

CITY OF ISHPEMING, MICHIGAN
FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ishpeming, Michigan, as of and for the year ended December 31, 2014, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ishpeming, Michigan, as of December 31, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

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.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the City of Ishpeming, Michigan's basic financial statements for the year ended December 31, 2013, which are not presented with the accompanying financial statements and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ishpeming, Michigan's basic financial statements as a whole. The major governmental funds budgetary comparison schedules and the enterprise funds comparative statement of net position, statement of revenues, expenditures and changes in net position and statement of cash flows related to the 2013 financial statements for the year ended December 31, 2013, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2013 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2013 the major governmental funds budgetary comparison schedules and the enterprise funds comparative statement of net position, statement of revenues, expenditures and changes in net position and statement of cash flows are fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2015 on our consideration of the City of Ishpeming, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Ishpeming, Michigan's internal control over financial reporting and compliance.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

June 24, 2015

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, 2014. Please read it in conjunction with the financial statements included below.

FINANCIAL HIGHLIGHTS

- Net position for the City as a whole increased by \$248,357 as a result of this year's operations. Net position of our business-type activities decreased by \$726,078 or 5 percent, and net position of our governmental activities increased by \$974,435 or 6 percent.
- During the year, the City had expenses for governmental activities that were \$4,899,845 and generated \$5,874,280 in general revenues and other program sources.
- The City's business-type activities had expenses of \$4,666,959 and generated \$3,940,881 in revenues.
- The general fund reported a net change in fund balance of \$296,142. This is \$214,750 higher than the forecasted increase of \$81,392.

USING THIS ANNUAL REPORT

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

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

Reporting the City as a Whole

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

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

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

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

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

Reporting the City's Most Significant Funds

Our analysis of the City's major funds is presented below. The fund financial statements provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City 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.

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

The City as Trustee

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

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

The City as a Whole

Table 1 provides a summary of the City's net position as of December 31, 2014 and 2013.

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$6,227,880	\$6,515,474	\$1,597,887	\$1,041,525	\$7,825,767	\$7,556,999
Non-current assets	62,793	68,122	6,965,824	7,054,524	7,028,617	7,122,646
Capital assets, net	16,560,227	15,702,928	6,692,005	7,090,520	23,252,232	22,793,448
Total Assets	<u>22,850,900</u>	<u>22,286,524</u>	<u>15,255,716</u>	<u>15,186,569</u>	<u>38,106,616</u>	<u>37,473,093</u>
Deferred outflows of resources	<u>3,038</u>	<u>21,383</u>	<u>-</u>	<u>-</u>	<u>3,038</u>	<u>21,383</u>
Current and other liabilities	1,062,624	1,760,733	969,256	223,690	2,031,880	1,984,423
Long-term liabilities	1,843,997	1,895,725	49,659	-	1,893,656	1,895,725
Total Liabilities	<u>2,906,621</u>	<u>3,656,458</u>	<u>1,018,915</u>	<u>223,690</u>	<u>3,925,536</u>	<u>3,880,148</u>
Deferred inflows of resources	<u>1,969,014</u>	<u>1,647,581</u>	<u>-</u>	<u>-</u>	<u>1,969,014</u>	<u>1,647,581</u>
Net Position:						
Net investment in capital assets	14,934,170	13,911,721	13,657,829	14,145,044	28,591,999	28,056,765
Restricted	1,770,975	2,076,419	-	-	1,770,975	2,076,419
Unrestricted	<u>1,273,158</u>	<u>1,015,728</u>	<u>578,972</u>	<u>817,835</u>	<u>1,852,130</u>	<u>1,833,563</u>
Total Net Position	<u>\$17,978,303</u>	<u>\$17,003,868</u>	<u>\$14,236,801</u>	<u>\$14,962,879</u>	<u>\$32,215,104</u>	<u>\$31,966,747</u>

Net position of the City's governmental activities stood at \$17,978,303. *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 \$1,273,158.

The \$1,273,158 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 \$14,236,801. 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 2014 and 2013.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Program Revenues:						
Charges for services	\$1,386,346	\$1,111,674	\$2,798,544	\$2,283,856	\$4,184,890	\$3,395,530
Operating grants and contributions	205,042	6,117,336	1,090,940	-	1,295,982	6,117,336
Capital grants and contributions	1,567,287	-	-	-	1,567,287	-
General Revenues:						
Taxes	1,727,918	2,017,369	-	-	1,727,918	2,017,369
Unrestricted intergovernmental	809,640	784,408	-	-	809,640	784,408
Investment earnings	56,390	12,436	1,397	237	57,787	12,673
Fines and forfeitures	62,016	49,368	-	-	62,016	49,368
Miscellaneous	109,641	79,124	-	-	109,641	79,124
Gain/(loss) on sale of assets	-	8,370	-	-	-	8,370
Total Revenues	<u>5,924,280</u>	<u>10,180,085</u>	<u>3,890,881</u>	<u>2,284,093</u>	<u>9,815,161</u>	<u>12,464,178</u>
Program Expenses:						
Legislative	15,188	14,055	-	-	15,188	14,055
General government	1,199,401	1,310,413	-	-	1,199,401	1,310,413
Public safety	804,754	780,108	-	-	804,754	780,108
Public works	2,256,521	2,084,423	-	-	2,256,521	2,084,423
Community and economic development	15,447	5,574	-	-	15,447	5,574
Recreation and culture	389,209	412,151	-	-	389,209	412,151
Other governmental	32,157	125,381	-	-	32,157	125,381
Capital outlay	98,938	103,243	-	-	98,938	103,243
Interest on long-term debt	88,230	58,458	-	-	88,230	58,458
Sewer	-	-	1,448,778	1,542,814	1,448,778	1,542,814
Water	-	-	3,218,181	1,355,731	3,218,181	1,355,731
Total Expenses	<u>4,899,845</u>	<u>4,893,806</u>	<u>4,666,959</u>	<u>2,898,545</u>	<u>9,566,804</u>	<u>7,792,351</u>
Excess (deficiency) before transfers	1,024,435	5,286,279	(776,078)	(614,452)	248,357	4,671,827
Transfers in (out)	(50,000)	232,500	50,000	(232,500)	-	-
Increase (decrease) in net position	974,435	5,518,779	(726,078)	(846,952)	248,357	4,671,827
Net Position, Beginning, as restated	17,003,868	11,485,089	14,962,879	15,809,831	31,966,747	27,294,920
Net Position, Ending	<u>\$17,978,303</u>	<u>\$17,003,868</u>	<u>\$14,236,801</u>	<u>\$14,962,879</u>	<u>\$32,215,104</u>	<u>\$31,966,747</u>

The City's total revenues were \$9,815,161. The total cost of all programs and services was \$9,566,804 leaving an increase in net position of \$248,357. Our analysis below separately considers the operations of governmental and business-type activities:

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

Governmental Activities

Government activities net position increased by \$974,435. This increase was due to a decrease in combined governmental fund balance of \$101,828, changes in general fixed assets of \$857,299, principal payments on debt of \$174,800, a decrease in accrued interest of \$1,334, adjustments due to amortization of deferred gain on refunding and deferred amounts on bond of (\$6,612), and a decrease in compensated absences of \$49,442.

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	\$1,199,401	\$1,003,067
Public Safety	804,754	792,172
Public Works	2,256,521	(425,231)

Business-type Activities

Business-type activities net position decreased by \$726,078. The Sewer System and the Water System experienced a change in net position of (\$90,863) and (\$635,215), respectively, resulting in a net decrease in Business-Type Activities of \$726,078.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet) reported a *combined* fund balance of \$3,266,099, a decrease of \$101,828 from the beginning of the year.

The combined fund balance decrease of \$101,828 was due to increases in the fund balances of General Fund and Local Street Fund, offset by decreases in the Major Street Fund, Garbage & Rubbish Fund, and Public Improvement Fund. The decrease is attributable to decrease in transfers in across all funds during 2014.

General Fund Budgetary Highlights

General Fund expenses were \$178,862 less than the final budget because Legislative expenses were \$88 more than the final budget; General government expenses were \$206,793 less than the final budget; Public Safety was \$6,041 more than the final budget; Public Works was \$12,366 more than the final budget; Community and economic development was \$997 more than the final budget; and Recreation and Culture was \$8,439 more than the final budget.

General Fund revenues were \$42,826 more than the final revenue budget mainly due to taxes, other revenues and charges for services being approximately \$17,000, \$38,000, and \$16,000 more than anticipated, respectively. This is further offset by licenses and permits being approximately \$5,400 less than the final revenue budget.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2014, the City had \$23,252,232 invested in a variety of capital assets including land, buildings, and other equipment. (See Table 4 below)

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

	2014			2013 Total
	Governmental Activities	Business-type Activities	Totals	
Land	\$1,249,142	\$10,888	\$1,260,030	\$1,253,346
Historical treasures	135,275	-	135,275	135,275
Construction in progress	570,655	-	570,655	5,677,146
Buildings and improvements	2,303,769	34,560	2,338,329	2,083,871
Land improvements	3,094,855	-	3,094,855	3,189,647
Equipment and vehicles	687,946	-	687,946	706,716
Infrastructure	8,518,585	-	8,518,585	2,667,815
Sewer system and equipment	-	5,148,078	5,148,078	5,507,292
Water system and equipment	-	1,498,479	1,498,479	1,572,340
Totals	<u>\$16,560,227</u>	<u>\$6,692,005</u>	<u>\$23,252,232</u>	<u>\$22,793,448</u>

In 2014, the City's major capital additions included the Partridge Creek Diversion Project (GLRI and USDA Rural Development), Street Scapes and road projects, and library elevator constructions. In addition, the City purchased two new tractors and a new car. The Partridge Creek project was also completed.

Capital projects planned for 2015 include completion of the Library remodel project, roundabout utilizing MDOT funding, and various projects including city hall remodel and police and fire station remodel. Other capital purchases planned for the year include purchasing new equipment.

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

Debt

At year-end, the City had \$1,643,290 in bonds and notes outstanding as depicted in Table 5 below.

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

	2014			2013 Totals
	Governmental Activities	Business-type Activities	Totals	
Bonds	\$1,528,290	\$-	\$1,528,290	\$1,612,590
Contracts and notes payable	115,000	-	115,000	200,000
Totals	<u>\$1,643,290</u>	<u>\$-</u>	<u>\$1,643,290</u>	<u>\$1,812,590</u>

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In June 2014, the City of Ishpeming completed the work on the U.S. Environmental Protection Agency – Great Lakes Restoration project for which a grant of \$6 million was received in order to divert Partridge Creek. This grant, combined with a previous grant of \$2 million from the U.S. Environmental Protection Agency, meant an overall \$8 million investment into the City of Ishpeming.

During fiscal year 2015, the City of Ishpeming will begin renovations of City Hall to bring the historic building into compliance with the Americans with Disabilities Act, which will include the installation of an elevator. In conjunction with this project the City of Ishpeming will also be making some renovations to the Department of Public Works Building and the Police and Fire Hall to improve the bath and shower facilities, boiler system, and improve the overall layout and function of the offices. These renovations will be funded through low-interest loans through the United States Department of Agriculture – Rural Development at a cost of an estimated \$1.5 million.

The City of Ishpeming is also in the process of improving the aging water system by applying for a combination of grants and low-interest loans from the United States Department of Agriculture – Rural Development to replace an estimated fifty percent of the water system. This project is projected to break ground as early as 2017 at cost of roughly \$12 million.

The Michigan Department of Transportation (MDOT) is constructing a round-a-bout on U.S. Hwy 41 in Ishpeming during the summer of 2016. In conjunction with this project, MDOT has agreed to oversee the replacement of the water and sewer lines that run beneath the U.S Hwy 41 project as well as oversee the construction of a second round-a-bout to connect Second Street and Third Street in the City of Ishpeming. MDOT is providing grant funding for portions of these projects, but the City of Ishpeming will share in the cost.

The City of Ishpeming Carnegie Library completed Phase III of the library renovations in June 2015. Phase III included the installation of an elevator at the Carnegie Library at a cost of approximately \$140,000. New windows continue to be installed at the Library as well. Carnegie Library has plans to install an air conditioning system during 2015 at an estimated cost of \$25,000, along with plans to renovate the front steps in 2016. The Carnegie Library renovations are being paid for with donations raised from our generous community.

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

Management is working to spur economic development within the City. Part of this plan is to reduce the Downtown Development Authorities (DDA) TIF district to bring focus back on core of the downtown. Reducing the TIF district will reduce DDA recapture by an estimated \$30,000 annually. Approximately two-thirds of this reduction will be reallocated to the City of Ishpeming as tax revenue. The downtown is beginning to see some growth with a new brewery that opened during the year, and the City of Ishpeming is working on eliminated blight issues and unsafe buildings in order to improve the overall look of the community.

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

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, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 3,266,372	\$ -	\$ 3,266,372	\$ 335,649
Investments	685,544	-	685,544	-
Receivables, net	2,245,964	1,627,887	3,873,851	171,344
Primary government internal balances	30,000	(30,000)	-	-
Due from primary government	-	-	-	744,943
Prepaid expenses and other assets	-	-	-	-
Non-current Assets:				
Long-term receivables	62,793	-	62,793	-
Investment in Wastewater Treatment Facility	-	3,458,501	3,458,501	-
Investment in Joint Water Authority	-	3,507,323	3,507,323	-
Capital assets:				
Land, construction in progress and other non-depreciable assets	1,955,072	10,888	1,965,960	2,046,686
Other capital assets, net of depreciation	14,605,155	6,681,117	21,286,272	259,734
Total Capital Assets	16,560,227	6,692,005	23,252,232	2,306,420
TOTAL ASSETS	22,850,900	15,255,716	38,106,616	3,558,356
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amounts on refunding	-	-	-	-
Premium on investment	3,038	-	3,038	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,038	-	3,038	-
LIABILITIES				
Current Liabilities:				
Cash overdrafts	-	481,576	481,576	-
Accounts payable	223,875	382,058	605,933	19,271
Due to component unit	744,943	-	744,943	-
Accrued liabilities	80,333	105,622	185,955	1,205
Accrued interest	13,473	-	13,473	29,914
Non-current Liabilities:				
Portion due or payable within one year:				
Notes payable	20,000	-	20,000	-
Bonds payable	95,030	-	95,030	111,970
Compensated absences	9,447	1,310	10,757	-
Portion due or payable after one year:				
Notes payable	95,000	-	95,000	-
Bonds payable	1,416,027	-	1,416,027	2,029,740
Compensated absences	208,493	48,349	256,842	-
TOTAL LIABILITIES	2,906,621	1,018,915	3,925,536	2,192,100
DEFERRED INFLOWS OF RESOURCES				
Taxes levied for a subsequent period	1,945,556	-	1,945,556	228,829
Transportation appropriation	20,943	-	20,943	-
Discount on investment	2,515	-	2,515	-
TOTAL DEFERRED INFLOWS OF RESOURCES	1,969,014	-	1,969,014	228,829
NET POSITION				
Net investment in capital assets	14,934,170	13,657,829	28,591,999	164,710
Restricted	1,770,975	-	1,770,975	-
Unrestricted	1,273,158	578,972	1,852,130	972,717
TOTAL NET POSITION	\$ 17,978,303	\$ 14,236,801	\$ 32,215,104	\$ 1,137,427

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

City of Ishpeming, Michigan
STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2014

Function / Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Unit
Primary Government:								
Governmental Activities:								
Legislative	\$ 15,188	-	-	-	\$ (15,188)	-	\$ (15,188)	-
General government	1,199,401	196,334	-	-	(1,003,067)	-	(1,003,067)	-
Public safety	804,754	3,658	8,924	-	(792,172)	-	(792,172)	-
Public works	2,256,521	1,114,465	-	1,567,287	425,231	-	425,231	-
Community and economic development	15,447	-	-	-	(15,447)	-	(15,447)	-
Recreation and culture	389,209	52,639	114,147	-	(222,423)	-	(222,423)	-
Other governmental	32,157	19,250	-	-	(12,907)	-	(12,907)	-
Capital outlay	98,938	-	81,971	-	(16,967)	-	(16,967)	-
Interest on long-term debt	88,230	-	-	-	(88,230)	-	(88,230)	-
Total Governmental Activities	4,899,845	1,386,346	205,042	1,567,287	(1,741,170)	-	(1,741,170)	-
Business-Type Activities:								
Sewer	1,448,778	1,356,813	-	-	-	(91,965)	(91,965)	-
Water	3,218,181	1,441,731	1,090,940	-	-	(685,510)	(685,510)	-
Total Business-Type Activities	4,666,959	2,798,544	1,090,940	-	-	(777,475)	(777,475)	-
TOTAL PRIMARY GOVERNMENT	\$ 9,566,804	\$ 4,184,890	\$ 1,295,982	\$ 1,567,287	(1,741,170)	(777,475)	(2,518,645)	-
Component Unit:								
Downtown Development Authority	\$ 368,859	-	\$ 150	\$ 242,582	-	-	-	(126,127)
General Revenues:								
Taxes:								
Property taxes					1,727,918	-	1,727,918	581,954
Unrestricted intergovernmental sources					809,640	-	809,640	-
Interest and investment earnings					56,390	1,397	57,787	3,052
Fines and Forfeitures					62,016	-	62,016	-
Miscellaneous					109,641	-	109,641	-
Gain/(loss) on sale of assets					-	-	-	5,000
Transfers					(50,000)	50,000	-	-
TOTAL GENERAL REVENUES & TRANSFERS					2,715,605	51,397	2,767,002	590,006
CHANGE IN NET POSITION								
Net position, beginning of year					974,435	(726,078)	248,357	463,879
					17,003,868	14,962,879	31,966,747	673,548
NET POSITION, END OF YEAR					\$ 17,978,303	\$ 14,236,801	\$ 32,215,104	\$ 1,137,427

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

City of Ishpeming, Michigan

GOVERNMENTAL FUNDS

BALANCE SHEET

December 31, 2014

	Special Revenue				Capital Projects	Other Governmental Funds	Total Governmental Funds
	General Fund	Major Street Fund	Local Street Fund	Garbage & Rubbish Fund	Public Improvement Fund		
ASSETS							
Cash and cash equivalents	\$ 1,224,561	\$ 37,447	\$ 277,431	\$ 608,501	\$ 319,832	\$ 798,600	\$ 3,266,372
Investments	-	-	-	-	-	685,544	685,544
Accounts receivable, net	118,042	-	-	21,158	-	-	139,200
Taxes receivable	1,272,904	-	-	-	415,126	-	1,688,030
Other receivable	-	-	-	27,206	-	-	27,206
Due from other governments	279,808	62,883	44,874	-	-	-	387,565
Due from other funds	126,155	-	-	-	-	-	126,155
Prepaid expenditures	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	62,793	62,793
TOTAL ASSETS	3,021,470	100,330	322,305	656,865	734,958	1,546,937	6,382,865
DEFERRED OUTFLOWS OF RESOURCES							
Premium on investment	-	-	-	-	-	3,038	3,038
TOTAL DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-	-	3,038	3,038
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 3,021,470	\$ 100,330	\$ 322,305	\$ 656,865	\$ 734,958	\$ 1,549,975	\$ 6,385,903
LIABILITIES							
Cash overdrafts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	112,221	85,552	-	16,277	2,875	6,950	223,875
Due to component unit	744,943	-	-	-	-	-	744,943
Accrued payroll	66,216	8,914	4,626	577	-	-	80,333
Accrued sick and vacation leave	9,447	-	-	-	-	-	9,447
Accrued liabilities	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	92,192	92,192
TOTAL LIABILITIES	932,827	94,466	4,626	16,854	2,875	99,142	1,150,790
DEFERRED INFLOWS OF RESOURCES							
Taxes levied for a subsequent period	1,466,050	-	-	-	479,506	-	1,945,556
Transportation appropriation	-	5,864	15,079	-	-	-	20,943
Discount on investment	-	-	-	-	-	2,515	2,515
TOTAL DEFERRED INFLOWS OF RESOURCES	1,466,050	5,864	15,079	-	479,506	2,515	1,969,014
FUND BALANCE							
Non-spendable	-	-	-	-	-	1,167,573	1,167,573
Restricted	-	-	302,600	-	252,577	48,225	603,402
Committed	-	-	-	-	-	-	-
Assigned	-	-	-	640,011	-	232,520	872,531
Unassigned	622,593	-	-	-	-	-	622,593
TOTAL FUND BALANCE	622,593	-	302,600	640,011	252,577	1,448,318	3,266,099
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 3,021,470	\$ 100,330	\$ 322,305	\$ 656,865	\$ 734,958	\$ 1,549,975	\$ 6,385,903

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, 2014

Total Fund Balances for Governmental Funds		\$ 3,266,099
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Land, construction in progress and historical treasurers	\$ 1,955,072	
Other capital assets, net of depreciation	<u>14,605,155</u>	<u>16,560,227</u>
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	(95,030)	
Current portion of notes and contracts payable	(20,000)	
Accrued interest on debt	(13,473)	
Compensated absences	(208,493)	
Bonds payable	(1,433,260)	
Long-term contracts and notes payable	(95,000)	
Deferred amounts on bonds	17,233	
Deferred gain on refunding	<u>-</u>	<u>(1,848,023)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 17,978,303</u>

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

City of Ishpeming, Michigan

GOVERNMENTAL FUNDS

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended December 31, 2014

	Special Revenue				Capital Projects	Other Governmental Funds	Total Governmental Funds
	General Fund	Major Street Fund	Local Street Fund	Garbage & Rubbish Fund	Public Improvement Fund		
REVENUES:							
Taxes	\$ 1,319,162	\$ -	\$ -	\$ -	\$ 408,756	\$ -	\$ 1,727,918
Federal sources	-	375,000	1,356	-	81,971	486,139	944,466
State sources	818,563	438,693	266,099	-	-	8,016	1,531,371
Licenses and permits	181,597	-	-	-	-	-	181,597
Charges for service	83,618	-	-	538,440	111,621	19,250	752,929
Interest income and rentals	471,595	99	187	1,802	1,549	48,946	524,178
Contributions	2,007	-	-	-	-	94,163	96,170
Fines and forfeitures	62,016	-	-	-	-	-	62,016
Other revenues	102,834	326	-	-	-	475	103,635
TOTAL REVENUES	3,041,392	814,118	267,642	540,242	603,897	656,989	5,924,280
EXPENDITURES:							
Current operations:							
Legislative	15,188	-	-	-	-	-	15,188
General government	1,043,405	-	-	-	-	-	1,043,405
Public safety	730,265	-	-	-	-	-	730,265
Public works	737,071	1,014,627	285,252	596,413	-	-	2,633,363
Community and economic development	15,447	-	-	-	-	-	15,447
Recreation and culture	300,549	-	-	-	-	77,849	378,398
Other governmental	-	-	-	-	-	32,157	32,157
Debt service:							
Principal	-	28,200	8,400	-	85,000	53,200	174,800
Interest and fiscal charges	-	6,572	1,958	-	8,994	65,428	82,952
Capital outlay	-	-	-	-	362,008	508,125	870,133
TOTAL EXPENDITURES	2,841,925	1,049,399	295,610	596,413	456,002	736,759	5,976,108
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	199,467	(235,281)	(27,968)	(56,171)	147,895	(79,770)	(51,828)
OTHER FINANCING SOURCES (USES):							
Proceeds from borrowing	-	-	-	-	-	-	-
Proceeds from sale of capital assets	-	-	-	-	-	-	-
Transfers in	105,102	119,607	273,969	-	-	175,209	673,887
Transfers (out)	(8,427)	-	-	(56,250)	(390,358)	(268,852)	(723,887)
TOTAL OTHER FINANCING SOURCES (USES)	96,675	119,607	273,969	(56,250)	(390,358)	(93,643)	(50,000)
CHANGE IN FUND BALANCE	296,142	(115,674)	246,001	(112,421)	(242,463)	(173,413)	(101,828)
Fund balance, beginning of year	326,451	115,674	56,599	752,432	495,040	1,621,731	3,367,927
FUND BALANCE, END OF YEAR	\$ 622,593	\$ -	\$ 302,600	\$ 640,011	\$ 252,577	\$ 1,448,318	\$ 3,266,099

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

For the Year Ended December 31, 2014

Net Change in Fund Balances - Total Governmental Funds **\$ (101,828)**

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

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

Capital outlays	\$ 1,342,883	
Depreciation expense	(485,584)	
Net book value of disposed assets	-	857,299

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 174,800

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

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 1,334

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 premium on refunding	(5,500)	(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. 49,442

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 974,435**

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

City of Ishpeming, Michigan

PROPRIETARY FUNDS

STATEMENTS OF NET POSITION

December 31, 2014

	Business-type Activities Enterprise Funds		
	Sewer Fund	Water Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 441,378	\$ -	\$ 441,378
Accounts receivable	110,212	385,230	495,442
Allowance for uncollectible accounts	-	-	-
Delinquent utilities	-	41,505	41,505
Due from other governmental units	-	1,090,940	1,090,940
Non-current Assets:			
Investment in Wastewater Treatment Facility	3,458,501	-	3,458,501
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	5,182,638	1,498,479	6,681,117
Total Capital Assets	<u>5,182,638</u>	<u>1,509,367</u>	<u>6,692,005</u>
TOTAL ASSETS	<u>9,192,729</u>	<u>6,534,365</u>	<u>15,727,094</u>
DEFERRED OUTFLOWS OF RESOURCES			
	-	-	-
LIABILITIES			
Current Liabilities:			
Cash overdrafts	-	922,954	922,954
Accounts payable	539	381,519	382,058
Accrued liabilities	-	97,975	97,975
Accrued payroll	2,562	5,085	7,647
Due to other funds	30,000	-	30,000
Non-current Liabilities:			
Portion due or payable within one year			
Compensated absences	236	1,074	1,310
Portion due or payable after one year			
Compensated absences	8,469	39,880	48,349
TOTAL LIABILITIES	<u>41,806</u>	<u>1,448,487</u>	<u>1,490,293</u>
DEFERRED INFLOWS OF RESOURCES			
	-	-	-
NET POSITION			
Net investment in capital assets	8,641,139	5,016,690	13,657,829
Unrestricted	509,784	69,188	578,972
TOTAL NET POSITION	<u>\$ 9,150,923</u>	<u>\$ 5,085,878</u>	<u>\$ 14,236,801</u>

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, 2014

	Business-type Activities Enterprise Funds		
	Sewer Fund	Water Fund	Total
OPERATING REVENUES:			
Federal sources	\$ -	\$ 990,940	\$ 990,940
State sources	3,269	100,000	103,269
Charges for services	1,353,263	1,440,104	2,793,367
Other operating revenue	281	1,627	1,908
TOTAL OPERATING REVENUES	1,356,813	2,532,671	3,889,484
OPERATING EXPENSES:			
Personal services	221,105	691,312	912,417
Contractual services	667,212	813,631	1,480,843
Supplies	9,564	188,303	197,867
Utilities	2,590	15,862	18,452
Depreciation	359,214	73,861	433,075
Payment in lieu of taxes	-	-	-
Other expenses	100,393	1,435,212	1,535,605
TOTAL OPERATING EXPENSES	1,360,078	3,218,181	4,578,259
OPERATING INCOME (LOSS)	(3,265)	(685,510)	(688,775)
NON-OPERATING REVENUES (EXPENSES):			
Gain/(loss) on wastewater facility	(88,700)	-	(88,700)
Interest income and rentals	1,102	295	1,397
TOTAL NON-OPERATING REVENUES (EXPENSES)	(87,598)	295	(87,303)
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	(90,863)	(685,215)	(776,078)
Transfers in	-	50,000	50,000
Transfers (out)	-	-	-
CHANGE IN NET POSITION	(90,863)	(635,215)	(726,078)
Net position, beginning of year	9,241,786	5,721,093	14,962,879
NET POSITION, END OF YEAR	\$ 9,150,923	\$ 5,085,878	\$ 14,236,801

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, 2014

	Business-type Activities		
	Enterprise Funds		
	Sewer Fund	Water Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from fees and charges for services	\$ 1,371,393	\$ 1,413,901	\$ 2,785,294
Other operating revenues	3,550	1,627	5,177
Cash payments to employees for services	(201,377)	(630,923)	(832,300)
Cash payments for payroll taxes	(16,915)	(52,885)	(69,800)
Cash payments to suppliers for goods and services	(780,277)	(2,149,158)	(2,929,435)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>376,374</u>	<u>(1,417,438)</u>	<u>(1,041,064)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Transfers in (out)	-	50,000	50,000
Increase in due to other funds	-	-	-
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>50,000</u>	<u>50,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(34,560)	-	(34,560)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(34,560)</u>	<u>-</u>	<u>(34,560)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income	1,102	295	1,397
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>1,102</u>	<u>295</u>	<u>1,397</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	342,916	(1,367,143)	(1,024,227)
Cash and cash equivalents, beginning of year	98,462	444,189	542,651
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 441,378</u>	<u>\$ (922,954)</u>	<u>\$ (481,576)</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (3,265)	\$ (685,510)	\$ (688,775)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	359,214	73,861	433,075
Change in assets and liabilities:			
(Increase) decrease in accounts receivable, net	18,130	(26,203)	(8,073)
(Increase) decrease in due from other governmental units	-	(1,090,940)	(1,090,940)
(Increase) decrease in prepaid expenses	-	-	-
Increase (decrease) in accounts payable	(518)	292,075	291,557
Increase (decrease) in customer deposits payable	-	11,775	11,775
Increase (decrease) in accrued payroll	384	(3,156)	(2,772)
Increase (decrease) in accrued sick and vacation	2,429	10,660	13,089
NET ADJUSTMENTS	<u>379,639</u>	<u>(731,928)</u>	<u>(352,289)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 376,374</u>	<u>\$ (1,417,438)</u>	<u>\$ (1,041,064)</u>

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

City of Ishpeming, Michigan

FIDUCIARY FUNDS

STATEMENTS OF FIDUCIARY NET POSITION

December 31, 2014

	Pension Trust Fund	Agency Funds
	<hr/>	<hr/>
ASSETS		
Cash and equivalents	\$ 74,127	\$ 309,661
Investments	4,774,044	-
Taxes receivable	198,922	-
Other receivables	-	-
Due from other governments	-	-
Due from other funds	-	-
	<hr/>	<hr/>
TOTAL ASSETS	5,047,093	<u>\$ 309,661</u>
 DEFERRED OUTFLOWS OF RESOURCES	 -	
	<hr/>	
LIABILITIES		
Due to other funds	-	\$ 3,963
Due to other governmental units	-	305,698
	<hr/>	<hr/>
TOTAL LIABILITIES	-	<u>\$ 309,661</u>
 DEFERRED INFLOWS OF RESOURCES		
Taxes levied for a subsequent period	198,922	
	<hr/>	
TOTAL DEFERRED INFLOWS OF RESOURCES	198,922	
 NET POSITION		
Held in trust for pension benefits	4,848,171	
	<hr/>	
TOTAL NET POSITION	<u>\$ 4,848,171</u>	

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, 2014

	Pension Trust Fund
ADDITIONS:	
Contributions:	
Taxes	\$ 201,791
Employee	22,745
Gifts, bequests and endowments	-
Total Contributions	224,536
Investment Income:	
Net appreciation (depreciation) in fair value of investments	(101,152)
Interest and dividends	202,622
Administrative expense	(38,822)
Net Investment Income (Loss)	62,648
TOTAL ADDITIONS	287,184
DEDUCTIONS:	
Benefits and annuity withdrawals	430,902
Refunds of contributions	-
Other expenditures	938
TOTAL DEDUCTIONS	431,840
CHANGE IN NET POSITION	(144,656)
Net position, beginning of year	4,992,827
NET POSITION, END OF YEAR	\$ 4,848,171

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

CITY OF ISHPEMING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

December 31, 2014

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).

GOVERNMENTAL FUND TYPE

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

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

RELATED ORGANIZATIONS

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

Summary financial information as of and for the fiscal year ended December 31, 2013, is as follows:

Total Assets	\$4,645,142
Total Liabilities	175,600
Total Net Position	4,469,542
Total Operating Revenues	557,118
Total Operating Expenses	1,052,309
Total Non-Operating Revenues(expenses)	36,090
Capital Grant Contributions	81,379
Net Increase (Decrease) in Net Position	(377,722)

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

BASIS OF PRESENTATION

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

Governmental Funds:

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

- *General Fund* – The General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

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

- *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.

Proprietary Funds:

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

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

Fiduciary Funds:

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

Major Funds:

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

The City reports the following major governmental funds:

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

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

- The **Major Street Fund** accounts for the activities related to receipt of allocated state shared gas and weight taxes to be spent on certain “mile” roads designated as major under contractual agreement with the State of Michigan.
- The **Local Street Fund** accounts for the allocated state shared gas and weight taxes for remaining City roads.
- The **Garbage & Rubbish Fund** accounts for activities related to garbage and rubbish collection and disposal.
- The **Public Improvement Fund** accounts for the activities related to development and improvement of the City’s general capital assets.

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.

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

Modified Accrual

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

FINANCIAL STATEMENT AMOUNTS

Cash and Cash Equivalents

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

Investments

Investments are carried at market value.

Receivables

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

Inventory

Inventory costs are recorded as expenditures when incurred.

Interfund Receivables/Payables

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

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

Capital Assets

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

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

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

	<u>Depreciation Life</u>
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.

Deferred Outflows of Resources

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

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

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

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.

Compensated Absences

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

Equity Classification

Government-Wide Statements

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

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

Fund Statements

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

Revenues

Government-Wide Statements

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

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

Fund Statements

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

Property Taxes

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

Expenses/Expenditures

Government-Wide Statements

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

Fund Statements

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

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

Interfund Activity

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

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

Budgets and Budgetary Accounting

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

1. Not later than October 15, the City Manager submits to the City Council a proposed operating budget for the ensuing fiscal year commencing January 1 in accordance with the City Charter. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to its adoption, a public hearing is conducted at City Hall to obtain taxpayer comments.

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

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

Use of Estimates

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

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through June 24, 2015, which is the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

NOTE B – CASH AND EQUIVALENTS:

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

Cash and cash equivalents:	
Primary government	\$2,784,796
Fiduciary funds	383,788
Component Unit	335,649
TOTAL REPORTING ENTITY	\$3,504,233

A summary of deposits by type are:	
Cash in demand accounts	\$521,074
Cash in savings and time deposits	2,982,559
Petty cash	600
TOTAL DEPOSITS	\$3,504,233

NOTE B – CASH AND EQUIVALENTS (Continued):

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. State law does not require and the City does not have a deposit policy for custodial credit risk. As of December 31, 2014, the carrying amount of the City’s deposits with financial institutions was \$3,504,233 and the bank balance was \$2,234,122. Of the bank balance, \$585,363 or approximately 26% was covered by federal depository insurance according to FDIC regulations.

NOTE C – INVESTMENTS:

As of December 31, 2014, the City had the following investments.

	Investment in Maturities (in Years)				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
PRIMARY GOVERNMENT:					
U.S. Government Agencies	\$373,673	\$-	\$198,627	\$109,087	\$65,959
U.S. Treasury Bonds	311,870	-	232,530	79,340	-
TOTAL PRIMARY GOVERNMENT	\$685,543	\$-	\$431,157	\$188,427	\$65,959
FIDUCIARY FUNDS:					
Mutual Equity Funds	\$4,300,812	\$-	\$-	\$-	\$4,300,812
Mutual Equity Index Funds	473,232	-	-	-	473,232
TOTAL FIDUCIARY	\$4,774,044	\$-	\$-	\$-	\$4,774,044

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			Component
	General Fund	Major Street Fund	Local Street Fund	Garbage & Rubbish Fund	Public Improvement Fund	Non-Major Funds	Sewer	Water	Total Primary Government	Unit
										DDA Fund
A*	\$1,272,904	\$-	\$-	\$-	\$415,126	\$-	\$-	\$1,688,030	\$171,344	
B*	118,042	-	-	-	-	-	-	118,042	-	
C*	279,808	62,883	44,874	-	-	-	1,090,940	1,478,505	744,943	
D*	-	-	-	-	-	62,793	-	62,793	-	
E*	-	-	-	48,364	-	-	110,212	426,735	585,311	
F*	3,963	-	-	-	-	-	-	3,963	-	
Total	\$1,674,717	\$62,883	\$44,874	\$48,364	\$415,126	\$62,793	\$110,212	\$1,517,675	\$3,936,644	\$916,287

- A* Property Taxes – Current
- B* Other
- C* Due From Other Government Units
- D* Loans Receivable
- E* Utilities
- F* Due From Fiduciary Funds

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, 2014, including the applicable allowances for uncollectible accounts, are presented below.

	General Fund
Gross receivable	\$120,713
Less: allowance for uncollectible accounts	(2,671)
Net receivable	<u>\$118,042</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, 2014 was \$62,793.

A summary of Revolving Loan Fund’s notes receivable at December 31, 2014 is as follows:

Debtor	Balance December 31, 2014	Year of Award	Interest Rate	Terms in Years
Argall	\$62,793	2000	2.0%	15
Total	<u>\$62,793</u>			

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

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

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

A summary of the interfund receivables and payables at December 31, 2014 is as follows:

		DUE FROM OTHER FUNDS					
		General Fund	Public Improvement Fund	Other Governmental Funds	Enterprise Funds	Fiduciary Funds	Total Due To Other Funds
DUE TO OTHER FUNDS	General Fund	\$-	\$-	\$-	\$-	\$-	\$-
	Public Improvement Fund	-	-	-	-	-	-
	Other Governmental Funds	92,192	-	-	-	-	92,192
	Sewer Fund	30,000	-	-	-	-	30,000
	Fiduciary Funds	3,963	-	-	-	-	3,963
	Total Due From Other Funds	\$126,155	\$-	\$-	\$-	\$-	\$126,155

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, 2014 are as follows:

		TRANSFERS IN FROM OTHER FUNDS							Total Transfers Out to Other Funds
		General Fund	Major Street Fund	Local Street Fund	Garbage & Rubbish Fund	Public Improvement Fund	Other Governmental Funds	Water Fund	
TRANSFERS OUT TO OTHER FUNDS	General Fund	\$-	\$-	\$-	\$-	\$-	\$8,427	\$-	\$8,427
	Major Street Fund	-	-	-	-	-	-	-	-
	Local Street Fund	-	-	-	-	-	-	-	-
	Garbage & Rubbish Fund	56,250	-	-	-	-	-	-	56,250
	Public Improvement Fund	-	119,607	103,969	-	-	166,782	-	390,358
	Other Governmental Funds	48,852	-	170,000	-	-	-	50,000	268,852
	Sewer Fund	-	-	-	-	-	-	-	-
	Water Fund	-	-	-	-	-	-	-	-
	Total Transfers In from Other Funds	\$105,102	\$119,607	\$273,969	\$-	\$-	\$175,209	\$50,000	\$723,887

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, 2014 is as follows:

	Balance January 1, 2014	Additions	Deductions	Balance December 31, 2014
Capital assets not being depreciated:				
Land	\$1,242,458	\$6,684	\$-	\$1,249,142
Historical treasurers	135,275	-	-	135,275
Construction in progress	5,677,146	1,115,926	(6,222,417)	570,655

NOTE G – CAPITAL ASSETS (Continued):

	Balance January 1, 2014	Additions	Deductions	Balance December 31, 2014
Capital assets being depreciated:				
Buildings and improvements	\$10,062,137	\$322,749	\$-	\$10,384,886
Land improvements	3,211,036	-	-	3,211,036
Equipment and vehicles	5,172,352	186,125	-	5,358,477
Infrastructure	2,992,052	5,933,816	-	8,925,868
Total Capital Assets	<u>28,492,456</u>	<u>7,565,300</u>	<u>(6,222,417)</u>	<u>29,835,339</u>
Less accumulated depreciation:				
Buildings and improvements	(7,978,266)	(102,851)	-	(8,081,117)
Land improvements	(21,389)	(94,792)	-	(116,181)
Equipment and vehicles	(4,465,636)	(204,895)	-	(4,670,531)
Infrastructure	(324,237)	(83,046)	-	(407,283)
Total Accumulated Depreciation	<u>(12,789,528)</u>	<u>(485,584)</u>	<u>-</u>	<u>(13,275,112)</u>
CAPITAL ASSETS, NET	<u>\$15,702,928</u>	<u>\$7,079,716</u>	<u>(\$6,222,417)</u>	<u>\$16,560,227</u>

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

Governmental Activities:	
General Government	\$196,346
Public Works	148,536
Public Safety	70,860
Recreation and Culture	69,842
Total Depreciation Expense	<u>\$485,584</u>

A summary of changes in business-type activities capital assets as of December 31, 2014 is as follows:

	Balance January 1, 2014	Additions	Deductions	Balance December 31, 2014
Capital assets not being depreciated:				
Land	\$10,888	\$-	\$-	\$10,888
Construction in progress	-	-	-	-
Capital assets being depreciated:				
Building and improvements	34,233	34,560	-	68,793
Equipment	148,578	-	-	148,578
Sewer system	14,524,469	-	-	14,524,469
Water system	3,826,831	-	-	3,826,831
Total Capital Assets	<u>18,544,999</u>	<u>34,560</u>	<u>-</u>	<u>18,579,559</u>
Less accumulated depreciation:				
Building and improvements	(34,233)	-	-	(34,233)
Equipment	(148,578)	-	-	(148,578)
Sewer system	(9,017,177)	(359,214)	-	(9,376,391)
Water system	(2,254,491)	(73,861)	-	(2,328,352)
Total Accumulated Depreciation	<u>(11,454,479)</u>	<u>(433,075)</u>	<u>-</u>	<u>(11,887,554)</u>
CAPITAL ASSETS, NET	<u>\$7,090,520</u>	<u>(\$398,515)</u>	<u>\$-</u>	<u>\$6,692,005</u>

NOTE G – CAPITAL ASSETS (Continued):

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

Business-type Activities:		
Sewer		\$359,214
Water		73,861
	Total Depreciation Expense	<u>\$433,075</u>

A summary of the changes in component unit activities capital assets for the year ended December 31, 2014 is as follows:

	Balance January 1, 2014	Additions	Deductions	Balance December 31, 2014
Capital assets not being depreciated:				
Land	\$11,846	\$-	\$-	\$11,846
Construction in progress	1,436,351	598,489	-	2,034,840
Capital assets being depreciated:				
Land improvements	127,881	-	-	127,881
Infrastructure	170,562	-	-	170,562
Total Capital Assets	<u>1,746,640</u>	<u>598,489</u>	<u>-</u>	<u>2,345,129</u>
Less accumulated depreciation:				
Land improvements	(21,313)	(8,526)	-	(29,839)
Infrastructure	(3,350)	(5,520)	-	(8,870)
Total Accumulated Depreciation	<u>(24,663)</u>	<u>(14,046)</u>	<u>-</u>	<u>(38,709)</u>
CAPITAL ASSETS, NET	<u>\$1,721,977</u>	<u>\$584,443</u>	<u>\$-</u>	<u>\$2,306,420</u>

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

Component Unit Activities:		
DDA		\$14,046
	Total Depreciation Expense	<u>\$14,046</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, 2014 include the following:

The Library Ramp Phase II (\$43,838) was started during the year 2013; the remaining balance of the project is scheduled was completed in 2014. Phase III and IV were started during 2014.

City Hall project (\$14,160) was started during the year 2014; the project involves making the building ADA compliant.

Street projects (\$512,657) – The Street Projects include Washington Street and a roundabout, which were started during 2013 and are expected to be completed during 2016.

NOTE H – CONSTRUCTION IN PROGRESS (Continued):

DDA Capital Improvement Projects (\$2,034,840) – The Downtown Development Authority project 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 2011. The projects include gateways, Malton Road improvements, and street scape projects.

As of December 31, 2014, total construction in progress costs incurred amounted to \$570,655 in the governmental type activities, \$-0- in the business-type activities, and \$2,034,840 in the component unit.

NOTE I – LONG -TERM DEBT:

A summary of long-term obligations at December 31, 2014 and transactions related thereto for the year then ended is as follows:

	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014	Due Within One Year
GOVERNMENTAL ACTIVITIES:					
Installment payable for purchase of fire truck. Payable annually beginning January 1, 2006 including 4.375%. Secured by equipment.	\$135,000	\$-	(\$20,000)	\$115,000	\$20,000
Installment payable for purchase of various equipment. Payable annually including interest of 4.75% per annum. Secured by equipment. (Rural Development Loan)	65,000	-	(65,000)	-	-
Limited Tax General Obligation Building Authority Bonds, Series 2000. Payable semi-annually including interest of 4.25% per annum.	679,000	-	(26,000)	653,000	27,000
Limited Tax General Obligation Building Authority Bonds, Series 2002. Payable semi-annually including interest of 4.75% per annum.	70,000	-	(2,000)	68,000	2,000
Michigan Transportation Fund Bonds, Series 2003. Payable semi-annually including interest of 4.25%.	200,690	-	(36,600)	164,090	38,430
General Obligation Limited Tax Capital Improvement Bonds, Series 2011. Payable semi-annually including interest of 3.00% to 5.00% per annum.	668,400	-	(25,200)	643,200	27,600
SUBTOTAL	<u>1,818,090</u>	<u>-</u>	<u>(174,800)</u>	<u>1,643,290</u>	<u>115,030</u>
Less: Premium on bonds	(5,500)	-	5,500	-	-
Less: Deferred amounts on refunding	(18,345)	-	1,112	(17,233)	-
SUBTOTAL	<u>1,794,245</u>	<u>-</u>	<u>(168,188)</u>	<u>1,626,057</u>	<u>115,030</u>

NOTE I – LONG -TERM DEBT (Continued):

	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014	Due Within One Year
Compensated absences	\$269,617	\$-	(\$51,677)	\$217,940	\$9,447
TOTAL GOVERNMENTAL ACTIVITIES	<u>2,063,862</u>	<u>-</u>	<u>(219,865)</u>	<u>1,843,997</u>	<u>124,477</u>
BUSINESS-TYPE ACTIVITIES:					
Compensated absences	36,570	13,089	-	49,659	1,310
TOTAL BUSINESS-TYPE ACTIVITIES	<u>36,570</u>	<u>13,089</u>	<u>-</u>	<u>49,659</u>	<u>1,310</u>
TOTAL PRIMARY GOVERNMENT	<u>\$2,100,432</u>	<u>\$13,089</u>	<u>(\$219,865)</u>	<u>\$1,893,656</u>	<u>\$125,787</u>
COMPONENT UNIT:					
Michigan Transportation Fund Bonds, Series 2003. Payable semi-annually including interest of 4.25% per annum.	\$128,310	\$-	(\$23,400)	\$104,910	\$24,570
General Obligation Limited Tax Development Refunding Bonds, 2004 Series. Payable semi-annually including interest of 3.00% to 3.90% per annum.	55,000	-	(55,000)	-	-
General Obligation Limited Tax Capital Improvement Bonds, 2011 Series. Payable semi-annually including interest of 3.00% to 5.00% per annum.	2,116,600	-	(79,800)	2,036,800	87,400
TOTAL COMPONENT UNIT	<u>\$2,299,910</u>	<u>\$-</u>	<u>(\$158,200)</u>	<u>\$2,141,710</u>	<u>\$111,970</u>

The annual principal and interest requirements for the years ending December 31, 2014 and thereafter, excluding accrued compensated absences, are as follows:

	Governmental Activities			Component Unit		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$115,030	\$74,869	\$189,899	\$111,970	\$91,372	\$203,342
2016	121,060	70,007	191,067	116,940	87,628	204,568
2017	128,890	64,887	193,777	118,110	83,662	201,772
2018	134,510	59,212	193,722	126,490	79,028	205,518
2019	111,400	52,563	163,963	159,600	72,430	232,030
2020-2024	426,800	197,706	624,506	680,200	266,517	946,717
2025-2029	485,800	92,955	578,755	680,200	123,914	804,114
2030-2034	119,800	4,082	123,882	148,200	3,705	151,905
Totals	<u>\$1,643,290</u>	<u>\$616,281</u>	<u>\$2,259,571</u>	<u>\$2,141,710</u>	<u>\$808,256</u>	<u>\$2,949,966</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

NOTE J – COMPENSATED ABSENCES (Continued):

sick leave at the rate of one (1) day per month, not to exceed 12 days per year. Upon termination in good standing, retirement, death, or disability, employees or their estates, shall be paid for sick leave accumulated at their current rate of pay as dictated by the respective union contract or employment agreement.

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

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

	Sick	Vacation	Total
COMPENSATED ABSENCES:			
General Fund – Current Portion	\$-	\$9,447	\$9,447
Sewer	6,831	1,874	8,705
Water	26,980	13,974	40,954
Governmental Activities – Long-Term Portion	125,931	82,562	208,493
TOTAL	<u>\$159,742</u>	<u>\$107,857</u>	<u>\$267,599</u>

NOTE K – TAXES LEVIED FOR A SUBSEQUENT PERIOD:

Property taxes levied on December 1, 2014 have met all criteria related to revenue recognition except for time and as such are recorded as a deferred inflow of resources under GASB 65. The amount of taxes levied for a subsequent period is as follows:

Primary Government:		
General Fund		\$1,466,050
Public Improvement Fund		479,506
	Subtotal	<u>1,945,556</u>
Component Unit:		
DDA Fund		228,829
Fiduciary:		
Pension Trust Fund		198,922
	TOTAL	<u>\$2,373,307</u>

NOTE L – FUND BALANCES – GOVERNMENTAL FUNDS:

As of December 31, 2014, 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, 2014, fund balances are composed of the following:

	General Fund	Major Special Revenue Funds	Public Improvement Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable:					
Prepays	\$-	\$-	\$-	\$-	\$-
Corpus	-	-	-	1,104,780	1,104,780
Long-term note receivable	-	-	-	62,793	62,793
Restricted:					
Transportation Funds	-	302,600	-	-	302,600
Public Improvement	-	-	252,577	-	252,577
Library State Aid	-	-	-	-	-
Revolving Loan	-	-	-	48,225	48,225
Committed	-	-	-	-	-
Assigned:					
Garbage Activities	-	640,011	-	-	640,011
Building Authority	-	-	-	-	-
ADA Improvements	-	-	-	-	-
Library Activities	-	-	-	220,691	220,691
Iron Ore Heritage Trail	-	-	-	-	-
Lake Bancroft	-	-	-	11,829	11,829
Unassigned	622,593	-	-	-	622,593
Total fund balances	\$622,593	\$942,611	\$252,577	\$1,448,318	\$3,266,099

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

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

NOTE M – DEFINED BENEFIT PENSION PLAN:

Plan Description

The City participates in the Michigan Municipal Employees Retirement System, an 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, 2014 the City’s annual pension cost of \$436,887 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, 2012, 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.

Three Year Trend Information

Schedule of Funding Progress

	Actuarial Valuation Date		
	December 31		
	2011	2012	2013
Annual Pension Cost	\$299,347	\$324,447	\$348,394
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	-	-	-
Actuarial Value of Assets	8,038,246	8,033,750	8,213,071
Actuarial Accrued Liability (Entry Age)	12,502,771	13,181,663	14,130,225
Unfunded AAL	4,464,525	5,147,913	5,917,154
Funded Ratio	64%	61%	58%
Covered Payroll	1,196,757	1,068,176	1,164,993
UAAL as a Percentage of Covered Payroll	373%	482%	508%

Schedule of Employer Contributions

Fiscal Year Ending December	Valuation Date December 31,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	2010	\$324,447	100%	\$-
2013	2011	348,394	100%	-
2014	2012	436,887	100%	-

NOTE M – DEFINED BENEFIT PENSION PLAN (Continued):

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

Unfunded Accrued Liability

The Unfunded Accrued Liability (UAL) of the Plan as of December 31, 2013 (the most recent actuarial valuation) is \$5,917,154. The City has been working with MERS representatives to evaluate options available to reduce unfunded plan liabilities. The City has made various financial decisions to address the declining revenues and increasing expenditures. Actions taken include increasing the millage for the police and fire retirement system (an approximate savings of \$70,000 annually) and combining the City Clerk and Manager positions (an approximate savings of \$40,000 annually). One option for reducing the UAL that the City Council is reviewing is to designate a portion of the previously mentioned realized savings as a contribution to further pay down unfunded accrued liabilities as part of the annual required contribution in future years.

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. Management of the System is vested in City of Ishpeming ACT 345 Police-Fire Pension Board of the City of Ishpeming, Michigan Policemen and Firemen Retirement System, which consist of five members: two that are elected (two representing police employees), two that are appointed by the City Council of the City of Ishpeming and one that is the Treasurer of the City of Ishpeming.

Membership

Current membership in the plan comprises the following as of December 31, 2013, the latest actuarial valuation date:

Retirees and beneficiaries receiving benefits	22
Terminated plan members entitled to but not yet receiving benefits	3
Active plan members	9
Total	<u>34</u>

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, 2014 the City's annual pension cost of \$197,820 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, 2012, 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) 0.2% to 3.8% percent per year attributable to seniority/merit. 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 an open basis. The remaining amortization period is 30 years.

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

Three Year Trend Information

Schedule of Funding Progress

	Actuarial Valuation Date		
	December 31		
	2011	2012	2013
Annual Pension Cost	\$160,724	\$149,207	\$158,948
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	-	-	-
Actuarial Value of Assets	4,610,020	4,486,863	4,798,400
Actuarial Accrued Liability (Entry Age)	6,149,988	6,465,540	6,626,378
Unfunded AAL	1,539,968	1,978,677	1,827,978
Funded ratio	75%	69%	72%
Covered Payroll	407,599	475,834	487,529
UAAL as a Percentage of Covered Payroll	378%	416%	375%

Schedule of Employer Contributions

Fiscal Year Ending December	Valuation Date December 31,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	2010	\$149,207	100%	\$-
2013	2011	158,948	100%	-
2014	2012	197,820	107%	-

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

Deposits and Investments

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

Investment allocation policy

The System's policy in regard to the allocation of invested assets is established and may be amended by the City of Ishpeming ACT 345 Police-Fire Pension Board. The policy pursues an investment strategy that protects the financial health of the System and reduces risk through the prudent portfolio diversification. The adopted asset allocation policy as of December 31, 2014, is as follows:

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

Asset Class	Target Allocation
Global Equity:	
US Equities	25%
International Equities	25%
Hedged Equities	10%
Global fixed income	20%
Real Assets	
Natural Resources	7%
Real Estate	3%
Diversified Strategies	10%
	100%

Concentration of Investments

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

Doubleline Total Return – 44,395.3250 Units	\$487,017
Loomis Sayles Bond Fund – 16,612.9110 Units	246,369
Pimco Global Advantage – 22,696.2720 Units	241,261
AQR Intl Equity CL – 23,952.3790 Units	235,691
DFA Emerging Markets Small – 13,820.1300 Units	274,882
DFA Emerging Markets – 10,787.2530 Units	277,772
DFA INTL Small Cap – 12,325.7170 Units	229,258
DFA US Small Cap – 8,445.0730 Units	295,324
Robeco Boston Partners – 16,187.5630 Units	247,508
Schwab Fundamental INTL – 27,847.3850 Units	228,905
Schwab Fundamental US – 32,084.7660 Units	490,576

Unfunded Accrued Liability

The Unfunded Accrued Liability (UAL) of the Plan as of December 31, 2013 (the most recent actuarial valuation) is \$1,827,978. In October 2014, the City, per the recommendation of the actuary, changed the amortization period from 30 years to 25 years as one measure to help reduce the Plan's UAL. The City has also increased the millage levied for the Police-Fire Retirement System to cover the full amount of the actuarial required contribution (ARC); prior to the increase, the General Fund covered the deficit between the ARC and the amount levied.

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

The components of the net pension liability of the City at December 31, 2014, are as follows:

Total pension liability	\$6,626,378 *
Plan fiduciary net position	4,848,171
City's net pension liability	\$1,778,207
Plan fiduciary net position as a percentage of the total pension liability	73.2%

*As of December 31, 2013, the most recent actuarial report available.

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

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	4.5 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.0 percent, net of Plan investment expense, including inflation

Mortality rates were based on the RP-2000 Mortality Table (Combined Health), projected to the year 2017 using Projection Scale BB, set back 0 years for men and 0 year for women.

Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from System members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current System members. Therefore, the long-term expected rate of return on System investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of participating entities calculated using the discount rate of 7.0 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current rate:

	1% Decrease (6%)	Current Discount (7%)	1% Increase (8%)
	Not	Not	Not
City's net pension liability	Available	Available	Available

NOTE P – DEFERRED COMPENSATION PLAN:

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

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

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

NOTE P – DEFERRED COMPENSATION PLAN (Continued):

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 Q – 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 2014, expenses of \$27,152 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 R – 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 2014. The millage rate is based on each \$1,000.00 of property assessed valuation and the current Taxable Value of the City is \$101,118,514.

NOTE S – 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, 2014 is as follows:

Assets	\$2,687,635
Deferred outflows of resources	-
Liabilities	187,257
Deferred inflows of resources	314,487
Net Position	2,185,891
Operating Revenues	382,787
Operating Expenses	186,354

NOTE T – 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, 2014, is as follows:

Assets	\$7,205,110
Deferred Outflows of Resources	-
Liabilities	312,260
Deferred Inflows of Resources	-
Equity - All local units	6,892,850
Operating Revenues	1,003,198
Operating Expenses	1,391,911
Other Income	103,128
Net Income (loss)	(285,585)
City's Share of Net Income (loss)	(88,700)

Marquette County Solid Waste Management Authority

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

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

NOTE T – JOINT VENTURES (Continued):

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, 2014 is as follows:

Assets	\$11,743,007
Deferred Outflows of Resources	-
Liabilities	2,216,833
Deferred Inflows of Resources	-
Net Position	9,526,174
Operating Revenues	2,377,672
Operating Expenses	3,558,009
Non-operating Revenues (Expenses)	208,278
Net Income (Loss)	(972,059)

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, 2012 (the latest available financial report) is as follows:

Total Assets	\$1,889,142
Total Liabilities	6,574
Total Net Position	1,882,568
Total Operating Revenues	580,172
Total Operating Expenses	566,136
Other Revenues and (Expenses)	1,074
Net Income (Loss)	15,110

The balance of the investment in Board for the year ended December 31, 2014 of \$3,507,323 represents the City's net investment in the Board.

NOTE U – 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 V – SINGLE AUDIT:

During the 2014 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 W – NEW GASB STANDARDS:

Recently Issued and Adopted Accounting Pronouncements

In March 2012, the GASB issued Statement No. 66, *2012 Technical Corrections (an Amendment to GASB 10 and GASB 62)*. GASB No. 66 eliminates 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. This Statement is effective for periods beginning after December 15, 2013. The adoption of GASB No. 66 does not have any impact on the City's financial statements.

In June 2012, the GASB issued Statement No. 67 *Financial Reporting for Pension Plans*. GASB No. 67 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. This Statement is effective for periods beginning after June 15, 2013. The City adopted GASB 67 in fiscal year 2014.

NOTE W – NEW GASB STANDARDS (Continued):

Other Recently Issued Accounting Pronouncements

In January 2013, the GASB issued Statement No. 69 *Government Combinations and Disposals of Government Operations*. GASB No. 69 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. This Statement is effective for periods beginning after December 15, 2013. The adoption of GASB No. 69 does not have any impact on the City of Ishpeming's financial statements.

In April 2013, the GASB issued Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASB No. 70 addresses the accounting and disclosure of situations in which one government offers a financial guarantee on behalf of another government, not-for-profit organization, private entity, or individual without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). A government that extends a nonexchange financial guarantee will be required to recognize a liability when qualitative factors and/or historical data indicate that it is "more likely than not" that the government will be required to make a payment on the guarantee. It further requires governments to disclose any outstanding financial guarantees in the notes to the financial statements. This Statement is effective for periods beginning after June 15, 2013. As noted in Footnote A the City guarantees the debt of the DDA; however, the City has not been required to make a payment on the guarantee and as such the adoption of GASB No. 70 does not have any financial impact on the City's 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 68: Accounting and Financial Reporting for Pensions

Effective for fiscal years beginning after 06/15/2014 (City's fiscal year 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.

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

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 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 68 is 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 71: Pension Transition for Contributions Made Subsequent to the Measurement Date (an Amendment of GASB Statement No. 68)

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

This standard is an amendment to GASB 68, and seeks to clarify implementation issues related to amounts that are deferred and amortized at the time GASB 68 is first adopted. It applies to situations in which the measurement date of an actuarial valuation differs from the government's fiscal year.

GASB 72: Fair Value Measurement and Application

Effective for fiscal years beginning after 06/15/ 2015 (City's fiscal year 2016)

This standard addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard provides guidance for determining a fair value measurement for financial reporting purposes. It also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

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, 2014 the City incurred functional expenditures which were in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Government:			
General Fund:			
Legislative	\$15,100	\$15,188	(\$88)
Public Safety	724,224	730,265	(6,041)
Public Works	724,705	737,071	(12,366)
Community and economic development	14,450	15,447	(997)

NOTE Y – BUDGETARY NON-COMPLIANCE (Continued):

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Government (Continued):			
General Fund (Continued):			
Recreation and Culture	\$292,110	\$300,549	(\$8,439)
Transfers Out	8,074	8,427	(353)
Major Street Fund:			
Public Works	899,390	1,014,627	(115,237)
Garbage & Rubbish Fund:			
Public Works	520,397	596,413	(76,016)
Building Authority Fund:			
Other Governmental	-	14,161	(14,161)
Library State Aid Fund:			
Recreation and Culture	16,100	16,443	(343)
Library Fund:			
Recreation and Culture	51,100	60,088	(8,988)
Discretely Presented Component Unit:			
DDA Fund:			
Other Governmental	756,857	859,669	(102,812)

REQUIRED SUPPLEMENTARY INFORMATION

City of Ishpeming, Michigan

MICHIGAN MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

DEFINED BENEFIT PENSION PLAN

ANALYSIS OF FUNDING INFORMATION

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date December 31	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability	(b - a) Unfunded Accrued Liability	(a / b) Funded Ratio	(c) Annual Covered Payroll	[(b - a) / c] UAAL as a Percentage of Covered Payroll
2004	\$ 6,885,453	\$ 9,167,819	\$ 2,282,366	75%	\$ 1,363,411	167%
2005	7,115,352	9,752,385	2,637,033	73%	1,144,166	230%
2006	7,416,851	10,228,720	2,811,869	73%	1,171,618	240%
2007	7,839,665	10,703,233	2,863,568	73%	1,166,413	246%
2008	7,930,352	10,962,099	3,031,747	72%	1,249,766	243%
2009	7,993,332	11,662,905	3,669,573	69%	1,272,934	288%
2010	7,994,750	12,141,837	4,147,087	66%	1,221,199	340%
2011	8,038,246	12,502,771	4,464,525	64%	1,196,757	373%
2012	8,033,750	13,181,663	5,147,913	61%	1,068,176	482%
2013	8,213,071	14,130,225	5,917,154	58%	1,164,993	508%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ending December 31	Valuation Date December 31	Annual Required Contribution	Percentage of ARC Contributed	Net Pension Obligation
2005	2003	\$ 178,654	100%	\$-
2006	2004	206,132	100%	-
2007	2005	233,195	100%	-
2008	2006	249,052	100%	-
2009	2007	263,784	100%	-
2010	2008	259,506	100%	-
2011	2009	299,347	100%	-
2012	2010	324,447	100%	-
2013	2011	348,394	100%	-
2014	2012	436,887	100%	-

Notes to the Required Schedules

The required contribution has been calculated to increase at the same rate as the projected increase in active member payroll (4.5% per year). The unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll over a period of 15 years. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with GASB requirements.

City of Ishpeming, Michigan

POLICE AND FIRE RETIREMENT SYSTEM

DEFINED BENEFIT PENSION PLAN

ANALYSIS OF FUNDING INFORMATION

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date December 31	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability	(b - a) Unfunded Accrued Liability	(a / b) Funded Ratio	(c) Annual Covered Payroll	[(b - a) / c] UAAL as a Percentage of Covered Payroll
2004	\$ 5,395,745	\$ 5,318,589	\$ (77,156)	101%	\$ 770,263	-%
2005	5,476,760	5,734,681	257,921	96%	765,143	34%
2006	5,536,098	5,898,103	362,005	94%	455,750	79%
2007	5,639,791	6,012,631	372,840	94%	472,266	79%
2008	5,094,576	6,079,113	984,537	84%	450,111	219%
2009	4,925,254	6,170,793	1,245,539	80%	490,598	254%
2010	4,816,472	6,034,581	1,218,109	80%	441,036	276%
2011	4,610,020	6,149,988	1,539,968	75%	407,599	378%
2012	4,486,863	6,465,540	1,978,677	69%	475,834	416%
2013	4,798,400	6,626,378	1,827,978	72%	487,529	375%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ending December 31	Valuation Date December 31	Annual Required Contribution	Percentage of ARC Contributed	Net Pension Obligation
2005	2003	\$ 103,643	100%	\$-
2006	2004	126,033	100%	-
2007	2005	94,165	100%	-
2008	2006	108,895	100%	-
2009	2007	113,460	100%	-
2010	2008	139,448	100%	-
2011	2009	160,724	100%	-
2012	2010	149,207	100%	-
2013	2011	158,948	100%	-
2014	2012	201,791	100%	-

Notes to the Required Schedules

The required contribution has been calculated to increase at the same rate as the projected increase in active member payroll (4.5% per year). The unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll over a period of 30 years. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with GASB requirements.

City of Ishpeming, Michigan

POLICE AND FIRE RETIREMENT SYSTEM

DEFINED BENEFIT PENSION PLAN

ANALYSIS OF FUNDING INFORMATION

SCHEDULE OF CITY CONTRIBUTIONS

(Ultimately 10 years will be displayed)

<u>Fiscal Year Ending</u>	<u>Actuarial Determined Contribution</u>	<u>Contribution in Relation to the Actuarial Determined Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contribution as Percentage of Covered Payroll</u>
2014	\$ 197,820	\$ 201,791	\$ (3,971)	Not available	Not available

City of Ishpeming, Michigan

POLICE AND FIRE RETIREMENT SYSTEM

DEFINED BENEFIT PENSION PLAN

ANALYSIS OF FUNDING INFORMATION

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

(Ultimately 10 years will be displayed)

	<u>2014</u>
Change in total pension liability	
Service cost	Not Available *
Interest	Not Available *
Change in benefit terms	Not Available *
Differences between expected and actual experience	Not Available *
Changes in assumptions	Not Available *
Benefit payments, including refunds of member contributions	Not Available *
Net change in total pension liability	<u>Not Available *</u>
Total pension liability, beginning of year	<u>Not Available *</u>
Total pension liability, end of year (a)	<u>Not Available *</u>
Change in plan fiduciary net position	
Contributions – taxes	201,791
Contributions – member	22,745
Net investment income	101,470
Benefit payments, including refunds of member contributions	(431,840)
Administrative expense	<u>(38,822)</u>
Net change in plan fiduciary net position	
Plan fiduciary net position, beginning of year	<u>4,992,827</u>
Plan fiduciary net position, end of year (b)	<u>4,848,171</u>
City's net pension liability, end of year (a)-(b)	<u>\$ 1,778,207</u>
Plan fiduciary net position as a percentage of the total pension liability	Not Available *
Covered-employee payroll	Not Available *
City's net pension liability as a percentage of covered payroll	Not Available *

*Actuarial information not available

City of Ishpeming, Michigan

POLICE AND FIRE RETIREMENT SYSTEM

DEFINED BENEFIT PENSION PLAN

ANALYSIS OF FUNDING INFORMATION

SCHEDULE OF INVESTMENT RETURNS

(Ultimately 10 years will be displayed)

Fiscal Year Ended <u>December 31,</u>	Annual Money-Weighted Rate of Return, <u>Net of Investment Expense</u>
2014	Not available

City of Ishpeming, Michigan

MAJOR GOVERNMENTAL FUNDS

GENERAL FUND

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

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

SPECIAL REVENUE FUNDS

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

CAPITAL PROJECTS FUNDS

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

City of Ishpeming, Michigan

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2014

With Comparative Actual Amounts for the Year Ended December 31, 2013

	2014			Variance with Final Budget Positive (Negative)	2013
	Original Budget	Final Budget	Actual GAAP Basis		
REVENUES:					
Taxes	\$ 1,547,466	\$ 1,302,370	\$ 1,319,162	\$ 16,792	\$ 1,470,028
State sources	799,115	812,948	818,563	5,615	791,692
Licenses and permits	164,000	176,200	181,597	5,397	53,309
Service charges	54,660	67,960	83,618	15,658	362,537
Interest income and rentals	266,000	499,600	471,595	(28,005)	11,739
Contributions	-	1,900	2,007	107	1,547
Fines and forfeitures	60,200	72,588	62,016	(10,572)	49,368
Other revenues	15,000	65,000	102,834	37,834	74,124
TOTAL REVENUES	2,906,441	2,998,566	3,041,392	42,826	2,814,344
EXPENDITURES:					
Current operations:					
Legislative	18,250	15,100	15,188	(88)	14,055
General government	1,460,960	1,250,198	1,043,405	206,793	1,229,681
Public safety	711,870	724,224	730,265	(6,041)	710,018
Public works	627,650	724,705	737,071	(12,366)	676,990
Community and economic development		14,450	15,447	(997)	5,574
Recreation and culture	272,790	292,110	300,549	(8,439)	282,919
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Capital outlay	-	-	-	-	-
TOTAL EXPENDITURES	3,091,520	3,020,787	2,841,925	178,862	2,919,237
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(185,079)	(22,221)	199,467	221,688	(104,893)
OTHER FINANCING SOURCES (USES):					
Proceeds from sale of capital assets	-	-	-	-	8,370
Transfers in	316,997	111,687	105,102	(6,585)	341,316
Transfers (out)	(130,590)	(8,074)	(8,427)	(353)	(90,887)
TOTAL OTHER FINANCING SOURCES (USES)	186,407	103,613	96,675	(6,938)	258,799
CHANGE IN FUND BALANCE	1,328	81,392	296,142	214,750	153,906
Fund balance, beginning of year	326,451	326,451	326,451	-	172,545
FUND BALANCE, END OF YEAR	\$ 327,779	\$ 407,843	\$ 622,593	\$ 214,750	\$ 326,451

City of Ishpeming, Michigan

MAJOR SPECIAL REVENUE FUNDS

MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2014

With Comparative Actual Amounts for the Year Ended December 31, 2013

	2014			Variance with Final Budget Positive (Negative)	2013
	Original Budget	Final Budget	Actual GAAP Basis		
REVENUES:					
Federal sources	\$ 375,000	\$ 375,000	\$ 375,000	\$ -	\$ -
State sources	390,200	418,648	438,693	20,045	412,595
Interest income and rentals	100	100	99	(1)	-
Other revenue	-	-	326	326	-
TOTAL REVENUES	765,300	793,748	814,118	20,370	412,595
EXPENDITURES:					
Public Works					
Construction	528,750	534,250	584,986	(50,736)	7,886
Routine maintenance	30,000	5,000	10,991	(5,991)	3,732
Traffic service	14,000	4,500	4,520	(20)	8,720
Winter maintenance	225,000	227,000	352,563	(125,563)	264,680
Administration	79,000	102,800	28,299	74,501	103,309
State trunkline	32,100	25,840	33,268	(7,428)	25,480
Total Public Works	<u>908,850</u>	<u>899,390</u>	<u>1,014,627</u>	<u>(115,237)</u>	<u>413,807</u>
Debt service:					
Principal	28,200	28,200	28,200	-	27,260
Interest and fiscal charges	6,821	6,572	6,572	-	7,344
Total Debt Service	<u>35,021</u>	<u>34,772</u>	<u>34,772</u>	<u>-</u>	<u>34,604</u>
TOTAL EXPENDITURES	943,871	934,162	1,049,399	(115,237)	448,411
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(178,571)	(140,414)	(235,281)	(94,867)	(35,816)
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	-	-	-	-	-
Transfers in	188,771	140,414	119,607	(20,807)	72,000
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	188,771	140,414	119,607	(20,807)	72,000
CHANGE IN FUND BALANCE	10,200	-	(115,674)	(115,674)	36,184
Fund balance, beginning of year	115,674	115,674	115,674	-	79,490
FUND BALANCE, END OF YEAR	\$ 125,874	\$ 115,674	\$ -	\$ (115,674)	\$ 115,674

City of Ishpeming, Michigan

MAJOR SPECIAL REVENUE FUNDS

LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2014

With Comparative Actual Amounts for the Year Ended December 31, 2013

	2014				2013
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	
REVENUES:					
Federal sources	\$ -	\$ 1,356	\$ 1,356	\$ -	\$ -
State sources	239,700	252,533	266,099	13,566	252,375
Interest income and rentals	-	-	187	187	-
Other revenue	-	-	-	-	-
TOTAL REVENUES	239,700	253,889	267,642	13,753	252,375
EXPENDITURES:					
Public Works					
Construction	100,000	200,000	8,500	191,500	-
Routine maintenance	40,500	7,000	21,862	(14,862)	5,650
Traffic service	15,000	5,000	11,302	(6,302)	7,683
Winter maintenance	242,500	214,500	216,470	(1,970)	242,456
Administration	79,000	91,000	27,118	63,882	92,679
Total Public Works	<u>477,000</u>	<u>517,500</u>	<u>285,252</u>	<u>232,248</u>	<u>348,468</u>
Debt service:					
Principal	8,400	8,400	8,400	-	8,120
Interest and fiscal charges	2,032	1,958	1,958	-	2,188
Total Debt Service	<u>10,432</u>	<u>10,358</u>	<u>10,358</u>	<u>-</u>	<u>10,308</u>
TOTAL EXPENDITURES	487,432	527,858	295,610	232,248	358,776
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(247,732)	(273,969)	(27,968)	246,001	(106,401)
OTHER FINANCING SOURCES (USES):					
Transfers in	235,032	273,969	273,969	-	163,000
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	235,032	273,969	273,969	-	163,000
CHANGE IN FUND BALANCE	(12,700)	-	246,001	246,001	56,599
Fund balance, beginning of year	56,599	56,599	56,599	-	-
FUND BALANCE, END OF YEAR	\$ 43,899	\$ 56,599	\$ 302,600	\$ 246,001	\$ 56,599

City of Ishpeming, Michigan

MAJOR SPECIAL REVENUE FUNDS

GARBAGE & RUBBISH FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2014

With Comparative Actual Amounts for the Year Ended December 31, 2013

	2014			Variance with Final Budget Positive (Negative)	2013
	Original Budget	Final Budget	Actual GAAP Basis		
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	523,000	463,000	538,440	75,440	565,615
Interest income and rentals	1,000	1,150	1,802	652	-
Contributions	-	-	-	-	-
Other revenue	-	-	-	-	-
TOTAL REVENUES	524,000	464,150	540,242	76,092	565,615
EXPENDITURES:					
Current operations:					
Public Works	440,080	520,397	596,413	(76,016)	484,707
TOTAL EXPENDITURES	440,080	520,397	596,413	(76,016)	484,707
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	83,920	(56,247)	(56,171)	76	80,908
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	-	-	-
Transfers (out)	(75,200)	(56,250)	(56,250)	-	(68,800)
TOTAL OTHER FINANCING SOURCES (USES)	(75,200)	(56,250)	(56,250)	-	(68,800)
CHANGE IN FUND BALANCE	8,720	(112,497)	(112,421)	76	12,108
Fund balance, beginning of year	752,432	752,432	752,432	-	740,324
FUND BALANCE, END OF YEAR	\$ 761,152	\$ 639,935	\$ 640,011	\$ 76	\$ 752,432

City of Ishpeming, Michigan

MAJOR CAPITAL PROJECTS FUNDS

PUBLIC IMPROVEMENT FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2014

With Comparative Actual Amounts for the Year Ended December 31, 2013

	2014		Actual GAAP Basis	Variance with Final Budget Positive (Negative)	2013
	Original Budget	Final Budget			
REVENUES:					
Taxes	\$ 413,870	\$ 408,756	\$ 408,756	\$ -	\$ 406,341
Federal sources	32,513	57,958	81,971	24,013	-
State sources	-	-	-	-	-
Charges for services	147,000	144,000	111,621	(32,379)	118,138
Interest income and rentals	500	1,100	1,549	449	-
Contributions	148,300	-	-	-	141,000
Other revenue	-	-	-	-	5,000
TOTAL REVENUES	742,183	611,814	603,897	(7,917)	670,479
EXPENDITURES:					
Capital Outlay:					
City manager	5,500	4,800	4,798	2	1,695
City assessor	-	-	-	-	-
City clerk	17,300	1,800	-	1,800	-
City treasurer	1,800	15,600	12,978	2,622	1,264
City hall & grounds	10,000	-	-	-	995
Cemetery	29,500	15,500	10,135	5,365	38,820
Police	57,900	49,700	47,787	1,913	36,106
Fire	63,625	114,100	116,938	(2,838)	146,303
Public works	110,000	77,088	75,908	1,180	27,000
Parks	3,200	3,200	-	3,200	7,761
Playlots	15,000	-	-	-	-
Al Quaal	45,000	37,978	37,978	-	821
Library	34,500	40,300	38,768	1,532	125,957
Contracted services	44,000	53,000	16,718	36,282	61,305
Total Capital Outlay	437,325	413,066	362,008	51,058	448,027
Debt service:					
Principal	85,000	85,000	85,000	-	85,000
Interest and fiscal charges	8,993	8,994	8,994	-	12,956
Total Debt Service	93,993	93,994	93,994	-	97,956
TOTAL EXPENDITURES	531,318	507,060	456,002	51,058	545,983
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	210,865	104,754	147,895	43,141	124,496
OTHER FINANCING SOURCES (USES):					
Transfers in	45,100	-	-	-	43,000
Transfers (out)	(416,766)	(397,012)	(390,358)	6,654	(309,600)
TOTAL OTHER FINANCING SOURCES (USES)	(371,666)	(397,012)	(390,358)	6,654	(266,600)
CHANGE IN FUND BALANCE	(160,801)	(292,258)	(242,463)	49,795	(142,104)
Fund balance, beginning of year	495,040	495,040	495,040	-	637,144
FUND BALANCE, END OF YEAR	\$ 334,239	\$ 202,782	\$ 252,577	\$ 49,795	\$ 495,040

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 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.

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 PARTRIDGE CREEK FUND is a Non-major Capital Project Fund.

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, 2014

	Special Revenue Funds	Capital Projects Partridge Creek Fund	Permanent Funds		Total Non-Major Governmental Funds
			Perpetual Care Fund	Cemetery Care Fund	
ASSETS					
Cash and cash equivalents	\$ 287,695	\$ -	\$ 412,630	\$ 98,275	\$ 798,600
Investments	-	-	615,321	70,223	685,544
Accounts receivable, net	-	-	-	-	-
Taxes receivable	-	-	-	-	-
Other receivable	-	-	-	-	-
Due from other governments	-	-	-	-	-
Due from other funds	-	-	-	-	-
Notes receivable	62,793	-	-	-	62,793
TOTAL ASSETS	350,488	-	1,027,951	168,498	1,546,937
DEFERRED OUTFLOWS OF RESOURCES					
Premium on investment	-	-	3,038	-	3,038
TOTAL DEFERRED OUTFLOWS OF RESOURCES	-	-	3,038	-	3,038
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 350,488	\$ -	\$ 1,030,989	\$ 168,498	\$ 1,549,975
LIABILITIES					
Cash overdrafts	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	6,950	-	-	-	6,950
Accrued payroll	-	-	-	-	-
Accrued sick and vacation	-	-	-	-	-
Due to other funds	-	-	76,536	15,656	92,192
TOTAL LIABILITIES	6,950	-	76,536	15,656	99,142
DEFERRED INFLOWS OF RESOURCES					
Taxes levied for a subsequent period	-	-	-	-	-
Discount on investment	-	-	1,890	625	2,515
TOTAL DEFERRED INFLOWS OF RESOURCES	-	-	1,890	625	2,515
FUND BALANCE					
Non-spendable	62,793	-	952,563	152,217	1,167,573
Restricted	48,225	-	-	-	48,225
Committed	-	-	-	-	-
Assigned	232,520	-	-	-	232,520
Unassigned	-	-	-	-	-
TOTAL FUND BALANCE	343,538	-	952,563	152,217	1,448,318
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 350,488	\$ -	\$ 1,030,989	\$ 168,498	\$ 1,549,975

City of Ishpeming, Michigan

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended December 31, 2014

	Special Revenue Funds	Capital Projects Partridge Creek Fund	Permanent Funds Perpetual Care Fund	Cemetery Care Fund	Total Non-Major Governmental Funds
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	486,139	-	-	486,139
State sources	8,016	-	-	-	8,016
Charges for services	-	-	19,250	-	19,250
Interest income and rentals	3,652	-	42,344	2,950	48,946
Contributions	94,163	-	-	-	94,163
Other revenues	475	-	-	-	475
TOTAL REVENUES	106,306	486,139	61,594	2,950	656,989
EXPENDITURES:					
Current operations:					
Public works	-	-	-	-	-
Recreation and culture	77,849	-	-	-	77,849
Other governmental	32,157	-	-	-	32,157
Debt service:					
Principal	28,000	25,200	-	-	53,200
Interest and fiscal charges	37,457	27,971	-	-	65,428
Capital outlay	-	508,125	-	-	508,125
TOTAL EXPENDITURES	175,463	561,296	-	-	736,759
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(69,157)	(75,157)	61,594	2,950	(79,770)
OTHER FINANCING SOURCES (USES):					
Transfers in	87,404	87,805	-	-	175,209
Transfers (out)	(233,289)	(12,648)	(22,266)	(649)	(268,852)
TOTAL OTHER FINANCING SOURCES (USES)	(145,885)	75,157	(22,266)	(649)	(93,643)
CHANGE IN FUND BALANCE	(215,042)	-	39,328	2,301	(173,413)
Fund balance, beginning of year	558,580	-	913,235	149,916	1,621,731
FUND BALANCE, END OF YEAR	\$ 343,538	\$ -	\$ 952,563	\$ 152,217	\$ 1,448,318

City of Ishpeming, Michigan

NON-MAJOR SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

December 31, 2014

	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	\$ -	\$ -	\$ 227,641	\$ -	\$ 48,225	\$ 11,829	\$ 287,695
Investments	-	-	-	-	-	-	-
Accounts receivable, net	-	-	-	-	-	-	-
Taxes receivable	-	-	-	-	-	-	-
Other receivable	-	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	62,793	-	62,793
TOTAL ASSETS	-	-	227,641	-	111,018	11,829	350,488
DEFERRED OUTFLOWS OF RESOURCES							
	-	-	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ -	\$ 227,641	\$ -	\$ 111,018	\$ 11,829	\$ 350,488
LIABILITIES							
Cash overdrafts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	-	-	6,950	-	-	-	6,950
Accrued payroll	-	-	-	-	-	-	-
Accrued sick and vacation	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-
TOTAL LIABILITIES	-	-	6,950	-	-	-	6,950
DEFERRED INFLOWS OF RESOURCES							
Taxes levied for a subsequent period	-	-	-	-	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	-	-	-	-	-	-	-
FUND BALANCE							
Non-spendable	-	-	-	-	62,793	-	62,793
Restricted	-	-	-	-	48,225	-	48,225
Committed	-	-	-	-	-	-	-
Assigned	-	-	220,691	-	-	11,829	232,520
Unassigned	-	-	-	-	-	-	-
TOTAL FUND BALANCE	-	-	220,691	-	111,018	11,829	343,538
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ -	\$ -	\$ 227,641	\$ -	\$ 111,018	\$ 11,829	\$ 350,488

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, 2014

	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	-	8,016	-	-	-	-	8,016
Charges for services	-	-	-	-	-	-	-
Interest and rentals	-	-	561	-	3,059	32	3,652
Contributions	-	-	93,881	-	-	282	94,163
Fines and forfeitures	-	-	-	-	-	-	-
Other revenue	-	-	475	-	-	-	475
TOTAL REVENUES	-	8,016	94,917	-	3,059	314	106,306
EXPENDITURES:							
Current operations:							
Public works	-	-	-	-	-	-	-
Recreation and culture	-	16,443	60,088	113	-	1,205	77,849
Other governmental	14,161	-	-	-	17,996	-	32,157
Debt service:							
Principal	28,000	-	-	-	-	-	28,000
Interest and fiscal charges	37,457	-	-	-	-	-	37,457
Capital outlay	-	-	-	-	-	-	-
TOTAL EXPENDITURES	79,618	16,443	60,088	113	17,996	1,205	175,463
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(79,618)	(8,427)	34,829	(113)	(14,937)	(891)	(69,157)
OTHER FINANCING SOURCES:							
Transfers in	78,977	8,427	-	-	-	-	87,404
Transfers (out)	-	-	-	(13,289)	(220,000)	-	(233,289)
TOTAL OTHER FINANCING SOURCES (USES)	78,977	8,427	-	(13,289)	(220,000)	-	(145,885)
CHANGE IN FUND BALANCE	(641)	-	34,829	(13,402)	(234,937)	(891)	(215,042)
Fund balance, beginning of year	641	-	185,862	13,402	345,955	12,720	558,580
FUND BALANCE, END OF YEAR	\$ -	\$ -	\$ 220,691	\$ -	\$ 111,018	\$ 11,829	\$ 343,538

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 441,378	\$ 98,462
Accounts receivable	110,212	128,342
Allowance for uncollectible accounts	-	-
Prepaid expenses	-	-
Non-current Assets:		
Investment in Wastewater Treatment Facility	3,458,501	3,547,201
Capital Assets:		
Land and construction in progress	-	-
Other capital assets, net of depreciation	<u>5,182,638</u>	<u>5,507,292</u>
Total Capital Assets	<u>5,182,638</u>	<u>5,507,292</u>
TOTAL ASSETS	<u>9,192,729</u>	<u>9,281,297</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	539	1,057
Accrued payroll	2,562	2,178
Due to other funds	30,000	30,000
Non-current Liabilities:		
Portion due or payable within one year		
Compensated absences	236	6,276
Portion due or payable after one year		
Compensated absences	<u>8,469</u>	<u>-</u>
TOTAL LIABILITIES	<u>41,806</u>	<u>39,511</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	8,641,139	9,054,493
Unrestricted	<u>509,784</u>	<u>187,293</u>
TOTAL NET POSITION	<u><u>\$ 9,150,923</u></u>	<u><u>\$ 9,241,786</u></u>

City of Ishpeming, Michigan

SEWER FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2014

With Comparative Actual Amounts for the Year Ended December 31, 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES:		
Federal sources	\$ -	19,611
State sources	3,269	-
Charges for services	1,353,263	1,064,663
Other revenue	<u>281</u>	<u>141</u>
TOTAL OPERATING REVENUES	<u>1,356,813</u>	<u>1,084,415</u>
OPERATING EXPENSES:		
Personal services	221,105	191,433
Contractual services	667,212	656,240
Supplies	9,564	11,057
Utilities	2,590	2,324
Depreciation	359,214	361,060
Payment in lieu of taxes	-	222,000
Other expenses	<u>100,393</u>	<u>36,423</u>
TOTAL OPERATING EXPENSES	<u>1,360,078</u>	<u>1,480,537</u>
OPERATING INCOME (LOSS)	<u>(3,265)</u>	<u>(396,122)</u>
NON-OPERATING REVENUES (EXPENSES):		
Gain/(Loss) on wastewater facility	(88,700)	(62,277)
Interest income and rentals	<u>1,102</u>	<u>237</u>
TOTAL NON-OPERATING (EXPENSES)	<u>(87,598)</u>	<u>(62,040)</u>
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	(90,863)	(458,162)
Transfers in	-	-
Transfers (out)	<u>-</u>	<u>(90,000)</u>
CHANGE IN NET POSITION	(90,863)	(548,162)
Net position, beginning of year	<u>9,241,786</u>	<u>9,789,948</u>
NET POSITION, END OF YEAR	<u><u>\$ 9,150,923</u></u>	<u><u>\$ 9,241,786</u></u>

City of Ishpeming, Michigan

SEWER FUND

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2014

With Comparative Actual Amounts for the Year Ended December 31, 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fees and charges for services	\$ 1,371,393	\$ 1,026,288
Other operating revenues	3,550	19,752
Cash payments to employees for services	(201,377)	(175,910)
Cash payments for payroll taxes	(16,915)	(14,645)
Cash payments to suppliers for goods and services	<u>(780,277)</u>	<u>(927,182)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>376,374</u>	<u>(71,697)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers in (out)	-	(90,000)
Increase in due to other funds	-	30,000
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>(60,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	<u>(34,560)</u>	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(34,560)</u>	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	<u>1,102</u>	<u>237</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>1,102</u>	<u>237</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	342,916	(131,460)
Cash and cash equivalents, beginning of year	<u>98,462</u>	<u>229,922</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 441,378</u>	<u>\$ 98,462</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (3,265)	\$ (396,122)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	359,214	361,060
Change in assets and liabilities:		
(Increase) decrease in accounts receivable, net	18,130	(38,375)
(Increase) decrease in prepaid expenses	-	-
Increase (decrease) in accounts payable	(518)	862
Increase (decrease) in accrued payroll	384	664
Increase (decrease) in accrued sick and vacation	2,429	214
NET ADJUSTMENTS	<u>379,639</u>	<u>324,425</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 376,374</u>	<u>\$ (71,697)</u>

City of Ishpeming, Michigan

WATER FUND

COMPARATIVE STATEMENT OF NET POSITION

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ -	\$ 444,189
Accounts receivable	385,230	400,532
Allowance for uncollectible accounts	-	-
Delinquent utilities	41,505	-
Due from other governmental units	1,090,940	-
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	<u>1,498,479</u>	<u>1,572,340</u>
Total Capital Assets	<u>1,509,367</u>	<u>1,583,228</u>
TOTAL ASSETS	<u>6,534,365</u>	<u>5,935,272</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
LIABILITIES		
Current Liabilities:		
Cash overdrafts	922,954	-
Accounts payable	381,519	89,444
Accrued liabilities	97,975	86,200
Accrued payroll	5,085	8,241
Non-current Liabilities:		
Portion due or payable within one year		
Compensated absences	1,074	30,294
Portion due or payable after one year		
Compensated absences	<u>39,880</u>	<u>-</u>
TOTAL LIABILITIES	<u>1,448,487</u>	<u>214,179</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	5,016,690	5,090,551
Unrestricted	<u>69,188</u>	<u>630,542</u>
TOTAL NET POSITION	<u><u>\$ 5,085,878</u></u>	<u><u>\$ 5,721,093</u></u>

City of Ishpeming, Michigan

WATER FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2014

With Comparative Actual Amounts for the Year Ended December 31, 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES:		
Federal sources	\$ 990,940	\$ -
State sources	100,000	-
Charges for services	1,440,104	1,195,621
Other revenue	<u>1,627</u>	<u>3,820</u>
TOTAL OPERATING REVENUES	<u>2,532,671</u>	<u>1,199,441</u>
OPERATING EXPENSES:		
Personal services	691,312	465,800
Contractual services	813,631	532,125
Supplies	188,303	108,832
Utilities	15,862	12,995
Depreciation	73,861	73,899
Payment in lieu of taxes	-	137,000
Other expenses	<u>1,435,212</u>	<u>25,080</u>
TOTAL OPERATING EXPENSES	<u>3,218,181</u>	<u>1,355,731</u>
OPERATING INCOME (LOSS)	<u>(685,510)</u>	<u>(156,290)</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income and rentals	<u>295</u>	<u>-</u>
TOTAL NON-OPERATING (EXPENSES)	<u>295</u>	<u>-</u>
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	(685,215)	(156,290)
Transfers in (out)	<u>50,000</u>	<u>(142,500)</u>
CHANGE IN NET POSITION	(635,215)	(298,790)
Net position, beginning of year	<u>5,721,093</u>	<u>6,019,883</u>
NET POSITION, END OF YEAR	<u><u>\$ 5,085,878</u></u>	<u><u>\$ 5,721,093</u></u>

City of Ishpeming, Michigan

WATER FUND

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2014

With Comparative Actual Amounts for the Year Ended December 31, 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fees and charges for services	\$ 1,413,901	\$ 1,154,885
Other operating revenues	1,627	3,820
Cash payments to employees for services	(630,923)	(421,414)
Cash payments for payroll taxes	(52,885)	(35,634)
Cash payments to suppliers for goods and services	<u>(2,149,158)</u>	<u>(764,229)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(1,417,438)</u>	<u>(62,572)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers in(out)	<u>50,000</u>	<u>(142,500)</u>
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	<u>50,000</u>	<u>(142,500)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	<u>-</u>	<u>-</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	<u>295</u>	<u>-</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>295</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,367,143)	(205,072)
Cash and cash equivalents, beginning of year	<u>444,189</u>	<u>649,261</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ (922,954)</u>	<u>\$ 444,189</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	<u>\$ (685,510)</u>	<u>\$ (156,290)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	73,861	73,899
Change in assets and liabilities:		
(Increase) decrease in accounts receivable, net	(26,203)	(40,736)
(Increase) decrease in due from other governmental units	(1,090,940)	-
Increase (decrease) in accounts payable	292,075	41,553
Increase (decrease) in customer deposits payable	11,775	10,250
Increase (decrease) in accrued payroll	(3,156)	4,525
Increase (decrease) in accrued sick and vacation	10,660	4,227
NET ADJUSTMENTS	<u>(731,928)</u>	<u>93,718</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (1,417,438)</u>	<u>\$ (62,572)</u>

City of Ishpeming, Michigan

FIDUCIARY FUNDS

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

City of Ishpeming, Michigan

FIDUCIARY FUNDS

COMBINING STATEMENT OF FIDUCIARY NET POSITION

December 31, 2014

	Agency Funds		
	Trust & Agency Fund	Tax Collection Fund	Totals
ASSETS			
Cash and equivalents	\$ 2,340	\$ 307,321	\$ 309,661
Due from other governments	-	-	-
Due from other funds	-	-	-
	-	-	-
TOTAL ASSETS	\$ 2,340	\$ 307,321	\$ 309,661
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	1,505	2,458	3,963
Due to other governmental units	835	304,863	305,698
	835	304,863	305,698
TOTAL LIABILITIES	\$ 2,340	\$ 307,321	\$ 309,661

City of Ishpeming, Michigan

DISCRETELY PRESENTED COMPONENT UNIT

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

City of Ishpeming, Michigan

DISCRETELY PRESENTED COMPONENT UNIT

DOWNTOWN DEVELOPMENT AUTHORITY

COMPARATIVE BALANCE SHEET

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 335,649	\$ 398,098
Investments	-	-
Accounts receivable, net	-	156,461
Taxes receivable	171,344	581,954
Other receivable	-	-
Due from other governments	-	-
Primary government internal balances	744,943	744,943
Prepaid expenditures	-	-
Notes receivable	-	-
	<hr/>	<hr/>
TOTAL ASSETS	1,251,936	1,881,456
	<hr/>	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	-	-
	<hr/>	<hr/>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,251,936	\$ 1,881,456
	<hr/>	<hr/>
LIABILITIES		
Cash overdrafts	\$ -	\$ -
Accounts payable	19,271	16,170
Due to comp unit	-	-
Accrued payroll	1,205	471
Accrued sick and vacation leave	-	-
Accrued liabilities	-	-
Deferred revenue	-	-
Due to other funds	-	-
	<hr/>	<hr/>
TOTAL LIABILITIES	20,476	16,641
	<hr/>	<hr/>
DEFERRED INFLOWS OF RESOURCES		
Taxes levied for a subsequent period	228,829	581,954
	<hr/>	<hr/>
TOTAL DEFERRED INFLOWS OF RESOURCES	228,829	581,954
	<hr/>	<hr/>
FUND BALANCE		
Non-spendable	-	-
Restricted	-	-
Committed	105,000	-
Assigned	165,383	-
Unassigned	732,248	1,282,861
	<hr/>	<hr/>
TOTAL FUND BALANCE	1,002,631	1,282,861
	<hr/>	<hr/>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 1,251,936	\$ 1,881,456
	<hr/>	<hr/>

City of Ishpeming, Michigan

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

December 31, 2014

Total Fund Balances for Downtown Development Authority		\$ 1,002,631
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Land, construction in progress and historical treasurers	\$ 2,046,686	
Other capital assets, net of depreciation	<u>259,734</u>	<u>2,306,420</u>
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	(111,970)	
Accrued interest on debt	(29,914)	
Bonds payable	<u>(2,029,740)</u>	<u>(2,171,624)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		\$ <u>1,137,427</u>

City of Ishpeming, Michigan

DISCRETELY PRESENTED COMPONENT UNIT

DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended December 31, 2014

	2014				2013
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	
REVENUES:					
Taxes	\$ 531,000	\$ 581,954	\$ 581,954	\$ -	\$ 537,074
Federal sources	-	399,043	242,582	(156,461)	-
State sources	-	-	-	-	156,461
Interest income and rentals	4,000	1,000	3,052	2,052	5,572
Contributions	-	-	150	150	160
Other revenue	-	-	-	-	-
TOTAL REVENUES	535,000	981,997	827,738	(154,259)	699,267
EXPENDITURES:					
Other governmental	190,285	756,857	859,669	(102,812)	1,058,241
Debt service:					
Principal	158,200	158,200	158,200	-	182,620
Interest and fiscal charges	95,099	95,099	95,099	-	106,863
Total Debt Service	253,299	253,299	253,299	-	289,483
TOTAL EXPENDITURES	443,584	1,010,156	1,112,968	(102,812)	1,347,724
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	91,416	(28,159)	(285,230)	(257,071)	(648,457)
OTHER FINANCING SOURCES (USES):					
Proceeds from sale of capital assets	-	5,000	5,000	-	-
Transfers in	-	-	-	-	-
Transfers (out)	-	(60,000)	-	60,000	-
TOTAL OTHER FINANCING SOURCES (USES)	-	(55,000)	5,000	60,000	-
CHANGE IN FUND BALANCE	91,416	(83,159)	(280,230)	(197,071)	(648,457)
Fund balance, beginning of year	1,282,861	1,282,861	1,282,861	-	1,931,318
FUND BALANCE, END OF YEAR	\$ 1,374,277	\$ 1,199,702	\$ 1,002,631	\$ (197,071)	\$ 1,282,861

City of Ishpeming, Michigan

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

For the Year Ended December 31, 2014

Net Change in Fund Balances - Total Governmental Funds \$ (280,230)

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	\$ 598,489	
Depreciation expense	(14,046)	
Net book value of disposed assets	-	584,443

Repayment of principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position. 158,200

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

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 1,466

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	-	
Current year amortization of premium on refunding	-	-

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

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 463,879

COMPLIANCE SUPPLEMENTS



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the component unit, each major fund, and the aggregate remaining fund information of the City of Ishpeming, Michigan, as of and for the year ended December 31, 2014, 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 June 24, 2015.

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 2014-001 thru 2014-002).

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 item 2014-003.

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

June 24, 2015



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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Ishpeming, Michigan's 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, 2014. 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.

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, 2014.

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 of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Anderson, Tackman & Company, PLLC
Certified Public Accountants

June 24, 2015

City of Ishpeming, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2014

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditure	Accrued (Deferred) Revenue 1/1/2014	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue 12/31/2014
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT							
<i>Passed through Michigan Strategic Fund:</i>							
Gateway Enhancement and Streetscape Improvements Project Grant # MSC 211015-DIG	14.228	\$ 399,043	\$ 156,461	\$ 156,461	\$ 242,582	\$ 399,043	\$ -
Emergency Water Main Repair Project Grant # MSC 214024-UN	14.228	990,940	-	-	990,940	-	990,940
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		1,389,983	156,461	156,461	1,233,522	399,043	990,940
U.S. DEPARTMENT OF TRANSPORTATION (See NOTE C)							
<i>Passed through Michigan Department of Transportation Resource and Environment:</i>							
Highway Research Planning & Construction Safe Routes to Schools (SRTS 2009-0029)	20.205	1,356	-	-	1,356	1,356	-
Highway Research Planning and Construction STP 1352(030)	20.205	375,000	-	-	375,000	375,000	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		376,356	-	-	376,356	376,356	-
ENVIRONMENTAL PROTECTION AGENCY							
<i>Direct Award</i>							
Great Lakes Program Partridge Creek Diversion	66.469	8,000,000	7,447,676	763,584	486,139	1,249,723	-
TOTAL ENVIRONMENTAL PROTECTION AGENCY		8,000,000	7,447,676	763,584	486,139	1,249,723	-
U.S. DEPARTMENT OF HOMELAND SECURITY							
<i>Passed through Federal Emergency Management Agency</i>							
Assistance to Firefighters Grant 2013	97.044	24,013	-	-	24,013	24,013	-
Assistance to Firefighters Grant 2014	97.044	57,958	-	-	57,958	57,958	-
Subtotal		81,971	-	-	81,971	81,971	-
<i>Passed through Michigan State Police Emergency Management FEMA Disaster Project No. 4122001</i>							
	97.036	19,611	19,611	19,611	-	19,611	-
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY		101,582	19,611	19,611	81,971	101,582	-
TOTAL FEDERAL FINANCIAL ASSISTANCE		\$ 9,867,921	\$ 7,623,748	\$ 939,656	\$ 2,177,988	\$ 2,126,704	\$ 990,940

CITY OF ISHPEMING, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2014

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 – DEPARTMENT OF TRANSPORTATION ADMINISTERED PROJECTS:

During the year ended December 31, 2014, the City received and expended \$376,356 in federal funding. Projects utilizing this aid were administered by the Michigan Department of Transportation and will be audited for compliance by the State of Michigan. The State of Michigan 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, 2014

SECTION I – SUMMARY OF AUDITORS’ RESULTS

General Purpose Financial Statements

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

Federal Awards

- Types of auditors’ report issued on compliance for major programs: *Unmodified*
- Internal control over major programs:
 No material weaknesses were identified
 No significant deficiencies considered to be material weaknesses were identified.
- Audit findings that are required to be reported in accordance with Circular A-133, Section .510(a): None were identified.

Major Programs

- The programs tested as a major program were:

Program	CFDA#
Gateway Enhancement and Streetscapes Improvement Projects	14.228
Community Development Block Grant	14.228
Great Lakes Program	66.469

- Dollar threshold used to distinguish between Type A and Type B Programs: *\$300,000*
- Auditee qualified as low-risk auditee? *YES.*

SECTION II – FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCIES

2014-001 – SEGREGATION OF DUTIES (REPEAT)

Condition/Criteria: Internal controls rely on the principle of checks and balances and an individual should not have responsibility for more than one of the three transaction components: authorization, custody, and recordkeeping. The Finance Director and Treasurer each have responsibility for more than one of the three components of internal control.

Cause of Condition: The size of the organization’s accounting staff precludes certain internal design controls that would be preferred if the office staffs were large enough to provide optimum segregation of duties.

Effect: The lack of segregation of duties increases the chance that misstatements, whether caused by error or fraud, could occur and not be prevented or detected on a timely basis by employees in the course of performing their assigned duties.

CITY OF ISHPEMING, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the year December 31, 2014

Recommendation: Smaller organizations, due to limited resources, are generally more sensitive to the cost of implementing these design controls and often have compensating controls to partially mitigate this deficiency.

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - Mark Slown, City Manager
- Corrective Action Planned:
 - The Council closely monitors all payments and reviews the financial statements on a monthly basis.
- Anticipated Completion Date:
 - Not applicable

2014-002 – MANUAL PAYROLL DEPOSIT SYSTEM (REPEAT)

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.

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

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - James Lampman, Finance Director
- Corrective Action Planned:
 - The City will implement an automated direct deposit system.
- Anticipated Completion Date:
 - December 31, 2015

INSTANCES OF NON-COMPLIANCE

2014-003 – 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:

CITY OF ISHPEMING, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the year December 31, 2014

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 – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - Mark Slown, City Manager
- Corrective Action Planned:
 - 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.
- Anticipated Completion Date:
 - December 31, 2015

SECTION III – FEDERAL AWARDS AND QUESTIONED COSTS

- None reported.

CITY OF ISHPEMING, MICHIGAN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year December 31, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCIES

2013-001 – SEGREGATION OF DUTIES

Condition/Criteria: Internal controls rely on the principle of checks and balances and an individual should not have responsibility for more than one of the three transaction components: authorization, custody, and recordkeeping. The Finance Director and Treasurer have responsibility for more than one of the three components of internal control.

Cause of Condition: The size of the organization's accounting staff precludes certain internal design controls that would be preferred if the office staffs were large enough to provide optimum segregation of duties.

Effect: The lack of segregation of duties increases the chance that misstatements, whether caused by error or fraud, could occur and not be prevented or detected on a timely basis by employees in the course of performing their assigned duties.

Recommendation: Smaller organizations, due to limited resources, are generally more sensitive to the cost of implementing these design controls and often have compensating controls to partially mitigate this deficiency.

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - Mark Slown, City Manager
- Corrective Action Planned:
 - The Council closely monitors all payments and reviews the financial statements on a monthly basis.
- Anticipated Completion Date:
 - Not applicable

2013-002 – MANUAL PAYROLL DEPOSIT SYSTEM (REPEAT)

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.

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

CITY OF ISHPEMING, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

For the year December 31, 2014

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - James Lampman, Finance Director
- Corrective Action Planned:
 - The City will implement an automated direct deposit system.
- Anticipated Completion Date:
 - December 31, 2014

INSTANCES OF NON-COMPLIANCE

2013-003 – 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 W.

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.

CITY OF ISHPEMING, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

For the year December 31, 2014

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - Mark Slown, City Manager
- Corrective Action Planned:
 - 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.
- Anticipated Completion Date:
 - December 31, 2014

SECTION III – FEDERAL AWARDS AND QUESTIONED COSTS

- None reported.

COMMUNICATIONS SECTION



City of Ishpeming, Michigan
Report to Management Letter
For the Year Ended December 31, 2014

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

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ishpeming, Michigan (the City) as of and for the year ended December 31, 2014, 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 a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in the City's internal control presented in the Schedule of Findings and Questioned Costs to be significant deficiencies.

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

City Council of the
City of Ishpeming, Michigan

This communication is intended solely for the information and use of management, the City Council, and others within the 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

June 24, 2015



City of Ishpeming, Michigan
Communication with Those Charged with Governance
For the Year Ended December 31, 2014

June 24, 2015

To the City Council of the
City of Ishpeming, Michigan
100 East Division Street
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, 2014. 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 April 30, 2015. 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 the Notes to the financial statements. As described in Note W to the financial statements, the City adopted Statement of Governmental Accounting Standards (GASB Statement) No. 66, *Technical Corrections (an Amendment to GASB 10 and GASB 62)*, in 2014. As described in Note W to the financial statements, the City changed accounting policies related to its pension trust fund by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 67, *Financial Reporting for Pension Plans*, in 2014. 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:

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

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

The disclosure of the City Pension Liability related to the Policemen and Firemen Retirement System Defined Benefit Retirement Plan in the Notes to the financial statements includes significant actuarial assumptions used in calculating the valuation. Gabriel Roeder Smith & Company was the actuarial company hired for preparation of the annual actuarial valuation. The disclosures made in Note O were based on information included their report as of December 31, 2013.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

1. Adjustments to accrued sick and vacation.
2. Adjustments to record unrealized gain/loss on investments.

Disagreements with Management

For purposes of this letter, 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 June 24, 2015.

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 2014-001 thru 2014-002).

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 item 2014-003.

Other Matters

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

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

Restrictions on Use

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, Tackman & Company, PLLC
Certified Public Accountants