

CITY OF ISHPEMING, MICHIGAN
FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

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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

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in the Note W to the financial statements, in 2012, the City adopted the following new accounting guidance: GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an Amendment of GASB Statements No. 14 and No. 34*; GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions -- an amendment of GASB Statement No. 53*; and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ishpeming, Michigan's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards 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. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2013 on our consideration of the City of Ishpeming, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Ishpeming, Michigan's internal control over financial reporting and compliance.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

August 6, 2013

City of Ishpeming, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the City of Ishpeming, Michigan's financial performance provides an overview of the City's financial activities for the year ended December 31, 2012. Please read it in conjunction with the financial statements included below.

FINANCIAL HIGHLIGHTS

- Net position for the City as a whole increased by \$2,300,532 as a result of this year's operations. Net position of our business-type activities decreased by \$574,476 or 3 percent, and net position of our governmental activities increased by \$2,875,008, or 31 percent.
- During the year, the City had expenses for governmental activities that were \$5,337,590 and generated \$8,212,598 in general revenues and other program sources.
- The City's business-type activities had expenses of \$2,625,896 and generated \$2,051,420 in revenues.
- The general fund reported a net change in fund balance of \$(287,022). This is \$114,281 higher than the forecasted decrease of \$172,741.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 16. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for the future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

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

Reporting the City as a Whole

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

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

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

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

- *Governmental activities* – Most of the City's basic services are reported here, including the police, fire, public works and parks departments, and general administration. Property taxes, charges for services and state sources fund most of these activities.
- *Business-type activities* – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's sewer and water systems and activities are reported here.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 11. The fund financial statements begin on page 16 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 Position and Statement of Activities) and governmental *funds* in a reconciliation which follows the fund financial statements.
- *Proprietary funds* – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds

The City as Trustee

The City is the trustee, or fiduciary, for assets that – because of a trust arrangement – can be used only for the trust beneficiaries. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 23 and 24.

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

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

The City as a Whole

Table 1 provides a summary of the City's net position as of December 31, 2012 and 2011.

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$8,030,642	\$9,006,335	\$1,328,946	\$1,397,812	\$9,359,588	\$10,404,147
Non-current assets	99,575	173,389	7,116,801	7,171,118	7,216,376	7,344,507
Capital assets, net	11,260,522	7,532,360	7,525,478	7,962,197	18,786,000	15,494,557
Total Assets	<u>19,390,739</u>	<u>16,712,084</u>	<u>15,971,225</u>	<u>16,531,127</u>	<u>35,361,964</u>	<u>33,243,211</u>
Deferred outflow of resources	14,038	-	-	-	14,038	-
Current and other liabilities	472,469	2,889,333	161,394	146,820	633,863	3,036,153
Long-term liabilities	4,791,729	4,663,086	-	-	4,791,729	4,663,086
Total Liabilities	<u>5,264,198</u>	<u>7,552,419</u>	<u>161,394</u>	<u>146,820</u>	<u>5,425,592</u>	<u>7,699,239</u>
Deferred inflow of resources	2,169,379	-	-	-	2,169,379	-
Net Position:						
Net investment in capital assets	8,840,681	6,366,360	14,642,279	15,133,315	23,482,960	21,499,675
Restricted	3,003,008	2,553,206	-	-	3,003,008	2,553,206
Unrestricted	<u>127,511</u>	<u>240,099</u>	<u>1,167,552</u>	<u>1,250,992</u>	<u>1,295,063</u>	<u>1,491,091</u>
Total Net Position	<u>\$11,971,200</u>	<u>\$9,159,665</u>	<u>\$15,809,831</u>	<u>\$16,384,307</u>	<u>\$27,781,031</u>	<u>\$25,543,972</u>

Net position of the City's governmental activities stood at \$11,971,200. *Unrestricted* net position—the part of net position that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at \$127,511.

The \$127,511 in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The net position of our business-type activities stood at \$15,809,831. The City can generally only use these net positions to finance continuing operations of the water and sewer systems.

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

The results of this year's operations for the City as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net position for fiscal year 2012 and 2011.

**Table 2
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	\$1,220,295	\$1,182,764	\$2,271,606	\$2,266,733	\$3,491,901	\$3,449,497
Operating grants & contributions	3,379,825	741,841	-	-	3,379,825	741,841
Capital grants & contributions	-	-	-	-	-	-
General revenues:						
Taxes	2,457,957	2,558,017	-	-	2,457,957	2,558,017
Unrestricted intergovernmental	758,187	759,672	-	-	758,187	759,672
Investment earnings	134,792	54,743	6,814	7,458	141,606	62,201
Miscellaneous	31,083	68,180	-	-	31,083	68,180
Gain/(loss) on sale of assets	3,459	(84)	-	-	3,459	(84)
Total Revenues	7,985,598	5,365,133	2,278,420	2,274,191	10,264,018	7,639,324
Program Expenses:						
Legislative	20,638	20,224	-	-	20,638	20,224
General government	1,689,199	1,485,834	-	-	1,689,199	1,485,834
Public safety	802,405	837,496	-	-	802,405	837,496
Public works	1,985,778	1,828,455	-	-	1,985,778	1,828,455
Recreation and culture	419,489	383,190	-	-	419,489	383,190
Other governmental	214,718	222,238	-	-	214,718	222,238
Interest on long-term debt	205,363	184,189	-	-	205,363	184,189
Sewer	-	-	1,466,659	1,419,104	1,466,659	1,419,104
Water	-	-	1,159,237	1,070,174	1,159,237	1,070,174
Total Expenses	5,337,590	4,961,626	2,625,896	2,489,278	7,963,486	7,450,904
Excess (deficiency) before transfers	2,648,008	403,507	(347,476)	(215,087)	2,300,532	188,420
Transfers	227,000	224,000	(227,000)	(224,000)	-	-
Increase (decrease) in net position	2,875,008	627,507	(574,476)	(439,087)	2,300,532	188,420
Net Position, Beginning, as restated	9,096,192	8,532,158	16,384,307	16,823,394	25,480,499	25,355,552
Net Position, Ending	\$11,971,200	\$9,159,665	\$15,809,831	\$16,384,307	\$27,781,031	\$25,543,972

The City's total revenues were \$10,264,018. The total cost of all programs and services was \$7,963,486 leaving an increase in net position of \$2,300,532. Our analysis below separately considers the operations of governmental and business-type activities:

Governmental Activities

Government activities net position increased by \$2,875,008. This increase was due to a decrease in combined governmental fund balance of \$1,122,692, changes in general fixed assets of \$3,728,162, principal payments on debt of \$380,000, issuance of debt of \$(125,000), a decrease in accrued interest of \$2,952, adjustments due to amortization of deferred gain on refunding and deferred amounts on bond of \$(6,612), and a decrease in compensated absences of \$18,189.

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	\$1,698,199	\$1,516,784
Public Safety	802,405	762,854
Public Works	1,985,778	(2,140,028)

Business-type Activities

Business-type activities net position decreased by \$574,476. The Sewer System and the Water System experienced a change in net position of \$(413,739) and \$(160,737), respectively, resulting in a net decrease in Business-Type Activities to \$574,476.

THE CITY’S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a *combined* fund balance of \$5,534,686, a decrease of \$1,122,692 from the beginning of the year.

The combined fund balance decrease of \$1,122,692 was due to decreases in the fund balances of General Fund, Local Street Fund, DDA Fund, Building Authority Fund, the Public Improvement Fund, and the Partridge Creek Fund, as depicted on page 18. The decrease is attributable to an increase in expenditures across all funds during 2012.

General Fund Budgetary Highlights

General Fund expenses were \$155,620 more than the final budget because Legislative expenses were \$638 more than the final budget; General government expenses were \$154,208 more than the final budget; Public Safety was \$1,766 more than the final budget; Public Works was \$725 less than the final budget, and Recreation and Culture was \$267 less than the final budget. General government expenses exceeded the final budget largely due to the unallocated expenses, including MERS being \$32,436 over budget and hospitalization being \$103,740 over budget.

General Fund revenues were \$12,598 less than the final revenue budget mainly due to taxes being approximately \$100,000 less than anticipated offset by more revenue in other sources.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2012, the City had \$18,786,000 invested in a variety of capital assets including land, buildings, and other equipment. (See Table 4 below)

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

**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	4,097,486	-	4,097,486
Buildings	2,083,411	-	2,083,411
Land Improvements	191,742	-	191,742
Equipment and vehicles	843,999	-	843,999
Infrastructure	2,779,672	-	2,779,672
Sewer system and equipment	-	5,868,351	5,868,351
Water system and equipment	-	1,646,239	1,646,239
Totals	<u>\$11,260,522</u>	<u>\$7,525,478</u>	<u>\$18,786,000</u>

In 2012, 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 bucket, street sweeper and police SUV. The Downtown Development Authority (DDA) continued various projects in the downtown area as part of its bond issue. The Police/Fire Hall roof replacement project completed.

Capital projects planned for 2013 include completion of Phase II of the Partridge Creek Diversion Project (GLRI funding), road repair utilizing special assessment funding, 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 new equipment and a parcel of land for future fire hall construction.

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

Debt

At year-end, the City had \$4,503,000 in bonds and notes outstanding as depicted in Table 5 below.

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

	Governmental Activities	Business-type Activities	Totals
Bonds	\$4,218,000	\$-	\$4,218,000
Contracts and notes payable	285,000	-	285,000
Totals	<u>\$4,503,000</u>	<u>\$-</u>	<u>\$4,503,000</u>

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

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 of this \$2,207,125 was received in 2012. 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.

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

City of Ishpeming management faces severe financial constraints in fiscal year 2013 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 Position

December 31, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 2,380,719	\$ 879,183	\$ 3,259,902
Investments	914,657	-	914,657
Receivables (net)	4,735,266	449,763	5,185,029
Prepaid expenses and other assets	-	-	-
Non-current assets:			
Long-term receivables	99,575	-	99,575
Investment in Wastewater Treatment Facility	-	3,609,478	3,609,478
Investment in Joint Water Authority	-	3,507,323	3,507,323
Capital assets:			
Land and construction in progress	5,361,698	10,888	5,372,586
Other capital assets, net of depreciation	5,898,824	7,514,590	13,413,414
Total Capital Assets	<u>11,260,522</u>	<u>7,525,478</u>	<u>18,786,000</u>
TOTAL ASSETS	<u>19,390,739</u>	<u>15,971,225</u>	<u>35,361,964</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred amounts on refunding	11,000	-	11,000
Premium on investment	3,038	-	3,038
TOTAL DEFERRED OUTFLOW OF RESOURCES	<u>14,038</u>	<u>-</u>	<u>14,038</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	356,543	48,086	404,629
Accrued liabilities	115,926	81,180	197,106
Non-current Liabilities:			
Portion due or payable within one year:			
Notes payable	85,000	-	85,000
Bonds payable	300,000	-	300,000
Compensated absences	4,229	32,128	36,357
Portion due or payable after one year:			
Notes payable	200,000	-	200,000
Bonds payable	3,898,543	-	3,898,543
Compensated absences	303,957	-	303,957
TOTAL LIABILITIES	<u>5,264,198</u>	<u>161,394</u>	<u>5,425,592</u>
DEFERRED INFLOW OF RESOURCES			
Taxes levied for a subsequent period	2,166,864	-	2,166,864
Discount on investment	2,515	-	2,515
TOTAL DEFERRED INFLOW OF RESOURCES	<u>2,169,379</u>	<u>-</u>	<u>2,169,379</u>
NET POSITION			
Net investment in capital assets	8,840,681	14,642,279	23,482,960
Restricted	3,003,008	-	3,003,008
Unrestricted	127,511	1,167,552	1,295,063
TOTAL NET POSITION	<u>\$ 11,971,200</u>	<u>\$ 15,809,831</u>	<u>\$ 27,781,031</u>

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

City of Ishpeming, Michigan
Statement of Activities

For the Year Ended December 31, 2012

Function / Programs	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	\$ 20,638	-	-	\$ (20,638)	-	(20,638)
General government	1,689,199	-	-	(1,516,784)	-	(1,516,784)
Public safety	802,405	23,925	-	(762,854)	-	(762,854)
Public works	1,985,778	3,193,435	-	2,140,028	-	2,140,028
Recreation and culture	419,489	162,465	-	(178,211)	-	(178,211)
Other governmental	214,718	-	-	(193,648)	-	(193,648)
Interest on long-term debt	205,363	-	-	(205,363)	-	(205,363)
Total Governmental Activities	5,337,590	3,379,825	-	(737,470)	-	(737,470)
Business Type Activities:						
Sewer	1,466,659	-	-	-	(328,999)	(328,999)
Water	1,159,237	-	-	-	(25,291)	(25,291)
Total Business Type Activities	2,625,896	-	-	-	(354,290)	(354,290)
TOTAL PRIMARY GOVERNMENT	\$ 7,963,486	\$ 3,379,825	\$ -	(737,470)	(354,290)	(1,091,760)
General Revenues:						
Taxes:						
Property taxes	2,069,323				-	2,069,323
Payment in lieu of taxes	388,634				-	388,634
Unrestricted intergovernmental sources	758,187				-	758,187
Interest and investment earnings	134,792				6,814	141,606
Miscellaneous	31,083				-	31,083
Gain/(loss) on sale of assets	3,459				-	3,459
Transfers	227,000				(227,000)	-
TOTAL GENERAL REVENUES & TRANSFERS	3,612,478	3,379,825	\$ -	(737,470)	(220,186)	3,392,292
CHANGE IN NET POSITION	2,875,008			(574,476)		2,300,532
Net position, beginning of year, as restated	9,096,192			16,384,307		25,480,499
NET POSITION, END OF YEAR	\$ 11,971,200			\$ 15,809,831		\$ 27,781,031

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

City of Ishpeming, Michigan
Governmental Funds
Balance Sheet
December 31, 2012

	Special Revenue					Capital Projects			Total Governmental Funds
	General Fund	Major Street Fund	Local Street Fund	DDA Fund	Public Improvement Fund	Partridge Creek Fund	Other Governmental Funds		
ASSETS									
Cash and cash equivalents	\$ -	\$ 34,515	\$ -	\$ 899,748	\$ 559,353	\$ -	\$ 1,354,341	\$ 2,847,957	
Investments	-	-	-	-	-	-	914,657	914,657	
Accounts receivable, net	370,136	-	-	-	516	-	70,117	440,769	
Taxes receivable	891,224	-	-	537,074	297,060	-	-	1,725,358	
Other receivable	-	-	-	-	-	104,805	43,119	147,924	
Due from other governments	-	53,252	21,992	10,300	-	-	319,647	405,191	
Due from other funds	2,092,345	-	-	1,389,591	507,843	30,504	-	4,020,283	
Prepaid expenditures	-	-	-	-	-	-	-	-	
Notes receivable	-	-	-	-	-	-	99,575	99,575	
TOTAL ASSETS	3,353,705	87,767	21,992	2,836,713	1,364,772	135,309	2,801,456	10,601,714	
DEFERRED OUTFLOW OF RESOURCES									
Premium on investment	-	-	-	-	-	-	3,038	3,038	
TOTAL DEFERRED OUTFLOW OF RESOURCES	-	-	-	-	-	-	3,038	3,038	
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ 3,353,705	\$ 87,767	\$ 21,992	\$ 2,836,713	\$ 1,364,772	\$ 135,309	\$ 2,804,494	\$ 10,604,752	
LIABILITIES									
Cash overdrafts	\$ 366,547	\$ -	\$ 19,650	\$ -	\$ -	\$ 43,883	\$ 37,158	\$ 467,238	
Accounts payable	71,045	616	529	11,987	548	91,426	9,100	185,251	
Accrued payroll	57,630	7,661	1,813	830	-	-	484	68,418	
Accrued sick and vacation leave	4,229	-	-	-	-	-	-	4,229	
Accrued liabilities	-	-	-	-	-	-	-	-	
Due to other funds	1,459,352	-	-	30,504	319,647	-	366,048	2,175,551	
TOTAL LIABILITIES	1,958,803	8,277	21,992	43,321	320,195	135,309	412,790	2,900,687	
DEFERRED INFLOW OF RESOURCES									
Taxes levied for a subsequent period	1,222,357	-	-	537,074	407,433	-	-	2,166,864	
Discount on investment	-	-	-	-	-	-	2,515	2,515	
TOTAL DEFERRED INFLOW OF RESOURCES	1,222,357	-	-	537,074	407,433	-	2,515	2,169,379	
FUND BALANCE									
Non-spendable	-	-	-	-	-	-	1,183,823	1,183,823	
Restricted	-	79,490	-	2,256,318	637,144	-	367,392	3,340,344	
Committed	-	-	-	-	-	-	-	-	
Assigned	4,229	-	-	-	-	-	837,974	842,203	
Unassigned	168,316	-	-	-	-	-	-	168,316	
TOTAL FUND BALANCE	172,545	79,490	-	2,256,318	637,144	-	2,389,189	5,534,686	
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	\$ 3,353,705	\$ 87,767	\$ 21,992	\$ 2,836,713	\$ 1,364,772	\$ 135,309	\$ 2,804,494	\$ 10,604,752	

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

City of Ishpeming, Michigan
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Position
 December 31, 2012

Total Fund Balances for Governmental Funds **\$ 5,534,686**

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

Capital assets used in governmental activities are not financial resources and
 therefore are not reported in the funds. 11,260,522

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	(85,000)	
Accrued interest on debt	(47,508)	
Compensated absences	(303,957)	
Bonds payable	(3,918,000)	
Long-term contracts and notes payable	(200,000)	
Deferred amounts on bonds	19,457	
Deferred gain on refunding	11,000	<u>(4,824,008)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 11,971,200**

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, 2012

	Special Revenue				Capital Projects			Total Governmental Funds
	General Fund	Major Street Fund	Local Street Fund	DDA Fund	Public Improvement Fund	Partridge Creek Fund	Other Governmental Funds	
REVENUES:								
Taxes	\$ 1,387,771	\$ -	\$ -	\$ 531,715	\$ 397,471	\$ -	\$ -	\$ 2,316,957
Federal sources	-	332,886	-	-	22,230	2,207,124	-	2,562,240
State sources	767,360	411,992	241,433	-	-	-	39,711	1,460,496
Local sources	-	-	-	-	-	-	-	-
Licenses and permits	159,393	-	-	-	-	-	-	159,393
Charges for services	57,475	-	-	-	-	-	539,601	597,076
Interest income and rentals	267,278	40	-	12,242	729	922	115,292	396,503
Contributions	-	-	-	-	141,000	-	116,452	257,452
Fines and forfeitures	61,329	-	-	-	-	-	-	61,329
Other revenues	5,063	1,334	-	1,347	152,129	-	10,820	170,693
TOTAL REVENUES	2,705,669	746,252	241,433	545,304	713,559	2,208,046	821,876	7,982,139
EXPENDITURES:								
Current operations:								
Legislative	20,638	-	-	-	-	-	-	20,638
General government	1,582,529	-	-	-	-	-	-	1,582,529
Public safety	690,701	-	-	-	-	-	-	690,701
Public works	666,430	759,725	402,963	-	-	-	359,393	2,188,511
Recreation and culture	280,593	-	-	-	-	-	157,900	438,493
Other governmental	-	-	-	757,007	-	-	60,724	817,731
Debt service:								
Principal	-	25,850	7,700	219,096	80,000	22,354	25,000	380,000
Interest and fiscal charges	-	6,332	1,886	110,452	16,682	26,167	40,184	201,703
Capital outlay	-	-	-	-	393,728	2,746,256	-	3,139,984
TOTAL EXPENDITURES	3,240,891	791,907	412,549	1,086,555	490,410	2,794,777	643,201	9,460,290
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(535,222)	(45,655)	(171,116)	(541,251)	223,149	(586,731)	178,675	(1,478,151)
OTHER FINANCING SOURCES (USES):								
Proceeds from borrowing	-	125,000	-	-	-	-	-	125,000
Proceeds from sale of capital assets	3,459	-	-	-	-	-	-	3,459
Transfers in	301,573	-	170,954	-	29,000	68,324	85,853	655,704
Transfers (out)	(56,832)	-	-	-	(281,899)	-	(89,973)	(428,704)
TOTAL OTHER FINANCING SOURCES (USES)	248,200	125,000	170,954	-	(252,899)	68,324	(4,120)	355,459
CHANGE IN FUND BALANCE	(287,022)	79,345	(162)	(541,251)	(29,750)	(518,407)	174,555	(1,122,692)
Fund balance, beginning of year	459,567	145	162	2,797,569	666,894	518,407	2,214,634	6,657,378
FUND BALANCE, END OF YEAR	\$ 172,545	\$ 79,490	\$ -	\$ 2,256,318	\$ 637,144	\$ -	\$ 2,389,189	\$ 5,534,686

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 Balance of Governmental Funds to the Statement of Activities
 For the Year Ended December 31, 2012

Net Change in Fund Balances - Total Governmental Funds \$ (1,122,692)

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	\$ 4,121,785	
Depreciation expense	(393,623)	
Net book value of disposed assets	<u>-</u>	3,728,162

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 380,000

Proceeds of borrowing are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net position. (125,000)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 2,952

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. -

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 deferred amounts on bond	(1,112)	
Current year amortization of deferred gain on refunding	<u>(5,500)</u>	(6,612)

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. 18,198

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 2,875,008

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

City of Ishpeming, Michigan
Proprietary Funds
Statements of Net Position
December 31, 2012

	Business-type Activities		
	Enterprise Funds		
	Sewer Fund	Water Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 229,922	\$ 649,261	\$ 879,183
Accounts receivable	89,967	359,796	449,763
Allowance for uncollectible accounts	-	-	-
Non-current Assets:			
Investment in Wastewater Treatment Facility	3,609,478	-	3,609,478
Investment in Joint Water Authority	-	3,507,323	3,507,323
Capital Assets:			
Land and construction in progress	-	10,888	10,888
Other capital assets, net of depreciation	5,868,351	1,646,239	7,514,590
Total Capital Assets	5,868,351	1,657,127	7,525,478
TOTAL ASSETS	9,797,718	6,173,507	15,971,225
DEFERRED OUTFLOW OF RESOURCES			
	-	-	-
LIABILITIES			
Current Liabilities:			
Accounts payable	195	47,891	48,086
Accrued liabilities	-	75,950	75,950
Accrued payroll	1,514	3,716	5,230
Non-current Liabilities:			
Portion due or payable within one year			
Compensated absences	6,061	26,067	32,128
Portion due or payable after one year			
Compensated absences	-	-	-
TOTAL LIABILITIES	7,770	153,624	161,394
DEFERRED INFLOW OF RESOURCES			
	-	-	-
NET POSITION			
Net investment in capital assets	9,477,829	5,164,450	14,642,279
Unrestricted	312,119	855,433	1,167,552
TOTAL NET POSITION	\$ 9,789,948	\$ 6,019,883	\$ 15,809,831

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

City of Ishpeming, Michigan
Proprietary Funds
Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2012

	Business-type Activities Enterprise Funds		
	Sewer Fund	Water Fund	Total
OPERATING REVENUES:			
Charges for services	\$ 1,137,660	\$ 1,131,876	\$ 2,269,536
Other operating revenue	-	2,070	2,070
TOTAL OPERATING REVENUES	1,137,660	1,133,946	2,271,606
OPERATING EXPENSES:			
Personal services	144,023	351,166	495,189
Contractual services	609,343	438,017	1,047,360
Supplies	11,427	108,935	120,362
Utilities	2,607	12,694	15,301
Depreciation	362,718	74,001	436,719
Payment in lieu of taxes	222,000	137,000	359,000
Other expenses	60,224	37,424	97,648
TOTAL OPERATING EXPENSES	1,412,342	1,159,237	2,571,579
OPERATING INCOME (LOSS)	(274,682)	(25,291)	(299,973)
NON-OPERATING REVENUES (EXPENSES):			
Gain/(loss) on wastewater facility	(54,317)	-	(54,317)
Interest income and rentals	2,260	4,554	6,814
TOTAL NON-OPERATING REVENUES (EXPENSES)	(52,057)	4,554	(47,503)
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	(326,739)	(20,737)	(347,476)
Transfers in	-	-	-
Transfers (out)	(87,000)	(140,000)	(227,000)
CHANGE IN NET POSITION	(413,739)	(160,737)	(574,476)
Net position, beginning of year	10,203,687	6,180,620	16,384,307
NET POSITION, END OF YEAR	\$ 9,789,948	\$ 6,019,883	\$ 15,809,831

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

City of Ishpeming, Michigan
Proprietary Funds
Statements of Cash Flows
For the Year Ended December 31, 2012

	Business-type Activities Enterprise Funds		
	Sewer Fund	Water Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from fees and charges for services	\$ 1,149,800	\$ 1,130,408	\$ 2,280,208
Other operating revenues	-	2,070	2,070
Cash payments to employees for services	(132,533)	(321,069)	(453,602)
Cash payments for payroll taxes	(11,018)	(26,864)	(37,882)
Cash payments to suppliers for goods and services	(908,493)	(720,309)	(1,628,802)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	97,756	64,236	161,992
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Transfers in (out)	(87,000)	(140,000)	(227,000)
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	(87,000)	(140,000)	(227,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	-	-	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income	2,260	4,554	6,814
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	2,260	4,554	6,814
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,016	(71,210)	(58,194)
Cash and cash equivalents, beginning of year	216,906	720,471	937,377
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 229,922	\$ 649,261	\$ 879,183
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (274,682)	\$ (25,291)	\$ (299,973)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	362,718	74,001	436,719
Change in assets and liabilities:			
(Increase) decrease in accounts receivable, net	12,140	(1,468)	10,672
Increase (decrease) in accounts payable	(2,892)	461	(2,431)
Increase (decrease) in customer deposits payable	-	13,300	13,300
Increase (decrease) in accrued payroll	127	(242)	(115)
Increase (decrease) in accrued sick and vacation	345	3,475	3,820
NET ADJUSTMENTS	372,438	89,527	461,965
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 97,756	\$ 64,236	\$ 161,992

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

City of Ishpeming, Michigan
 Fiduciary Funds
 Statement of Fiduciary Net Position
 December 31, 2012

	Pension Trust Fund	Agency Funds
ASSETS		
Cash and equivalents	\$ 35,710	\$ 2,339,005
Investments	4,237,155	-
Taxes receivable	59,390	-
Other receivables	168,387	-
Due from other governments	-	-
Due from other funds	171,292	-
TOTAL ASSETS	4,671,934	\$ 2,339,005
DEFERRED INFLOW OF RESOURCES		
	-	
LIABILITIES		
Due to other funds	-	\$ 2,335,671
Due to other governmental units	-	3,334
TOTAL LIABILITIES	-	\$ 2,339,005
DEFERRED INFLOW OF RESOURCES		
Taxes levied for a subsequent period	81,456	
TOTAL DEFERRED INFLOW OF RESOURCES	81,456	
NET POSITION		
Held in trust for pension benefits	4,590,478	
TOTAL NET POSITION	\$ 4,590,478	

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

City of Ishpeming, Michigan
 Fiduciary Funds
 Statement of Changes in Fiduciary Net Position
 For the Year Ended December 31, 2012

	Pension Trust Fund
ADDITIONS:	
Contributions:	
Employer	\$ 149,225
Employee	28,781
Gifts, bequests and endowments	-
Total Contributions	178,006
Investment Income:	
Net appreciation (depreciation) in fair value of investments	433,741
Interest and dividends	179,179
Net Investment Income (Loss)	612,920
TOTAL ADDITIONS	790,926
DEDUCTIONS:	
Benefits and annuity withdrawals	401,270
Refunds of contributions	-
Administrative expense	38,621
Payments in accordance with trust agreements	-
TOTAL DEDUCTIONS	439,891
CHANGE IN NET ASSETS	351,035
Net assets, beginning of year	4,239,443
NET ASSETS, END OF YEAR	\$ 4,590,478

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

CITY OF ISHPEMING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

REPORTING ENTITY

The City of Ishpeming, Michigan was incorporated in 1873 in accordance with the laws of the State of Michigan and operates under a Council-Manager form of government. As required by generally accepted accounting principles, these financial statements present the City (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, 2012, is as follows:

Total Assets	\$5,099,971
Total Liabilities	248,195
Total Net Assets	4,851,776
Total Operating Revenues	396,982
Total Operating Expenses	951,461
Total Non-Operating Revenues(expenses)	28,039
Capital Grant Contributions	143,990
Net Increase (Decrease) in Net Assets	(382,450)

BASIS OF PRESENTATION

Government-Wide Financial Statements

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

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

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

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

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

Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, 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 position, financial position and cash flows. The generally accepted accounting principles applicable are those similar to business in the private sector. The following is a description of the proprietary funds of the City:

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

Fiduciary Funds:

Fiduciary funds are used to report the assets held by the City in a trustee capacity or as an agent 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 and deferred outflows of resources, liabilities and deferred inflow of resources, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

The City reports the following major governmental funds:

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

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

- The **Partridge Creek Fund** accounts for the construction and financing activities related to the Partridge Creek diversion project.

The City reports the following major proprietary funds:

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

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

BASIS OF ACCOUNTING

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

Accrual

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

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

Modified Accrual

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

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

FINANCIAL STATEMENT AMOUNTS

Cash and Cash Equivalents

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

Investments

Investments are carried at market value.

Receivables

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

Inventory

Inventory costs are recorded as expenditures when incurred.

Interfund Receivables/Payables

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

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

Capital Assets

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Assets acquired by gift or bequest are recorded at their estimated fair value on the date of transfer.

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

	Depreciation Life
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.

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

Deferred Outflow of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government only has two items that qualify for reporting in this category. The deferred charge on refunding reported in the governmental statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. In addition, the deferred premium on investments reported in the governmental balance sheet. A premium on investment results from the difference in the fair market value of the investment and its acquisition price. This amount is amortized over the life of the asset.

Long-Term Liabilities

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

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

Deferred Inflow of Resources

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflow of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has three types of items that qualify for reporting in this category. The governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting, from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available. In addition, deferred inflows of resources are reported in the government-wide and governmental fund financial statements for property taxes levied during the year that were intended to finance future periods. Lastly, the deferred discount on investments reported in the governmental balance sheet. A discount on investment results from the difference in the fair market value of the investment and its acquisition price. This amount is amortized over the life of the asset.

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.

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

Compensated Absences

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

Equity Classification

Government-Wide Statements

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

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

Fund Statements

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

Revenues

Government-Wide Statements

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

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

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

accounted for in the Trust and Agency Fund. Property taxes are levied on December 1st based on the taxable value of property. City property tax revenues are recognized when levied to the extent that they result in current receivables.

Expenses/Expenditures

Government-Wide Statements

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

Fund Statements

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

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

Interfund Activity

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

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

Budgets and Budgetary Accounting

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

1. Not later than October 15, the City Manager submits to the City Council a proposed operating budget for the ensuing fiscal year commencing January 1 in accordance with the City Charter. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to its adoption, a public hearing is conducted at City Hall to obtain taxpayer comments.
3. Not later than November 30, the budget is adopted by the City Council in accordance with the provisions of the City Charter.
4. The City Council adopts the budget by functional categories. Any transfers of appropriations between functions must be approved by the City Council. All unencumbered and unexpended appropriations lapse at year end.
5. Formal budgetary integration is employed as a management control device for the general fund and all special revenue funds. The budgets for the capital projects and enterprise funds are informational summaries only and are not covered under the City's General Appropriations Act or the State's Public Act 621.
6. The City Council has the authority to amend the budget when it becomes apparent that deviations in the original budget will occur and the amount of the deviation can be determined. Once originally adopted, the budget was formally amended during the fiscal year.

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

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	\$3,259,902
Fiduciary funds	2,374,715
TOTAL REPORTING ENTITY	\$5,634,617

A summary of deposits by type are:	
Cash in demand accounts	\$1,476,890
Cash in savings and time deposits	4,157,327
Petty cash	400
TOTAL DEPOSITS	\$5,634,617

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, 2012, the carrying amount of the City’s deposits with financial institutions was \$5,634,617 and the bank balance was \$5,131,031. Of the bank balance, \$2,130,683 or approximately 42% was covered by federal depository insurance according to FDIC regulations.

NOTE C – INVESTMENTS:

As of December 31, 2012, 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	\$674,360	\$-	\$302,275	\$253,266	\$118,819
U.S. Treasury Bonds	240,297	-	240,297	-	-
TOTAL INVESTMENTS	\$914,657	\$-	\$542,572	\$253,266	\$118,819

NOTE C – INVESTMENTS (Continued):

	Investment in Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
FIDUCIARY FUNDS:					
Mutual Equity Funds	\$3,674,173	\$-	\$-	\$-	\$3,674,173
Mutual Equity Index Funds	562,982	-	-	-	562,982
TOTAL INVESTMENTS	\$4,237,155	\$-	\$-	\$-	\$4,237,155

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.

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		
	General Fund	Major Street Fund	Local Street Fund	DDA Fund	Public Improvement Fund	Partridge Creek Fund	Non-Major Funds	Sewer	Water	Total
A*	\$891,224	\$-	\$-	\$537,074	\$297,060	\$-	\$-	\$-	\$-	\$1,725,358
B*	370,136	-	-	-	516	104,805	113,236	-	270,539	859,232
C*	-	53,252	21,992	10,300	-	-	-	-	-	85,544
D*	-	-	-	-	-	-	99,575	-	-	99,575
E*	-	-	-	-	-	-	-	89,967	89,257	179,224
F*	-	-	-	-	-	-	-	-	-	-
Total	\$1,261,360	\$53,252	\$21,992	\$547,374	\$297,576	\$104,805	\$212,811	\$89,967	\$359,796	\$2,948,933

NOTE D – ACCOUNTS RECEIVABLE AND TAXES RECEIVABLE (Continued):

A*	Property Taxes – Current	D*	Loans Receivable
B*	Other	E*	Unbilled Utilities
C*	Due From Other Government Units	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, 2012, including the applicable allowances for uncollectible accounts, are presented below.

	General Fund
Gross receivable	\$379,498
Less: allowance for uncollectible accounts	(9,362)
Net receivable	<u>\$370,136</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, 2012 was \$99,575.

A summary of Revolving Loan Fund’s notes receivable at December 31, 2012 is as follows:

Debtor	Balance December 31, 2012	Year of Award	Interest Rate	Term in Years
Argall	\$74,257	2000	2.0%	15
Dominic & Shannon, LLC	25,318	2010	Variable	19
Total	<u>\$99,575</u>			

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

A summary of the interfund receivables and payables at December 31, 2012 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					Total Due To Other Funds
		General Fund	DDA Fund	Public Improvement Fund	Other Governmental Funds	Fiduciary Funds	
DUE TO OTHER FUNDS	General Fund	\$-	\$1,389,591	\$-	\$-	\$ 69,761	\$1,459,352
	DDA Fund	-	-	-	30,504	-	30,504
	Building Authority Fund	332,375	-	-	-	-	332,375
	Public Improvement Fund	-	-	-	319,647	-	319,647
	Other Governmental Funds	33,673	-	-	-	-	33,673
	Fiduciary Funds	1,726,297	-	507,843	-	101,531	2,335,671
	Total Due From Other Funds	<u>\$2,092,345</u>	<u>\$1,389,591</u>	<u>\$507,843</u>	<u>\$350,151</u>	<u>\$171,292</u>	<u>\$4,511,222</u>

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

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, 2012 are as follows:

		TRANSFERS IN FROM OTHER FUNDS					
		General Fund	Local Street Fund	Public Improvement Fund	Partridge Creek Fund	Other Governmental Funds	Total Transfers Out to Other Funds
TRANSFERS OUT TO OTHER FUNDS	General Fund	\$-	\$55,954	\$-	\$-	\$878	\$56,832
	Public Improvement Fund	13,600	115,000	-	68,324	84,975	281,899
	Other Governmental Funds	89,973	-	-	-	-	89,973
	Sewer Fund	72,000	-	15,000	-	-	87,000
	Water Fund	126,000	-	14,000	-	-	140,000
	Total Transfers In from Other Funds	\$301,573	\$170,954	\$29,000	\$68,324	\$85,853	\$655,704

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, 2012 is as follows:

	Balance January 1, 2012	Additions	Deductions	Balance December 31, 2012
Capital assets not being depreciated:				
Land	\$1,128,937	\$-	\$-	\$1,128,937
Historical Treasurers	135,275	-	-	135,275
Construction in progress	1,588,021	3,843,216	(1,333,751)	4,097,486
Capital assets being depreciated:				
Buildings & improvements	9,842,579	121,283	-	9,963,862
Land Improvements	219,792	-	-	219,792
Equipment & vehicles	4,965,638	252,226	(66,540)	5,151,324
Infrastructure	1,783,392	1,238,811	-	3,022,203
Total Capital Assets	19,663,634	5,455,536	(1,400,291)	23,718,879
Less accumulated depreciation:				
Buildings & improvements	(7,785,393)	(95,058)	-	(7,880,451)
Land Improvements	(13,397)	(14,653)	-	(28,050)
Equipment & vehicles	(4,142,716)	(231,149)	66,540	(4,307,325)
Infrastructure	(189,768)	(52,763)	-	(242,531)
Total Accumulated Depreciation	(12,131,274)	(393,623)	66,540	(12,458,357)
CAPITAL ASSETS, NET	\$7,532,360	\$5,061,913	\$(1,333,751)	\$11,260,522

NOTE G – CAPITAL ASSETS (Continued):

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

Governmental Activities:	
General Government	\$110,020
Public Safety	68,327
Public Works	165,173
Recreation and Culture	50,103
Total Depreciation Expense	<u>\$393,623</u>

A summary of changes in business-type activities capital assets as of December 31, 2012 is as follows:

	Balance January 1, 2012	Additions	Deductions	Balance December 31, 2012
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	3,983,061	-	-	3,983,061
Total Capital Assets	<u>18,544,999</u>	<u>-</u>	<u>-</u>	<u>18,544,999</u>
Less accumulated depreciation:				
Sewer system and equipment	(8,319,981)	(362,718)	-	(8,682,699)
Water plant and equipment	(2,262,821)	(74,001)	-	(2,336,822)
Total Accumulated Depreciation	<u>(10,582,802)</u>	<u>(436,719)</u>	<u>-</u>	<u>(11,019,521)</u>
CAPITAL ASSETS, NET	<u>\$7,962,197</u>	<u>\$(436,719)</u>	<u>\$-</u>	<u>\$7,525,478</u>

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

Business-type Activities:	
Sewer	\$362,718
Water	74,001
Total Depreciation Expense	<u>\$436,719</u>

NOTE H – 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, 2012 include the following:

Partridge Creek Diversion Project – The project was in the construction stage of phase II as of the end of the year. Phase I of the project was 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 prior year. The total cost of the project is estimated to be \$8 million, and the EPA has committed \$6 million to phase II of the project.

NOTE H – CONSTRUCTION IN PROGRESS (Continued):

Library Ramp Phase I – project was approximately 98% complete as of the end of the year. The remaining balance of the project is scheduled to be completed in 2013.

DDA Capital Improvement projects – the Downtown Development Authority was in the construction 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 in the prior year. The projects include:

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

During the current year the following projects were completed: Hematite Heights, Ishpeming Hills Project, Pine Street Reconstruction, and Police/Fire Hall Roof. The total costs capitalized in the current related to the Hematite Heights Project amounted to \$30,151. The total costs capitalized in the current year related to the Ishpeming Hills Project amounted to \$33,750. The total costs capitalized in the current year related to the Pine Street Reconstruction Project amounted to \$1,174,910. The total costs capitalized in the current year related to the Police/Fire Hall Roof Project amounted to \$94,940.

As of December 31, 2012, total construction costs incurred amounted to \$4,097,486 in the governmental type activities and \$-0- in the business type activities.

NOTE I – LONG -TERM DEBT:

A summary of long-term obligations at December 31, 2012 and transactions related thereto for the year then ended is as follows:

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012	Due Within One Year
GOVERNMENTAL ACTIVITIES:					
Building Authority Bonds, Series 2000. Payable semi-annually including interest of 5.125% per annum.	\$727,000	\$-	\$(23,000)	\$704,000	\$25,000
Building Authority Bonds, Series 2002. Payable semi-annually, including interest of 4.75% per annum.	74,000	-	(2,000)	72,000	2,000
Michigan Transportation Fund Bonds, Series 2003. Payable semi-annually including interest of 4.25%.	317,000	125,000	(55,000)	387,000	58,000
Installment payable for purchase of Fire Truck. Payable annually including interest of 4.375% per annum. Secured by equipment.	175,000	-	(20,000)	155,000	20,000

NOTE I – LONG -TERM DEBT (Continued):

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012	Due in One Year
GOVERNMENTAL ACTIVITIES:					
<i>(Continued)</i>					
Installment payable for purchase of Public Works equipment. Payable annually including interest of 4.75% per annum. Secured by equipment.	\$190,000	\$-	\$(60,000)	\$130,000	\$65,000
Refunding Bonds, Series 2004. Payable semi-annually including interest of 3.00% to 3.9% per annum.	300,000	-	(125,000)	175,000	120,000
Capital Improvement Bonds, Series 2011. Payable semi-annually including interest of 3.00% to 5.0% per annum.	2,975,000	-	(95,000)	2,880,000	95,000
Less: Deferred amounts	(20,569)		1,112	(19,457)	-
SUBTOTAL	<u>4,737,431</u>	<u>125,000</u>	<u>(378,888)</u>	<u>4,483,543</u>	<u>385,000</u>
Compensated absences	333,364	-	(25,178)	308,186	4,229
TOTAL GOVERNMENTAL ACTIVITIES	<u>5,070,795</u>	<u>125,000</u>	<u>(404,066)</u>	<u>4,791,729</u>	<u>389,229</u>
BUSINESS-TYPE ACTIVITIES:					
Compensated absences	28,308	3,820	-	32,128	32,128
TOTAL BUSINESS-TYPE ACTIVITIES	<u>28,308</u>	<u>3,820</u>	<u>-</u>	<u>32,128</u>	<u>32,128</u>
TOTAL REPORTING ENTITY	<u>\$5,099,103</u>	<u>\$128,820</u>	<u>\$(404,066)</u>	<u>\$4,823,857</u>	<u>\$421,357</u>

The annual principal and interest requirements for the years ending December 31, 2012 and thereafter, excluding accrued compensated absences, are as follows:

	Governmental Activities		Totals	
	Principal	Interest	Principal	Interest
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	247,000	148,550	247,000	148,550
2018-2022	1,242,000	569,814	1,242,000	569,814
2023-2027	1,061,000	321,994	1,061,000	321,994
2028-2032	770,000	60,306	770,000	60,306
Totals	<u>\$4,503,000</u>	<u>\$1,774,334</u>	<u>\$4,503,000</u>	<u>\$1,774,334</u>

NOTE J – COMPENSATED ABSENCES:

The City accrues the liability for earned sick leave using the vesting method. The liability is accrued as the benefits are earned if it is probable that the City will compensate the employees conditioned upon retirement, death or termination of employment. Employees earn sick leave at the rate of one (1) day per month, not to exceed 12 days per year (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:

	Sick	Vacation	Total
COMPENSATED ABSENCES:			
General Fund – Current Portion	\$-	\$4,229	\$4,229
Sewer	5,758	303	6,061
Water	25,459	608	26,067
Governmental Activities – Long-Term Portion	190,013	113,944	303,957
TOTAL	<u>\$221,230</u>	<u>\$119,084</u>	<u>\$340,314</u>

NOTE K – TAXES LEVIED FOR A SUBSEQUENT PERIOD:

Property taxes levied on December 1, 2012 have met all criteria related to revenue recognition except for time and as such are recorded as a deferred inflow of resources under GASB 65. The amount of taxes levied for a subsequent period is as follows:

General Fund	\$1,222,357
DDA Fund	537,074
Public Improvement Fund	407,433
Pension Trust Fund	81,456
TOTAL	<u>\$2,248,320</u>

NOTE L – FUND BALANCES – GOVERNMENTAL FUNDS:

As of December 31, 2012, 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.

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

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, 2012, 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	\$-	\$-	\$-	\$-	\$-
Corpus	-	-	-	1,084,248	1,084,248
Long-term note receivable	-	-	-	99,575	99,575
Restricted:					
DDA	-	2,256,318	-	-	2,256,318
Transportation Funds	-	79,490	-	-	79,490
Public Improvement	-	-	637,144	-	637,144
Library State Aid	-	-	-	-	-
Revolving Loan	-	-	-	367,392	367,392
Committed	-	-	-	-	-
Assigned:					
Compensated Absences	4,229	-	-	-	4,229
Garbage Activities	-	-	-	740,324	740,324
AI Quaal Improvements	-	-	-	13,297	13,297
Building Authority	-	-	-	-	-
ADA Improvements	-	-	-	-	-
Library Activities	-	-	-	79,567	79,567
Iron Ore Heritage Trail	-	-	-	-	-
Lake Bancroft	-	-	-	4,786	4,786
Unassigned	168,316	-	-	-	168,316
Total fund balances	\$172,545	\$2,335,808	\$637,144	\$2,389,189	\$5,534,686

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

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

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 M – DEFINED BENEFIT PENSION PLAN: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, 2012 the City's annual pension cost of \$225,420 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, 2011, 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.

	Actuarial Valuation Date		
	December 31		
	2009	2010	2011
Annual Pension Cost	\$263,784	\$259,506	\$225,420
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	-	-	-
Actuarial Value of Assets	7,993,332	7,994,750	8,038,246
Actuarial Accrued Liability (Entry Age)	11,662,905	12,141,837	12,502,771
Unfunded AAL	3,669,573	4,147,087	4,464,525
Funded ratio	69%	66%	64%
Covered Payroll	1,272,934	1,221,199	1,196,757
UAAL as a Percentage of Covered Payroll	288%	340%	373%

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

Plan Description

The City of Ishpeming is the administrator of a single-employer public employee retirement system that covers all Police and Fire Department employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries.

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% of gross wages.

Annual Pension Cost

For year ended December 31, 2012 the City's annual pension cost of \$158,948 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, 2011, 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		
	2009	2010	2011
Annual Pension Cost	\$113,460	\$139,488	\$158,948
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	-	-	-
Actuarial Value of Assets	4,925,254	4,816,472	4,610,020
Actuarial Accrued Liability (Entry Age)	6,170,793	6,034,581	6,149,988
Unfunded AAL	1,245,539	1,218,109	1,539,968
Funded ratio	80%	80%	75%
Covered Payroll	490,598	441,036	407,599
UAAL as a Percentage of Covered Payroll	254%	276%	378%

Concentration of Investments - The fair value of individual investments that represent 5.0% or more of the Plan's net assets are as follows:

Doubleline Total Return – 36,761.0060 Units	\$416,502
Loomis Sayles – 14,157.1160 Units	214,056
Pimco Global Advantage – 17,681.2550 Units	206,871
AQR INTL EQTY – 21,021.0810 Units	215,255
DFA Emerging Markets – 8,345.8420 Units	176,681
Pimco Fundamental Index – 73,376.9830 Units	423,660

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.

NOTE O – DEFERRED COMPENSATION PLAN (Continued):

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 2012, expenses of \$30,338 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 – 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 \$97,931,838.

NOTE R – IRON ORE HERITAGE RECREATION AUTHORITY:

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

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

The Board shall obtain an annual audit of the Authority. A summary of financial information from the separately audited financial statements of the Authority for the year ended December 31, 2009 (the latest available financial report) is as follows:

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

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

NOTE S – JOINT VENTURES:

Ishpeming Area Joint Wastewater Treatment Facility

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

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

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

A summary of condensed financial information of the Facility, in the aggregate, as of December 31, 2012, is as follows:

Assets	\$7,642,778
Liabilities	218,205
Equity - All local units	7,424,573
Operating Revenues	860,830
Operating Expenses	1,214,188
Other Income	119,103
Net Income (loss)	(234,255)
City's Share of Net Income (loss)	(54,317)

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.

NOTE 5 – JOINT VENTURES (Continued):

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, 2012 is as follows:

Total Assets	\$13,347,349
Total Liabilities	1,823,638
Total Net Assets	11,523,711
Total Operating Revenues	3,311,898
Total Operating Expenses	3,073,848
Total Non-operating Revenues (Expenses)	372,339
Net Income (Loss)	610,389

Negaunee - Ishpeming Water Authority Board

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

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

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

A summary of the audited financial statements of the Board as of and for the year ended December 31, 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 Board for the year ended December 31, 2012 of \$3,507,323 represents the City's net investment in the Board.

NOTE T – 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 U – SINGLE AUDIT:

During the 2012 fiscal year, the City of Ishpeming expended more than \$500,000 in federal dollars; therefore the City is required to have a Single Audit in order to comply with OMB Circular A-133.

NOTE V – RESTATEMENT:

The City adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. As a result, the beginning net position of the governmental activities was decreased by \$63,473 to eliminate unamortized bond issuance costs, which no longer meet the definition of an asset and are now required to be recognized as an expense in the period incurred.

NOTE W – NEW GASB STANDARDS:

Recently Issued and Adopted Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASBS No. 62 incorporates in the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute for Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement is effective for periods beginning after December 15, 2011. The adoption of GASBS No. 62 does not have any impact on the City's financial statements.

NOTE W – NEW GASB STANDARDS (Continued):

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASBS No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. This Statement is effective for financial statements for periods beginning after December 15, 2011. The City adopted it in fiscal year 2012. The impact of the adoption of GASBS No. 63 is enumerated in Note V.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASBS No. 65 provides guidance on identifying what items should be reported in the new categories of deferred outflows and deferred inflows as required by GASBS No. 63. It additionally identifies what items should be reported in the new categories in proprietary fund, fiduciary fund, and government-wide statements of net position and which ones in governmental fund balance sheets. It also identifies certain items previously reported as assets and liabilities that the GASB determined should be recognized as revenues, expense, or expenditures when incurred and not be reported in statements of net position/balance sheets at all. This Statement is effect for financial statement periods beginning after December 15, 2012, the City elected to early implement it in fiscal year 2012. The impact of the adoption of GASBS No. 65 is enumerated in Note V.

Other Recently Issued Accounting Pronouncements

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. GASBS No. 60 provides financial reporting guidance for service concession arrangements (SCAs). SCAs are defined as an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. This Statement is effective for periods beginning after December 15, 2011. The City does not have any SCAs and therefore the adoption of GASBS No. 60 does not have any impact on the City’s financial statements.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASBS No. 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This Statement is effective for periods beginning after June 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the City’s financial statements.

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions -- an amendment of GASB Statement No. 53*. GASBS No. 64 provides clarification on whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement is effective for periods beginning after June 15, 2011. The City does not have any hedging activity and therefore the adoption of GASBS No. 64 does not have any impact on the City’s current financial statements.

NOTE X – UPCOMING CHANGES IN ACCOUNTING STANDARDS:

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

GASB 66: 2012 Technical Corrections (an Amendment to GASB 10 and GASB 62)

Effective for fiscal years beginning after 12/15/2013 (City's fiscal year 2014)

This standard was issued to eliminate conflicting guidance that resulted from the issuance of GASB 54 and GASB 62, which are both already effective. GASB 10 was amended to allow for risk financing activities to be accounted for in whichever fund type is most applicable (no longer limited to the general fund or an internal service fund). GASB 62 was amended to modify specific guidance related to (1) operating leases with scheduled rent increases, (2) purchase of loans at an amount other than the principal amount, and (3) service fees related to mortgages that are sold when the service rate varies significantly from the current (normal) service fees.

We do not expect GASB 66 to have any significant impact on the City at this time.

GASB 67: Financial Reporting for Pension Plans

Effective for fiscal years beginning after 06/15/2013 (City's fiscal year FY 2014)

This standard establishes the requirements for pension plans administered by trusts to report on their operations, including setting new uniform requirements for actuarial valuations of the total pension liability, and reporting various 10-year trend data as required supplementary information. The financial statements of pension plans will not change substantially as a result of GASB 67, though the additional note disclosures and required supplementary information will be significant. Additionally, actuarial valuations conducted in accordance with GASB 67 will have to match the government's fiscal year, or be rolled forward to that date by the actuary.

GASB 68: Accounting and Financial Reporting for Pensions

Effective for fiscal years beginning after 06/15/2014 (City's fiscal year FY 2015)

This standard establishes new requirements for governments to report a "net pension liability" for the unfunded portion of its pension plan. Governments that maintain their own pension plans (either single employer or agent multiple-employer) will report a liability for the difference between the total pension liability calculated in accordance with GASB 67 and the amount held in the pension trust fund. Governments that participate in a cost sharing plan will report a liability for their "proportionate share" of the net pension liability of the entire system.

Historically, governments have only been required to report a net pension obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, governments will be required to report a net pension liability based on the current funded status of their pension plans. This liability would be limited to the government-wide financial statements and proprietary funds. Changes in this liability from year to year will largely be reflected on the income statement, though certain amounts will be deferred and amortized over varying periods.

GASB 68 also requires more extensive note disclosures and required supplementary information, including 10 years of historical information. The methods used to determine the discount rate (the assumed rate of return on plan assets held in trust) are mandated and must be disclosed, along with what the impact would be on the net pension liability if that rate changed by 1% in either direction. Other new disclosure requirements include details of the changes in the components of the net

NOTE X – UPCOMING CHANGES IN ACCOUNTING STANDARDS (Continued):

pension liability, comparisons of actual employer contributions to actuarially determined contributions, and ratios to put the net pension liability in context. For single-employer and agent multiple-employer plans, the information for these statements will come from the annual actuarial valuation. For cost sharing plans, this information will be derived from the financial reports of the plan itself, multiplied by the government’s proportionate share of plan.

GASB 67 and 68 are only applicable to pension plans. However, the GASB has announced its intent to issue similar standards for other postemployment benefits (e.g., retiree healthcare) on a two year delay from these standards.

GASB 69: Government Combinations and Disposals of Government Operations

Effective for fiscal years beginning after 12/15/2013 (City’s fiscal year FY 2014)

This standard provides detailed requirements for the accounting and disclosure of various types of government combinations, such as mergers, acquisitions, and transfers of operations. The guidance available previously was limited to nongovernmental entities, and therefore did not provide practical examples for situations common in government-specific combinations and disposals. The accounting and disclosure requirements for these events vary based on whether a significant payment is made, the continuation or termination of services, and the legal structure of the new or continuing entity.

NOTE Y – 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.

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, 2012 the City incurred functional expenditures which were in excess of the amounts appropriated as follows:

	Final Budget	Actual	Variance
General Fund:			
Legislative	\$20,000	\$20,638	\$(638)
General Government	1,428,321	1,582,529	(154,208)
Public Safety	688,935	690,701	(1,766)
Major Street Fund:			
Public Works	422,770	759,725	(336,955)
Local Street Fund:			
Public Works	392,550	402,963	(10,413)
DDA Fund:			
Debt Service	302,780	329,548	(26,768)
Public Improvement Fund:			
Debt Service	92,500	96,682	(4,182)
Transfers Out	274,125	281,899	(7,774)

NOTE Y – BUDGETARY NON-COMPLIANCE (Continued):

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Partridge Creek Fund: Capital Outlay	\$2,523,132	\$2,746,256	\$(223,124)
Library Fund: Recreation and Culture	-	84,142	(84,142)
Lake Bancroft Fund: Recreation and Culture	-	3,558	(3,558)

REQUIRED SUPPLEMENTARY 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 and PARTRIDGE CREEK FUND are a Major Capital Project Fund types.

City of Ishpeming, Michigan
GENERAL FUND
 Budgetary Comparison Schedule
 For the Year Ended December 31, 2012
 With Comparative Actual Amounts for the Year Ended December 31, 2011

	2012			Variance with Final Budget Positive (Negative)	2011
	Original Budget	Final Budget	Actual GAAP Basis		
REVENUES:					
Taxes	\$ 1,481,965	\$ 1,487,500	\$ 1,387,771	\$ (99,729)	\$ 1,464,928
State sources	716,200	715,700	767,360	51,660	769,018
Local sources	-	-	-	-	18,814
Licenses and permits	161,400	157,150	159,393	2,243	62,569
Charges for services	56,700	47,425	57,475	10,050	130,216
Interest income and rentals	266,000	243,692	267,278	23,586	250,246
Contributions	-	-	-	-	5,750
Fines and forfeitures	68,500	58,800	61,329	2,529	68,552
Other revenues	10,000	8,000	5,063	(2,937)	48,084
TOTAL REVENUES	<u>2,760,765</u>	<u>2,718,267</u>	<u>2,705,669</u>	<u>(12,598)</u>	<u>2,818,177</u>
EXPENDITURES:					
Current operations:					
Legislative	19,800	20,000	20,638	(638)	20,224
General government	1,473,500	1,428,321	1,582,529	(154,208)	1,371,281
Public safety	694,100	688,935	690,701	(1,766)	729,605
Public works	564,200	667,155	666,430	725	617,505
Recreation and culture	242,250	280,860	280,593	267	243,866
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Capital outlay	-	-	-	-	-
TOTAL EXPENDITURES	<u>2,993,850</u>	<u>3,085,271</u>	<u>3,240,891</u>	<u>(155,620)</u>	<u>2,982,481</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(233,085)</u>	<u>(367,004)</u>	<u>(535,222)</u>	<u>(168,218)</u>	<u>(164,304)</u>
OTHER FINANCING SOURCES (USES):					
Proceeds from sale of capital assets	-	-	3,459	3,459	11,290
Transfers in	301,900	300,200	301,573	1,373	289,225
Transfers (out)	(120,000)	(105,937)	(56,832)	49,105	(101,500)
TOTAL OTHER FINANCING SOURCES (USES)	<u>181,900</u>	<u>194,263</u>	<u>248,200</u>	<u>53,937</u>	<u>199,015</u>
CHANGE IN FUND BALANCE	<u>(51,185)</u>	<u>(172,741)</u>	<u>(287,022)</u>	<u>(114,281)</u>	<u>34,711</u>
Fund balance, beginning of year	<u>459,567</u>	<u>459,567</u>	<u>459,567</u>	<u>-</u>	<u>424,856</u>
FUND BALANCE, END OF YEAR	<u>\$ 408,382</u>	<u>\$ 286,826</u>	<u>\$ 172,545</u>	<u>\$ (114,281)</u>	<u>\$ 459,567</u>

City of Ishpeming, Michigan
Major Special Revenue Funds
MAJOR STREET FUND
Budgetary Comparison Schedule
For the Year Ended December 31, 2012
With Comparative Actual Amounts for the Year Ended December 31, 2011

	2012				2011
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	
REVENUES:					
Federal sources	\$ -	\$ -	\$ 332,886	\$ 332,886	\$ -
State sources	390,000	396,556	411,992	15,436	439,398
Interest income and rentals	-	-	40	40	-
Other revenue	-	1,330	1,334	4	-
TOTAL REVENUES	390,000	397,886	746,252	348,366	439,398
EXPENDITURES:					
Public Works					
Construction	30,715	46,750	378,565	(331,815)	161,521
Routine maintenance	37,500	47,000	46,508	492	38,176
Traffic service	13,500	9,100	9,127	(27)	12,135
Winter maintenance	255,000	215,000	217,231	(2,231)	160,572
Administration	77,500	73,500	78,631	(5,131)	62,268
State trunkline	38,700	31,420	29,663	1,757	24,082
Total Public Works	452,915	422,770	759,725	(336,955)	458,754
Debt service:					
Principal	25,850	25,850	25,850	-	24,910
Interest and fiscal charges	8,900	6,400	6,332	68	7,222
Total Debt Service	34,750	32,250	32,182	68	32,132
TOTAL EXPENDITURES	487,665	455,020	791,907	(336,887)	490,886
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(97,665)	(57,134)	(45,655)	11,479	(51,488)
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	-	125,000	125,000	-	-
Transfers in	50,000	-	-	-	51,500
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	50,000	125,000	125,000	-	51,500
CHANGE IN FUND BALANCE	(47,665)	67,866	79,345	11,479	12
Fund balance, beginning of year	145	145	145	-	133
FUND BALANCE, END OF YEAR	\$ (47,520)	\$ 68,011	\$ 79,490	\$ 11,479	\$ 145

City of Ishpeming, Michigan
Major Special Revenue Funds
LOCAL STREET FUND
Budgetary Comparison Schedule
For the Year Ended December 31, 2012
With Comparative Actual Amounts for the Year Ended December 31, 2011

	2012				2011
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	
REVENUES:					
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	301,040	239,206	241,433	2,227	234,909
Interest income and rentals	-	-	-	-	-
Other revenue	-	-	-	-	-
TOTAL REVENUES	301,040	239,206	241,433	2,227	234,909
EXPENDITURES:					
Public Works					
Construction	165,725	3,000	1,060	1,940	-
Routine maintenance	46,500	58,550	58,694	(144)	19,672
Traffic service	21,500	24,000	20,122	3,878	27,078
Winter maintenance	244,000	234,000	237,106	(3,106)	239,128
Administration	80,500	73,000	85,981	(12,981)	92,846
Total Public Works	<u>558,225</u>	<u>392,550</u>	<u>402,963</u>	<u>(10,413)</u>	<u>378,724</u>
Debt service:					
Principal	7,700	7,700	7,700	-	7,420
Interest and fiscal charges	2,650	1,900	1,886	14	2,151
Total Debt Service	<u>10,350</u>	<u>9,600</u>	<u>9,586</u>	<u>14</u>	<u>9,571</u>
TOTAL EXPENDITURES	568,575	402,150	412,549	(10,399)	388,295
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(267,535)	(162,944)	(171,116)	(8,172)	(153,386)
OTHER FINANCING SOURCES (USES):					
Transfers in	255,000	220,500	170,954	(49,546)	153,500
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	255,000	220,500	170,954	(49,546)	153,500
CHANGE IN FUND BALANCE	(12,535)	57,556	(162)	(57,718)	114
Fund balance, beginning of year	162	162	162	-	48
FUND BALANCE, END OF YEAR	\$ (12,373)	\$ 57,718	\$ -	\$ (57,718)	\$ 162

City of Ishpeming, Michigan
Major Special Revenue Funds
DDA FUND
Budgetary Comparison Schedule
For the Year Ended December 31, 2012
With Comparative Actual Amounts for the Year Ended December 31, 2011

	2012				2011
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	
REVENUES:					
Taxes	\$ 470,000	\$ 470,000	\$ 531,715	\$ 61,715	\$ 557,705
Federal sources	-	-	-	-	-
State sources	-	-	-	-	-
Interest income and rentals	5,000	5,500	12,242	6,742	3,776
Contributions	-	-	-	-	-
Other revenue	-	-	1,347	1,347	-
TOTAL REVENUES	<u>475,000</u>	<u>475,500</u>	<u>545,304</u>	<u>69,804</u>	<u>561,481</u>
EXPENDITURES:					
Other Governmental	2,143,900	1,297,444	757,007	540,437	440,974
Debt service:					
Principal	186,450	186,450	219,096	(32,646)	150,670
Interest and fiscal charges	116,330	116,330	110,452	5,878	44,753
Total Debt Service	<u>302,780</u>	<u>302,780</u>	<u>329,548</u>	<u>(26,768)</u>	<u>195,423</u>
TOTAL EXPENDITURES	<u>2,446,680</u>	<u>1,600,224</u>	<u>1,086,555</u>	<u>513,669</u>	<u>636,397</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,971,680)</u>	<u>(1,124,724)</u>	<u>(541,251)</u>	<u>583,473</u>	<u>(74,916)</u>
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	-	-	-	-	2,275,000
Bond issuance costs	-	-	-	-	(16,172)
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,258,828</u>
CHANGE IN FUND BALANCE	<u>(1,971,680)</u>	<u>(1,124,724)</u>	<u>(541,251)</u>	<u>583,473</u>	<u>2,183,912</u>
Fund balance, beginning of year	<u>2,797,569</u>	<u>2,797,569</u>	<u>2,797,569</u>	<u>-</u>	<u>613,657</u>
FUND BALANCE, END OF YEAR	<u>\$ 825,889</u>	<u>\$ 1,672,845</u>	<u>\$ 2,256,318</u>	<u>\$ 583,473</u>	<u>\$ 2,797,569</u>

City of Ishpeming, Michigan
Major Capital Projects Funds
PUBLIC IMPROVEMENT FUND
Budgetary Comparison Schedule
For the Year Ended December 31, 2012
With Comparative Actual Amounts for the Year Ended December 31, 2011

	2012			Variance with Final Budget Positive (Negative)	2011
	Original Budget	Final Budget	Actual GAAP Basis		
REVENUES:					
Taxes	\$ 396,950	\$ 396,950	\$ 397,471	\$ 521	\$ 394,385
Federal sources	-	22,230	22,230	-	3,533
State sources	-	-	-	-	-
Interest income and rentals	-	-	729	729	28
Contributions	141,000	141,000	141,000	-	141,000
Other revenue	144,000	151,758	152,129	371	110,409
TOTAL REVENUES	681,950	711,938	713,559	1,621	649,355
EXPENDITURES:					
Capital Outlay:					
City manager	500	-	-	-	1,000
City assessor	700	825	817	8	-
City clerk	-	-	-	-	-
City treasurer	-	-	-	-	(287)
City hall & grounds	12,500	15,000	14,031	969	1,200
Cemetery	1,200	1,200	1,200	-	3,096
Police	57,500	41,550	41,086	464	27,491
Fire	27,720	85,300	85,060	240	94,689
Public works	202,000	208,560	208,400	160	173,639
Parks	5,000	2,000	-	2,000	5,007
Playlots	-	-	-	-	-
AI Quaal	5,000	3,500	4,292	(792)	5,000
Library	29,600	25,000	28,112	(3,112)	22,730
Contracted services	75,000	25,500	10,730	14,770	12,487
Total Capital Outlay	416,720	408,435	393,728	14,707	346,052
Debt service:					
Principal	75,000	75,000	80,000	(5,000)	75,000
Interest and fiscal charges	20,500	17,500	16,682	818	20,188
Total Debt Service	95,500	92,500	96,682	(4,182)	95,188
TOTAL EXPENDITURES	512,220	500,935	490,410	10,525	441,240
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	169,730	211,003	223,149	12,146	208,115
OTHER FINANCING SOURCES (USES):					
Transfers in	41,500	41,500	29,000	(12,500)	40,500
Transfers (out)	(343,625)	(274,125)	(281,899)	(7,774)	(170,650)
TOTAL OTHER FINANCING SOURCES (USES)	(302,125)	(232,625)	(252,899)	(20,274)	(130,150)
CHANGE IN FUND BALANCE	(132,395)	(21,622)	(29,750)	(8,128)	77,965
Fund balance, beginning of year	666,894	666,894	666,894	-	588,929
FUND BALANCE, END OF YEAR	\$ 534,499	\$ 645,272	\$ 637,144	\$ (8,128)	\$ 666,894

City of Ishpeming, Michigan
Major Capital Projects Funds
PARTRIDGE CREEK FUND
Budgetary Comparison Schedule
For the Year Ended December 31, 2012
With Comparative Actual Amounts for the Year Ended December 31, 2011

	2012			Variance with Final Budget Positive (Negative)	2011
	Original Budget	Final Budget	Actual GAAP Basis		
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	2,000,000	2,008,725	2,207,124	198,399	-
State sources	-	-	-	-	-
Interest income and rentals	-	-	922	922	-
Contributions	-	-	-	-	-
Other revenue	-	-	-	-	-
TOTAL REVENUES	<u>2,000,000</u>	<u>2,008,725</u>	<u>2,208,046</u>	<u>199,321</u>	<u>-</u>
EXPENDITURES:					
Current operations:					
Other governmental	-	-	-	-	168,870
Debt service:					
Principal	55,000	55,000	22,354	32,646	-
Interest and fiscal charges	24,025	24,025	26,167	(2,142)	7,770
Capital outlay	<u>2,568,373</u>	<u>2,523,132</u>	<u>2,746,256</u>	<u>(223,124)</u>	<u>-</u>
TOTAL EXPENDITURES	<u>2,647,398</u>	<u>2,602,157</u>	<u>2,794,777</u>	<u>(192,620)</u>	<u>176,640</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(647,398)</u>	<u>(593,432)</u>	<u>(586,731)</u>	<u>6,701</u>	<u>(176,640)</u>
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	-	-	-	-	700,000
Bond issuance costs	-	-	-	-	(4,953)
Transfers in	79,025	79,025	68,324	(10,701)	-
Transfers (out)	-	(4,000)	-	4,000	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>79,025</u>	<u>75,025</u>	<u>68,324</u>	<u>(6,701)</u>	<u>695,047</u>
CHANGE IN FUND BALANCE	(568,373)	(518,407)	(518,407)	-	518,407
Fund balance, beginning of year	518,407	518,407	518,407	-	-
FUND BALANCE, END OF YEAR	<u>\$ (49,966)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 518,407</u>

OTHER FINANCIAL INFORMATION

City of Ishpeming, Michigan

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The function of the Special Revenue Funds is to record revenues and expenditures for specific functions or activities within restrictions imposed by City Charter, ordinances, resolutions and/or Federal and State statutes. The modified accrual basis of accounting is used in recording Special Revenue Fund transactions. The GARBAGE & RUBBISH FUND, AL QUAAL FUND, BUILDING AUTHORITY FUND, LIBRARY STATE AID FUND, LIBRARY FUND, IRON ORE HERITAGE TRAIL FUND, REVOLVING LOAN FUND, and LAKE BANCROFT FUND are Non-major Special Revenue Fund types.

PERMANENT FUNDS

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

City of Ishpeming, Michigan
 Non-major Governmental Funds
 Combining Balance Sheet
 December 31, 2012

	Special Revenue Funds	Permanent Funds		Total	Total Non-Major Governmental Funds
		Perpetual Care Fund	Cemetery Care Fund		
ASSETS					
Cash and cash equivalents	\$ 1,151,600	\$ 163,790	\$ 38,951	\$ 202,741	\$ 1,354,341
Investments	-	794,198	120,459	914,657	914,657
Accounts receivable, net	70,117	-	-	-	70,117
Taxes receivable	-	-	-	-	-
Other receivable	43,119	-	-	-	43,119
Due from other governments	319,647	-	-	-	319,647
Due from other funds	-	-	-	-	-
Notes receivable	99,575	-	-	-	99,575
TOTAL ASSETS	1,684,058	957,988	159,410	1,117,398	2,801,456
DEFERRED OUTFLOW OF RESOURCES					
Premium on investment	-	3,038	-	3,038	3,038
TOTAL DEFERRED OUTFLOW OF RESOURCES	-	3,038	-	3,038	3,038
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ 1,684,058	\$ 961,026	\$ 159,410	\$ 1,120,436	\$ 2,804,494
LIABILITIES					
Cash overdrafts	\$ 37,158	\$ -	\$ -	\$ -	\$ 37,158
Accounts payable	9,100	-	-	-	9,100
Accrued payroll	484	-	-	-	484
Accrued sick and vacation	-	-	-	-	-
Due to other funds	332,375	29,270	4,403	33,673	366,048
TOTAL LIABILITIES	379,117	29,270	4,403	33,673	412,790
DEFERRED INFLOW OF RESOURCES					
Taxes levied for a subsequent period	-	-	-	-	-
Discount on investment	-	1,890	625	2,515	2,515
TOTAL DEFERRED INFLOW OF RESOURCES	-	1,890	625	2,515	2,515
FUND BALANCE					
Non-spendable	99,575	929,866	154,382	1,084,248	1,183,823
Restricted	367,392	-	-	-	367,392
Committed	-	-	-	-	-
Assigned	837,974	-	-	-	837,974
Unassigned	-	-	-	-	-
TOTAL FUND BALANCE	1,304,941	929,866	154,382	1,084,248	2,389,189
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	\$ 1,684,058	\$ 961,026	\$ 159,410	\$ 1,120,436	\$ 2,804,494

City of Ishpeming, Michigan
 Non-major Governmental Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balance
 For the Year Ended December 31, 2012

	Special Revenue Funds	Permanent Funds		Total	Total Non-Major Governmental Funds
		Perpetual Care Fund	Cemetery Care Fund		
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-	-
State sources	39,711	-	-	-	39,711
Charges for services	518,531	16,645	4,425	21,070	539,601
Interest income and rentals	7,014	99,610	8,668	108,278	115,292
Contributions	116,452	-	-	-	116,452
Other revenues	10,820	-	-	-	10,820
TOTAL REVENUES	692,528	116,255	13,093	129,348	821,876
EXPENDITURES:					
Current operations:					
Public works	359,393	-	-	-	359,393
Recreation and culture	157,900	-	-	-	157,900
Other governmental	60,314	405	5	410	60,724
Debt service:					
Principal	25,000	-	-	-	25,000
Interest and fiscal charges	40,184	-	-	-	40,184
Capital outlay	-	-	-	-	-
TOTAL EXPENDITURES	642,791	405	5	410	643,201
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	49,737	115,850	13,088	128,938	178,675
OTHER FINANCING SOURCES (USES):					
Transfers in	85,853	-	-	-	85,853
Transfers (out)	(56,300)	(29,270)	(4,403)	(33,673)	(89,973)
TOTAL OTHER FINANCING SOURCES (USES)	29,553	(29,270)	(4,403)	(33,673)	(4,120)
CHANGE IN FUND BALANCE	79,290	86,580	8,685	95,265	174,555
Fund balance, beginning of year	1,225,651	843,286	145,697	988,983	2,214,634
FUND BALANCE, END OF YEAR	\$ 1,304,941	\$ 929,866	\$ 154,382	\$ 1,084,248	\$ 2,389,189

City of Ishpeming, Michigan
 Non-major Special Revenue Funds
 Combining Balance Sheet
 December 31, 2012

	Garbage & Rubbish Fund	Al Quaal Fund	Building Authority Fund	Library State Aid Fund	Library Fund	Iron Ore Heritage Trail Fund	Revolving Loan Fund	Lake Bancroft Fund	Total
ASSETS									
Cash and cash equivalents	\$ 688,830	\$ 13,297	\$ 12,728	\$ -	\$ 64,567	\$ -	\$ 367,392	\$ 4,786	\$ 1,151,600
Investments	-	-	-	-	-	-	-	-	-
Accounts receivable, net	17,959	-	-	-	15,000	37,158	-	-	70,117
Taxes receivable	-	-	-	-	-	-	-	-	-
Other receivable	43,119	-	-	-	-	-	-	-	43,119
Due from other governments	-	-	319,647	-	-	-	-	-	319,647
Due from other funds	-	-	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-	99,575	-	99,575
TOTAL ASSETS	749,908	13,297	332,375	-	79,567	37,158	466,967	4,786	1,684,058
DEFERRED OUTFLOW OF RESOURCES	-	-	-	-	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ 749,908	\$ 13,297	\$ 332,375	\$ -	\$ 79,567	\$ 37,158	\$ 466,967	\$ 4,786	\$ 1,684,058
LIABILITIES									
Cash overdrafts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,158	\$ -	\$ -	\$ 37,158
Accounts payable	9,100	-	-	-	-	-	-	-	9,100
Accrued payroll	484	-	-	-	-	-	-	-	484
Accrued sick and vacation	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	332,375	-	-	-	-	-	332,375
TOTAL LIABILITIES	9,584	-	332,375	-	-	37,158	-	-	379,117
DEFERRED INFLOW OF RESOURCES									
Taxes levied for a subsequent period	-	-	-	-	-	-	-	-	-
TOTAL DEFERRED INFLOW OF RESOURCES	-	-	-	-	-	-	-	-	-
FUND BALANCE									
Non-spendable	-	-	-	-	-	-	99,575	-	99,575
Restricted	-	-	-	-	-	-	367,392	-	367,392
Committed	-	-	-	-	-	-	-	-	-
Assigned	740,324	13,297	-	-	79,567	-	-	4,786	837,974
Unassigned	-	-	-	-	-	-	-	-	-
TOTAL FUND BALANCE	740,324	13,297	-	-	79,567	-	466,967	4,786	1,304,941
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	\$ 749,908	\$ 13,297	\$ 332,375	\$ -	\$ 79,567	\$ 37,158	\$ 466,967	\$ 4,786	\$ 1,684,058

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, 2012

	Garbage & Rubbish Fund	AI Quaal Fund	Building Authority Fund	Library State Aid Fund	Library Fund	Iron Ore Heritage Trial Fund	Revolving Loan Fund	Lake Bancroft Fund	Total
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-	-	-	-	-	-
State sources	-	-	-	6,091	-	33,620	-	-	39,711
Charges for services	518,531	-	-	-	-	-	-	-	518,531
Interest and rentals	1,708	68	-	15	515	-	4,708	-	7,014
Contributions	-	-	-	-	108,108	-	-	8,344	116,452
Fines and forfeitures	-	-	-	-	-	-	-	-	-
Other revenue	3,320	-	-	-	-	-	7,500	-	10,820
TOTAL REVENUES	523,559	68	-	6,106	108,623	33,620	12,208	8,344	692,528
EXPENDITURES:									
Current operations:									
Public works	359,393	-	-	-	-	-	-	-	359,393
Recreation and culture	-	838	-	14,907	84,142	54,455	-	3,558	157,900
Other governmental	-	-	-	-	-	-	60,314	-	60,314
Debt service:									
Principal	-	-	25,000	-	-	-	-	-	25,000
Interest and fiscal charges	-	-	40,184	-	-	-	-	-	40,184
Capital outlay	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	359,393	838	65,184	14,907	84,142	54,455	60,314	3,558	642,791
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	164,166	(770)	(65,184)	(8,801)	24,481	(20,835)	(48,106)	4,786	49,737
OTHER FINANCING SOURCES:									
Transfers in	-	-	64,163	878	-	20,812	-	-	85,853
Transfers (out)	(56,300)	-	-	-	-	-	-	-	(56,300)
TOTAL OTHER FINANCING SOURCES (USES)	(56,300)	-	64,163	878	-	20,812	-	-	29,553
CHANGE IN FUND BALANCE	107,866	(770)	(1,021)	(7,923)	24,481	(23)	(48,106)	4,786	79,290
Fund balance, beginning of year	632,458	14,067	1,021	7,923	55,086	23	515,073	-	1,225,651
FUND BALANCE, END OF YEAR	\$ 740,324	\$ 13,297	\$ -	\$ -	\$ 79,567	\$ -	\$ 466,967	\$ 4,786	\$ 1,304,941

City of Ishpeming, Michigan

ENTERPRISE FUNDS

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

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

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

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

City of Ishpeming, Michigan
Sewer Fund
Comparative Statement of Net Position
December 31, 2012

	2012	2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 229,922	\$ 216,906
Accounts receivable	89,967	102,107
Allowance for uncollectible accounts	-	-
Prepaid expenses	-	-
Non-current Assets:		
Investment in Wastewater Treatment Facility	3,609,478	3,663,795
Capital Assets:		
Land and construction in progress	-	-
Other capital assets, net of depreciation	5,868,351	6,231,069
Total Capital Assets	5,868,351	6,231,069
TOTAL ASSETS	9,797,718	10,213,877
DEFERRED OUTFLOW OF RESOURCES	-	-
LIABILITIES		
Current Liabilities:		
Accounts payable	195	3,087
Accrued payroll	1,514	1,387
Non-current Liabilities:		
Portion due or payable within one year		
Compensated absences	6,061	5,716
Portion due or payable after one year		
Compensated absences	-	-
TOTAL LIABILITIES	7,770	10,190
DEFERRED INFLOW OF RESOURCES	-	-
NET POSITION		
Net investment in capital assets	9,477,829	9,894,864
Unrestricted	312,119	308,823
TOTAL NET POSITION	\$ 9,789,948	\$ 10,203,687

City of Ishpeming, Michigan
Sewer Fund
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2012
With Comparative Actual Amounts for the Year Ended December 31, 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Charges for services	\$ 1,137,660	\$ 1,049,084
Other revenue	-	-
	<u>1,137,660</u>	<u>1,049,084</u>
TOTAL OPERATING REVENUES	<u>1,137,660</u>	<u>1,049,084</u>
OPERATING EXPENSES:		
Personal services	144,023	153,281
Contractual services	609,343	588,384
Supplies	11,427	15,927
Utilities	2,607	2,638
Depreciation	362,718	363,496
Payment in lieu of taxes	222,000	222,000
Other expenses	60,224	40,853
	<u>1,412,342</u>	<u>1,386,579</u>
TOTAL OPERATING EXPENSES	<u>1,412,342</u>	<u>1,386,579</u>
OPERATING INCOME (LOSS)	<u>(274,682)</u>	<u>(337,495)</u>
NON-OPERATING REVENUES (EXPENSES):		
Gain/(Loss) on wastewater facility	(54,317)	(32,525)
Interest income and rentals	2,260	2,187
	<u>(52,057)</u>	<u>(30,338)</u>
TOTAL NON-OPERATING (EXPENSES)	<u>(52,057)</u>	<u>(30,338)</u>
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	<u>(326,739)</u>	<u>(367,833)</u>
Transfers in	-	-
Transfers (out)	(87,000)	(84,000)
	<u>(87,000)</u>	<u>(84,000)</u>
CHANGE IN NET POSITION	<u>(413,739)</u>	<u>(451,833)</u>
Net position, beginning of year	<u>10,203,687</u>	<u>10,655,520</u>
NET POSITION, END OF YEAR	<u><u>\$ 9,789,948</u></u>	<u><u>\$ 10,203,687</u></u>

City of Ishpeming, Michigan
Sewer Fund
Statement of Cash Flows
For the Year Ended December 31, 2012
With Comparative Actual Amounts for the Year Ended December 31, 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fees and charges for services	\$ 1,149,800	\$ 1,535,407
Other operating revenues	-	-
Cash payments to employees for services	(132,533)	(143,674)
Cash payments for payroll taxes	(11,018)	(11,726)
Cash payments to suppliers for goods and services	(908,493)	(1,103,406)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	97,756	276,601
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers in (out)	(87,000)	(84,000)
Increase in due to other funds	-	-
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	(87,000)	(84,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	-	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	2,260	2,187
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	2,260	2,187
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,016	194,788
Cash and cash equivalents, beginning of year	216,906	22,118
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 229,922	\$ 216,906
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (274,682)	\$ (337,495)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	362,718	363,496
Change in assets and liabilities:		
(Increase) decrease in accounts receivable, net	12,140	486,323
(Increase) decrease in prepaid expenses	-	-
Increase (decrease) in accounts payable	(2,892)	(233,604)
Increase (decrease) in accrued payroll	127	124
Increase (decrease) in accrued sick and vacation	345	(2,243)
NET ADJUSTMENTS	372,438	614,096
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 97,756	\$ 276,601

City of Ishpeming, Michigan
Water Fund
Comparative Statement of Net Position
December 31, 2012 and 2011

	2012	2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 649,261	\$ 720,471
Accounts receivable	359,796	358,328
Allowance for uncollectible accounts	-	-
Non-current Assets:		
Investment in Joint Water Authority	3,507,323	3,507,323
Capital Assets:		
Land and construction in progress	10,888	10,888
Other capital assets, net of depreciation	1,646,239	1,720,240
Total Capital Assets	1,657,127	1,731,128
TOTAL ASSETS	6,173,507	6,317,250
DEFERRED OUTFLOW OF RESOURCES	-	-
LIABILITIES		
Current Liabilities:		
Accounts payable	47,891	47,430
Accrued liabilities	75,950	62,650
Accrued payroll	3,716	3,958
Non-current Liabilities:		
Portion due or payable within one year		
Compensated absences	26,067	22,592
Portion due or payable after one year		
Compensated absences	-	-
TOTAL LIABILITIES	153,624	136,630
DEFERRED INFLOW OF RESOURCES	-	-
NET POSITION		
Net investment in capital assets	5,164,450	5,238,451
Unrestricted	855,433	942,169
TOTAL NET POSITION	\$ 6,019,883	\$ 6,180,620

City of Ishpeming, Michigan
Water Fund
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2012
With Comparative Actual Amounts for the Year Ended December 31, 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Charges for services	\$ 1,131,876	\$ 1,202,156
Other revenue	<u>2,070</u>	<u>15,493</u>
TOTAL OPERATING REVENUES	<u>1,133,946</u>	<u>1,217,649</u>
OPERATING EXPENSES:		
Personal services	351,166	357,514
Contractual services	438,017	399,419
Supplies	108,935	65,717
Utilities	12,694	12,270
Depreciation	74,001	72,821
Payment in lieu of taxes	137,000	137,000
Other expenses	<u>37,424</u>	<u>25,433</u>
TOTAL OPERATING EXPENSES	<u>1,159,237</u>	<u>1,070,174</u>
OPERATING INCOME (LOSS)	<u>(25,291)</u>	<u>147,475</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income and rentals	<u>4,554</u>	<u>5,271</u>
TOTAL NON-OPERATING (EXPENSES)	<u>4,554</u>	<u>5,271</u>
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	(20,737)	152,746
Transfers (out)	<u>(140,000)</u>	<u>(140,000)</u>
CHANGE IN NET POSITION	(160,737)	12,746
Net position, beginning of year	<u>6,180,620</u>	<u>6,167,874</u>
NET POSITION, END OF YEAR	<u><u>\$ 6,019,883</u></u>	<u><u>\$ 6,180,620</u></u>

City of Ishpeming, Michigan
Water Fund
Statement of Cash Flows
For the Year Ended December 31, 2012
With Comparative Actual Amounts for the Year Ended December 31, 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fees and charges for services	\$ 1,130,408	\$ 1,174,109
Other operating revenues	2,070	15,493
Cash payments to employees for services	(321,069)	(323,517)
Cash payments for payroll taxes	(26,864)	(27,350)
Cash payments to suppliers for goods and services	(720,309)	(614,380)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	64,236	224,355
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers in(out)	(140,000)	(140,000)
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	(140,000)	(140,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	-	(10,621)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	-	(10,621)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	4,554	5,271
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	4,554	5,271
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	(71,210)	79,005
Cash and cash equivalents, beginning of year	720,471	641,466
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 649,261	\$ 720,471
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (25,291)	\$ 147,475
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	74,001	72,821
Change in assets and liabilities:		
(Increase) decrease in accounts receivable, net	(1,468)	(28,047)
Increase (decrease) in accounts payable	461	11,432
Increase (decrease) in customer deposits payable	13,300	14,027
Increase (decrease) in accrued payroll	(242)	2,325
Increase (decrease) in accrued sick and vacation	3,475	4,322
NET ADJUSTMENTS	89,527	76,880
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 64,236	\$ 224,355

City of Ishpeming, Michigan

FIDUCIARY FUNDS

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

City of Ishpeming, Michigan
 Fiduciary Funds
 Combining Statement of Fiduciary Net Position
 December 31, 2012

	Agency Funds		
	Trust & Agency Fund	Tax Collection Fund	Totals
ASSETS			
Cash and equivalents	\$ 3,387	\$ 2,335,618	\$ 2,339,005
Due from other governments	-	-	-
Due from other funds	-	-	-
	TOTAL ASSETS	\$ 2,335,618	\$ 2,339,005
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	53	2,335,618	2,335,671
Due to other governmental units	3,334	-	3,334
	TOTAL LIABILITIES	\$ 2,335,618	\$ 2,339,005

COMPLIANCE SUPPLEMENTS



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

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

We have audited, 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, 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, 2012, and the related notes to the financial statements, which collectively comprise the City of Ishpeming, Michigan's basic financial statements and have issued our report thereon dated August 6, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (items 2012-01 thru 2012-04).

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ishpeming, Michigan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2012-05 thru 2012-06.

City of Ishpeming, Michigan's Response to Findings

City of Ishpeming, Michigan's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City of Ishpeming, Michigan's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Anderson, Tackman & Company, PLLC
Certified Public Accountants

August 6, 2013



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Ishpeming, Michigan's compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Ishpeming, Michigan's major federal programs for the year ended December 31, 2012. City of Ishpeming, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Ishpeming, Michigan's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Ishpeming, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

Opinion on Each Major Federal Program

In our opinion, the City of Ishpeming, Michigan, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the City of Ishpeming, Michigan, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Ishpeming, Michigan's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Ishpeming, Michigan's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

August 6, 2013

CITY OF ISHPEMING, MICHIGAN
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended December 31, 2012

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditure	Accrued (Deferred) Revenue 1/1/2012	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue 12/31/2012
U.S. DEPARTMENT OF AGRICULTURE <i>Passed through Rural Development:</i> Community Facilities Loans and Grants	10.766	\$ 20,000	\$ 3,533	\$ 3,533	\$ -	\$ 3,533	\$ -
TOTAL U.S. DEPARTMENT OF AGRICULTURE		20,000	3,533	3,533	-	3,533	-
U.S. DEPARTMENT OF TRANSPORTATION (See NOTE C) <i>Passed through Michigan Department of Transportation Resource and Environment:</i> Highway Research Planning and Construction Pine Street Reconstruction STP 1152(309)	20.205	375,000	-	-	332,886	332,886	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		375,000	-	-	332,886	332,886	-
ENVIRONMENTAL PROTECTION AGENCY <i>Direct Award</i> Great Lakes Program Partridge Creek Diversion	66.469	4,880,000	-	-	2,207,124	2,102,319	104,805
TOTAL ENVIRONMENTAL PROTECTION AGENCY		4,880,000	-	-	2,207,124	2,102,319	104,805
U.S. DEPARTMENT OF HOMELAND SECURITY <i>Passed through Federal Emergency Management Agency</i> Assistance to Firefighters Grant	97.044	22,230	-	-	22,230	22,230	-
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY		22,230	-	-	22,230	22,230	-
TOTAL FEDERAL FINANCIAL ASSISTANCE		\$ 5,297,230	\$ 3,533	\$ 3,533	\$ 2,562,240	\$ 2,460,968	\$ 104,805

CITY OF ISHPEMING, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2012

NOTE A – BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Ishpeming, Michigan and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – OVERSIGHT AGENCY:

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

NOTE C – PINE STREET RECONSTRUCTION:

During the year ended December 31, 2012, the City of Ishpeming received and expended \$332,886 in federal funding passed through the U.S. Department of Transportation. Projects utilizing this aid were administered by the Michigan Department of Transportation and will be audited for compliance by the State. The State is responsible for including these projects in its schedule of expenditures of federal awards.

CITY OF ISHPEMING, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year December 31, 2012

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of the City of Ishpeming, Michigan.
2. There were significant deficiencies disclosed during the audit of the financial statements as listed in Section B below.
3. There were no instances of noncompliance material to the financial statements of the City of Ishpeming, Michigan disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in this schedule.
5. The auditors' report on compliance for the major federal award programs for the City of Ishpeming, Michigan expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award program for the City of Ishpeming, Michigan were disclosed during the audit.
7. The programs tested as major programs were:

Program	CFDA
Great Lakes Program	66.469

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. City of Ishpeming, Michigan was determined to be a high-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

2012-01 – 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.

CITY OF ISHPEMING, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Management Response: Management concurs.

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

- Anticipated completion date:
 - N/A

2012-02 – OUTSTANDING CHECKS (REPEAT)

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:
 - James Lampman, Finance Director

- Anticipated completion date:
 - December 31, 2013

2012-03 – MANUAL PAYROLL DEPOSIT SYSTEM

Condition/Criteria: The City is physically depositing employees' payroll checks at five different banks. The City has a spreadsheet detailing each employee's name, bank account number, and pay amount for each bank. The City then takes the bank-specific spreadsheet to each bank along with the unendorsed employee payroll checks and submits them to the bank for deposit according to the spreadsheet, and the bank then posts each paycheck accordingly.

Cause of Condition: Lack of automated direct deposit system.

Effect: The City is subjected to undue risk resulting in human error that could result in erroneous payroll deposits. Furthermore, it is an unwise use of staff time to make these deposits when a more efficient system could be implemented.

CITY OF ISHPEMING, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Recommendation: The City should implement an automated direct deposit system.

Management Response: The City will implement an automated direct deposit system.

- Contact person(s) responsible for correction:
 - James Lampman, Finance Director
- Anticipated completion date:
 - December 31, 2013

2012-04 – OVERPAYMENT OF HEALTH INSURANCE PREMIUMS

Condition/Criteria: During the course of fiscal year 2012, management became aware that the City was overpaying health insurance premiums. The amount of the overpayment was not material to the financial statements taken as a whole. Proper segregation of duties requires that the individual responsible for processing the payment be different than the individual approving the invoice for payment.

Cause of Condition: The employee responsible for bill processing was also responsible for health insurance enrollment and changes to enrollment. The insurance carrier provides forms for enrollment changes, but these forms were not properly utilized by the City.

Effect: The City did not follow proper health insurance enrollment procedures resulting in the insurance carrier billing premiums for employees who no longer qualify to receive insurance benefits through the City. Conversely, the City was at risk of employees who qualify for health insurance benefits not receiving coverage because the individuals were never properly enrolled with the health insurance carrier.

Recommendation: As part of the approval function, management should verify that health insurance premiums are only paid for qualifying individuals and that all qualifying individuals are included. For proper internal control and segregation of duties, the City should separate the enrollment/change function from the bill processing function. The employee list should be reviewed on a monthly basis to ensure accurate reporting and enrollment/change procedures should be adopted as prescribed by the insurance carrier. The City should also work with the insurance carrier to recoup a portion of the overpayments that occurred.

Management Response: Management concurs. Beginning in February 2013, the health insurance enrollment responsibility was split out from the bill processing function. The City Clerk is now responsible for evaluating, on a monthly basis, which employees qualify for health care enrollment, and the City Clerk works closely with the insurance carrier to ensure the proper procedures are followed as prescribed by the health insurance carrier. The City was able to recover a portion of the overpayments that occurred.

- Contact person(s) responsible for correction:
 - James Lampman, Finance Director
- Anticipated completion date:
 - Corrected February 2013

CITY OF ISHPEMING, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

INSTANCES OF NON-COMPLIANCE

2012-05 – 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 Note Y.

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:
 - Jon Kangas, Interim City Manger
- Anticipated completion date:
 - December 31, 2013

2012-06 – 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

CITY OF ISHPEMING, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

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 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 2011 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. Beginning with the 2013 summer tax collection, the City has closely monitored tax collections and disbursements are being made in accordance with state law.

- Contact person(s) responsible for correction:
 - James Lampman, Finance Director
- Anticipated completion date:
 - Corrected July 1, 2013

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AUDITS

NONE

CITY OF ISHPEMING, MICHIGAN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year December 31, 2012

There were no findings and questioned costs for major federal awards in the prior year.

COMMUNICATION SECTION



City of Ishpeming, Michigan
Report to Management Letter
For the Year Ended December 31, 2012

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, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 deficiencies in the City's internal control presented in the Schedule of Findings and Questioned Costs to be significant deficiencies.

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.

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

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, Tackman & Company, PLLC
Certified Public Accountants

August 6, 2013



ANDERSON, TACKMAN & COMPANY, PLC

Certified Public Accountants

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City of Ishpeming, Michigan
Communication with Those Charged with Governance
For the Year Ended December 31, 2012

August 6, 2013

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, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing principles (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 February 1, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Ishpeming, Michigan are described in Note A to the financial statements. As described in Note W to the financial statements, the City of Ishpeming, Michigan changed accounting policies related items reported as assets, liabilities, and net assets/fund balance by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*, and GASB No. 65, *Items Previously Reported as Assets and Liabilities*, in calendar year 2012. We noted no transactions entered into by the government 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 estimates affecting the City's financial statements were:

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

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 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 disclosures affecting the financial statements were:

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

The disclosure of the Policemen and Firemen 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.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are 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:

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

1. Record the acquisition and/or disposal of assets.
2. Record depreciation expense for enterprise funds.
3. Adjustments to accounts receivable and accounts payable.
4. Adjustments to taxes, taxes receivable, and taxes levied for a subsequent period.
5. Adjustments to accrued sick and vacation.
6. Adjustments to record unrealized gain/loss on investments.
7. Adjustments to allocate principal and interest payments.

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, that could be significant to the financial statements or the auditors' 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 August 6, 2013.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Our consideration of internal control was for the limited purpose described in the accompanying *Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (items 2012-01 thru 2012-04).

As part of obtaining reasonable assurance about whether the City of Ishpeming, Michigan's financial statements are free from material misstatement, we performed tests of its compliance with certain

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

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 schedule of findings and questioned costs as items 2012-05 thru 2012-06.

Other Matters

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.

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.

Anderson, Jackman & Company, PLLC
Certified Public Accountants