe financial constraints in fiscal year 2012 and beyond for numerous reasons. Statutory state revenue sharing and Act 51 road funds continue to decrease. The Headlee Amendment and Proposal A combine to severely constrain the ability of local governments to increase tax revenue proportionate to other decreasing funding sources and increasing costs, which include personnel wages, health insurance and pension benefits, contracted services, and energy costs. As a result, City management has taken steps including:

- Continued hiring freeze;
- Reduced personnel by attrition;
- Sought concession through union negotiations;
- Reduced expenditures where possible;
- Investigated service consolidation and cost sharing with neighboring jurisdictions;
- Emphasized economic development initiatives to increase property tax base; and
- Delayed various projects.

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 Assets
December 31, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 3,796,026	\$ 937,377	\$ 4,733,403
Investments	764,982	-	764,982
Receivables (net)	4,410,027	460,435	4,870,462
Prepaid expenses and other assets	35,300	-	35,300
TOTAL CURRENT ASSETS	9,006,335	1,397,812	10,404,147
Non-current assets:			
Long-term receivables	109,916	-	109,916
Unamortized bond issue costs	63,473	-	63,473
Investment in Wastewater Treatment Facility	-	3,663,795	3,663,795
Investment in Joint Water Authority	-	3,507,323	3,507,323
Capital assets:			
Land and construction in progress	2,852,233	10,888	2,863,121
Other capital assets, net of depreciation	4,680,127	7,951,309	12,631,436
Total Capital Assets	<u>7,532,360</u>	<u>7,962,197</u>	<u>15,494,557</u>
TOTAL NON-CURRENT ASSETS	7,705,749	15,133,315	22,839,064
TOTAL ASSETS	16,712,084	16,531,127	33,243,211
LIABILITIES			
Current Liabilities:			
Accounts payable	285,328	50,517	335,845
Accrued liabilities	91,540	67,995	159,535
Compensated absences	11,209	28,308	39,517
Deferred revenue	2,121,256	-	2,121,256
Current portion of bonds payable	300,000	-	300,000
Current portion of notes payable	80,000	-	80,000
TOTAL CURRENT LIABILITIES	2,889,333	146,820	3,036,153
Non-current Liabilities:			
Compensated absences	322,155	-	322,155
Bonds payable	4,093,000	-	4,093,000
Long-term contracts and notes payable	285,000	-	285,000
Deferred gain on refunding	(37,069)	-	(37,069)
TOTAL NON-CURRENT LIABILITIES	4,663,086	-	4,663,086
TOTAL LIABILITIES	7,552,419	146,820	7,699,239
NET ASSETS			
Invested in capital assets net of related debt	6,366,360	15,133,315	21,499,675
Restricted	2,553,206	-	2,553,206
Unrestricted	240,099	1,250,992	1,491,091
TOTAL NET ASSETS	\$ 9,159,665	\$ 16,384,307	\$ 25,543,972

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

City of Ishpeming, Michigan
Statement of Activities
For the Year Ended December 31, 2011

Function / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
Legislative	\$ 20,224	\$ -	\$ -	\$ -	\$ (20,224)	\$ -	\$ (20,224)
General government	1,485,834	176,285	-	-	(1,309,549)	-	(1,309,549)
Public safety	837,496	26,141	5,229	-	(806,126)	-	(806,126)
Public works	1,828,455	866,913	674,307	-	(287,235)	-	(287,235)
Recreation and culture	383,190	85,375	62,305	-	(235,510)	-	(235,510)
Other governmental	222,238	28,050	-	-	(194,188)	-	(194,188)
Interest on long-term debt	184,189	-	-	-	(184,189)	-	(184,189)
Total Governmental Activities	<u>4,961,626</u>	<u>1,182,764</u>	<u>741,841</u>	<u>-</u>	<u>(3,037,021)</u>	<u>-</u>	<u>(3,037,021)</u>
Business Type Activities:							
Sewer	1,419,104	1,049,084	-	-	-	(370,020)	(370,020)
Water	1,070,174	1,217,649	-	-	-	147,475	147,475
Total Business Type Activities	<u>2,489,278</u>	<u>2,266,733</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(222,545)</u>	<u>(222,545)</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 7,450,904</u>	<u>\$ 3,449,497</u>	<u>\$ 741,841</u>	<u>\$ -</u>	<u>(3,037,021)</u>	<u>(222,545)</u>	<u>(3,259,566)</u>
General Revenues:							
Taxes:							
Property taxes					2,178,803	-	2,178,803
Payment in lieu of taxes					379,214	-	379,214
Unrestricted intergovernmental sources					759,672	-	759,672
Interest and investment earnings					54,743	7,458	62,201
Miscellaneous					68,180	-	68,180
Gain/(loss) on sale of assets					(84)	-	(84)
Transfers					224,000	(224,000)	-
TOTAL GENERAL REVENUES & TRANSFERS					<u>3,664,528</u>	<u>(216,542)</u>	<u>3,447,986</u>
					CHANGE IN NET ASSETS	(439,087)	188,420
					Net assets, beginning of year, as restated	<u>8,532,158</u>	<u>16,823,394</u>
					NET ASSETS, END OF YEAR	<u>\$ 9,159,665</u>	<u>\$ 16,384,307</u>

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

City of Ishpeming, Michigan
Governmental Funds
Balance Sheet
December 31, 2011

	General Fund	Major Street Fund	Local Street Fund	DDA Fund	Public Improvement Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 233,816	\$ -	\$ -	\$ 2,013,197	\$ 122,822	\$ 1,651,022	\$ 4,020,857
Investments	-	-	-	-	-	764,982	764,982
Accounts receivable, net	39,223	-	-	-	3,241	55,137	97,601
Taxes receivable	1,633,316	-	-	531,715	397,370	-	2,562,401
Other receivable	-	-	-	-	-	37,127	37,127
Due from other governments	360,815	50,466	22,743	-	-	-	434,024
Due from other funds	847,751	153,000	-	861,625	733,344	727,720	3,323,440
Prepaid expenditures	33,050	-	-	2,250	-	-	35,300
Notes receivable	-	-	-	-	-	109,916	109,916
TOTAL ASSETS	\$ 3,147,971	\$ 203,466	\$ 22,743	\$ 3,408,787	\$ 1,256,777	\$ 3,345,904	\$ 11,385,648
LIABILITIES AND FUND BALANCE							
LIABILITIES:							
Cash overdrafts	\$ -	\$ 197,238	\$ 20,619	\$ -	\$ -	\$ 6,974	\$ 224,831
Accounts payable	80,086	4,594	248	41,436	3,329	16,052	145,745
Accrued payroll	32,997	1,489	1,714	567	-	-	36,767
Accrued sick and vacation leave	5,104	-	-	-	-	6,105	11,209
Accrued liabilities	4,313	-	-	-	-	-	4,313
Due to other funds	1,373,733	-	-	37,500	189,184	583,732	2,184,149
Deferred revenue	1,192,171	-	-	531,715	397,370	-	2,121,256
TOTAL LIABILITIES	2,688,404	203,321	22,581	611,218	589,883	612,863	4,728,270
FUND BALANCE:							
Non-spendable	33,050	-	-	2,250	-	1,072,065	1,107,365
Restricted	-	145	162	2,795,319	666,894	958,321	4,420,841
Committed	-	-	-	-	-	-	-
Assigned	5,104	-	-	-	-	702,655	707,759
Unassigned	421,413	-	-	-	-	-	421,413
TOTAL FUND BALANCE	459,567	145	162	2,797,569	666,894	2,733,041	6,657,378
TOTAL LIABILITIES AND FUND BALANCE	\$ 3,147,971	\$ 203,466	\$ 22,743	\$ 3,408,787	\$ 1,256,777	\$ 3,345,904	\$ 11,385,648

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 Assets
 December 31, 2011

Total Fund Balances for Governmental Funds \$ 6,657,378

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

Capital assets used in governmental activities are not financial resources and
 therefore are not reported in the funds. 7,532,360

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	\$ (300,000)	
Current portion of notes and contracts payable	(80,000)	
Accrued interest on debt	(50,460)	
Compensated absences	(322,155)	
Bonds payable	(4,093,000)	
Long-term contracts and notes payable	(285,000)	
Bond issuance costs	63,473	
Deferred gain on refunding	37,069	<u>(5,030,073)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 9,159,665

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

City of Ishpeming, Michigan
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2011

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>DDA Fund</u>	<u>Public Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:							
Taxes	\$ 1,464,928	\$ -	\$ -	\$ 557,705	\$ 394,385	\$ -	\$ 2,417,018
Federal sources	-	-	-	-	3,533	-	3,533
State sources	769,018	439,398	234,909	-	-	10,367	1,453,692
Local sources	18,814	-	-	-	-	-	18,814
Licenses and permits	62,569	-	-	-	-	-	62,569
Charges for services	130,216	-	-	-	-	542,692	672,908
Interest income and rentals	250,246	-	-	3,776	28	42,555	296,605
Contributions	5,750	-	-	-	141,000	46,188	192,938
Fines and forfeitures	68,552	-	-	-	-	-	68,552
Other revenues	48,084	-	-	-	110,409	20,095	178,588
TOTAL REVENUES	2,818,177	439,398	234,909	561,481	649,355	661,897	5,365,217
EXPENDITURES:							
Current operations:							
Legislative	20,224	-	-	-	-	-	20,224
General government	1,371,281	-	-	-	-	-	1,371,281
Public safety	729,605	-	-	-	-	-	729,605
Public works	617,505	458,754	378,724	-	-	356,602	1,811,585
Recreation and culture	243,866	-	-	-	-	81,250	325,116
Other governmental	-	-	-	440,974	-	226,902	667,876
Debt service:							
Principal	-	24,910	7,420	150,670	75,000	24,000	282,000
Interest and fiscal charges	-	7,222	2,151	44,753	20,188	49,203	123,517
Capital outlay	-	-	-	-	346,052	-	346,052
TOTAL EXPENDITURES	2,982,481	490,886	388,295	636,397	441,240	737,957	5,677,256
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(164,304)	(51,488)	(153,386)	(74,916)	208,115	(76,060)	(312,039)
OTHER FINANCING SOURCES (USES):							
Proceeds from borrowing	-	-	-	2,275,000	-	700,000	2,975,000
Bond issuance costs	-	-	-	(16,172)	-	(4,953)	(21,125)
Proceeds from sale of capital assets	11,290	-	-	-	-	-	11,290
Transfers in	289,225	51,500	153,500	-	40,500	67,150	601,875
Transfers (out)	(101,500)	-	-	-	(170,650)	(105,725)	(377,875)
TOTAL OTHER FINANCING SOURCES (USES)	199,015	51,500	153,500	2,258,828	(130,150)	656,472	3,189,165
CHANGE IN FUND BALANCE	34,711	12	114	2,183,912	77,965	580,412	2,877,126
Fund balance, beginning of year, as restated	424,856	133	48	613,657	588,929	2,152,629	3,780,252
FUND BALANCE, END OF YEAR	\$ 459,567	\$ 145	\$ 162	\$ 2,797,569	\$ 666,894	\$ 2,733,041	\$ 6,657,378

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

City of Ishpeming, Michigan
 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended December 31, 2011

Net Change in Fund Balances - Total Governmental Funds \$ 2,877,126

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	\$ 844,486	
Depreciation expense	(398,943)	
Net book value of disposed assets	(11,374)	434,169

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 282,000

Proceeds of borrowing are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets. (2,975,000)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (50,460)

Premium and discounts are recognized in the financial statements as other financing sources or uses but, they are amortized over the term of the bonds in the government-wide financial statements. 78,124

Governmental funds report the effect of issuance costs, 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 bond issuance costs	(4,157)	
Current year amortization of deferred gain on refunding	(6,055)	(10,212)

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. (8,240)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 627,507

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

City of Ishpeming, Michigan
Proprietary Funds
Statement of Net Assets
December 31, 2011

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Water Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 216,906	\$ 720,471	\$ 937,377
Accounts receivable	102,107	358,328	460,435
Allowance for uncollectible accounts	-	-	-
TOTAL CURRENT ASSETS	319,013	1,078,799	1,397,812
Non-current Assets:			
Investment in Wastewater Treatment Facility	3,663,795	-	3,663,795
Investment in Joint Water Authority	-	3,507,323	3,507,323
Land and construction in progress	-	10,888	10,888
Other capital assets, net of depreciation	6,231,069	1,720,240	7,951,309
TOTAL NON-CURRENT ASSETS	9,894,864	5,238,451	15,133,315
TOTAL ASSETS	10,213,877	6,317,250	16,531,127
LIABILITIES			
Current Liabilities:			
Accounts payable	3,087	47,430	50,517
Accrued liabilities	-	62,650	62,650
Accrued payroll	1,387	3,958	5,345
Accrued sick and vacation leave	5,716	22,592	28,308
TOTAL CURRENT LIABILITIES	10,190	136,630	146,820
TOTAL LIABILITIES	10,190	136,630	146,820
NET ASSETS			
Invested in capital assets, net of related debt	9,894,864	5,238,451	15,133,315
Net Assets:			
Unrestricted	308,823	942,169	1,250,992
TOTAL NET ASSETS	\$ 10,203,687	\$ 6,180,620	\$ 16,384,307

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

City of Ishpeming, Michigan
Proprietary Funds
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2011

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Water Fund	Total
OPERATING REVENUES:			
Charges for services	\$ 1,049,084	\$ 1,202,156	\$ 2,251,240
Other operating revenue	-	15,493	15,493
TOTAL OPERATING REVENUES	1,049,084	1,217,649	2,266,733
OPERATING EXPENSES:			
Personal services	153,281	357,514	510,795
Contractual services	588,384	399,419	987,803
Supplies	15,927	65,717	81,644
Utilities	2,638	12,270	14,908
Depreciation	363,496	72,821	436,317
Payment in lieu of taxes	222,000	137,000	359,000
Other expenses	40,853	25,433	66,286
TOTAL OPERATING EXPENSES	1,386,579	1,070,174	2,456,753
OPERATING INCOME (LOSS)	(337,495)	147,475	(190,020)
NON-OPERATING REVENUES (EXPENSES):			
Gain/(loss) on wastewater facility	(32,525)	-	(32,525)
Interest income and rentals	2,187	5,271	7,458
TOTAL NON-OPERATING REVENUES (EXPENSES)	(30,338)	5,271	(25,067)
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	(367,833)	152,746	(215,087)
Transfers (out)	(84,000)	(140,000)	(224,000)
CHANGE IN NET ASSETS	(451,833)	12,746	(439,087)
Net assets, beginning of year	10,655,520	6,167,874	16,823,394
NET ASSETS, END OF YEAR	\$ 10,203,687	\$ 6,180,620	\$ 16,384,307

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

City of Ishpeming, Michigan
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2011

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Water Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from fees and charges for services	\$ 1,535,407	\$ 1,174,109	\$ 2,709,516
Other operating revenues	-	15,493	15,493
Cash payments to employees for services	(143,674)	(323,517)	(467,191)
Cash payments for payroll taxes	(11,726)	(27,350)	(39,076)
Cash payments to suppliers for goods and services	(1,103,406)	(614,380)	(1,717,786)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	276,601	224,355	500,956
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Transfers in (out)	(84,000)	(140,000)	(224,000)
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	(84,000)	(140,000)	(224,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	-	(10,621)	(10,621)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	-	(10,621)	(10,621)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income	2,187	5,271	7,458
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	2,187	5,271	7,458
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	194,788	79,005	273,793
Cash and cash equivalents, beginning of year	22,118	641,466	663,584
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 216,906	\$ 720,471	\$ 937,377
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (337,495)	\$ 147,475	\$ (190,020)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	363,496	72,821	436,317
Change in assets and liabilities:			
(Increase) decrease in accounts receivable, net	486,323	(28,047)	458,276
Increase (decrease) in accounts payable	(233,604)	11,432	(222,172)
Increase (decrease) in customer deposits payable	-	14,027	14,027
Increase (decrease) in accrued payroll	124	2,325	2,449
Increase (decrease) in accrued sick and vacation	(2,243)	4,322	2,079
NET ADJUSTMENTS	614,096	76,880	690,976
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 276,601	\$ 224,355	\$ 500,956

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

City of Ishpeming, Michigan
 Fiduciary Funds
 Statement of Fiduciary Net Assets
 December 31, 2011

	Pension Trust Fund	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and equivalents	\$ 34,519	\$ 1,655,716
Investments	3,881,381	-
Taxes receivable	79,446	-
Other receivables	183,960	-
Due from other funds	139,583	-
	<u> </u>	<u> </u>
TOTAL ASSETS	4,318,889	\$ 1,655,716
	<u> </u>	<u> </u>
LIABILITIES		
Due to other funds	-	\$ 1,278,874
Due to other governmental units	-	376,842
Deferred revenues	79,446	-
	<u> </u>	<u> </u>
TOTAL LIABILITIES	79,446	\$ 1,655,716
	<u> </u>	<u> </u>
NET ASSETS		
Held in trust for pension benefits	4,239,443	
	<u> </u>	
TOTAL NET ASSETS	\$ 4,239,443	
	<u> </u>	

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

City of Ishpeming, Michigan
 Fiduciary Funds
 Statement in Changes in Fiduciary Net Assets
 For the Year Ended December 31, 2011

	Pension Trust Fund
ADDITIONS:	
Contributions:	
Employer	\$ 160,724
Employee	23,236
Total Contributions	183,960
Investment Income:	
Net appreciation (depreciation) in fair value of investments	(232,668)
Interest and dividends	139,505
Net Investment Income (Loss)	(93,163)
TOTAL ADDITIONS	90,797
DEDUCTIONS:	
Benefits and annuity withdrawals	406,611
Refunds of contributions	29,023
Administrative expense	45,173
TOTAL DEDUCTIONS	480,807
CHANGE IN NET ASSETS	(390,010)
Net assets, beginning of year	4,629,453
NET ASSETS, END OF YEAR	\$ 4,239,443

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

CITY OF ISHPEMING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the City of Ishpeming conform to generally accepted accounting principles applicable to local governmental units as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants, except for the maintenance of a general fixed asset group of accounts. The following is a summary of the more significant policies.

REPORTING ENTITY

The City was incorporated in 1873. The City operates under a Council – Manager form of government. As required by generally accepted accounting principles, these financial statements present the City of Ishpeming, Michigan (the primary government).

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, 2009, the latest available report, is as follows:

Total Assets	\$5,338,775
Total Liabilities	215,294
Total Net Assets	5,123,481
Total Operating Revenues	626,881
Total Operating Expenses	851,187
Total Non-Operating Revenues(expenses)	76,662
Net Increase (Decrease) in Net Assets	56,225

BASIS OF PRESENTATION

Government-Wide Financial Statements

The City’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.

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

In the government-wide Statement of Net Assets, 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 as long-term debt and obligations. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. 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 assets 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, liabilities, 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 assets, 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 others and therefore are not available to support the City's programs. The reporting focus is on net assets and changes in net assets 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, liabilities, 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 **DDA Fund** accounts for the activities related to operation and maintenance of the City's designated tax increment financing district.
- The **Public Improvement Fund** accounts for the activities related to development and improvement of the City's general capital assets.

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.

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

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.

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 carried at market value.

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

Receivables

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

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 Assets.

Inventory

Inventory costs are recorded as expenditures when incurred.

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 assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

	Depreciation Life-Years
Buildings, structures, and improvements	30-50 years
Water supply and sewage disposal systems	20-50 years
Vehicles and equipment	5-20 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.

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 issuance 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 issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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

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 assets and displayed in three components:

1. Invested in Capital Assets, Net of Related Debt – 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 Assets – 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 Assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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 a program revenue or a 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 August 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 September 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 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 equivalents reported on the Statement of Net Assets are as follows:

Cash and cash equivalents:	
Primary government	\$4,733,403
Fiduciary funds	1,690,235
TOTAL REPORTING ENTITY	<u>\$6,423,638</u>
A summary of deposits by type are:	
Cash in demand accounts	\$1,075,208
Cash in savings and time deposits	5,348,030
Petty cash	400
TOTAL DEPOSITS	<u>\$6,423,638</u>

NOTE B – CASH AND EQUIVALENTS (Continued):

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, 2011, the carrying amount of the City’s deposits with financial institutions was \$6,423,638 and the bank balance was \$5,480,689. The bank balance is categorized as follows:

Amount insured by the FDIC	\$2,021,329
Amount uninsured and collateralized with securities held by the pledging financial institutions trust department not in the City’s name	-
Amount uninsured and uncollateralized	3,459,360
TOTAL	<u>\$5,480,689</u>

NOTE C – INVESTMENTS:

As of December 31, 2011, the City had the following investments.

	Investment in Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
PRIMARY GOVERNMENT:					
U.S. Government Agencies	\$540,737	\$-	\$82,577	\$199,629	\$258,531
U.S. Treasury Bonds	224,245	-	224,245	-	-
TOTAL INVESTMENTS	<u>\$764,982</u>	<u>\$-</u>	<u>\$306,822</u>	<u>\$199,629</u>	<u>\$258,531</u>
FIDUCIARY FUNDS:					
Mutual Equity Funds	\$2,434,091	\$-	\$-	\$-	\$2,434,091
Mutual Equity Index Funds	1,447,290	-	-	-	1,447,290
TOTAL INVESTMENTS	<u>\$3,881,381</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$3,881,381</u>

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.

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.

NOTE C – INVESTMENTS (Continued):

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 – 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
	General Fund	Major Street Fund	Local Street Fund	DDA Fund	Public Improvement Fund	Non-Major Funds	Sewer	Water	
A*	\$1,633,316	\$-	\$-	\$531,715	\$397,370	\$-	\$-	\$-	\$2,562,401
B*	39,223	-	-	-	3,241	92,264	102,107	358,328	595,163
C*	360,815	50,466	22,743	-	-	-	-	-	434,024
D*	-	-	-	-	-	109,916	-	-	109,916
E*	-	-	-	-	-	-	-	-	-
F*	-	-	-	-	-	-	-	-	-
Total	\$2,033,354	\$50,466	\$22,743	\$531,715	\$400,611	\$202,180	\$102,107	\$358,328	\$3,701,504

- A* Property Taxes – Current
- B* Other
- C* Due From Other Government Units
- D* Loans Receivable
- E* Accrued Interest
- F* Delinquent Property Taxes

Receivable balances have been disaggregated by type and presented separately in the financial statements. Only receivables with allowances for uncollectible accounts as of December 31, 2011, including the applicable allowances for uncollectible accounts, are presented below.

	General Fund
Gross receivable	\$52,249
Less: allowance for uncollectible accounts	(13,026)
Net receivable	<u>\$39,223</u>

NOTE E – 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 total outstanding amount of loans issued as of December 31, 2011 was \$109,916.

A summary of Revolving Loan Fund's notes receivable at December 31, 2011 is as follows:

Debtor	Balance December 31, 2011	Year of Award	Interest Rate	Term in Years
Argall	\$83,745	2000	2.0%	15
Dominic & Shannon, LLC	26,171	2010	Variable	19
Total	<u>\$109,916</u>			

NOTE F – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

A summary of the interfund receivables and payables at December 31, 2011 is as follows:

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 assets/balance sheet for governmental funds. Interfund transactions resulting in Interfund receivables and payables are as follows:

		DUE FROM OTHER FUNDS						
		General Fund	Major Street Fund	DDA Fund	Public Improvement Fund	Other Governmental Funds	Fiduciary Funds	Total Due To Other Funds
DUE TO OTHER FUNDS	General Fund	\$-	\$ -	\$ -	\$733,344	\$500,806	\$ 139,583	\$1,373,733
	DDA Fund	-	-	-	-	37,500	-	37,500
	Public Improvement Fund	-	-	-	-	189,184	-	189,184
	Other Governmental Funds	426,752	153,000	3,750	-	230	-	583,732
	Fiduciary Funds	420,999	-	857,875	-	-	-	1,278,874
	Total Due From Other Funds	\$847,751	\$153,000	\$861,625	\$733,344	\$727,720	\$139,583	\$3,463,023

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, 2011 are as follows:

		TRANSFERS IN FROM OTHER FUNDS					Total Transfers Out to Other Funds
		General Fund	Major Street Fund	Local Street Fund	Public Improvement Fund	Other Governmental Funds	
TRANSFERS OUT TO OTHER FUNDS	General Fund	\$	\$-	\$101,500	\$-	\$-	\$101,500
	Major Street Fund	-	-	-	-	-	-
	Public Improvement Fund	-	51,500	52,000	-	67,150	170,650
	Other Governmental Funds	93,225	-	-	12,500	-	105,725
	Sewer Fund	70,000	-	-	14,000	-	84,000
	Water Fund	126,000	-	-	14,000	-	140,000
	Total Transfers In from Other Funds	\$289,225	\$51,500	\$153,500	\$40,500	\$67,150	\$601,875

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 G – CAPITAL ASSETS:

A summary of the changes in governmental activities capital assets for the year ended December 31, 2011 is as follows:

	Balance January 1, 2011	Additions	Deductions	Balance December 31, 2011
Capital assets not being depreciated:				
Land	\$1,107,087	\$21,850	\$ -	\$1,128,937
Historical Treasurers	135,275	-	-	135,275
Construction-in-progress	1,126,551	639,351	(177,881)	1,588,021
Capital assets being depreciated:				
Buildings & improvements	9,842,579	-	-	9,842,579
Land Improvements	79,465	140,327	-	219,792
Equipment & vehicles	4,893,506	220,839	(148,707)	4,965,638
Infrastructure	1,783,392	-	-	1,783,392
Total Capital Assets	<u>18,967,855</u>	<u>1,022,367</u>	<u>(326,588)</u>	<u>19,663,634</u>
Less accumulated depreciation:				
Buildings & improvements	(7,695,725)	(89,668)	-	(7,785,393)
Land Improvements	(3,837)	(9,560)	-	(13,397)
Equipment & vehicles	(4,031,757)	(248,292)	137,333	(4,142,716)
Infrastructure	(138,345)	(51,423)	-	(189,768)
Total Accumulated Depreciation	<u>(11,869,664)</u>	<u>(398,943)</u>	<u>137,333</u>	<u>(12,131,274)</u>
CAPITAL ASSETS, NET	<u>\$7,098,191</u>	<u>\$623,424</u>	<u>\$(189,255)</u>	<u>\$7,532,360</u>

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

Governmental Activities:	
General Government	\$104,400
Public Safety	73,975
Public Works	174,743
Recreation and Culture	45,825
Total Depreciation Expense	<u>\$398,943</u>

A summary of changes in business-type activities capital assets as of December 31, 2011 is as follows:

	Balance January 1, 2011	Additions	Deductions	Balance December 31, 2011
Capital assets not being depreciated:				
Land	\$10,888	\$-	\$-	\$10,888
Construction-in-progress	-	-	-	-
Capital assets being depreciated:				
Sewer system and equipment	14,551,050	-	-	14,551,050
Water plant and equipment	3,972,440	10,621	-	3,983,061
Total Capital Assets	<u>18,534,378</u>	<u>10,621</u>	<u>-</u>	<u>18,544,999</u>
Less accumulated depreciation:				
Sewer system and equipment	(7,956,485)	(363,496)	-	(8,319,981)
Water plant and equipment	(2,190,000)	(72,821)	-	(2,262,821)
Total Accumulated Depreciation	<u>(10,146,485)</u>	<u>(436,317)</u>	<u>-</u>	<u>(10,582,802)</u>
CAPITAL ASSETS, NET	<u>\$8,387,893</u>	<u>\$(425,696)</u>	<u>\$-</u>	<u>\$7,962,197</u>

NOTE G – CAPITAL ASSETS (Continued):

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

Business-type Activities:		
Sewer		\$363,496
Water		72,821
Total Depreciation Expense		<u>\$436,317</u>

NOTE H – LONG -TERM DEBT:

A summary of long-term obligations at December 31, 2011 and transactions related thereto for the year then ended is as follows:

	Balance January 1, 2011	Additions	Reductions	Balance December 31, 2011	Due in One Year
GOVERNMENTAL ACTIVITIES:					
Building Authority Bonds, Series 2000. Payable semi-annually including interest of 5.125% per annum.	\$749,000	\$-	\$22,000	\$727,000	\$23,000
Building Authority Bonds, Series 2002. Payable semi-annually, including interest of 4.75% per annum.	76,000	-	2,000	74,000	2,000
Michigan Transportation Fund Bonds, Series 2003. Payable semi-annually including interest of 4.25%.	370,000	-	53,000	317,000	55,000
Installment payable for purchase of Fire Truck. Payable annually including interest of 4.375% per annum. Secured by equipment.	190,000	-	15,000	175,000	20,000
Installment payable for purchase of Public Works equipment. Payable annually including interest of 4.75% per annum. Secured by equipment.	250,000	-	60,000	190,000	60,000
Refunding Bonds, Series 2004. Payable semi-annually including interest of 3.00% to 3.9% per annum.	430,000	-	130,000	300,000	125,000
Capital Improvement Bonds, Series 2011. Payable semi-annually including interest of 3.00% to 5.0% per annum.	-	2,975,000	-	2,975,000	95,000
SUBTOTAL	<u>2,065,000</u>	<u>2,975,000</u>	<u>282,000</u>	<u>4,758,000</u>	<u>380,000</u>
Accrued compensated absences	313,915	8,240	-	322,155	-
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$2,378,915</u>	<u>\$2,983,240</u>	<u>\$282,000</u>	<u>\$5,080,155</u>	<u>\$380,000</u>

NOTE H – LONG -TERM DEBT (Continued):

The annual principal and interest requirements for the years ending December 31, 2011 and thereafter, excluding accrued compensated absences, are as follows:

	Governmental Activities		Totals	
	Principal	Interest	Principal	Interest
2012	\$380,000	\$202,184	\$380,000	\$202,184
2013	385,000	187,375	385,000	187,375
2014	333,000	173,191	333,000	173,191
2015	227,000	160,856	227,000	160,856
2016	238,000	152,248	238,000	152,248
2017-2021	1,177,000	617,687	1,177,000	617,687
2022-2026	1,014,000	369,460	1,014,000	369,460
2027-2031	999,000	104,345	999,000	104,345
2032-2036	5,000	238	5,000	238
Totals	\$4,758,000	\$1,967,584	\$4,758,000	\$1,967,584

NOTE I – ACCUMULATED UNPAID VACATION AND SICK LEAVE:

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 (except the Fire Fighters Union employees who get six twenty-four hour shifts). 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 Assets. The liability is recorded as follows:

ACCRUED SICK AND VACATION:	
General Fund	\$5,104
Garbage & Rubbish	6,105
Sewer	5,716
Water	22,592
Governmental Activities – Long-Term Portion	322,155
TOTAL	<u>\$361,672</u>

NOTE J – DEFERRED REVENUES:

Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

NOTE J – DEFERRED REVENUES (Continued):

Taxes that were levied on December 1, 2011 have been recorded as deferred revenue for the following funds:

General Fund	\$1,192,171
DDA Fund	531,715
Public Improvement Fund	397,370
Policemen & Firemen Retirement System	79,446
TOTAL	\$2,200,702

NOTE K – FUND BALANCES – GOVERNMENTAL FUNDS:

As of December 31, 2011, 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 Superintendent or the City Council may assign amounts for specific purposes.

Unassigned — all other spendable amounts.

As of December 31, 2011, 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:					
Prepays	\$33,050	\$2,250	\$-	\$-	\$35,300
Corpus	-	-	-	988,983	988,983
Long-term note receivable	-	-	-	83,082	83,082
Restricted:					
DDA	-	2,795,319	-	-	2,795,319
Transportation Funds	-	307	-	-	307
Public Improvement	-	-	666,894	-	666,894
Partridge Creek Project	-	-	-	518,407	518,407
Library State Aid	-	-	-	7,923	7,923
Revolving Loan	-	-	-	431,991	431,991
Committed:	-	-	-	-	-

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

	General Fund	Major Special Revenue Funds	Major Capital Projects Funds	Non-major Governmental Funds	Total Governmental Funds
Assigned:					
Compensated Absences	\$5,104	\$-	\$-	\$6,105	\$11,209
Garbage Activities	-	-	-	626,353	626,353
AI Quaal Improvements	-	-	-	14,067	14,067
Building Authority	-	-	-	1,021	1,021
ADA Improvements	-	-	-	42,261	42,261
Library Activities	-	-	-	12,825	12,825
Iron Ore Heritage Trail	-	-	-	23	23
Unassigned	421,413	-	-	-	421,413
Total fund balances	\$459,567	\$2,797,876	\$666,894	\$2,733,041	\$6,657,378

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 L – PROPERTY TAXES:

The City of Ishpeming levied 13.4433 mills for the General Fund, 4.4810 mills for the Public Improvement Fund and 0.8960 mills for the Firemen and Policemen Retirement Fund for calendar year 2012. The millage rate is based on each \$1,000.00 of property assessed valuation and the current Taxable Value of the City is \$98,748,609.

NOTE M – CONSTRUCTION IN PROGRESS:

The City has a number of projects underway which involve additions, extensions, and improvements to the City's street, sanitary sewer, and water systems. Major construction projects in progress as of December 31, 2011 include the following:

Partridge Creek Diversion Project – project was in the engineering/planning stage as of the end of the year. The construction stage of Phase I of the project is scheduled to begin during the 2012 construction season. Phase I of the project is being funded through a \$2 million Great Lakes Restorative Initiative grant awarded by the EPA and \$700,000 of a local match required by the City, which was funded by issuing the 2011 Capital Improvement Bonds during the current year. The total cost of the project is estimated to be \$8 million; therefore, completion of the project will require additional funding.

NOTE M – CONSTRUCTION IN PROGRESS (Continued):

Police/Fire Hall Roof Project – project was approximately 99% complete as of the end of the year. The remaining balance of the project is scheduled to be completed in 2012.

DDA Capital Improvement projects – the Downtown Development Authority was in the engineering/planning stage as of the end of the year for various construction projects which are being funded as part of the DDA's portion (\$2,275,000) of the 2011 Capital Improvement Bonds issued during the current year. Construction related to the various projects is anticipated to begin as part of the 2012 construction season. The projects include:

- Ishpeming Hills Project,
- Water/Sewer Extension Project,
- Gateways Project,
- Malton Road Project, and
- Hematite Heights Project

As of December 31, 2011, total construction costs incurred amounted to \$1,588,021 in the governmental type activities and \$0 in the business type activities.

NOTE N – DEFINED BENEFIT PENSION PLAN:

DEFINED BENEFIT PENSION PLANS

Plan Description - The City participates in the Michigan Municipal Employees Retirement System, and agent multiple-employer defined benefit pension plan that covers all employees of the City except for the Policemen and Firemen. The System provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917-9755.

Funding Policy - 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 5.35% of gross wages for the Clerical Employees' unit and DPW Employees' unit, 9.70% of gross wages for the Supervisory Employees' unit, and 7.51% of gross wages for non-union employees.

Annual Pension Cost - For year ended December 31, 2011 the City's annual pension cost of \$259,506 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2010, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.0 investment rate of return, and (b) projected salary increases of 4.5 percent per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases. Both (a) and (b) include an inflation component of 3 to 4%. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four year period. The unfunded actuarial liability, if any, is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

NOTE N – DEFINED BENEFIT PENSION PLAN (Continued):

	Actuarial Valuation Date		
	December 31,		
	2008	2009	2010
Annual Pension Cost	\$249,052	\$263,784	\$259,506
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	-	-	-
Actuarial Value of Assets	7,930,352	7,993,332	7,994,750
Actuarial Accrued Liability (Entry Age)	10,962,099	11,662,905	12,141,837
Unfunded AAL	3,031,747	3,669,573	4,147,087
Funded ratio	72%	69%	66%
Covered Payroll	1,249,766	1,272,934	1,221,199
UAAL as a Percentage of Covered Payroll	243%	288%	340%

DEFINED BENEFIT PENSION PLAN – POLICEMEN AND FIREMEN

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.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining unites, and requires a contribution from the employees of 5% of gross wages.

Annual Pension Cost - For year ended December 31, 2011 the City's annual pension cost of \$160,724 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2009, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7.0% investment rate of return, and (b) projected salary increases of 4.5 percent per year, and (c) 0 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a five year period. The unfunded actuarial liability, if any, is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

	Actuarial Valuation Date		
	December 31,		
	2008	2009	2010
Annual Pension Cost	\$108,895	\$113,460	\$139,488
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	-	-	-
Actuarial Value of Assets	5,094,576	4,925,254	4,816,472
Actuarial Accrued Liability (Entry Age)	6,079,113	6,170,793	6,034,581
Unfunded AAL	984,537	1,245,539	1,218,109
Funded ratio	84%	80%	80%
Covered Payroll	450,111	490,598	441,036
UAAL as a Percentage of Covered Payroll	219%	254%	276%

NOTE N – 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 assets are as follows:

Pimco Total Return Fund – 58,517.0340 Units	\$636,080
Ishares TR Russell 1000 – 6,088.000 Units	351,826
Ishares TR S&P 100 Index – 6,428.000 Units	366,589
Ishares Trust S&P 500 – 3,022.000 Units	380,651

NOTE O – 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 P – 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 2011, expenses of \$30,660 were recognized for post-employment health benefits. Expenses for post-retirement health care benefits are recognized as employer contributions are made to the Plan.

NOTE Q – JOINT VENTURE:

Ishpeming Area Joint Wastewater Treatment Board

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 Board 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.

NOTE Q – JOINT VENTURE (Continued):

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, 2011, is as follows:

Assets	\$7,868,121
Liabilities	209,293
Equity - All local units	7,658,828
Operating Revenues	847,363
Operating Expenses	1,213,243
Other Income	164,147
Net Income (loss)	(201,733)
City's Share of Net Income (loss)	(32,525)

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, 2011 is as follows:

Total Assets	\$12,505,451
Total Liabilities	1,592,129
Total Net Assets	10,913,322

NOTE Q – JOINT VENTURE (Continued):

Total Operating Revenues	2,360,230
Total Operating Expenses	2,800,711
Total Non-operating Revenues (Expenses)	139,416
Net Income (Loss)	(301,065)

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 NIWAB as of and for the year ended December 31, 2010 is as follows:

Total Assets	\$1,857,010
Total Liabilities	5,388
Total Net assets	1,851,622
Total Operating Revenues	520,079
Total Operating Expenses	523,187
Other Revenues and (Expenses)	4,285
Net Income (Loss)	1,177

The balance of the investment in Joint Water Authority for the year ended December 31, 2011 of \$3,507,323 represents the City's net investment in the NIWAB.

NOTE R – IRON ORE HERITAGE RECREATION AUTHORITY:

In November 2008, the City of Ishpeming 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.

NOTE R – IRON ORE HERITAGE RECREATION AUTHORITY (Continued):

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, 2009 (the latest available financial report) is as follows:

Assets	\$20,234
Liabilities	1,359
Net Assets	18,875
Operating Revenues	14,826
Operating Expenses	4,179

NOTE S – 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.

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 T – SINGLE AUDIT:

During the 2011 fiscal year, the City of Ishpeming expended \$3,533 in federal dollars; therefore the City is not required to have a Single Audit in order to comply with OMB Circular A-133.

NOTE U – BUDGETARY NON-COMPLIANCE:

Public Act 621 of 1978, Section 18(1), as amended, provides that a City shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the General and Special Revenue Funds have been shown on a functional basis.

NOTE U – BUDGETARY NON-COMPLIANCE (Continued):

The approved budgets of the City for the General and Special revenue Funds were adopted on an activity and/or program level. During the year ended December 31, 2011 the City incurred functional expenditures which were in excess of the amounts appropriated as follows:

General Fund:	
Public Safety	\$23,405
DDA Fund:	
Other Governmental	214,024
Debt Service	11,023
Public Improvement Fund:	
Transfers Out	2,450

NOTE V – FUND BALANCE/NET ASSET RESTATEMENT:

The following fund balance/net asset restatements were made as a result consolidating the Ambulance Fund into the General Fund. The consolidation was made due to the fact that the only Ambulance Fund asset is delinquent accounts receivable, which is minimal from one year to the next.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>General Fund</u>	<u>Ambulance Fund</u>
Net assets/fund balance, beginning of year	\$8,513,158	\$16,842,394	\$405,856	\$19,000
Prior period adjustment, Consolidation of Ambulance Fund into General Fund	19,000	(19,000)	19,000	(19,000)
Net assets/fund balance, beginning of year, as restated	<u>\$8,532,158</u>	<u>\$16,823,394</u>	<u>\$424,856</u>	<u>\$-</u>

**REQUIRED SUPPLEMENTAL
INFORMATION**

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 DDA FUND are Major Special Revenue Fund types.

CAPITAL PROJECTS FUNDS

The function of the Capital Projects Funds is to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The modified accrual basis of accounting is used in recording Capital Projects Fund transaction. The PUBLIC IMPROVEMENT FUND is a Major Capital Project Fund type.

City of Ishpeming, Michigan

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2011

With Comparative Actual Amounts for the Year Ended December 31, 2010

	2011				2010
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	
REVENUES:					
Taxes	\$ 1,468,346	\$ 1,468,346	\$ 1,464,928	\$ (3,418)	\$ 1,456,895
State sources	793,560	793,560	769,018	(24,542)	856,326
Local sources	22,800	22,800	18,814	(3,986)	10,971
Licenses and permits	67,400	67,400	62,569	(4,831)	53,998
Charges for services	119,900	119,900	130,216	10,316	120,818
Interest income and rentals	372,500	372,500	250,246	(122,254)	262,940
Contributions	6,500	6,500	5,750	(750)	-
Fines and forfeitures	61,900	61,900	68,552	6,652	75,299
Other revenues	25,000	25,000	48,084	23,084	68,483
TOTAL REVENUES	<u>2,937,906</u>	<u>2,937,906</u>	<u>2,818,177</u>	<u>(119,729)</u>	<u>2,905,730</u>
EXPENDITURES:					
Current operations:					
Legislative	21,300	21,300	20,224	1,076	17,956
General government	1,425,025	1,437,725	1,371,281	66,444	1,423,484
Public safety	729,200	706,200	729,605	(23,405)	706,676
Public works	616,200	632,900	617,505	15,395	643,529
Recreation and culture	290,550	263,550	243,866	19,684	267,968
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Capital outlay	-	-	-	-	-
TOTAL EXPENDITURES	<u>3,082,275</u>	<u>3,061,675</u>	<u>2,982,481</u>	<u>79,194</u>	<u>3,059,613</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(144,369)</u>	<u>(123,769)</u>	<u>(164,304)</u>	<u>(40,535)</u>	<u>(153,883)</u>
OTHER FINANCING SOURCES (USES):					
Proceeds from sale of capital assets	-	-	11,290	11,290	-
Transfers in	301,300	301,300	289,225	(12,075)	220,714
Transfers (out)	(150,000)	(170,000)	(101,500)	68,500	(80,203)
TOTAL OTHER FINANCING SOURCES (USES)	<u>151,300</u>	<u>131,300</u>	<u>199,015</u>	<u>67,715</u>	<u>140,511</u>
CHANGE IN FUND BALANCE	<u>6,931</u>	<u>7,531</u>	<u>34,711</u>	<u>27,180</u>	<u>(13,372)</u>
Fund balance, beginning of year, as restated	<u>424,856</u>	<u>424,856</u>	<u>424,856</u>	<u>-</u>	<u>419,228</u>
FUND BALANCE, END OF YEAR	<u>\$ 431,787</u>	<u>\$ 432,387</u>	<u>\$ 459,567</u>	<u>\$ 27,180</u>	<u>\$ 405,856</u>

City of Ishpeming, Michigan

Major Special Revenue Funds

Major Street Fund

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2011

With Comparative Actual Amounts for the Year Ended December 31, 2010

	2011				2010
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	
REVENUES:					
Federal sources	\$ 375,000	\$ 375,000	\$ -	\$ (375,000)	\$ -
State sources	518,000	518,000	439,398	(78,602)	824,962
Interest income and rentals	2,000	2,000	-	(2,000)	-
Other revenue	-	-	-	-	-
TOTAL REVENUES	895,000	895,000	439,398	(455,602)	824,962
EXPENDITURES:					
Public Works					
Construction	510,000	511,000	161,521	349,479	515,702
Routine maintenance	38,000	40,000	38,176	1,824	46,098
Traffic service	22,500	13,500	12,135	1,365	15,793
Winter maintenance	280,000	205,000	160,572	44,428	196,850
Administration	79,000	79,000	62,268	16,732	66,072
State trunkline	38,700	42,000	24,082	17,918	26,117
Total Public Works	968,200	890,500	458,754	431,746	866,632
Debt service:					
Principal	24,000	24,000	24,910	(910)	23,970
Interest and fiscal charges	21,000	21,000	7,222	13,778	6,452
Total Debt Service	45,000	45,000	32,132	12,868	30,422
TOTAL EXPENDITURES	1,013,200	935,500	490,886	444,614	897,054
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(118,200)	(40,500)	(51,488)	(10,988)	(72,092)
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	-	-	-	-	98,000
Transfers in	50,000	50,000	51,500	1,500	-
Transfers (out)	-	-	-	-	(31,000)
TOTAL OTHER FINANCING SOURCES (USES)	50,000	50,000	51,500	1,500	67,000
CHANGE IN FUND BALANCE	(68,200)	9,500	12	(9,488)	(5,092)
Fund balance, beginning of year	133	133	133	-	5,225
FUND BALANCE, END OF YEAR	\$ (68,067)	\$ 9,633	\$ 145	\$ (9,488)	\$ 133

City of Ishpeming, Michigan

Major Special Revenue Funds

Local Street Fund

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2011

With Comparative Actual Amounts for the Year Ended December 31, 2010

	2011				2010
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	
REVENUES:					
Federal sources	\$ -	\$ 169,500	\$ -	\$ (169,500)	\$ -
State sources	203,000	203,000	234,909	31,909	207,556
Interest income and rentals	500	500	-	(500)	2
Other revenue	-	-	-	-	-
TOTAL REVENUES	203,500	373,000	234,909	(138,091)	207,558
EXPENDITURES:					
Public Works					
Construction	-	-	-	-	13,939
Routine maintenance	53,000	33,000	19,672	13,328	37,660
Traffic service	22,000	29,000	27,078	1,922	19,927
Winter maintenance	259,000	259,000	239,128	19,872	262,433
Administration	81,000	265,500	92,846	172,654	55,842
Total Public Works	<u>415,000</u>	<u>586,500</u>	<u>378,724</u>	<u>207,776</u>	<u>389,801</u>
Debt service:					
Principal	7,500	7,500	7,420	80	7,140
Interest and fiscal charges	3,300	3,300	2,151	1,149	1,235
Total Debt Service	<u>10,800</u>	<u>10,800</u>	<u>9,571</u>	<u>1,229</u>	<u>8,375</u>
TOTAL EXPENDITURES	425,800	597,300	388,295	209,005	398,176
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(222,300)	(224,300)	(153,386)	70,914	(190,618)
OTHER FINANCING SOURCES (USES):					
Transfers in	202,000	222,000	153,500	(68,500)	141,150
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	202,000	222,000	153,500	(68,500)	141,150
CHANGE IN FUND BALANCE	(20,300)	(2,300)	114	2,414	(49,468)
Fund balance, beginning of year	48	48	48	-	49,516
FUND BALANCE, END OF YEAR	\$ (20,252)	\$ (2,252)	\$ 162	\$ 2,414	\$ 48

City of Ishpeming, Michigan

Major Special Revenue Funds

DDA Fund

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2011

With Comparative Actual Amounts for the Year Ended December 31, 2010

	2011				2010
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	
REVENUES:					
Taxes	\$ 466,000	\$ 466,000	\$ 557,705	\$ 91,705	\$ 547,392
Federal sources	-	-	-	-	-
State sources	-	-	-	-	-
Interest income and rentals	5,000	5,000	3,776	(1,224)	3
Contributions	-	-	-	-	-
Other revenue	2,400	-	-	-	-
TOTAL REVENUES	473,400	471,000	561,481	90,481	547,395
EXPENDITURES:					
Other Governmental	286,050	226,950	440,974	(214,024)	195,419
Debt service:					
Principal	167,400	157,400	150,670	6,730	144,890
Interest and fiscal charges	27,000	27,000	44,753	(17,753)	23,889
Total Debt Service	194,400	184,400	195,423	(11,023)	168,779
TOTAL EXPENDITURES	480,450	411,350	636,397	(225,047)	364,198
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(7,050)	59,650	(74,916)	(134,566)	183,197
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	-	2,255,000	2,275,000	20,000	-
Bond issuance costs	-	-	(16,172)	(16,172)	-
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	2,255,000	2,258,828	3,828	-
CHANGE IN FUND BALANCE	(7,050)	2,314,650	2,183,912	(130,738)	183,197
Fund balance, beginning of year	613,657	613,657	613,657	-	430,460
FUND BALANCE, END OF YEAR	\$ 606,607	\$ 2,928,307	\$ 2,797,569	\$ (130,738)	\$ 613,657

City of Ishpeming, Michigan
Major Capital Projects Funds
Public Improvement Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2011
With Comparative Actual Amounts for the Year Ended December 31, 2010

	2011		Actual GAAP Basis	Variance with Final Budget Positive (Negative)	2010
	Original Budget	Final Budget			
REVENUES:					
Taxes	\$ 394,846	\$ 394,846	\$ 394,385	\$ (461)	\$ 392,642
Federal sources	-	-	3,533	3,533	19,600
State sources	-	-	-	-	-
Interest income and rentals	-	-	28	28	135
Contributions	141,000	141,000	141,000	-	136,900
Other revenue	162,000	162,000	110,409	(51,591)	134,726
TOTAL REVENUES	697,846	697,846	649,355	(48,491)	684,003
EXPENDITURES:					
Capital Outlay:					
City manager	1,000	1,000	1,000	-	-
City assessor	700	700	-	700	-
City clerk	-	-	-	-	-
City treasurer	500	500	(287)	787	50,000
City hall & grounds	10,000	10,000	1,200	8,800	7,000
Cemetery	11,200	11,200	3,096	8,104	9,255
Police	36,900	36,900	27,491	9,409	70,877
Fire	96,050	96,050	94,689	1,361	11,597
Public works	220,000	220,000	173,639	46,361	196,288
Parks	8,500	8,500	5,007	3,493	-
Playlots	-	-	-	-	-
Al Quaal	6,000	6,000	5,000	1,000	-
Library	25,200	25,200	22,730	2,470	26,161
Contracted services	85,000	85,000	12,487	72,513	38,500
Total Capital Outlay	<u>501,050</u>	<u>501,050</u>	<u>346,052</u>	<u>154,998</u>	<u>409,678</u>
Debt service:					
Principal	75,000	75,000	75,000	-	70,000
Interest and fiscal charges	20,500	20,500	20,188	312	23,456
Total Debt Service	<u>95,500</u>	<u>95,500</u>	<u>95,188</u>	<u>312</u>	<u>93,456</u>
TOTAL EXPENDITURES	596,550	596,550	441,240	155,310	503,134
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	101,296	101,296	208,115	106,819	180,869
OTHER FINANCING SOURCES (USES):					
Transfers in	40,500	40,500	40,500	-	-
Transfers (out)	(168,200)	(168,200)	(170,650)	(2,450)	(90,431)
TOTAL OTHER FINANCING SOURCES (USES)	(127,700)	(127,700)	(130,150)	(2,450)	(90,431)
CHANGE IN FUND BALANCE	(26,404)	(26,404)	77,965	104,369	90,438
Fund balance, beginning of year	588,929	588,929	588,929	-	498,491
FUND BALANCE, END OF YEAR	\$ 562,525	\$ 562,525	\$ 666,894	\$ 104,369	\$ 588,929

**OTHER SUPPLEMENTAL
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 GARBAGE & RUBBISH FUND, AL QUAAL FUND, BUILDING AUTHORITY FUND, LIBRARY STATE AID FUND, LIBRARY FUND, IRON ORE HERITAGE TRAIL FUND, and REVOLVING LOAN FUND are Non-major Special Revenue Fund types.

CAPITAL PROJECTS FUND

The function of the Capital Projects Fund is to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The modified accrual basis of accounting is used in recording Capital Projects Fund transaction. The PARTRIDGE CREEK FUND is a Non-major Capital Projects Fund type.

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, 2011

	Special Revenue Funds	Capital	Permanent Funds			Total Non-Major Governmental Funds
		Projects Fund Partridge Creek	Perpetual Care Fund	Cemetery Care Fund	Total	
ASSETS						
Cash and cash equivalents	\$ 891,512	\$ 518,407	\$ 217,241	\$ 23,862	\$ 241,103	\$ 1,651,022
Investments	-	-	655,812	109,170	764,982	764,982
Accounts receivable, net	55,137	-	-	-	-	55,137
Other receivable	37,127	-	-	-	-	37,127
Due from other funds	709,602	-	-	18,118	18,118	727,720
Notes receivable	109,916	-	-	-	-	109,916
TOTAL ASSETS	\$ 1,803,294	\$ 518,407	\$ 873,053	\$ 151,150	\$ 1,024,203	\$ 3,345,904
LIABILITIES AND FUND BALANCE						
LIABILITIES:						
Cash overdrafts	\$ 6,974	\$ -	\$ -	\$ -	\$ -	\$ 6,974
Accounts payable	16,052	-	-	-	-	16,052
Accrued sick and vacation	6,105	-	-	-	-	6,105
Due to other funds	548,512	-	29,767	5,453	35,220	583,732
TOTAL LIABILITIES	577,643	-	29,767	5,453	35,220	612,863
FUND BALANCE:						
Non-spendable	83,082	-	843,286	145,697	988,983	1,072,065
Restricted	439,914	518,407	-	-	-	958,321
Committed	-	-	-	-	-	-
Assigned	702,655	-	-	-	-	702,655
Unassigned	-	-	-	-	-	-
TOTAL FUND BALANCE	1,225,651	518,407	843,286	145,697	988,983	2,733,041
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,803,294	\$ 518,407	\$ 873,053	\$ 151,150	\$ 1,024,203	\$ 3,345,904

City of Ishpeming, Michigan
Non-major Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2011

	Special Revenue Funds	Capital	Permanent Funds		Total	Total Non-Major Governmental Funds
		Projects Fund Partridge Creek	Perpetual Care Fund	Cemetery Care Fund		
REVENUES:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-	-	-
State sources	10,367	-	-	-	-	10,367
Charges for services	514,642	-	20,625	7,425	28,050	542,692
Interest income and rentals	5,630	-	31,472	5,453	36,925	42,555
Contributions	46,188	-	-	-	-	46,188
Other revenues	20,095	-	-	-	-	20,095
TOTAL REVENUES	596,922	-	52,097	12,878	64,975	661,897
EXPENDITURES:						
Current operations:						
Public works	356,602	-	-	-	-	356,602
Recreation and culture	81,250	-	-	-	-	81,250
Other governmental	58,032	168,870	-	-	-	226,902
Debt service:						
Principal	24,000	-	-	-	-	24,000
Interest and fiscal charges	41,433	7,770	-	-	-	49,203
Capital outlay	-	-	-	-	-	-
TOTAL EXPENDITURES	561,317	176,640	-	-	-	737,957
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	35,605	(176,640)	52,097	12,878	64,975	(76,060)
OTHER FINANCING SOURCES (USES):						
Proceeds from borrowing	-	700,000	-	-	-	700,000
Bond issuance costs	-	(4,953)	-	-	-	(4,953)
Transfers in	67,150	-	-	-	-	67,150
Transfers (out)	(68,800)	-	(31,472)	(5,453)	(36,925)	(105,725)
TOTAL OTHER FINANCING SOURCES (USES)	(1,650)	695,047	(31,472)	(5,453)	(36,925)	656,472
CHANGE IN FUND BALANCE	33,955	518,407	20,625	7,425	28,050	580,412
Fund balance, beginning of year	1,191,696	-	822,661	138,272	960,933	2,152,629
FUND BALANCE, END OF YEAR	\$ 1,225,651	\$ 518,407	\$ 843,286	\$ 145,697	\$ 988,983	\$ 2,733,041

City of Ishpeming, Michigan
 Non-major Special Revenue Funds
 Combining Balance Sheet
 December 31, 2011

	Garbage & Rubbish Fund	Al Quaal Fund	Building Authority Fund	Library State Aid Fund	Library Fund	Iron Ore Heritage Trail Fund	Revolving Loan Fund	Total
ASSETS								
Cash and cash equivalents	\$ 125,152	\$ 14,086	\$ 232,028	\$ 7,923	\$ 49,656	\$ -	\$ 462,667	\$ 891,512
Accounts receivable, net	40,959	-	-	-	6,300	7,291	587	55,137
Other receivable	37,127	-	-	-	-	-	-	37,127
Due from other funds	450,194	-	189,184	-	-	-	70,224	709,602
Notes receivable	-	-	-	-	-	-	109,916	109,916
TOTAL ASSETS	\$ 653,432	\$ 14,086	\$ 421,212	\$ 7,923	\$ 55,956	\$ 7,291	\$ 643,394	\$ 1,803,294
LIABILITIES AND FUND BALANCE								
LIABILITIES:								
Cash overdrafts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,974	\$ -	\$ 6,974
Accounts payable	14,869	19	-	-	870	294	-	16,052
Accrued sick and vacation	6,105	-	-	-	-	-	-	6,105
Due to other funds	-	-	420,191	-	-	-	128,321	548,512
TOTAL LIABILITIES	20,974	19	420,191	-	870	7,268	128,321	577,643
FUND BALANCE:								
Non-spendable							83,082	83,082
Restricted				7,923			431,991	439,914
Committed								-
Assigned	632,458	14,067	1,021		55,086	23		702,655
Unassigned								-
TOTAL FUND BALANCE	632,458	14,067	1,021	7,923	55,086	23	515,073	1,225,651
TOTAL LIABILITIES AND FUND BALANCE	\$ 653,432	\$ 14,086	\$ 421,212	\$ 7,923	\$ 55,956	\$ 7,291	\$ 643,394	\$ 1,803,294

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, 2011

	Garbage & Rubbish Fund	AI Quaal Fund	Building Authority Fund	Library State Aid Fund	Library Fund	Iron Ore Heritage Trial Fund	Revolving Loan Fund	Total
REVENUES:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-	-	-	-	-
State sources	-	-	-	6,615	-	3,752	-	10,367
Charges for services	514,642	-	-	-	-	-	-	514,642
Interest and rentals	925	211	-	165	189	24	4,116	5,630
Contributions	-	-	-	-	46,188	-	-	46,188
Fines and forfeitures	-	-	-	-	-	-	-	-
Other revenue	2,617	-	-	-	-	-	17,478	20,095
TOTAL REVENUES	518,184	211	-	6,780	46,377	3,776	21,594	596,922
EXPENDITURES:								
Current operations:								
Public works	356,602	-	-	-	-	-	-	356,602
Recreation and culture	-	40,426	-	10,744	4,841	25,239	-	81,250
Other governmental	-	-	-	-	-	-	58,032	58,032
Debt service:								
Principal	-	-	24,000	-	-	-	-	24,000
Interest and fiscal charges	-	-	41,433	-	-	-	-	41,433
Capital outlay	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	356,602	40,426	65,433	10,744	4,841	25,239	58,032	561,317
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	161,582	(40,215)	(65,433)	(3,964)	41,536	(21,463)	(36,438)	35,605
OTHER FINANCING SOURCES:								
Transfers in	-	-	66,300	-	-	850	-	67,150
Transfers (out)	(68,800)	-	-	-	-	-	-	(68,800)
TOTAL OTHER FINANCING SOURCES (USES)	(68,800)	-	66,300	-	-	850	-	(1,650)
CHANGE IN FUND BALANCE	92,782	(40,215)	867	(3,964)	41,536	(20,613)	(36,438)	33,955
Fund balance, beginning of year	539,676	54,282	154	11,887	13,550	20,636	551,511	1,191,696
FUND BALANCE, END OF YEAR	\$ 632,458	\$ 14,067	\$ 1,021	\$ 7,923	\$ 55,086	\$ 23	\$ 515,073	\$ 1,225,651

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 Assets
December 31, 2011

	2011	2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 216,906	\$ 22,118
Accounts receivable	102,107	588,430
Allowance for uncollectible accounts	-	-
Prepaid expenses	-	-
	TOTAL CURRENT ASSETS	610,548
Non-current Assets:		
Investment in Wastewater Treatment Facility	3,663,795	3,696,320
Land and construction in progress	-	-
Other capital assets, net of depreciation	6,231,069	6,594,565
	TOTAL NON-CURRENT ASSETS	10,290,885
	TOTAL ASSETS	10,901,433
LIABILITIES		
Current Liabilities:		
Accounts payable	3,087	236,691
Accrued payroll	1,387	1,263
Accrued sick and vacation leave	5,716	7,959
	TOTAL CURRENT LIABILITIES	245,913
	TOTAL LIABILITIES	245,913
NET ASSETS		
Invested in capital assets net of related debt	9,894,864	10,290,885
Net Assets:		
Unrestricted	308,823	1,207,064
	TOTAL NET ASSETS	\$ 11,497,949
	\$ 10,203,687	\$ 11,497,949

City of Ishpeming, Michigan
Sewer Fund
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2011
With Comparative Actual Amounts for the Year Ended December 31, 2010

	2011	2010
OPERATING REVENUES:		
Federal sources	\$ -	\$ 314,984
Charges for services	1,049,084	958,263
Other revenue	-	50
	TOTAL OPERATING REVENUES	1,273,297
OPERATING EXPENSES:		
Personal services	153,281	99,095
Contractual services	588,384	610,299
Supplies	15,927	18,672
Utilities	2,638	2,391
Depreciation	363,496	354,503
Payment in lieu of taxes	222,000	215,800
Other expenses	40,853	29,896
	TOTAL OPERATING EXPENSES	1,330,656
	OPERATING INCOME (LOSS)	(57,359)
NON-OPERATING REVENUES (EXPENSES):		
Gain/(Loss) on wastewater facility	(32,525)	797,105
Interest income and rentals	2,187	2,683
	TOTAL NON-OPERATING (EXPENSES)	799,788
	INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	742,429
Transfers in	-	100,000
Transfers (out)	(84,000)	-
	CHANGE IN NET ASSETS	842,429
Net assets, beginning of year	10,655,520	9,813,091
	NET ASSETS, END OF YEAR	\$ 10,655,520

City of Ishpeming, Michigan
Sewer Fund
Statement of Cash Flows
For the Year Ended December 31, 2011
With Comparative Actual Amounts for the Year Ended December 31, 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fees and charges for services	\$ 1,535,407	\$ 473,349
Other operating revenues	-	315,034
Cash payments to employees for services	(143,674)	(90,942)
Cash payments for payroll taxes	(11,726)	(7,581)
Cash payments to suppliers for goods and services	(1,103,406)	(601,108)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	276,601	88,752
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers in (out)	(84,000)	100,000
Increase in due to other funds	-	-
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	(84,000)	100,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	-	(359,681)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	-	(359,681)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	2,187	2,683
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	2,187	2,683
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	194,788	(168,246)
Cash and cash equivalents, beginning of year	22,118	190,364
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 216,906	\$ 22,118
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (337,495)	\$ (57,359)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	363,496	354,503
Change in assets and liabilities:		
(Increase) decrease in accounts receivable, net	486,323	-
(Increase) decrease in prepaid expenses	-	-
Increase (decrease) in accounts payable	(233,604)	-
Increase (decrease) in accrued payroll	124	-
Increase (decrease) in accrued sick and vacation	(2,243)	-
NET ADJUSTMENTS	614,096	354,503
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 276,601	\$ 297,144

City of Ishpeming, Michigan
Water Fund
Comparative Statement of Net Assets
December 31, 2010 and 2009

	2011	2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 720,471	\$ 641,466
Accounts receivable	358,328	330,281
Allowance for uncollectible accounts	-	-
TOTAL CURRENT ASSETS	1,078,799	971,747
Non-current Assets:		
Investment in Joint Water Authority	3,507,323	3,507,323
Land and construction in progress	10,888	10,888
Other capital assets, net of depreciation	1,720,240	1,782,440
TOTAL NON-CURRENT ASSETS	5,238,451	5,300,651
TOTAL ASSETS	6,317,250	6,272,398
LIABILITIES		
Current Liabilities:		
Accounts payable	47,430	35,998
Accrued liabilities	62,650	48,623
Accrued payroll	3,958	1,633
Accrued sick and vacation leave	22,592	18,270
TOTAL CURRENT LIABILITIES	136,630	104,524
TOTAL LIABILITIES	136,630	104,524
NET ASSETS		
Invested in capital assets net of related debt	5,238,451	5,300,651
Net Assets:		
Unrestricted	942,169	867,223
TOTAL NET ASSETS	\$ 6,180,620	\$ 6,167,874

City of Ishpeming, Michigan
Water Fund
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2011
With Comparative Actual Amounts for the Year Ended December 31, 2010

	2011	2010
OPERATING REVENUES:		
Federal sources	\$ -	\$ 279,326
Charges for services	1,202,156	1,046,348
Other revenue	15,493	22,394
TOTAL OPERATING REVENUES	1,217,649	1,348,068
OPERATING EXPENSES:		
Personal services	357,514	290,093
Contractual services	399,419	378,632
Supplies	65,717	62,618
Utilities	12,270	12,198
Depreciation	72,821	64,953
Payment in lieu of taxes	137,000	131,500
Other expenses	25,433	25,055
TOTAL OPERATING EXPENSES	1,070,174	965,049
OPERATING INCOME (LOSS)	147,475	383,019
NON-OPERATING REVENUES (EXPENSES):		
Interest income and rentals	5,271	9,296
TOTAL NON-OPERATING (EXPENSES)	5,271	9,296
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	152,746	392,315
Transfers (out)	(140,000)	(220,000)
CHANGE IN NET ASSETS	12,746	172,315
Net assets, beginning of year	6,167,874	5,995,559
NET ASSETS, END OF YEAR	\$ 6,180,620	\$ 6,167,874

City of Ishpeming, Michigan
Water Fund
Statement of Cash Flows
For the Year Ended December 31, 2011
With Comparative Actual Amounts for the Year Ended December 31, 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fees and charges for services	\$ 1,174,109	\$ 1,008,502
Other operating revenues	15,493	301,720
Cash payments to employees for services	(323,517)	(280,594)
Cash payments for payroll taxes	(27,350)	(22,192)
Cash payments to suppliers for goods and services	(614,380)	(615,024)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	224,355	392,412
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers in(out)	(140,000)	(220,000)
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	(140,000)	(220,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(10,621)	(315,840)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(10,621)	(315,840)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	5,271	9,296
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	5,271	9,296
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	79,005	(134,132)
Cash and cash equivalents, beginning of year	641,466	775,598
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 720,471	\$ 641,466

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES:**

Operating income (loss)	\$ 147,475	\$ 383,019
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	72,821	64,953
Change in assets and liabilities:		
(Increase) decrease in accounts receivable, net	(28,047)	-
Increase (decrease) in accounts payable	11,432	-
Increase (decrease) in customer deposits payable	14,027	-
Increase (decrease) in accrued payroll	2,325	-
Increase (decrease) in accrued sick and vacation	4,322	-
NET ADJUSTMENTS	76,880	64,953
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 224,355	\$ 447,972

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 Assets
 December 31, 2011

	Agency Funds		
	Trust & Agency Fund	Tax Collection Fund	Totals
ASSETS			
Cash and equivalents	\$ 4,908	\$ 1,650,808	\$ 1,655,716
Investments	-	-	-
Notes receivable	-	-	-
Due from other governments	-	-	-
Due from other funds	-	-	-
	TOTAL ASSETS	\$ 1,650,808	\$ 1,655,716
	\$ 4,908	\$ 1,650,808	\$ 1,655,716
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	2,317	1,276,557	1,278,874
Due to other governmental units	2,591	374,251	376,842
Deferred revenues	-	-	-
	TOTAL LIABILITIES	\$ 1,650,808	\$ 1,655,716
	\$ 4,908	\$ 1,650,808	\$ 1,655,716

COMPLIANCE SUPPLEMENTS



ANDERSON, TACKMAN & COMPANY, PLC

Certified Public Accountants

"A Regional Firm With Offices In Michigan And Wisconsin"

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PARTNERS

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Michael A. Greutz, CPA
William C. Sheltrou, CPA

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 Honorable Mayor and Members
of the City Council
City of Ishpeming, Michigan
Ishpeming, Michigan 49849

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ishpeming, Michigan, as of and for the year ended December 31, 2011, which collectively comprise the City of Ishpeming, Michigan's basic financial statements and have issued our report thereon dated June 27, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Ishpeming, Michigan's internal control over financial reporting as a basis for designing our auditing procedures 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 of Ishpeming, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Ishpeming, Michigan's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Report to Management Letter that we consider to be significant deficiencies in internal control over financial reporting listed as items 2011-01 and 2011-02. *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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ishpeming, Michigan'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

To the Honorable Mayor and Members
of the City Council
Ishpeming, Michigan 49849

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 Letter as items 2011-03 through 2011-04.

City of Ishpeming, Michigan's response to the findings identified in our audit is described in the accompanying Report to Management Letter. We did not audit City of Ishpeming, Michigan's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities 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 27, 2012

COMMUNICATION SECTION



City of Ishpeming, Michigan
Report to Management Letter
For the Year Ended December 31, 2011

To the Honorable Mayor and Members
of the City Council
City of Ishpeming, Michigan
Ishpeming, Michigan 49849

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ishpeming, Michigan as of and for the year ended December 31, 2011, 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 our auditing procedures 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.

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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been 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 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 the City's internal control to be significant deficiencies:

To the Honorable Mayor and Members
of the City Council
City of Ishpeming, Michigan

**2011-01 – ASSIST IN PREPARING FINANCIAL STATEMENTS AND FOOTNOTES
(REPEAT)**

Condition/Criteria: Statement on Auditing Standards #115 requires us to communicate in writing when a client requires assistance to prepare the financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Cause of Condition: The staff of the City did not have adequate staffing to prepare all the information included in the annual financial statements.

Effect: We assisted management with the external financial reporting responsibility to ensure their financial statements are in accordance with GAAP.

Recommendation: We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

Management Response: Management concurs.

- Contact person(s) responsible for correction:
 - N/A
- Anticipated completion date:
 - N/A

2011-02 – OUTSTANDING CHECKS

Condition/Criteria: The accounts payable, payroll, trust and agency, and tax collection checking account reconciliations are carrying check activity that has been outstanding greater than 90 days. Outstanding items range from calendar year 1996 to the present and total more than \$300,000. Reconciling items outstanding greater than 90 days should be investigated as part of the monthly reconciliation process. Where necessary, checks should be voided and reissued or turned over to the Department of Treasury.

Cause of Condition: Oversight by management to investigate reconciling items outstanding greater than 90 days as part of the monthly reconciliation process.

Effect: The financial statements may become misleading.

Recommendation: We recommend that the City should investigate reconciling items greater than 90 days old as part of the reconciliation process.

Management Response: The City will more closely monitor outstanding checks and investigate any checks that have not cleared within 90 days. Any checks that meet the criteria defined in the Department of Treasury's *Manual for Reporting Unclaimed Property* will be turned over to the State.

- Contact person(s) responsible for correction:
 - Anita Keto, City Treasurer
- Anticipated completion date:
 - December 31, 2012

To the Honorable Mayor and Members
of the City Council
City of Ishpeming, Michigan

INSTANCE OF NON-COMPLIANCE

2011-03 – UNIFORM BUDGETING AND ACCOUNTING ACT (PA 621) (REPEAT)

Condition/Criteria: The State of Michigan has enacted Public Act 621, the Uniform Budgeting and Accounting Act, to provide for a system of uniform procedures for the preparation and execution of budgets in local units of government. The purpose of P.A. 621 is to require that all local units of government adopt balanced budgets, to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process, including data for capital construction projects. The major provisions of P.A. 621 are as follows:

1. Local Units of government must adopt a budget.
2. The budget, including accrued deficits and available unappropriated surpluses, must be balanced.
3. The budget must be amended when necessary.
4. Debt shall not be entered into unless the debt is permitted by law.
5. Expenditures shall not be incurred in excess of the amount appropriated.
6. Expenditures shall not be made unless authorized in the budget.
7. Violations of the act, disclosed in an audit of the financial records, in the absence of reasonable procedures shall be filed with the State Treasurer and reported to the Attorney General.

Cause of Condition: Failure to amend the budgets during the year based on the level of expenditures.

Effect: The City was found to be in violation of the legal and contractual provisions of Public Act 621 in certain individual funds as enumerated upon in Footnote U.

Recommendation: The City of Ishpeming, Michigan should strictly control expenditures so as not to exceed the original appropriation. When this is not possible, the budget should be amended accordingly.

Management Response: The City of Ishpeming, Michigan plans on reviewing budget to actual numbers so that appropriate changes can be made to the City's final budget throughout the course of the year.

- Contact person(s) responsible for correction:
 - Jered Ottenwess, City Manger
- Anticipated completion date:
 - December 31, 2012

2011-04 – PROPERTY TAX DISBURSEMENT (MCL 211.43) (REPEAT)

Condition/Criteria: Per MCL211.43(3), treasurers in city's with a state equalized valuation more than \$15 million must account for and deliver to the county treasurer and other tax assessing unit treasurers the tax collections on hand on the first and 15th day of each month within 10 business days after the first and 15th day of each month. Within 10 days after the last day of February, the treasurer must account for and deliver to the county treasurer and tax assessing unit treasurers at least 90 percent of the total amount of tax collections on hand on

To the Honorable Mayor and Members
of the City Council
City of Ishpeming, Michigan

the last day of February. A final adjustment and delivery of the total amount of tax collections on hand must be made no later than April 1 of each year. The City of Ishpeming, Michigan was in violation of the aforementioned requirements as the majority of the 2010 captured receipts have yet to be disbursed as of year-end.

Cause of Condition: Failure to disburse property tax collections on a timely basis in accordance with State law.

Effect: The City of Ishpeming, Michigan is not compliant with State Law.

Recommendation: The City of Ishpeming, Michigan should more closely monitor the tax collections and distributions in order to disburse the funds as prescribed by State law.

Management Response: All distributions were made timely to all entities other than units accounted for by the City. The City will more closely monitor tax collections and disbursements in accordance with state law.

- Contact person(s) responsible for correction:
 - Anita Keto, City Treasurer
- Anticipated completion date:
 - December 31, 2012

City of Ishpeming, Michigan'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.

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

Anderson, Jackman & Company, PLLC
Certified Public Accountants

June 27, 2012



City of Ishpeming, Michigan
Communication with Those Charged with Governance
For the Year Ended December 31, 2011

June 27, 2012

To the Honorable Mayor and Members
of the City Council
City of Ishpeming, Michigan
Ishpeming, Michigan 49849

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ishpeming, Michigan for the year ended December 31, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), 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 January 11, 2012. Professional standards also require that we communicate to you the following related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for selection and use of appropriate accounting policies. The significant accounting policies used by the City of Ishpeming, Michigan are described in Note A to the financial statements. As described in Note K to the financial statements, the City of Ishpeming, Michigan changed accounting policies related to governmental funds fund balance designations by adopting Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011. We noted no transactions entered into by the governmental unit 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 estimate(s) affecting the City's financial statements were:

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

To the Honorable Mayor and Members
of the City Council
City of Ishpeming, Michigan

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 and depreciation expense is based on historical costs and useful lives of the assets. Depreciation is calculated using the straight-line method. We evaluated the key factors and assumptions used to develop the current years depreciation expense and 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 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.

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

The disclosure of Defined Benefit Retirement Plan in Note N 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 N were based on information included their report.

The disclosure of the Police Retirement System Defined Benefit Retirement Plan in Note N 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 N were based on information included their report.

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 trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

- Adjustments to correct cash balances.
- Adjustments to correct tax collection fund balances.
- Adjustments to record deferred tax revenue and taxes receivable.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction,

To the Honorable Mayor and Members
of the City Council
City of Ishpeming, Michigan

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 27, 2012.

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 governmental unit'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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We identified certain deficiencies in internal control over financial reporting, described in the accompanying Report to Management Letter that we consider to be significant deficiencies in internal control over financial reporting listed as items 2011-01 and 2011-02. 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.

As part of obtaining reasonable assurance about whether the City of Ishpeming, Michigan'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* and which are described in the accompanying Report to Management Letter as items 2011-03 through 2011-04.

With respect to the supplementary information accompanying the financial statements, 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.

To the Honorable Mayor and Members
of the City Council
City of Ishpeming, Michigan

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

Very truly yours,

Anderson, Jackman & Company, PLLC
Certified Public Accountants