

CITY OF ISHPEMING, MICHIGAN
FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

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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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ishpeming, Michigan, as of December 31, 2015, 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.

Change in Accounting Principle

As described in Note X to the financial statements, in 2015, the City adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date (an Amendment to GASB Statement No. 68)*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ishpeming, Michigan's basic financial statements. The combining and individual non-major fund and individual business-type major funds 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund, individual business-type major funds 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining 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, 2014, 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 2014 financial statements for the year ended December 31, 2014, 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 2014 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 2014 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, 2016, 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, 2016

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, 2015. Please read it in conjunction with the financial statements included below.

FINANCIAL HIGHLIGHTS

- Net position for the City as a whole decreased by \$71,856 as a result of this year's operations. Net position of our business-type activities increased by \$181,981 or 2 percent, and net position of our governmental activities decreased by \$253,837 or 2 percent.
- During the year, the City had expenses for governmental activities that were \$5,399,595 and generated \$5,145,758 in general revenues and other program sources.
- The City's business-type activities had expenses of \$2,655,057 and generated \$2,837,038 in revenues.
- The general fund reported a net change in fund balance of \$192,955. This is \$38,211 higher than the forecasted increase of \$154,744.

USING THIS ANNUAL REPORT

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

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

Reporting the City as a Whole

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

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

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

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

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

Reporting the City's Most Significant Funds

Our analysis of the City's major funds is presented below. The fund financial statements provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using taxes, grants, and other money. The City's two kinds of funds - *governmental* and *proprietary* - use different accounting approaches.

- *Governmental Funds* – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and Statement of Activities) and governmental *funds* in a reconciliation which follows the fund financial statements.
- *Proprietary Funds* – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

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

The City as Trustee

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

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

The City as a Whole

Table 1 provides a summary of the City's net position as of December 31, 2015 and 2014.

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$6,412,555	\$6,227,880	\$979,157	\$1,597,887	\$7,391,712	\$7,825,767
Non-current assets	56,617	62,793	7,295,648	6,965,824	7,352,265	7,028,617
Capital assets, net	17,847,749	16,560,227	6,775,780	6,692,005	24,623,529	23,252,232
Total Assets	<u>24,316,921</u>	<u>22,850,900</u>	<u>15,050,585</u>	<u>15,255,716</u>	<u>39,367,506</u>	<u>38,106,616</u>
Deferred outflows of resources	<u>762,351</u>	<u>3,038</u>	<u>211,008</u>	<u>-</u>	<u>973,359</u>	<u>3,038</u>
Current and other liabilities	1,168,132	1,062,624	179,060	969,256	1,347,192	2,031,880
Long-term liabilities	9,386,398	1,843,997	3,012,178	49,659	12,398,576	1,893,656
Total Liabilities	<u>10,554,530</u>	<u>2,906,621</u>	<u>3,191,238</u>	<u>1,018,915</u>	<u>13,745,768</u>	<u>3,925,536</u>
Deferred inflows of resources	<u>2,718,683</u>	<u>1,969,014</u>	<u>-</u>	<u>-</u>	<u>2,718,683</u>	<u>1,969,014</u>
Net Position:						
Net investment in capital assets	14,690,799	14,934,170	13,765,870	13,657,829	28,456,669	28,591,999
Restricted	1,796,220	1,770,975	-	-	1,796,220	1,770,975
Unrestricted	<u>(4,680,960)</u>	<u>1,273,158</u>	<u>(1,695,515)</u>	<u>578,972</u>	<u>(6,376,475)</u>	<u>1,852,130</u>
Total Net Position	<u>\$11,806,059</u>	<u>\$17,978,303</u>	<u>\$12,070,355</u>	<u>\$14,236,801</u>	<u>\$23,876,414</u>	<u>\$32,215,104</u>

Net position of the City's governmental activities stood at \$11,806,059. *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 (\$4,680,960).

The (\$4,680,960) 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. During 2015 the City adopted GASB 68, which had a significant impact on unrestricted net position due the City having to record the net pension liability relate to its defined benefit pension plans.

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

Further information on the implementation of the new GASB standard can be found in the Notes to the Financial Statements.

The net position of our business-type activities stood at \$12,070,355. The City can generally only use these net positions to finance continuing operations of the water and sewer systems.

The results of this year's operations for the City as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net position for fiscal year 2015 and 2104.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Program Revenues:						
Charges for services	\$1,245,434	\$1,386,346	\$2,835,426	\$2,798,544	\$4,080,860	\$4,184,890
Operating grants and contributions	860,569	205,042	-	1,090,940	860,569	1,295,982
Capital grants and contributions	-	1,567,287	-	-	-	1,567,287
General Revenues:						
Taxes	2,026,581	1,727,918	-	-	2,026,581	1,727,918
Unrestricted intergovernmental	806,208	809,640	-	-	806,208	809,640
Investment earnings	18,504	56,390	1,612	1,397	20,116	57,787
Fines and forfeitures	58,054	62,016	-	-	58,054	62,016
Miscellaneous	130,408	109,641	-	-	130,408	109,641
Gain/(loss) on sale of assets	-	-	-	-	-	-
Total Revenues	<u>5,145,758</u>	<u>5,924,280</u>	<u>2,837,038</u>	<u>3,890,881</u>	<u>7,982,796</u>	<u>9,815,161</u>
Program Expenses:						
Legislative	13,966	15,188	-	-	13,966	15,188
General government	1,466,604	1,199,401	-	-	1,466,604	1,199,401
Public safety	810,528	804,754	-	-	810,528	804,754
Public works	2,343,643	2,256,521	-	-	2,343,643	2,256,521
Community and economic development	13,968	15,447	-	-	13,968	15,447
Recreation and culture	481,403	389,209	-	-	481,403	389,209
Other governmental	120,366	32,157	-	-	120,366	32,157
Capital outlay	39,503	98,938	-	-	39,503	98,938
Interest on long-term debt	109,614	88,230	-	-	109,614	88,230
Sewer	-	-	1,012,915	1,448,778	1,012,915	1,448,778
Water	-	-	1,642,142	3,218,181	1,642,142	3,218,181
Total Expenses	<u>5,399,595</u>	<u>4,899,845</u>	<u>2,655,057</u>	<u>4,666,959</u>	<u>8,054,652</u>	<u>9,566,804</u>
Excess (deficiency) before transfers	(253,837)	1,024,435	181,981	(776,078)	(71,856)	248,357
Transfers in (out)	-	(50,000)	-	50,000	-	-
Increase (decrease) in net position	(253,837)	974,435	181,981	(726,078)	(71,856)	248,357
Net Position, Beginning, as restated	<u>12,059,896</u>	<u>17,003,868</u>	<u>11,888,374</u>	<u>14,962,879</u>	<u>23,948,270</u>	<u>31,966,747</u>
Net Position, Ending	<u>\$11,806,059</u>	<u>\$17,978,303</u>	<u>\$12,070,355</u>	<u>\$14,236,801</u>	<u>\$23,876,414</u>	<u>\$32,215,104</u>

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

The City’s total revenues were \$7,982,796; the total cost of all programs and services was \$8,054,652 leaving a decrease in net position of \$71,856. Our analysis below separately considers the operations of governmental and business-type activities:

Governmental Activities

Government activities net position decreased by \$253,837. This decrease was due to an increase in combined governmental fund balance of \$25,835, changes in general fixed assets of \$1,287,522, proceeds from borrowing of (\$1,415,100), principal payments on debt of \$115,030, a change in accrued interest of (\$10,026), adjustments due to amortization of deferred amounts on bond of (\$1,112), pension liability expense of (\$195,412) related to MERS, pension liability expense related to the Police and Fire Retirement System of (\$46,415), and a change in compensated absences of (\$14,159).

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	\$1,466,604	\$1,286,872
Public Safety	810,528	798,568
Public Works	2,343,643	634,049

Business-type Activities

Business-type activities net position increased by \$181,981. The Sewer System and the Water System experienced a change in net position of \$355,579 and (\$173,598), respectively, resulting in a net increase in Business-Type Activities of \$181,981.

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 \$3,291,934, an increase of \$25,835 from the beginning of the year.

The combined fund balance increase of \$25,835 was due to increases in the fund balances of General Fund, Major Street Fund, Local Street Fund, Public Improvement Fund and Facilities Improvement Fund, offset by decreases in the Local Street Fund, Garbage & Rubbish Fund, and other governmental funds. The increase is primarily attributable to management closely monitoring expenditures in the General Fund resulting in net income to the General Fund of \$192,955 offset against a purposeful spend down of fund balance in the Garbage & Rubbish Fund of (\$94,509) and Carnegie Library renovations from the Library Fund that resulted in a net loss of (\$72,699).

General Fund Budgetary Highlights

General Fund expenses were \$200,185 less than the final budget because Legislative expenses were \$1,249 less than the final budget; General government expenses were \$77,747 less than

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

the final budget; Public Safety was \$42,161 less than the final budget; Public Works was \$61,078 less than the final budget; Community and economic development was \$1,282 less than the final budget; and Recreation and Culture was \$16,668 less than the final budget.

General Fund revenues were \$153,152 less than the final revenue budget mainly due to interest income and rentals being \$149,560 less than anticipated. In addition, all other categories were \$3,592 less than anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2015, the City had \$24,623,529 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)

	2015			2014 Total
	Governmental Activities	Business-type Activities	Total	
Land	\$1,259,142	\$10,888	\$1,270,030	\$1,260,030
Historical treasures	135,275	-	135,275	135,275
Construction in progress	1,847,313	179,063	2,026,376	570,655
Buildings and improvements	2,203,280	32,832	2,236,112	2,338,329
Land improvements	3,000,062	-	3,000,062	3,094,855
Equipment and vehicles	651,751	344,060	995,811	687,946
Infrastructure	8,750,926	-	8,750,926	8,518,585
Sewer system and equipment	-	4,788,863	4,788,863	5,148,078
Water system and equipment	-	1,420,074	1,420,074	1,498,479
Total	<u>\$17,847,749</u>	<u>\$6,775,780</u>	<u>\$24,623,529</u>	<u>\$23,252,232</u>

In 2015, the City's major capital additions included the improvements related to the library, construction began on projects for remodeling City Hall and DPW, the purchase of a new police vehicle, purchase of a vacall truck, engineering costs related to the round-a-bout, and engineering costs related to a future water replacement project.

Capital projects planned for 2016 include completion of the City Hall and DPW building remodel. Other capital purchases planned include the MDOT administered US-41 and 2nd/3rd Street connector round-a-bout road projects. The estimated costs to the City for the round-a-bout projects total \$872,552 and consist of a City match of \$275,000, non-participating water main replacement of \$548,400, and \$49,152 in MDOT administrative fees. The City of Ishpeming is also in the initial phase of a \$12 million water system improvement project that will likely be funded through a combination of loans and grants through the United States Department of Agriculture – Rural Development. This project is anticipated to replace an estimated fifty percent of the existing water system, and the City plans on incurring at least \$600,000 in engineering and other costs during 2016.

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

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

Debt

At year-end, the City had \$3,248,918 in bonds and notes outstanding as depicted in Table 5 below.

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

	2015			2014 Total
	Governmental Activities	Business-type Activities	Total	
Bonds	\$2,848,360	\$-	\$2,848,360	\$1,528,290
Contracts and notes payable	95,000	305,558	400,558	115,000
Total	<u>\$2,943,360</u>	<u>\$305,558</u>	<u>\$3,248,918</u>	<u>\$1,643,290</u>

During the year the City made draws on its USDA loans totaling \$1,415,100. In addition, the City took out a note for the purchase of a vacall truck in the amount of \$305,558. During the year the City made principal payments on debt totaling \$115,030.

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

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS

During fiscal year 2015, the City of Ishpeming began renovations of City Hall to bring the historic building into compliance with the Americans with Disabilities Act, which includes the installation of an elevator. In conjunction with this project the City of Ishpeming also began making 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 are being funded through low-interest loans through the United States Department of Agriculture – Rural Development at a cost of an estimated \$1.65 million. The renovations will be completed by the end of June 2016.

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 City of Ishpeming anticipates spending an estimated \$600,000 in engineering and other costs in 2016 during the initial phase of the project.

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 estimated costs to the City for the round-a-bout projects total \$872,552 and consist of a City match of \$275,000, non-participating water main replacement of \$548,400, and \$49,152 in MDOT administrative fees

The City of Ishpeming Carnegie Library replaced the front steps during 2015 and plans to renovate the pillars on the front of the building during the summer of 2016. The Carnegie Library renovations are being paid for with donations raised from our generous community.

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

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. This project is on-going with an anticipated completion date of 2018.

Management is working to spur economic development within the City. The City of Ishpeming to make progress on its plan 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 animal feed and tackle store that opened during the year, and the City of Ishpeming is working on eliminating blight issues and unsafe buildings in order to improve the overall look of the community. Furthermore, in 2016, the City of Ishpeming is partnering with residents who came together to create an "Inspiration Zone" whereby residents and the City are sharing in the cost to replace sidewalks within the Inspiration Zone.

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, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 2,002,116	\$ 397,324	\$ 2,399,440	\$ 323,993
Investments	1,084,031	52,555	1,136,586	265,126
Receivables, net	3,302,247	529,278	3,831,525	103,552
Primary government internal balances	-	-	-	-
Due from primary government	-	-	-	707,696
Prepaid expenses and other assets	24,161	-	24,161	-
Non-current Assets:				
Long-term receivables	56,617	-	56,617	-
Investment in Wastewater Treatment Facility	-	3,788,325	3,788,325	-
Investment in Joint Water Authority	-	3,507,323	3,507,323	-
Capital assets:				
Land, construction in progress and other non-depreciable assets	3,241,730	189,951	3,431,681	-
Other capital assets, net of depreciation	14,606,019	6,585,829	21,191,848	2,124,171
Total Capital Assets	<u>17,847,749</u>	<u>6,775,780</u>	<u>24,623,529</u>	<u>2,124,171</u>
TOTAL ASSETS	<u>24,316,921</u>	<u>15,050,585</u>	<u>39,367,506</u>	<u>3,524,538</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amounts related to pension	559,577	211,008	770,585	-
Contributions subsequent to measurement date	199,736	-	199,736	-
Deferred amounts on refunding	-	-	-	-
Premium on investment	3,038	-	3,038	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>762,351</u>	<u>211,008</u>	<u>973,359</u>	<u>-</u>
LIABILITIES				
Current Liabilities:				
Cash overdrafts	-	-	-	-
Accounts payable	364,172	66,477	430,649	729
Due to component unit	707,696	-	707,696	-
Accrued liabilities	72,765	112,583	185,348	-
Accrued interest	23,499	-	23,499	29,458
Non-current Liabilities:				
Portion due or payable within one year:				
Notes payable	20,000	57,669	77,669	-
Bonds payable	133,060	-	133,060	116,940
Compensated absences	9,061	4,712	13,773	-
Portion due or payable after one year:				
Notes payable	75,000	247,889	322,889	-
Bonds payable	2,699,179	-	2,699,179	1,912,800
Compensated absences	222,651	30,440	253,091	-
Net pension liability	6,227,447	2,671,468	8,898,915	-
TOTAL LIABILITIES	<u>10,554,530</u>	<u>3,191,238</u>	<u>13,745,768</u>	<u>2,059,927</u>
DEFERRED INFLOWS OF RESOURCES				
Taxes levied for a subsequent period	1,986,318	-	1,986,318	252,011
Transportation appropriation	37,749	-	37,749	-
Deferred amounts related to pension	692,101	-	692,101	-
Discount on investment	2,515	-	2,515	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,718,683</u>	<u>-</u>	<u>2,718,683</u>	<u>252,011</u>
NET POSITION				
Net investment in capital assets	14,690,799	13,765,870	28,456,669	94,431
Restricted	1,796,220	-	1,796,220	957,696
Unrestricted	<u>(4,680,960)</u>	<u>(1,695,515)</u>	<u>(6,376,475)</u>	<u>160,473</u>
TOTAL NET POSITION	<u>\$ 11,806,059</u>	<u>\$ 12,070,355</u>	<u>\$ 23,876,414</u>	<u>\$ 1,212,600</u>

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

City of Ishpeming, Michigan

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2015

Function / Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 13,966	\$ -	\$ -	\$ -	\$ (13,966)	\$ -	\$ (13,966)	\$ -
General government	1,466,604	179,732	-	-	(1,286,872)	-	(1,286,872)	-
Public safety	810,528	2,489	9,471	-	(798,568)	-	(798,568)	-
Public works	2,343,643	996,596	712,998	-	(634,049)	-	(634,049)	-
Community and economic development	13,968	-	-	-	(13,968)	-	(13,968)	-
Recreation and culture	481,403	54,867	138,100	-	(288,436)	-	(288,436)	-
Other governmental	120,366	11,750	-	-	(108,616)	-	(108,616)	-
Capital outlay	39,503	-	-	-	(39,503)	-	(39,503)	-
Interest on long-term debt	109,614	-	-	-	(109,614)	-	(109,614)	-
Total Governmental Activities	5,399,595	1,245,434	860,569	-	(3,293,592)	-	(3,293,592)	-
Business-Type Activities:								
Sewer	1,012,915	1,366,946	-	-	-	354,031	354,031	-
Water	1,642,142	1,468,480	-	-	-	(173,662)	(173,662)	-
Total Business-Type Activities	2,655,057	2,835,426	-	-	-	180,369	180,369	-
TOTAL PRIMARY GOVERNMENT	\$ 8,054,652	\$ 4,080,860	\$ 860,569	\$ -	(3,293,592)	180,369	(3,113,223)	-
Component Unit:								
Downtown Development Authority	\$ 306,708	\$ -	\$ 250,500	\$ -	-	-	-	(56,208)
General Revenues:								
Taxes:								
Property taxes					2,026,581	-	2,026,581	229,375
Unrestricted intergovernmental sources					806,208	-	806,208	-
Interest and investment earnings					18,504	1,612	20,116	3,342
Fines and Forfeitures					58,054	-	58,054	-
Miscellaneous					130,408	-	130,408	27
Gain/(loss) on sale of assets					-	-	-	(101,363)
Transfers					-	-	-	-
TOTAL GENERAL REVENUES & TRANSFERS					3,039,755	1,612	3,041,367	131,381
CHANGE IN NET POSITION					(253,837)	181,981	(71,856)	75,173
Net position, beginning of year, as restated					12,059,896	11,888,374	23,948,270	1,137,427
NET POSITION, END OF YEAR	\$ 11,806,059	\$ 12,070,355	\$ 23,876,414	\$ 1,212,600				

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

City of Ishpeming, Michigan

GOVERNMENTAL FUNDS

BALANCE SHEET

December 31, 2015

	Special Revenue				Capital Projects		Other Governmental Funds	Total Governmental Funds
	General Fund	Major Street Fund	Local Street Fund	Garbage & Rubbish Fund	Public Improvement Fund	Facilities Improvement Fund		
ASSETS								
Cash and cash equivalents	\$ 1,412,379	\$ -	\$ 244,204	\$ 457,854	\$ 371,681	\$ -	\$ 347,175	\$ 2,833,293
Investments	48,000	-	-	-	-	-	1,036,031	1,084,031
Accounts receivable, net	127,707	-	-	51,277	-	-	-	178,984
Taxes receivable	1,311,474	-	-	-	427,391	-	-	1,738,865
Other receivable	-	-	-	26,422	22,516	-	-	48,938
Due from other governments	135,097	70,108	64,133	-	-	999,972	60,500	1,329,810
Due from other funds	107,124	-	-	-	-	-	-	107,124
Prepaid expenses	-	-	-	24,161	-	-	-	24,161
Notes receivable	-	-	-	-	-	-	56,617	56,617
TOTAL ASSETS	3,141,781	70,108	308,337	559,714	821,588	999,972	1,500,323	7,401,823
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	\$ 3,141,781	\$ 70,108	\$ 308,337	\$ 559,714	\$ 821,588	\$ 999,972	\$ 1,503,361	\$ 7,404,861
LIABILITIES								
Cash overdrafts	\$ -	\$ 26,836	\$ -	\$ -	\$ -	\$ 743,841	\$ 60,500	\$ 831,177
Accounts payable	48,026	2,250	587	14,104	39,709	254,773	4,723	364,172
Due to component unit	707,696	-	-	-	-	-	-	707,696
Accrued payroll	64,384	4,445	3,828	108	-	-	-	72,765
Accrued sick and vacation leave	9,061	-	-	-	-	-	-	9,061
Accrued liabilities	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	101,474	101,474
TOTAL LIABILITIES	829,167	33,531	4,415	14,212	39,709	998,614	166,697	2,086,345
DEFERRED INFLOWS OF RESOURCES								
Taxes levied for a subsequent period	1,497,066	-	-	-	489,252	-	-	1,986,318
Transportation appropriation	-	10,570	27,179	-	-	-	-	37,749
Discount on investment	-	-	-	-	-	-	2,515	2,515
TOTAL DEFERRED INFLOWS OF RESOURCES	1,497,066	10,570	27,179	-	489,252	-	2,515	2,026,582
FUND BALANCE								
Non-spendable	-	-	-	24,161	-	-	1,045,600	1,069,761
Restricted	-	26,007	276,743	-	292,627	1,358	129,724	726,459
Committed	-	-	-	-	-	-	-	-
Assigned	-	-	-	521,341	-	-	158,825	680,166
Unassigned	815,548	-	-	-	-	-	-	815,548
TOTAL FUND BALANCE	815,548	26,007	276,743	545,502	292,627	1,358	1,334,149	3,291,934
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 3,141,781	\$ 70,108	\$ 308,337	\$ 559,714	\$ 821,588	\$ 999,972	\$ 1,503,361	\$ 7,404,861

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, 2015

Total Fund Balances for Governmental Funds \$ 3,291,934

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

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

Land, construction in progress and historical treasures	\$ 3,241,730	
Other capital assets, net of depreciation	14,606,019	17,847,749

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

Net pension liability -		
Michigan Municipal Employees' Retirement System	(4,659,674)	
Police and Fire Retirement System	(1,567,773)	
Deferred outflows of resources related to pension -		
Michigan Municipal Employees' Retirement System	368,048	
Police and Fire Retirement System	191,529	
Employer contributions subsequent to measurement date		
Police and Fire Retirement System	199,736	
Deferred (inflows) of resources related to net pension liability		
Michigan Municipal Employees' Retirement System	-	
Police and Fire Retirement System	(692,101)	(6,160,235)

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	(133,060)	
Current portion of notes and contracts payable	(20,000)	
Accrued interest on debt	(23,499)	
Compensated absences	(222,651)	
Bonds payable	(2,715,300)	
Long-term contracts and notes payable	(75,000)	
Deferred amounts on bonds	16,121	
Deferred gain on refunding	-	(3,173,389)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 11,806,059

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, 2015

	Special Revenue				Capital Projects		Other Governmental Funds	Total Governmental Funds
	General Fund	Major Street Fund	Local Street Fund	Garbage & Rubbish Fund	Public Improvement Fund	Facilities Improvement Fund		
REVENUES:								
Taxes	\$ 1,544,970	\$ -	\$ -	\$ -	\$ 481,611	\$ -	\$ -	\$ 2,026,581
Federal sources	-	-	5,667	-	-	-	-	5,667
State sources	815,679	453,986	253,345	-	-	-	8,008	1,531,018
Licenses and permits	174,315	-	-	-	-	-	-	174,315
Charges for service	58,261	-	-	525,814	91,232	-	11,750	687,057
Interest income and rentals	385,040	33	547	935	931	-	12,930	400,416
Contributions	6,638	-	-	-	-	-	123,283	129,921
Fines and forfeitures	64,863	-	-	-	-	-	-	64,863
Other revenues	64,350	-	-	1,070	-	-	60,500	125,920
TOTAL REVENUES	3,114,116	454,019	259,559	527,819	573,774	-	216,471	5,145,758
EXPENDITURES:								
Current Operations:								
Legislative	13,966	-	-	-	-	-	-	13,966
General government	1,081,540	-	-	-	-	-	-	1,081,540
Public safety	728,119	-	-	-	-	-	-	728,119
Public works	762,922	445,873	274,995	622,328	-	-	-	2,106,118
Community and economic development	13,968	-	-	-	-	-	-	13,968
Recreation and culture	319,032	-	-	-	-	-	15,626	334,658
Other governmental	-	-	-	-	-	-	120,366	120,366
Debt service:								
Principal	-	29,610	8,820	-	47,600	-	29,000	115,030
Interest and fiscal charges	-	5,373	1,601	-	36,418	19,080	36,004	98,476
Capital outlay	-	-	-	-	331,858	1,302,827	288,097	1,922,782
TOTAL EXPENDITURES	2,919,547	480,856	285,416	622,328	415,876	1,321,907	489,093	6,535,023
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	194,569	(26,837)	(25,857)	(94,509)	157,898	(1,321,907)	(272,622)	(1,389,265)
OTHER FINANCING SOURCES (USES):								
Proceeds from borrowing	-	-	-	-	-	1,415,100	-	1,415,100
Proceeds from sale of capital assets	-	-	-	-	-	-	-	-
Transfers in	8,017	52,844	-	-	-	-	166,470	227,331
Transfers (out)	(9,631)	-	-	-	(117,848)	(91,835)	(8,017)	(227,331)
TOTAL OTHER FINANCING SOURCES (USES)	(1,614)	52,844	-	-	(117,848)	1,323,265	158,453	1,415,100
CHANGE IN FUND BALANCE	192,955	26,007	(25,857)	(94,509)	40,050	1,358	(114,169)	25,835
Fund balance, beginning of year	622,593	-	302,600	640,011	252,577	-	1,448,318	3,266,099
FUND BALANCE, END OF YEAR	\$ 815,548	\$ 26,007	\$ 276,743	\$ 545,502	\$ 292,627	\$ 1,358	\$ 1,334,149	\$ 3,291,934

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, 2015

Net Change in Fund Balances - Total Governmental Funds \$ 25,835

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	\$ 1,883,279	
Depreciation expense	(595,757)	
Net book value of disposed assets	<u>-</u>	1,287,522

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. (1,415,100)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 115,030

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (10,026)

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

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

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

Pension liability expense	(195,412)	
Pension liability expense - Fire-Police Retirement	(46,415)	
Compensated absences	<u>(14,159)</u>	<u>(255,986)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (253,837)

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

City of Ishpeming, Michigan
PROPRIETARY FUNDS
STATEMENTS OF NET POSITION
December 31, 2015

	Business-type Activities		
	Enterprise Funds		
	Sewer Fund	Water Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 699,686	\$ -	\$ 699,686
Investments	52,555	-	52,555
Accounts receivable	106,878	392,501	499,379
Allowance for uncollectible accounts	-	-	-
Delinquent utilities	-	29,899	29,899
Due from other governmental units	-	-	-
Non-current Assets:			
Investment in Wastewater Treatment Facility	3,788,325	-	3,788,325
Investment in Joint Water Authority	-	3,507,323	3,507,323
Capital Assets:			
Land and construction in progress	47,687	142,264	189,951
Other capital assets, net of depreciation	5,161,203	1,424,626	6,585,829
Total Capital Assets	<u>5,208,890</u>	<u>1,566,890</u>	<u>6,775,780</u>
TOTAL ASSETS	<u>9,856,334</u>	<u>5,496,613</u>	<u>15,352,947</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts related to pension	67,055	143,953	211,008
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>67,055</u>	<u>143,953</u>	<u>211,008</u>
LIABILITIES			
Current Liabilities:			
Cash overdrafts	-	302,362	302,362
Accounts payable	4,113	62,364	66,477
Accrued liabilities	-	98,400	98,400
Accrued payroll	3,667	10,516	14,183
Due to other funds	-	-	-
Non-current Liabilities:			
Portion due or payable within one year			
Notes payable	57,669	-	57,669
Compensated absences	-	4,712	4,712
Portion due or payable after one year			
Notes payable	247,889	-	247,889
Compensated absences	892	29,548	30,440
Net pension liability	848,946	1,822,522	2,671,468
TOTAL LIABILITIES	<u>1,163,176</u>	<u>2,330,424</u>	<u>3,493,600</u>
DEFERRED INFLOWS OF RESOURCES			
	-	-	-
NET POSITION			
Net investment in capital assets	8,691,657	5,074,213	13,765,870
Unrestricted	68,556	(1,764,071)	(1,695,515)
TOTAL NET POSITION	<u>\$ 8,760,213</u>	<u>\$ 3,310,142</u>	<u>\$ 12,070,355</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, 2015

	Business-type Activities		
	Enterprise Funds		
	Sewer Fund	Water Fund	Total
OPERATING REVENUES:			
Federal sources	\$ -	\$ -	\$ -
State sources	-	-	-
Charges for services	1,366,846	1,459,343	2,826,189
Other operating revenue	100	9,137	9,237
TOTAL OPERATING REVENUES	1,366,946	1,468,480	2,835,426
OPERATING EXPENSES:			
Personal services	314,721	697,528	1,012,249
Contractual services	519,204	573,756	1,092,960
Supplies	11,360	92,113	103,473
Utilities	2,026	13,134	15,160
Depreciation	360,943	73,853	434,796
Other expenses	134,485	191,758	326,243
TOTAL OPERATING EXPENSES	1,342,739	1,642,142	2,984,881
OPERATING INCOME (LOSS)	24,207	(173,662)	(149,455)
NON-OPERATING REVENUES (EXPENSES):			
Gain/(loss) on wastewater facility	329,824	-	329,824
Interest income and rentals	1,548	64	1,612
TOTAL NON-OPERATING REVENUES (EXPENSES)	331,372	64	331,436
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	355,579	(173,598)	181,981
Transfers in	-	-	-
Transfers (out)	-	-	-
CHANGE IN NET POSITION	355,579	(173,598)	181,981
Net position, beginning of year, as restated	8,404,634	3,483,740	11,888,374
NET POSITION, END OF YEAR	\$ 8,760,213	\$ 3,310,142	\$ 12,070,355

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, 2015

	Business-type Activities Enterprise Funds		
	Sewer Fund	Water Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from fees and charges for services	\$ 1,370,180	\$ 1,463,678	\$ 2,833,858
Other operating revenues	100	1,100,077	1,100,177
Cash payments to employees for services	(285,827)	(622,360)	(908,187)
Cash payments to suppliers for goods and services	(663,501)	(1,189,491)	(1,852,992)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>420,952</u>	<u>751,904</u>	<u>1,172,856</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Increase (decrease) in cash overdraft	-	(620,592)	(620,592)
Transfers in (out)	-	-	-
Increase in due to other funds	(30,000)	-	(30,000)
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	<u>(30,000)</u>	<u>(620,592)</u>	<u>(650,592)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal payments on notes	-	-	-
Interest paid on notes	-	-	-
Proceeds from the issuance of notes	305,558	-	305,558
Cash payments for capital assets	(387,195)	(131,376)	(518,571)
Proceeds sale of capital assets	-	-	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(81,637)</u>	<u>(131,376)</u>	<u>(213,013)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Increase) decrease in investments	(200)	-	(200)
Investment income	1,548	64	1,612
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>1,348</u>	<u>64</u>	<u>1,612</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	310,663	-	310,663
Cash and cash equivalents, beginning of year	389,023	-	389,023
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 699,686</u>	<u>\$ -</u>	<u>\$ 699,686</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 24,207	\$ (173,662)	\$ (149,455)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	360,943	73,853	434,796
Change in assets and liabilities:			
(Increase) decrease in accounts receivable, net	3,334	4,335	7,669
(Increase) decrease in due from other governmental units	-	1,090,940	1,090,940
Increase (decrease) in accounts payable	3,574	(319,155)	(315,581)
Increase (decrease) in customer deposits payable	-	425	425
Increase (decrease) in accrued payroll	1,105	5,431	6,536
Increase (decrease) in accrued sick and vacation	(7,813)	(6,694)	(14,507)
Increase (decrease) in net pension liability and related	35,602	76,431	112,033
NET ADJUSTMENTS	<u>396,745</u>	<u>925,566</u>	<u>1,322,311</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 420,952</u>	<u>\$ 751,904</u>	<u>\$ 1,172,856</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, 2015

	Pension Trust Fund	Agency Funds
	<hr/>	<hr/>
ASSETS		
Cash and equivalents	\$ 95,740	\$ 554,452
Investments	4,354,072	-
Taxes receivable	164,159	-
Other receivables	2	-
Due from other governments	-	-
Due from other funds	-	-
	<hr/>	<hr/>
TOTAL ASSETS	4,613,973	\$ 554,452
	<hr/>	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	-	
	<hr/>	
LIABILITIES		
Due to other funds	-	\$ 5,650
Due to other governmental units	-	548,802
	<hr/>	<hr/>
TOTAL LIABILITIES	-	\$ 554,452
	<hr/>	<hr/>
DEFERRED INFLOWS OF RESOURCES		
Taxes levied for a subsequent period	187,919	
	<hr/>	
TOTAL DEFERRED INFLOWS OF RESOURCES	187,919	
	<hr/>	
NET POSITION		
Restricted for pension benefits	4,426,054	
	<hr/>	
TOTAL NET POSITION	\$ 4,426,054	
	<hr/>	

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

City of Ishpeming, Michigan

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended December 31, 2015

	Pension Trust Fund
ADDITIONS:	
Contributions:	
Taxes	\$ 199,736
Employee	23,844
Gifts, bequests and endowments	-
Total Contributions	223,580
Investment Income:	
Net appreciation (depreciation) in fair value of investments	(367,823)
Interest and dividends	180,017
Administrative expense	(42,723)
Net Investment Income (Loss)	(230,529)
TOTAL ADDITIONS	(6,949)
DEDUCTIONS:	
Benefits and annuity withdrawals	412,005
Refunds of contributions	3,163
Other expenditures	-
TOTAL DEDUCTIONS	415,168
CHANGE IN NET POSITION	(422,117)
Net position, beginning of year	4,848,171
NET POSITION, END OF YEAR	\$ 4,426,054

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

CITY OF ISHPEMING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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

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

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

BLENDED COMPONENT UNITS

Governmental Fund Type

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

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

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

DISCRETELY PRESENTED COMPONENT UNITS

Governmental Fund Type

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

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

RELATED ORGANIZATIONS

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

Summary financial information as of and for the fiscal year ended December 31, 2014, is as follows:

Total Assets	\$4,189,497
Total Liabilities	206,074
Total Net Position	3,983,423
Total Operating Revenues	630,433
Total Operating Expenses	1,147,387
Total Non-Operating Revenues(expenses)	1,840
Capital Grant Contributions	67,366
Casualty loss	(38,371)
Net Increase (Decrease) in Net Position	(486,119)

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

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

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

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

Proprietary Funds:

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

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

Fiduciary Funds:

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

Major Funds:

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

The City reports the following major governmental funds:

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

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

- The **Facilities Improvement Fund** accounts for the activities related to the remodeling of City Facilities utilizing USDA loans.

The City reports the following major proprietary funds:

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

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

BASIS OF ACCOUNTING

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

Accrual

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

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

Modified Accrual

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

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

FINANCIAL STATEMENT AMOUNTS

Cash and Cash Equivalents

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

Investments

Investments are carried at market value.

Receivables

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

Inventory

Inventory costs are recorded as expenditures when incurred.

Interfund Receivables/Payables

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

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

Capital Assets

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

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

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

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

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

Deferred Outflows of Resources

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

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

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

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

Long-Term Liabilities

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

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

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

Deferred Inflows of Resources

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

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

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

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

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

Encumbrances

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

Compensated Absences

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

Equity Classification

Government-Wide Statements

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

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

Fund Statements

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

Revenues

Government-Wide Statements

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

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

Fund Statements

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

Property Taxes

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

Expenses/Expenditures

Government-Wide Statements

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

Fund Statements

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

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

Interfund Activity

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

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

Budgets and Budgetary Accounting

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

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

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

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

Use of Estimates

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

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through June 24, 2016, 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	\$2,399,440
Fiduciary funds	650,192
Component unit	323,993
TOTAL REPORTING ENTITY	<u>\$3,373,625</u>

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, 2015, the carrying amount of the City's deposits with financial institutions was \$3,373,625 and the bank balance

NOTE B – CASH AND EQUIVALENTS (Continued):

was \$3,603,095. Of the bank balance, \$606,998 or approximately 17% was covered by federal depository insurance according to FDIC regulations. The bank balance is categorized as follows:

Amount insured by the FDIC or uncollateralized with securities held by the City in its name	\$606,998
Amount collateralized with securities held by the pledging financial institutions trust department in the City's name:	
Collateralized and uninsured	2,996,097
TOTAL REPORTING ENTITY	<u><u>\$3,603,095</u></u>

NOTE C – INVESTMENTS:

As of December 31, 2015, the City had the following investments.

	Investment in Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
PRIMARY GOVERNMENT:					
CDs and money market	\$540,665	\$492,665	\$48,000	\$-	\$-
U.S. Government Agencies	286,469	-	172,905	102,377	11,187
U.S. Treasury Bonds	309,452	-	309,452	-	-
TOTAL PRIMARY GOVERNMENT	<u>\$1,136,586</u>	<u>\$492,665</u>	<u>\$530,357</u>	<u>\$102,377</u>	<u>\$11,187</u>
FIDUCIARY FUNDS:					
Mutual Equity Funds	\$3,569,576	\$-	\$-	\$-	\$3,569,576
Mutual Equity Index Funds	784,496	-	-	-	784,496
TOTAL FIDUCIARY	<u>\$4,354,072</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$4,354,072</u>
COMPONENT UNIT:					
CDs and money market	\$265,126	\$265,126	\$-	\$-	\$-
TOTAL COMPONENT UNIT	<u>\$265,126</u>	<u>\$265,126</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>

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

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

NOTE C – INVESTMENTS (Continued):

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	Total Primary Government
Property taxes – current	\$1,738,865	\$-	\$1,738,865
Accounts receivable	178,984	-	178,984
Utilities receivable	26,422	499,379	525,801
Delinquent utilities receivable	-	29,899	29,899
Other receivables	22,516	-	22,516
Due from other government units	1,329,810	-	1,329,810
Receivable from fiduciary funds	5,650	-	5,650
Total	<u>\$3,302,247</u>	<u>\$529,278</u>	<u>\$3,831,525</u>

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, 2015, including the applicable allowances for uncollectible accounts, are presented below.

Gross accounts receivable	\$185,611
Less: allowance for uncollectible accounts	<u>(6,627)</u>
Net receivable	<u>\$178,984</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, 2015 was \$56,617.

A summary of Revolving Loan Fund’s notes receivable at December 31, 2015 is as follows:

Debtor	Balance December 31, 2015	Year of Award	Interest Rate	Terms in Years
Argall	\$56,617	2000	2.0%	15
Total	<u>\$56,617</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.

A summary of the interfund receivables and payables at December 31, 2015 is as follows:

		DUE FROM OTHER FUNDS					
		General Fund	Public Improvement Fund	Other Gov'tl Funds	Enterprise Funds	Fiduciary Funds	Total Due To Other Funds
DUE TO OTHER FUNDS	General Fund	\$-	\$-	\$-	\$-	\$-	\$-
	Public Improvement Fund	-	-	-	-	-	-
	Other Gov'tl Funds	101,474	-	-	-	-	101,474
	Enterprise Funds	-	-	-	-	-	-
	Fiduciary Funds	5,650	-	-	-	-	5,650
	Total Due From Other Funds	\$107,124	\$-	\$-	\$-	\$-	\$107,124

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, 2015 are as follows:

		TRANSFERS IN FROM OTHER FUNDS						Total Transfers Out to Other Funds	
		General Fund	Major Street Fund	Local Street Fund	Garbage & Rubbish	Capital Projects Funds	Other Gov'tl Funds	Enterprise Funds	Total Transfers Out to Other Funds
TRANSFERS OUT TO OTHER FUNDS	General Fund	\$-	\$-	\$-	\$-	\$-	\$9,631	\$-	\$9,631
	Major Street Fund	-	-	-	-	-	-	-	-
	Local Street Fund	-	-	-	-	-	-	-	-
	Garbage & Rubbish	-	-	-	-	-	-	-	-
	Public Improvement	-	52,844	-	-	-	65,004	-	117,848
	Facilities Improvement	-	-	-	-	-	91,835	-	91,835
	Other Gov'tl Funds	8,017	-	-	-	-	-	-	8,017
	Enterprise Funds	-	-	-	-	-	-	-	-
	Total Transfers In from Other Funds	\$8,017	\$52,844	\$-	\$-	\$-	\$166,470	\$-	\$227,331

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, 2015 is as follows:

	Balance January 1, 2015	Additions	Deductions	Balance December 31, 2015
GOVERNMENTAL ACTIVITIES:				
Capital assets not being depreciated:				
Land	\$1,249,142	\$10,000	\$-	\$1,259,142
Historical treasurers	135,275	-	-	135,275
Construction in progress	570,655	1,716,453	(439,795)	1,847,313
Subtotal	<u>1,955,072</u>	<u>1,726,453</u>	<u>(439,795)</u>	<u>3,241,730</u>
Capital assets being depreciated:				
Buildings and improvements	10,384,886	18,500	(93,385)	10,310,001
Land improvements	3,211,036	-	-	3,211,036
Equipment and vehicles	5,358,477	114,389	(291,860)	5,181,006
Infrastructure	8,925,868	463,732	-	9,389,600
Subtotal	<u>27,880,267</u>	<u>596,621</u>	<u>(385,245)</u>	<u>28,091,643</u>
Total Capital Assets	<u>29,835,339</u>	<u>2,323,074</u>	<u>(825,040)</u>	<u>31,333,373</u>
Less accumulated depreciation:				
Buildings and improvements	(8,081,117)	(118,989)	93,385	(8,106,721)
Land improvements	(116,181)	(94,793)	-	(210,974)
Equipment and vehicles	(4,670,531)	(150,584)	291,860	(4,529,255)
Infrastructure	(407,283)	(231,391)	-	(638,674)
Total Accumulated Depreciation	<u>(13,275,112)</u>	<u>(595,757)</u>	<u>385,245</u>	<u>(13,485,624)</u>
CAPITAL ASSETS, NET	<u>\$16,560,227</u>	<u>\$1,727,317</u>	<u>(\$439,795)</u>	<u>\$17,847,749</u>

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

Governmental Activities:	
General Government	\$346,551
Public Works	124,777
Public Safety	44,319
Recreation and Culture	80,110
Total Depreciation Expense	<u>\$595,757</u>

A summary of changes in business-type activities capital assets as of December 31, 2015 is as follows:

	Balance January 1, 2015	Additions	Deductions	Balance December 31, 2015
BUSINESS-TYPE ACTIVITIES:				
Capital assets not being depreciated:				
Land	\$10,888	\$-	\$-	\$10,888
Construction in progress	-	179,063	-	179,063
Subtotal	<u>10,888</u>	<u>179,063</u>	<u>-</u>	<u>189,951</u>

NOTE G – CAPITAL ASSETS (Continued):

	Balance January 1, 2015	Additions	Deductions	Balance December 31, 2015
Capital assets being depreciated:				
Building and improvements	\$68,793	\$-	\$-	\$68,793
Equipment	159,199	339,508	(51,479)	447,228
Sewer system	14,524,469	-	-	14,524,469
Water system	3,816,210	-	(43,740)	3,772,470
Subtotal	<u>18,568,671</u>	<u>339,508</u>	<u>(95,219)</u>	<u>18,812,960</u>
Total Capital Assets	<u>18,579,559</u>	<u>518,571</u>	<u>(95,219)</u>	<u>19,002,911</u>
Less accumulated depreciation:				
Building and improvements	(34,233)	(1,728)	-	(35,961)
Equipment	(153,130)	(1,517)	51,479	(103,168)
Sewer system	(9,376,391)	(359,215)	-	(9,735,606)
Water system	(2,323,800)	(72,336)	43,740	(2,352,396)
Total Accumulated Depreciation	<u>(11,887,554)</u>	<u>(434,796)</u>	<u>95,219</u>	<u>(12,227,131)</u>
CAPITAL ASSETS, NET	<u>\$6,692,005</u>	<u>\$83,775</u>	<u>\$-</u>	<u>\$6,775,780</u>

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

Business-type Activities:	
Sewer	\$360,943
Water	73,853
Total Depreciation Expense	<u>\$434,796</u>

A summary of the changes in component unit activities capital assets for the year ended December 31, 2015 is as follows:

	Balance January 1, 2015	Additions	Deductions	Balance December 31, 2015
COMPONENT UNIT:				
Capital assets not being depreciated:				
Land	\$11,846	\$-	(\$11,846)	\$
Construction in progress	2,034,840	-	(2,034,840)	-
Subtotal	<u>2,046,686</u>	<u>-</u>	<u>(2,046,686)</u>	<u>-</u>
Capital assets being depreciated:				
Land improvements	127,881	71,329	(127,881)	71,329
Infrastructure	170,562	1,999,010	-	2,169,572
Subtotal	<u>298,443</u>	<u>2,070,339</u>	<u>(127,881)</u>	<u>2,240,901</u>
Total Capital Assets	<u>2,345,129</u>	<u>2,070,339</u>	<u>(2,174,567)</u>	<u>2,240,901</u>
Less accumulated depreciation:				
Land improvements	(29,839)	(10,914)	38,364	(2,389)
Infrastructure	(8,870)	(105,471)	-	(114,341)
Total Accumulated Depreciation	<u>(38,709)</u>	<u>(116,385)</u>	<u>38,364</u>	<u>(116,730)</u>
CAPITAL ASSETS, NET	<u>\$2,306,420</u>	<u>\$1,953,954</u>	<u>(\$2,136,203)</u>	<u>\$2,124,171</u>

NOTE G – CAPITAL ASSETS (Continued):

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

Component Unit Activities:	
DDA	<u>\$116,385</u>
Total Depreciation Expense	<u>\$116,385</u>

NOTE H – CONSTRUCTION IN PROGRESS:

The City has a number of projects underway which involve additions, extensions, and improvements to the City Library, City's streets, sanitary sewer, and water systems. Major construction projects in progress as of December 31, 2015 include the following:

Library Improvement Project, \$208,464; the project began in 2013 and includes various improvements to the City's Carnegie Library including ramp improvements, window replacements, HVAC improvements, and masonry improvements to the main stairway. The majority of this project has been financed through local contributions and fund raising efforts.

City Facilities Improvement Project, \$1,427,902; the project involves making City Hall ADA compliant through the addition of an elevator along with other improvements to City Hall building. The project also includes various improvements to the DPW building. The City is financing this project through the use of USDA Loans. The City has been approved for USDA Loans totaling \$1,650,000; as of December 31, 2015 this City has drawn \$1,415,100 on these loans. Any costs associated with the project above the amount of the loans will be financed directly by the City.

Roundabout Project, \$210,947; the City is adding a roundabout between 2nd and 3rd Streets. The work for this project is being performed by Michigan Department of Transportation (MDOT) in conjunction with MDOT's US-41 Roundabout Project. This project is expected to be completed during 2016.

Water Improvement Project-SAW grant, \$47,687; the City is in the preliminary stages of securing grant and USDA funding for a large water line replacement project within the City. In conjunction with that project the City is planning on replacing sewer lines that are degraded. The City is planning on utilizing a Stormwater, Asset Management, and Wastewater (SAW) grant through Michigan Department of Environmental Quality (MDEQ). Costs incurred to date relate to engineering for the future project.

Water Improvement Project, \$131,376; the City is in the preliminary stages of securing grant and USDA funding for a large water line replacement project within the City. Costs incurred to date relate to engineering for the future project.

As of December 31, 2015, total construction in progress costs incurred amounted to \$1,847,313 in the governmental type activities, \$179,063 in the business-type activities, and \$-0- in the component unit.

NOTE I – LONG-TERM PAYABLE TO DDA:

In the past the DDA loaned the City money to finance various City projects. In 2015, the City Council agreed to a 20-year payment plan schedule to pay back the DDA the amount owed with annual payments of \$37,247 beginning in 2015. The balance outstanding as of December 31, 2015 is \$707,696.

NOTE J – LONG -TERM DEBT:

A summary of long-term obligations at December 31, 2015 and transactions related thereto for the year then ended is as follows:

	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015	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.	\$115,000	\$-	(\$20,000)	\$95,000	\$20,000
Limited Tax General Obligation Building Authority Bonds, Series 2000. Payable semi-annually including interest of 4.25% per annum.	653,000	-	(27,000)	626,000	29,000
Limited Tax General Obligation Building Authority Bonds, Series 2002. Payable semi-annually including interest of 4.75% per annum.	68,000	-	(2,000)	66,000	3,000
Michigan Transportation Fund Bonds, Series 2003. Payable semi-annually including interest of 4.25%.	164,090	-	(38,430)	125,660	40,260
General Obligation Limited Tax Capital Improvement Bonds, Series 2011. Payable semi-annually including interest of 3.00% to 5.00% per annum.	643,200	-	(27,600)	615,600	28,800
Building Authority Bonds, Series 2015. Payable semi-annually including interest of 3.25% per annum.	-	1,361,800	-	1,361,800	27,000
Building Authority Bonds, Series 2016. Payable semi-annually including interest of 3.125% per annum.	-	53,300	-	53,300	5,000
SUBTOTAL	<u>1,643,290</u>	<u>1,415,100</u>	<u>(115,030)</u>	<u>2,943,360</u>	<u>153,060</u>
Less: Premium on bonds	(17,233)	-	1,112	(16,121)	-
SUBTOTAL	<u>1,626,057</u>	<u>1,415,100</u>	<u>(113,918)</u>	<u>2,927,239</u>	<u>153,060</u>
Compensated absences	217,940	13,772	-	231,712	9,061
TOTAL GOVERNMENTAL ACTIVITIES	<u>1,843,997</u>	<u>1,428,872</u>	<u>(113,918)</u>	<u>3,158,951</u>	<u>162,121</u>
BUSINESS-TYPE ACTIVITIES:					
Installment payable for purchase of Vacall Freightliner. Payable annually beginning November 1, 2016 including interest of 2.9%. Secured by equipment.	-	305,558	-	305,558	57,669
SUBTOTAL	<u>-</u>	<u>305,558</u>	<u>-</u>	<u>305,558</u>	<u>57,669</u>
Compensated absences	49,659	-	(14,507)	35,152	4,712
TOTAL BUSINESS-TYPE ACTIVITIES	<u>49,659</u>	<u>305,558</u>	<u>(14,507)</u>	<u>340,710</u>	<u>62,381</u>
TOTAL PRIMARY GOVERNMENT	<u>\$1,893,656</u>	<u>\$1,734,430</u>	<u>(\$128,425)</u>	<u>\$3,499,661</u>	<u>\$224,502</u>

NOTE J – LONG -TERM DEBT:

	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015	Due Within One Year
COMPONENT UNIT:					
Michigan Transportation Fund Bonds, Series 2003. Payable semi-annually including interest of 4.25% per annum.	\$104,910	\$-	(\$24,570)	\$80,340	\$25,740
General Obligation Limited Tax Capital Improvement Bonds, 2011 Series. Payable semi-annually including interest of 3.00% to 5.00% per annum.	2,036,800	-	(87,400)	1,949,400	91,200
TOTAL COMPONENT UNIT	\$2,141,710	\$-	(\$111,970)	\$2,029,740	\$116,940

The annual principal and interest requirements for the years ending December 31, 2015 and thereafter, excluding accrued compensated absences, are as follows:

	Governmental Activities		Business-Type Activities		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$153,060	\$111,257	\$57,669	\$8,861	\$116,940	\$87,008
2017	161,890	117,765	59,341	7,189	118,110	83,063
2018	168,510	110,993	61,062	5,468	126,490	78,462
2019	147,400	103,198	62,832	3,697	159,600	71,910
2020	127,800	96,926	64,654	1,875	167,200	65,165
2021-2025	626,400	405,797	-	-	634,600	236,461
2026-2030	749,200	260,108	-	-	706,800	89,808
2031-2035	297,000	149,908	-	-	-	-
2036-2040	343,000	99,336	-	-	-	-
2041-2045	404,000	39,782	-	-	-	-
Totals	3,178,260	\$1,495,070	\$305,558	\$27,090	\$2,029,740	\$711,877
Less: amounts to be drawn	(234,900)					
	<u>\$2,943,360</u>					

NOTE K – COMPENSATED ABSENCES:

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

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

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

NOTE K – COMPENSATED ABSENCES (Continued):

	Sick	Vacation	Total
COMPENSATED ABSENCES:			
General Fund – Current Portion	\$-	\$9,061	\$9,061
Sewer	304	588	892
Water	26,782	7,478	34,260
Governmental Activities – Long-Term Portion	135,402	87,249	222,651
TOTAL	<u>\$162,488</u>	<u>\$104,376</u>	<u>\$266,864</u>

NOTE L – TAXES LEVIED FOR A SUBSEQUENT PERIOD:

Property taxes levied on December 1, 2015 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		\$1,497,066
Public Improvement Fund		489,252
	Subtotal	<u>1,986,318</u>
Fiduciary:		
Pension Trust Fund		187,919
Component Unit:		
DDA Fund		252,011
	TOTAL	<u>\$2,426,248</u>

NOTE M – FUND BALANCES – GOVERNMENTAL FUNDS:

As of December 31, 2015, fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned — all other spendable amounts.

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

As of December 31, 2015, fund balances are composed of the following:

	General Fund	Major Special Revenue Funds	Major Capital Projects Funds	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable:					
Prepaid expenses	\$-	\$24,161	\$-	\$-	\$24,161
Corpus	-	-	-	988,983	988,983
Long-term note receivable	-	-	-	56,617	56,617
Restricted:					
Transportation Funds	-	302,750	-	-	302,750
Public Improvement	-	-	292,627	-	292,627
Facilities Improvement	-	-	1,358	-	1,358
Library State Aid	-	-	-	-	-
Perpetual Care	-	-	-	122,738	122,738
Cemetery Care	-	-	-	6,986	6,986
Committed	-	-	-	-	-
Assigned:					
Garbage Activities	-	521,341	-	-	521,341
Building Authority	-	-	-	-	-
Library Improvements	-	-	-	147,992	147,992
Lake Bancroft	-	-	-	10,833	10,833
Unassigned	815,548	-	-	-	815,548
Total fund balances	\$815,548	\$848,252	\$293,985	\$1,334,149	\$3,291,934

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 N – DEFINED BENEFIT PENSION PLAN:

Summary of Significant Accounting Policies

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

NOTE N – DEFINED BENEFIT PENSION PLAN (Continued):

General Information about the Pension Plan

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

Benefits Provided:

2014 Valuation	01 – CI & Pub Wks: Open Division	10 – Supervisory: Open Division	11 – Union/Supervisor: Open Division
Benefit Multiplier:	2.50% Multiplier (80% max)	2.50% Multiplier (80% max)	2.50% Multiplier (80% max)
Normal Retirement Age:	60	60	60
Vesting:	10 years	10 years	10 years
Early Retirement (Unreduced):	50/25	50/25	50/25
Early Retirement (Reduced):	55/15	55/15	55/15
Final Average Compensation:	3 years	3 years	3 years
COLA for Future Retirees:	2.50% (Non-compound)	2.50% (Non-compound)	2.50% (Non-compound)
Employee Contributions:	5.35%	7.51%	9.70%
Act 88:	Yes (Adopted 2/3/1965)	Yes (Adopted 2/3/1965)	Yes (Adopted 2/3/1965)

Employees covered by benefit terms – At the December 31st 2014 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits:	36
Inactive employees entitled to but not yet receiving:	6
Active employees:	26
Total	68

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

The contribution rates as a percentage of payroll as December 31, 2014 are as follows:

Division	Employer Contribution	Employee Contribution
01 – CI & Pub Wks	34.15%	5.35%
10 – Supervisory	48.33%	7.51%
11 – Union/Supervisor	90.21%	9.70%

There were no contributions requirements for closed divisions.

Net Pension Liability – The employer’s Net Pension Liability was measured as of December 31, 2015, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

NOTE N – DEFINED BENEFIT PENSION PLAN (Continued):

Actuarial assumptions – The total pension liability in the December 31, 2014 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 3%-4%

Salary Increases: 4.5% in the long-term (1%, 2% and 3% for calendar years 2014, 2015 and 2016, respectively)

Investment rate of return: 8.0%, net of investment expense, including inflation

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2008. (MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009, through December 31, 2013.)

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount rate – The discount rate used to measure the total pension liability is 8.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE N – DEFINED BENEFIT PENSION PLAN (Continued):

Changes in Net Pension Liability

Calculating the Net Pension Liability			
Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 12/31/2014	\$14,253,206	\$7,808,565	\$6,444,641
Changes for the Year			
Service Cost	176,348	-	176,348
Interest on Total Pension Liability	1,111,444	-	1,111,444
Changes in benefits	-	-	-
Difference between expected and actual experience	-	-	-
Change in assumptions	-	-	-
Employer Contributions	-	474,475	(474,475)
Employee Contributions	-	73,403	(73,403)
Net Investment Income	-	(113,758)	113,758
Benefit payments, including employee refunds	(896,652)	(896,652)	-
Administrative expense	-	(16,811)	16,811
Other changes	16,018	-	16,018
Net Changes	407,158	(479,343)	886,501
Balances at 12/31/2015	\$14,660,364	\$7,329,222	\$7,331,142

Net Pension Liability (NPL):

MERS – Primary Government	\$7,331,142
Police-Fire – Primary Government (see Note P)	2,166,744
NPL reported in the Statement of Net Position	<u>\$9,497,886</u>

Sensitivity of the Net Pension Liability to changes in the discount rate. The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.25%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.25%) or 1% higher (9.25%) than the current rate.

	1% Decrease 7.25%	Current Discount Rate 8.25%	1% Increase 9.25%
Net Pension Liability at 12/31/2015	\$7,331,142	\$7,331,142	\$7,331,142
Change in Net Pension Liability	1,589,303	-	(1,344,103)
Calculated Net Pension Liability	<u>\$8,920,445</u>	<u>\$7,331,142</u>	<u>(\$5,987,039)</u>

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

NOTE N – DEFINED BENEFIT PENSION PLAN (Continued):**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended 2015 the employer recognized pension expense of \$307,445. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Difference in experience	\$-	\$-
Difference in assumptions	-	-
Excess (Deficit) Investment Returns	<u>579,056</u>	<u>-</u>
Subtotal	<u>579,056</u>	<u>-</u>
Contributions subsequent to the measurement date*	<u>-</u>	<u>-</u>
Total	<u>\$579,056</u>	<u>\$-</u>

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending 2016.

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

<u>Year Ended:</u>	<u>Amount</u>
2016	\$144,764
2017	144,764
2018	144,764
2019	144,764
2020	-
Thereafter	-
Total	<u>\$579,056</u>

Payable to the Pension Plan

At December 31, 2015, there was a reported payable of \$44,633 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2015.

NOTE O – POLICEMEN AND FIREMEN – DEFINED BENEFIT PENSION PLAN:**Summary of Significant Accounting Policies**

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

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

General Information about the Pension Plan

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

Benefits Provided:

	<u>2014 Valuation</u>
Benefit Multiplier:	2.50% Multiplier (plus 1% for years in excess of 25 years)
Normal Retirement Age:	60
Vesting:	10 years
Early Retirement (Unreduced):	50/25
Early Retirement (Reduced):	Not applicable
Average Final Compensation (AFC):	3 years
COLA for Future Retirees:	None
Employee Contributions:	5.00%
	To age 55: 1.5% multiple
Non-duty Disability:	At age 55: same as above
	To age 55: 50% AFC
Duty Disability:	At age 55: same as above w/ service credit from date of disability to age 55.

Employees covered by benefit terms – At the December 31st 2014 valuation date, the latest actuarial valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits:	21
Inactive employees entitled to but not yet receiving:	4
Active employees:	9
	<u>34</u>

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

The contribution rates as a percentage of payroll as December 31, 2014 are as follows: employer 38.07% and employee 5.00%.

There were no contributions requirements for closed divisions.

Net Pension Liability – The employer’s Net Pension Liability was measured as of December 31, 2014, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial assumptions – The total pension liability in the December 31, 2014 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Inflation: 4.5%

Salary Increases: 4.5% in the long-term

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

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 4.5%.

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

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocations were estimated based on the asset allocation provided by the client as of December 31, 2014. Best estimates of arithmetic real rates of return were approximated using expected returns from eight investment consultants. For each major asset class that is included in the pension plan's target asset allocation as of December 31, 2014, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.53%	-0.10%
Domestic Equity – Large Cap	26.29%	5.68%
Domestic Equity – Small Cap	26.29%	6.50%
International Equity	11.27%	6.46%
Emerging Markets	11.27%	8.67%
Domestic Corporate Fixed Income	15.56%	1.49%
Domestic Government Fixed Income	7.79%	0.94%
Treasury Inflation Protected Securities	0.00%	1.02%
High Yield Bonds	0.00%	2.84%
Real Estate	0.00%	4.45%
Private Equity	0.00%	8.75%
Hedge Funds	0.00%	3.77%
Other Alternatives	0.00%	4.11%
TOTAL	100.00%	
Total Real Rate of Return		5.21%
Plus: Price Inflation – Actuary's Assumption		3.00%
Less: Admin and Investment Expense		0.50%
Net Expected Return		7.71%

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

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

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

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

AQR Intl Equity CL – 23,093.8970 Units	\$224,242
Robeco Boston Partners – 14,531.5710 Units	216,666
DFA INTL Small Cap – 11,877.6470 Units	221,874
DFA US Small Cap – 8,393.6040 Units	255,921
Gateway Fund CL Y – 7,507.8830 Units	223,059
Schwab Fundamental INTL – 27,815.9970 Units	211,123
Wisdontree Inter Hdg QLY – 9,930.0000 Units	262,450

Discount rate – A single discount rate of 7.00% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.65%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2114. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2114, and the municipal bond rate was applied to all benefit payments after that date.

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

Changes in Net Pension Liability

Changes in Net Pension Liability	Calculating the Net Pension Liability		
	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 12/31/2013	\$6,976,395	\$4,992,826	\$1,983,569
Changes for the Year			
Service Cost	114,128	-	114,128
Interest on Total Pension Liability	477,261	-	477,261
Changes in benefits	-	-	-
Difference between expected and actual experience	(333,359)	-	(333,359)
Change in assumptions	(387,579)	-	(387,579)
Employer Contributions	-	201,791	(201,791)
Employee Contributions	-	22,745	(22,745)
Net Investment Income	-	101,472	(101,472)
Benefit payments, including employee refunds	(430,902)	(430,902)	-
Administrative expense	-	(39,761)	39,761
Other changes	-	-	-
Net Changes	(560,451)	(144,655)	(415,796)
Balances at 12/31/2014	\$6,415,944	\$4,848,171	\$1,567,773

Note: Based on December 31, 2014 actuarial valuation, the most recent actuarial report available.

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

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net Pension Liability at 12/31/2015	\$1,567,773	\$1,567,773	\$1,567,773
Change in Net Pension Liability	741,603	-	(620,846)
Calculated Net Pension Liability	<u>\$2,309,376</u>	<u>\$1,567,773</u>	<u>\$946,927</u>

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

For the year ended 2015 the employer recognized pension expense of \$286,566. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

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

		Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference in experience		\$-	(\$320,025)
Difference in assumptions		-	(372,076)
Excess (Deficit) Investment Returns		191,529	-
	Subtotal	<u>191,529</u>	<u>(692,101)</u>
Contributions subsequent to the measurement date*		199,736	-
	Total	<u>\$391,265</u>	<u>(\$692,101)</u>

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the plan year ending 2015.

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

Plan Year Ended:	Amount
2015	\$19,045
2016	19,045
2017	19,045
2018	19,045
2019	(28,837)
Thereafter	<u>(547,915)</u>
Total	<u>(\$500,572)</u>

Payable to the Pension Plan

At December 31, 2015, there was a reported payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2015.

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

The components of the net pension liability of the City at December 31, 2015, are as follows:

Total pension liability	\$6,415,944	*
Plan fiduciary net position	<u>4,848,171</u>	
City's net pension liability	<u>\$1,567,773</u>	

Plan fiduciary net position as
a percentage of the total pension liability 75.56%

*As of December 31, 2014, the most recent actuarial report available.

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 unfunded accrued liability. 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 Q – DEFERRED COMPENSATION PLAN:

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

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

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

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

NOTE R – 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 2015, expenses of \$27,030 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 S – PROPERTY TAXES:

The City of Ishpeming levied 13.4433 mills for the General Fund, 4.4810 mills for the Public Improvement Fund, and 1.8562 mills for the Policemen and Firemen Retirement Fund for calendar year 2015. The millage rate is based on each \$1,000.00 of property assessed valuation and the current Taxable Value of the City is \$114,477,961.

NOTE T – 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.

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

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

The Board shall obtain an annual audit of the Authority. A summary of financial information from the separately audited financial statements of the Authority for the year ended December 31, 2015 is as follows:

Assets	\$3,037,796
Deferred Outflows of Resources	-
Liabilities	35,332
Deferred Inflows of Resources	319,251
Net Position	26,83,213
Operating Revenues	649,302
Operating Expenses	151,980

NOTE U – 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, 2015, is as follows:

Assets	\$7,730,562
Deferred Outflows of Resources	92,500
Liabilities	591,116
Deferred Inflows of Resources	-
Equity - All local units	7,231,946
Operating Revenues	1,109,837
Operating Expenses	1,482,045
Other Income	711,304
Increase (decrease) in net position	339,096
City's Share of Net Income (loss)	329,824

NOTE U – JOINT VENTURES (Continued):

Marquette County Solid Waste Management Authority

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

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

The City's share of assets, liabilities, and fund equity is 10.16 percent. Summary financial information as of and for the fiscal year ended June 30, 2015 is as follows:

Assets	\$11,629,192
Deferred Outflows of Resources	60,285
Liabilities	2,279,084
Deferred Inflows of Resources	-
Net Position	9,410,393
Operating Revenues	3,145,315
Operating Expenses	3,361,515
Non-operating Revenues (Expenses)	182,199
Net Income (Loss)	(34,001)

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.

NOTE U – JOINT VENTURES (Continued):

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, 2015 is as follows:

Total Assets	\$2,394,823
Total Liabilities	5,318
Total Net Position	2,389,505
Total Operating Revenues	750,515
Total Operating Expenses	566,022
Other Revenues and (Expenses)	164,184
Change in Net Position	348,677

The balance of the investment in Board for the year ended December 31, 2015 of \$3,507,323 represents the City’s net investment in the Board.

NOTE V – 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 W – SINGLE AUDIT:

During the 2015 fiscal year, the City of Ishpeming expended more than \$750,000 in federal dollars; therefore the City is required to have a Single Audit in order to comply with Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

NOTE X – NEW GASB STANDARDS:

Recently Issued and Adopted Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB 68 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. It 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. This Statement is effective for periods beginning after June 15, 2014. The adoption of GASB No. 68 required the City to record a prior period adjustment for the City’s net pension liability at the beginning of the year as detailed in Note AA of the financial statements.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date (an Amendment of GASB Statement No. 68)*. 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. This Statement is effective at the same time GASB 68 is adopted. The adoption of GASB No. 71 required the City to record a prior period adjustment resulting from timing differences between the Police and Fire Retirement System’s fiscal year and the actuarial valuation measurement date as detailed in Note AA of the financial statements.

NOTE Y – 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 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.

GASB 73: Accounting and Financial Reporting for Pension and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB 67 and 68

Effective for fiscal years beginning after June 15, 2015 (City’s fiscal year 2016)

This standard establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for

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

defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

GASB 74: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans *Effective for fiscal years beginning after June 15, 2016 (City's fiscal year 2017)*

This standard replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet certain criteria. It also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are *not* administered through trusts that meet the specified criteria.

GASB 75: Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans *Effective for fiscal years beginning after June 15, 2017 (City's fiscal year 2018)*

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

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

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution

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

OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

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

GASB 76: The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

Effective for fiscal years beginning after June 15, 2015 (City's fiscal year 2016)

This standard supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB 77: Tax Abatement Disclosures

Effective for fiscal years beginning after December 15, 2015 (City's fiscal year 2016)

This standard requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Governments will be required to disclose information about tax abatement agreements including the taxes being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanisms by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments being made by tax abatement recipients. Additionally the gross dollar amount of taxes abated during the period will have to be disclosed along with any other commitments made by a government, other than to abate taxes, as part of the tax abatement agreement.

GASB 78: Pensions Provided through Certain Multiple-Employer Defined Benefit Pension plans

Effective for fiscal years beginning after December 15, 2015 (City's fiscal year 2016)

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This

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

Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

GASB 79: Certain External Investment Pools and Pool Participants

Effective for fiscal years beginning after June 15, 2015 (City's fiscal year 2016)

This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

GASB 80: Blending Requirements for Certain Component Units – an Amendment to GASB Statement No. 14

Effective for fiscal years beginning after June 15, 2016 (City's fiscal year 2017)

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

GASB 81: Irrevocable Split-Interest Agreements

Effective for fiscal years beginning after December 15, 2016 (City's fiscal year 2017)

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize

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

assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

GASB 82: Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73 Effective for fiscal years beginning after June 15, 2017 (City's fiscal year 2018)

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures.

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

NOTE Z – SUBSEQUENT EVENT:

In May 2016, the City, among others, was named as a defendant in a lawsuit. It is unlikely that the results of the lawsuit will have any financial impact on the City.

NOTE AA – NET POSITION RESTATEMENT:

The following net position restatement were made resulting from the adoption of GASB No. 68 and GASB No. 71. The adjustment records the beginning proportionate share of net pension liability and related deferred outflows of resources as listed below.

NOTE AA – NET POSITION RESTATEMENT (Continued):

	Governmental Activities	Business-Type Activities	
	Total	Sewer Fund	Water Fund
Net Position, beginning of year	\$17,978,303	\$9,150,923	\$5,085,878
Prior period adjustment:			
Michigan Municipal Employees' Retirement System			
Net Pension Liability, beginning of year	(4,096,214)	(746,289)	(1,602,138)
Police and Fire Retirement System			
Net Pension Liability, beginning of year	(1,983,569)	-	-
Deferred outflows of resources related to pension, beginning of year	161,376	-	-
Net position, beginning of year, as restated	<u>\$12,059,896</u>	<u>\$8,404,634</u>	<u>\$3,483,740</u>

NOTE AB – UNRESTRICTED NET POSITION DEFICIT:

In accordance with Public Act 140 of 1970, the City is required to file a deficit elimination plan for all funds that have a deficit at the end of the fiscal year. As of September 30, 2015 the City had unrestricted net position deficits as follows: Water Fund - \$1,764,071.

For purposes of determining if a fund is in a deficit position, the Michigan Department of Treasury's Local Audit and Finance Division issued Numbered Letter 2014-1. For governmental funds, "unrestricted fund balance" is the sum of the Committed, Assigned, and Unassigned balances.

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

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

The results of performing the deficit test revealed the Water Fund is required to file a deficit elimination plan with the Department of Treasury for \$51,242. A deficit elimination plan has been filed.

REQUIRED SUPPLEMENTARY INFORMATION

City of Ishpeming, Michigan

MICHIGAN MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

DEFINED BENEFIT PENSION PLAN

ANALYSIS OF FUNDING INFORMATION

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

(Ultimately 10 years will be displayed)

	2015
Change in total pension liability	
Service cost	\$ 176,348
Interest	1,111,444
Change in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds of member contributions	(896,652)
Other	16,018
Net change in total pension liability	407,158
Total pension liability, beginning of year	14,253,206
Total pension liability, end of year (a)	14,660,364
Change in plan fiduciary net position	
Contributions – employer	474,475
Contributions – member	73,403
Net investment income	(113,758)
Benefit payments, including refunds of member contributions	(896,652)
Administrative expense	(16,811)
Net change in plan fiduciary net position	(479,343)
Plan fiduciary net position, beginning of year	7,808,565
Plan fiduciary net position, end of year (b)	7,329,222
City's net pension liability, end of year (a)-(b)	\$ 7,331,142
Plan fiduciary net position as a percentage of the total pension liability	49.99%
Covered-employee payroll	\$ 1,195,774 *
City's net pension liability as a percentage of covered payroll	613.09%

City of Ishpeming, Michigan

MICHIGAN MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

DEFINED BENEFIT PENSION PLAN

ANALYSIS OF FUNDING INFORMATION

SCHEDULE OF CONTRIBUTIONS

(Ultimately 10 years will be displayed)

<u>Fiscal Year Ending</u>	<u>Actuarial Determined Contribution</u>	<u>Contribution in Relation to the Actuarial Determined Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contribution as Percentage of Covered Payroll</u>
2015	\$ 474,475	\$ 474,475	\$ -	\$ 1,195,774	39.68%

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)

	2015	2014
Change in total pension liability		
Service cost	Not Available *	\$ 114,128
Interest	Not Available *	477,261
Change in benefit terms	Not Available *	-
Differences between expected and actual experience	Not Available *	(333,359)
Changes in assumptions	Not Available *	(387,579)
Benefit payments, including refunds of member contributions	Not Available *	(430,902)
Net change in total pension liability	Not Available *	(560,451)
Total pension liability, beginning of year	Not Available *	6,976,395
Total pension liability, end of year (a)	Not Available *	6,415,944
Change in plan fiduciary net position		
Contributions – employer	199,736	201,791
Contributions – member	23,844	22,745
Net investment income	(187,806)	101,472
Benefit payments, including refunds of member contributions	(415,168)	(430,902)
Administrative expense	(42,723)	(39,761)
Net change in plan fiduciary net position	(422,117)	(144,655)
Plan fiduciary net position, beginning of year	4,848,171	4,992,826
Plan fiduciary net position, end of year (b)	4,426,054	4,848,171
City's net pension liability, end of year (a)-(b)	Not Available *	\$ 1,567,773
Plan fiduciary net position as a percentage of the total pension liability	Not Available *	75.56%
Covered-employee payroll	Not Available *	\$ 462,485
City's net pension liability as a percentage of covered payroll	Not Available *	338.99%

*Actuarial information not available

Notes to Schedules:

City's net pension liability is based on most recent actuarial valuation date, December 31, 2014.

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)

Fiscal Year Ending	Actuarial Determined Contribution	Contribution in Relation to the Actuarial Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as Percentage of Covered Payroll
2005	\$ 103,643	\$ 103,643	-	\$ 443,867	23.35%
2006	126,033	126,033	-	455,750	27.65%
2007	94,165	94,165	-	472,266	19.94%
2008	108,895	108,895	-	450,111	24.19%
2009	113,460	113,460	-	490,598	23.13%
2010	139,448	139,448	-	441,036	31.62%
2011	160,724	160,724	-	407,599	39.43%
2012	149,207	149,207	-	475,834	31.36%
2013	158,948	158,948	-	487,529	32.60%
2014	201,791	201,791	-	462,485	43.63%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date: December 31, 2014

Notes: None

Methods and Assumptions Used to Determine Contributions Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 Years
Asset Valuation Method	5-Year smoothed market; 20% corridor
Inflation	4.5% wage inflation; 3.5% price inflation
Salary Increases	4.5% to 8.3% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience -based tabel of rates that are specific to the type of eligible conditioin. Last updated for the 2003 valuation.
Mortality	The RP-2000 Mortality table (combined healthy), projected to 2017 using projection scale BB, set back 0 years for men and 0 years for women. At date of adoption, mortality rates were adjusted to include margin for five years of future life improvement.

Other Information:

Notes There were no benefit changes during the year.

City of Ishpeming, Michigan

POLICE AND FIRE RETIREMENT SYSTEM

DEFINED BENEFIT PENSION PLAN

ANALYSIS OF FUNDING INFORMATION

SCHEDULE OF INVESTMENT RETURNS

(Ultimately 10 years will be displayed)

<u>Fiscal Year Ended December 31,</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expense</u>
2014	Not available
2015	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 and FACILITY IMPROVEMENT FUND are Major Capital Project Funds.

City of Ishpeming, Michigan

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2015

With Comparative Actual Amounts for the Year Ended December 31, 2014

	2015				2014
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	
REVENUES:					
Taxes	\$ 1,509,640	\$ 1,540,475	\$ 1,544,970	\$ 4,495	\$ 1,319,162
State sources	801,790	834,951	815,679	(19,272)	818,563
Licenses and permits	176,200	172,670	174,315	1,645	181,597
Service charges	58,560	60,590	58,261	(2,329)	83,618
Interest income and rentals	499,600	534,600	385,040	(149,560)	471,595
Contributions	-	6,350	6,638	288	2,007
Fines and forfeitures	59,632	66,982	64,863	(2,119)	62,016
Other revenues	55,000	50,650	64,350	13,700	102,834
TOTAL REVENUES	3,160,422	3,267,268	3,114,116	(153,152)	3,041,392
EXPENDITURES:					
Current Operations:					
Legislative	27,600	15,215	13,966	1,249	15,188
General government	1,230,993	1,159,287	1,081,540	77,747	1,043,405
Public safety	740,220	770,280	728,119	42,161	730,265
Public works	698,500	824,000	762,922	61,078	737,071
Community and economic development	14,800	15,250	13,968	1,282	15,447
Recreation and culture	294,050	335,700	319,032	16,668	300,549
Debt Service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Capital outlay	-	-	-	-	-
TOTAL EXPENDITURES	3,006,163	3,119,732	2,919,547	200,185	2,841,925
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	154,259	147,536	194,569	47,033	199,467
OTHER FINANCING SOURCES (USES):					
Proceeds from sale of capital assets	-	-	-	-	-
Transfers in	91,600	23,400	8,017	(15,383)	105,102
Transfers (out)	(93,040)	(16,192)	(9,631)	6,561	(8,427)
TOTAL OTHER FINANCING SOURCES (USES)	(1,440)	7,208	(1,614)	(8,822)	96,675
CHANGE IN FUND BALANCE	152,819	154,744	192,955	38,211	296,142
Fund balance, beginning of year	622,593	622,593	622,593	-	326,451
FUND BALANCE, END OF YEAR	\$ 775,412	\$ 777,337	\$ 815,548	\$ 38,211	\$ 622,593

City of Ishpeming, Michigan

MAJOR SPECIAL REVENUE FUNDS

MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2015

With Comparative Actual Amounts for the Year Ended December 31, 2014

	2015				2014
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	
REVENUES:					
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ 375,000
State sources	418,100	424,363	453,986	29,623	438,693
Interest income and rentals	100	100	33	(67)	99
Other revenue	-	-	-	-	326
TOTAL REVENUES	418,200	424,463	454,019	29,556	814,118
EXPENDITURES:					
Public Works:					
Construction	20,000	113,937	106,505	7,432	584,986
Routine maintenance	29,200	33,600	23,734	9,866	10,991
Traffic service	13,500	25,500	19,380	6,120	4,520
Winter maintenance	235,000	286,180	234,242	51,938	352,563
Administration	98,500	29,000	27,727	1,273	28,299
State trunkline	33,475	51,615	34,285	17,330	33,268
Total Public Works	429,675	539,832	445,873	93,959	1,014,627
Debt Service:					
Principal	29,610	29,610	29,610	-	28,200
Interest and fiscal charges	5,623	5,373	5,373	-	6,572
Total Debt Service	35,233	34,983	34,983	-	34,772
TOTAL EXPENDITURES	464,908	574,815	480,856	93,959	1,049,399
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(46,708)	(150,352)	(26,837)	123,515	(235,281)
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	-	-	-	-	-
Transfers in	46,708	150,362	52,844	(97,518)	119,607
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	46,708	150,362	52,844	(97,518)	119,607
CHANGE IN FUND BALANCE	-	10	26,007	25,997	(115,674)
Fund balance, beginning of year	-	-	-	-	115,674
FUND BALANCE, END OF YEAR	\$ -	\$ 10	\$ 26,007	\$ 25,997	\$ -

City of Ishpeming, Michigan

MAJOR SPECIAL REVENUE FUNDS

LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2015

With Comparative Actual Amounts for the Year Ended December 31, 2014

	2015			Variance with Final Budget Positive (Negative)	2014
	Original Budget	Final Budget	Actual GAAP Basis		
REVENUES:					
Federal sources	\$ -	\$ 5,667	\$ 5,667	\$ -	\$ 1,356
State sources	257,000	225,584	253,345	27,761	266,099
Interest income and rentals	-	-	547	547	187
Other revenue	-	-	-	-	-
TOTAL REVENUES	257,000	231,251	259,559	28,308	267,642
EXPENDITURES:					
Public Works:					
Construction	-	10,000	8,835	1,165	8,500
Routine maintenance	39,000	58,900	37,391	21,509	21,862
Traffic service	13,900	14,500	11,644	2,856	11,302
Winter maintenance	243,000	268,000	190,609	77,391	216,470
Administration	87,500	26,000	26,516	(516)	27,118
Total Public Works	383,400	377,400	274,995	102,405	285,252
Debt Service:					
Principal	8,820	8,820	8,820	-	8,400
Interest and fiscal charges	1,675	1,601	1,601	-	1,958
Total Debt Service	10,495	10,421	10,421	-	10,358
TOTAL EXPENDITURES	393,895	387,821	285,416	102,405	295,610
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(136,895)	(156,570)	(25,857)	130,713	(27,968)
OTHER FINANCING SOURCES (USES):					
Transfers in	136,895	-	-	-	273,969
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	136,895	-	-	-	273,969
CHANGE IN FUND BALANCE	-	(156,570)	(25,857)	130,713	246,001
Fund balance, beginning of year	302,600	302,600	302,600	-	56,599
FUND BALANCE, END OF YEAR	\$ 302,600	\$ 146,030	\$ 276,743	\$ 130,713	\$ 302,600

City of Ishpeming, Michigan

MAJOR SPECIAL REVENUE FUNDS

GARBAGE & RUBBISH FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2015

With Comparative Actual Amounts for the Year Ended December 31, 2014

	2015				2014
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	463,000	433,000	525,814	92,814	538,440
Interest income and rentals	1,200	1,200	935	(265)	1,802
Contributions	-	-	-	-	-
Other revenue	-	1,100	1,070	(30)	-
TOTAL REVENUES	<u>464,200</u>	<u>435,300</u>	<u>527,819</u>	<u>92,519</u>	<u>540,242</u>
EXPENDITURES:					
Current Operations:					
Public Works	484,490	670,700	622,328	48,372	596,413
TOTAL EXPENDITURES	<u>484,490</u>	<u>670,700</u>	<u>622,328</u>	<u>48,372</u>	<u>596,413</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(20,290)</u>	<u>(235,400)</u>	<u>(94,509)</u>	<u>140,891</u>	<u>(56,171)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	-	-	-
Transfers (out)	(62,100)	-	-	-	(56,250)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(62,100)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(56,250)</u>
CHANGE IN FUND BALANCE	<u>(82,390)</u>	<u>(235,400)</u>	<u>(94,509)</u>	<u>140,891</u>	<u>(112,421)</u>
Fund balance, beginning of year	640,011	640,011	640,011	-	752,432
FUND BALANCE, END OF YEAR	<u>\$ 557,621</u>	<u>\$ 404,611</u>	<u>\$ 545,502</u>	<u>\$ 140,891</u>	<u>\$ 640,011</u>

City of Ishpeming, Michigan

MAJOR CAPITAL PROJECTS FUNDS

PUBLIC IMPROVEMENT FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2015

With Comparative Actual Amounts for the Year Ended December 31, 2014

	2015			Variance with Final Budget Positive (Negative)	2014
	Original Budget	Final Budget	Actual GAAP Basis		
REVENUES:					
Taxes	\$ 476,480	\$ 481,605	\$ 481,611	\$ 6	\$ 408,756
Federal sources	-	-	-	-	81,971
State sources	-	-	-	-	-
Charges for services	142,000	142,000	91,232	(50,768)	111,621
Interest income and rentals	1,100	1,100	931	(169)	1,549
Contributions	-	-	-	-	-
Other revenue	-	-	-	-	-
TOTAL REVENUES	619,580	624,705	573,774	(50,931)	603,897
EXPENDITURES:					
Capital Outlay:					
City manager	1,000	-	-	-	4,798
City assessor	-	-	-	-	-
City clerk	-	-	-	-	-
City treasurer	13,000	35,000	33,153	1,847	12,978
City hall and grounds	5,000	5,000	56	4,944	-
Cemetery	28,500	4,700	3,145	1,555	10,135
Police	48,400	44,200	43,322	878	47,787
Fire	26,000	23,000	21,893	1,107	116,938
Public works	135,000	171,710	136,761	34,949	75,908
Parks	3,200	100	39	61	-
Playlots	-	-	-	-	-
Al Quaal	60,000	55,000	27,504	27,496	37,978
Library	34,500	33,100	39,150	(6,050)	38,768
Contracted services	82,500	33,110	26,835	6,275	16,718
Total Capital Outlay	437,100	404,920	331,858	73,062	362,008
Debt Service:					
Principal	74,550	112,730	47,600	65,130	85,000
Interest and fiscal charges	91,311	91,601	36,418	55,183	8,994
Total Debt Service	165,861	204,331	84,018	120,313	93,994
TOTAL EXPENDITURES	602,961	609,251	415,876	193,375	456,002
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	16,619	15,454	157,898	142,444	147,895
OTHER FINANCING SOURCES (USES):					
Proceeds from sale of capital assets	5,000	-	-	-	-
Transfers in	133,050	34,000	-	(34,000)	-
Transfers (out)	(248,607)	(215,366)	(117,848)	97,518	(390,358)
TOTAL OTHER FINANCING SOURCES (USES)	(110,557)	(181,366)	(117,848)	63,518	(390,358)
CHANGE IN FUND BALANCE	(93,938)	(165,912)	40,050	205,962	(242,463)
Fund balance, beginning of year	252,577	252,577	252,577	-	495,040
FUND BALANCE, END OF YEAR	\$ 158,639	\$ 86,665	\$ 292,627	\$ 205,962	\$ 252,577

City of Ishpeming, Michigan

MAJOR CAPITAL PROJECTS FUNDS

FACILITIES IMPROVEMENT FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2015

With Comparative Actual Amounts for the Year Ended December 31, 2014

	2015				2014
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-	-
State sources	-	-	-	-	-
Charges for services	-	-	-	-	-
Interest income and rentals	-	-	-	-	-
Contributions	-	-	-	-	-
Other revenue	-	-	-	-	-
TOTAL REVENUES	-	-	-	-	-
EXPENDITURES:					
Capital Outlay:					
City manager	-	-	-	-	-
City assessor	-	-	-	-	-
City clerk	-	-	-	-	-
City treasurer	-	-	-	-	-
City hall and grounds	-	155,817	141,374	14,443	-
Cemetery	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Public works	-	1,402,348	1,161,453	240,895	-
Parks	-	-	-	-	-
Playlots	-	-	-	-	-
Al Quaal	-	-	-	-	-
Library	-	-	-	-	-
Contracted services	-	-	-	-	-
Total Capital Outlay	-	1,558,165	1,302,827	255,338	-
Debt Service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	25,000	19,080	5,920	-
Total Debt Service	-	25,000	19,080	5,920	-
TOTAL EXPENDITURES	-	1,583,165	1,321,907	261,258	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(1,583,165)	(1,321,907)	261,258	-
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	-	1,650,000	1,415,100	(234,900)	-
Transfers in	-	-	-	-	-
Transfers (out)	-	(91,835)	(91,835)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	1,558,165	1,323,265	(234,900)	-
CHANGE IN FUND BALANCE	-	(25,000)	1,358	26,358	-
Fund balance, beginning of year	-	-	-	-	-
FUND BALANCE, END OF YEAR	\$ -	\$ (25,000)	\$ 1,358	\$ 26,358	\$ -

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, 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.

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, 2015

	Special Revenue Funds	Permanent Funds Perpetual Care Fund	Cemetery Care Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 163,548	\$ 147,057	\$ 36,570	\$ 347,175
Investments	-	901,972	134,059	1,036,031
Accounts receivable, net	-	-	-	-
Taxes receivable	-	-	-	-
Other receivable	-	-	-	-
Due from other governments	60,500	-	-	60,500
Due from other funds	-	-	-	-
Notes receivable	56,617	-	-	56,617
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	280,665	1,049,029	170,629	1,500,323
DEFERRED OUTFLOWS OF RESOURCES				
Premium on investment	-	3,038	-	3,038
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	-	3,038	-	3,038
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 280,665	\$ 1,052,067	\$ 170,629	\$ 1,503,361
	<hr/>	<hr/>	<hr/>	<hr/>
LIABILITIES				
Cash overdrafts	\$ 60,500	\$ -	\$ -	\$ 60,500
Accounts payable	4,723	-	-	4,723
Accrued payroll	-	-	-	-
Accrued sick and vacation	-	-	-	-
Due to other funds	-	84,153	17,321	101,474
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	65,223	84,153	17,321	166,697
DEFERRED INFLOWS OF RESOURCES				
Taxes levied for a subsequent period	-	-	-	-
Discount on investment	-	1,890	625	2,515
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL DEFERRED INFLOWS OF RESOURCES	-	1,890	625	2,515
	<hr/>	<hr/>	<hr/>	<hr/>
FUND BALANCE				
Non-spendable	56,617	843,286	145,697	1,045,600
Restricted	-	122,738	6,986	129,724
Committed	-	-	-	-
Assigned	158,825	-	-	158,825
Unassigned	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL FUND BALANCE	215,442	966,024	152,683	1,334,149
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 280,665	\$ 1,052,067	\$ 170,629	\$ 1,503,361
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City of Ishpeming, Michigan

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended December 31, 2015

	Special Revenue Funds	Permanent Funds		Total Non-Major Governmental Funds
		Perpetual Care Fund	Cemetery Care Fund	
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-
State sources	8,008	-	-	8,008
Charges for services	-	11,750	-	11,750
Interest income and rentals	2,736	9,328	866	12,930
Contributions	123,283	-	-	123,283
Other revenues	60,500	-	-	60,500
TOTAL REVENUES	194,527	21,078	866	216,471
EXPENDITURES:				
Current Operations:				
Public works	-	-	-	-
Recreation and culture	15,626	-	-	15,626
Other governmental	120,366	-	-	120,366
Debt Service:				
Principal	29,000	-	-	29,000
Interest and fiscal charges	36,004	-	-	36,004
Capital outlay	288,097	-	-	288,097
TOTAL EXPENDITURES	489,093	-	-	489,093
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(294,566)	21,078	866	(272,622)
OTHER FINANCING SOURCES (USES):				
Transfers in	166,470	-	-	166,470
Transfers (out)	-	(7,617)	(400)	(8,017)
TOTAL OTHER FINANCING SOURCES (USES)	166,470	(7,617)	(400)	158,453
CHANGE IN FUND BALANCE	(128,096)	13,461	466	(114,169)
Fund balance, beginning of year	343,538	952,563	152,217	1,448,318
FUND BALANCE, END OF YEAR	\$ 215,442	\$ 966,024	\$ 152,683	\$ 1,334,149

City of Ishpeming, Michigan

NON-MAJOR SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

December 31, 2015

	Building Authority Fund	Library State Aid Fund	Library Fund	Revolving Loan Fund	Lake Bancroft Fund	Total
ASSETS						
Cash and cash equivalents	\$ -	\$ -	\$ 152,715	\$ -	\$ 10,833	\$ 163,548
Investments	-	-	-	-	-	-
Accounts receivable, net	-	-	-	-	-	-
Taxes receivable	-	-	-	-	-	-
Other receivable	-	-	-	-	-	-
Due from other governments	-	-	-	60,500	-	60,500
Due from other funds	-	-	-	-	-	-
Notes receivable	-	-	-	56,617	-	56,617
TOTAL ASSETS	-	-	152,715	117,117	10,833	280,665
DEFERRED OUTFLOWS OF RESOURCES						
	-	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ -	\$ 152,715	\$ 117,117	\$ 10,833	\$ 280,665
LIABILITIES						
Cash overdrafts	\$ -	\$ -	\$ -	\$ 60,500	\$ -	\$ 60,500
Accounts payable	-	-	4,723	-	-	4,723
Accrued payroll	-	-	-	-	-	-
Accrued sick and vacation	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
TOTAL LIABILITIES	-	-	4,723	60,500	-	65,223
DEFERRED INFLOWS OF RESOURCES						
Taxes levied for a subsequent period	-	-	-	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	-	-	-	-	-	-
FUND BALANCE						
Non-spendable	-	-	-	56,617	-	56,617
Restricted	-	-	-	-	-	-
Committed	-	-	-	-	-	-
Assigned	-	-	147,992	-	10,833	158,825
Unassigned	-	-	-	-	-	-
TOTAL FUND BALANCE	-	-	147,992	56,617	10,833	215,442
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ -	\$ -	\$ 152,715	\$ 117,117	\$ 10,833	\$ 280,665

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, 2015

	Building Authority Fund	Library State Aid Fund	Library Fund	Revolving Loan Fund	Lake Bancroft Fund	Total
REVENUES:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-	-	-
State sources	-	8,008	-	-	-	8,008
Charges for services	-	-	-	-	-	-
Interest and rentals	-	-	291	2,425	20	2,736
Contributions	-	-	123,272	-	11	123,283
Fines and forfeitures	-	-	-	-	-	-
Other revenue	-	-	-	60,500	-	60,500
TOTAL REVENUES	-	8,008	123,563	62,925	31	194,527
EXPENDITURES:						
Current Operations:						
Public works	-	-	-	-	-	-
Recreation and culture	-	14,599	-	-	1,027	15,626
Other governmental	-	-	-	120,366	-	120,366
Debt Service:						
Principal	29,000	-	-	-	-	29,000
Interest and fiscal charges	36,004	-	-	-	-	36,004
Capital outlay	91,835	-	196,262	-	-	288,097
TOTAL EXPENDITURES	156,839	14,599	196,262	120,366	1,027	489,093
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(156,839)	(6,591)	(72,699)	(57,441)	(996)	(294,566)
OTHER FINANCING SOURCES:						
Transfers in	156,839	6,591	-	3,040	-	166,470
Transfers (out)	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	156,839	6,591	-	3,040	-	166,470
CHANGE IN FUND BALANCE	-	-	(72,699)	(54,401)	(996)	(128,096)
Fund balance, beginning of year	-	-	220,691	111,018	11,829	343,538
FUND BALANCE, END OF YEAR	\$ -	\$ -	\$ 147,992	\$ 56,617	\$ 10,833	\$ 215,442

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 699,686	\$ 389,023
Investments	52,555	52,355
Accounts receivable	106,878	110,212
Allowance for uncollectible accounts	-	-
Non-current Assets:		
Investment in Wastewater Treatment Facility	3,788,325	3,458,501
Capital Assets:		
Land and construction in progress	47,687	-
Other capital assets, net of depreciation	<u>5,161,203</u>	<u>5,182,638</u>
Total Capital Assets	<u>5,208,890</u>	<u>5,182,638</u>
TOTAL ASSETS	<u>9,856,334</u>	<u>9,192,729</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts related to pension	<u>67,055</u>	<u>-</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>67,055</u>	<u>-</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	4,113	539
Accrued payroll	3,667	2,562
Due to other funds	-	30,000
Non-current Liabilities:		
Portion due or payable within one year		
Notes payable	57,669	-
Compensated absences	-	236
Portion due or payable after one year		
Notes payable	247,889	-
Compensated absences	892	8,469
Net pension liability	<u>848,946</u>	<u>-</u>
TOTAL LIABILITIES	<u>1,163,176</u>	<u>41,806</u>
DEFERRED INFLOWS OF RESOURCES		
	<u>-</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	8,691,657	8,641,139
Unrestricted	<u>68,556</u>	<u>509,784</u>
TOTAL NET POSITION	<u><u>\$ 8,760,213</u></u>	<u><u>\$ 9,150,923</u></u>

City of Ishpeming, Michigan

SEWER FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2015

With Comparative Actual Amounts for the Year Ended December 31, 2014

	2015	2014
OPERATING REVENUES:		
Federal sources	\$ -	\$ -
State sources	-	3,269
Charges for services	1,366,846	1,353,263
Other revenue	100	281
TOTAL OPERATING REVENUES	1,366,946	1,356,813
OPERATING EXPENSES:		
Personal services	314,721	221,105
Contractual services	519,204	667,212
Supplies	11,360	9,564
Utilities	2,026	2,590
Depreciation	360,943	359,214
Other expenses	134,485	100,393
TOTAL OPERATING EXPENSES	1,342,739	1,360,078
OPERATING INCOME (LOSS)	24,207	(3,265)
NON-OPERATING REVENUES (EXPENSES):		
Gain/(Loss) on wastewater facility	329,824	(88,700)
Interest income and rentals	1,548	1,102
TOTAL NON-OPERATING (EXPENSES)	331,372	(87,598)
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	355,579	(90,863)
Transfers in	-	-
Transfers (out)	-	-
CHANGE IN NET POSITION	355,579	(90,863)
Net position, beginning of year, as restated	8,404,634	9,241,786
NET POSITION, END OF YEAR	\$ 8,760,213	\$ 9,150,923

City of Ishpeming, Michigan

SEWER FUND

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2015

With Comparative Actual Amounts for the Year Ended December 31, 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fees and charges for services	\$ 1,370,180	\$ 1,371,393
Other operating revenues	100	3,550
Cash payments to employees for services	(285,827)	(218,292)
Cash payments to suppliers for goods and services	<u>(663,501)</u>	<u>(780,277)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>420,952</u>	<u>376,374</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers in (out)	-	-
Increase (decrease) in due to other funds	<u>(30,000)</u>	<u>-</u>
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	<u>(30,000)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on notes	-	-
Interest paid on notes	-	-
Proceeds from the issuance of notes	305,558	-
Cash payments for capital assets	<u>(387,195)</u>	<u>(34,560)</u>
Proceeds from sale of capital assets	-	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(81,637)</u>	<u>(34,560)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in investments	(200)	(190)
Investment income	<u>1,548</u>	<u>1,102</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>1,348</u>	<u>912</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	310,663	342,726
Cash and cash equivalents, beginning of year	<u>389,023</u>	<u>46,297</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 699,686</u>	<u>\$ 389,023</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 24,207	\$ (3,265)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	360,943	359,214
Change in assets and liabilities:		
(Increase) decrease in accounts receivable, net	3,334	18,130
Increase (decrease) in accounts payable	3,574	(518)
Increase (decrease) in accrued payroll	1,105	384
Increase (decrease) in accrued sick and vacation	(7,813)	2,429
Increase (decrease) in net pension liability and related	<u>35,602</u>	<u>-</u>
NET ADJUSTMENTS	<u>396,745</u>	<u>379,639</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 420,952</u>	<u>\$ 376,374</u>

City of Ishpeming, Michigan

WATER FUND

COMPARATIVE STATEMENT OF NET POSITION

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable	392,501	385,230
Allowance for uncollectible accounts	-	-
Delinquent utilities	29,899	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	142,264	10,888
Other capital assets, net of depreciation	1,424,626	1,498,479
Total Capital Assets	<u>1,566,890</u>	<u>1,509,367</u>
TOTAL ASSETS	<u>5,496,613</u>	<u>6,534,365</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts related to pension	<u>143,953</u>	<u>-</u>
	<u>143,953</u>	<u>-</u>
LIABILITIES		
Current Liabilities:		
Cash overdrafts	302,362	922,954
Accounts payable	62,364	381,519
Accrued liabilities	98,400	97,975
Accrued payroll	10,516	5,085
Non-current Liabilities:		
Portion due or payable within one year		
Compensated absences	4,712	1,074
Portion due or payable after one year		
Compensated absences	29,548	39,880
Net pension liability	<u>1,822,522</u>	<u>-</u>
TOTAL LIABILITIES	<u>2,330,424</u>	<u>1,448,487</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	5,074,213	5,016,690
Unrestricted (deficit)	<u>(1,764,071)</u>	<u>69,188</u>
TOTAL NET POSITION	<u>\$ 3,310,142</u>	<u>\$ 5,085,878</u>

City of Ishpeming, Michigan

WATER FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2015

With Comparative Actual Amounts for the Year Ended December 31, 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES:		
Federal sources	\$ -	\$ 990,940
State sources	-	100,000
Charges for services	1,459,343	1,440,104
Other revenue	<u>9,137</u>	<u>1,627</u>
TOTAL OPERATING REVENUES	<u>1,468,480</u>	<u>2,532,671</u>
OPERATING EXPENSES:		
Personal services	697,528	691,312
Contractual services	573,756	813,631
Supplies	92,113	188,303
Utilities	13,134	15,862
Depreciation	73,853	73,861
Other expenses	<u>191,758</u>	<u>1,435,212</u>
TOTAL OPERATING EXPENSES	<u>1,642,142</u>	<u>3,218,181</u>
OPERATING INCOME (LOSS)	<u>(173,662)</u>	<u>(685,510)</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income and rentals	<u>64</u>	<u>295</u>
TOTAL NON-OPERATING (EXPENSES)	<u>64</u>	<u>295</u>
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	<u>(173,598)</u>	<u>(685,215)</u>
Transfers in (out)	<u>-</u>	<u>50,000</u>
CHANGE IN NET POSITION	<u>(173,598)</u>	<u>(635,215)</u>
Net position, beginning of year, as restated	<u>3,483,740</u>	<u>5,721,093</u>
NET POSITION, END OF YEAR	<u><u>\$ 3,310,142</u></u>	<u><u>\$ 5,085,878</u></u>

City of Ishpeming, Michigan

WATER FUND

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2015

With Comparative Actual Amounts for the Year Ended December 31, 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fees and charges for services	\$ 1,463,678	\$ 1,413,901
Other operating revenues	1,100,077	1,627
Cash payments to employees for services	(622,360)	(683,808)
Cash payments to suppliers for goods and services	<u>(1,189,491)</u>	<u>(2,149,158)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>751,904</u>	<u>(1,417,438)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Increase (decrease) in cash overdraft	(620,592)	922,954
Transfers in(out)	<u>-</u>	<u>50,000</u>
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	<u>(620,592)</u>	<u>972,954</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Cash payments for capital assets	(131,376)	-
Proceeds from sale of capital assets	<u>-</u>	<u>-</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(131,376)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	<u>64</u>	<u>295</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>64</u>	<u>295</u>
	NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(444,189)
Cash and cash equivalents, beginning of year	<u>-</u>	<u>444,189</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (173,662)	\$ (685,510)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	73,853	73,861
Change in assets and liabilities:		
(Increase) decrease in accounts receivable, net	4,335	(26,203)
(Increase) decrease in due from other governmental units	1,090,940	(1,090,940)
Increase (decrease) in accounts payable	(319,155)	292,075
Increase (decrease) in customer deposits payable	425	11,775
Increase (decrease) in accrued payroll	5,431	(3,156)
Increase (decrease) in accrued sick and vacation	(6,694)	10,660
Increase (decrease) in net pension liability and related	<u>76,431</u>	<u>-</u>
NET ADJUSTMENTS	<u>925,566</u>	<u>(731,928)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 751,904</u>	<u>\$ (1,417,438)</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, 2015

	Agency Funds		
	Trust & Agency Fund	Tax Collection Fund	Totals
ASSETS			
Cash and equivalents	\$ 2,752	\$ 551,700	\$ 554,452
Due from other governments	-	-	-
Due from other funds	-	-	-
	TOTAL ASSETS	\$ 551,700	\$ 554,452
	\$ 2,752	\$ 551,700	\$ 554,452
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	1,506	4,144	5,650
Due to other governmental units	1,246	547,556	548,802
	TOTAL LIABILITIES	\$ 551,700	\$ 554,452
	\$ 2,752	\$ 551,700	\$ 554,452

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 323,993	\$ -
Investments	265,126	1,035,331
Accounts receivable, net	-	-
Taxes receivable	103,552	171,344
Other receivable	-	-
Due from other governments	-	-
Primary government internal balances	707,696	744,943
Prepaid expenditures	-	-
Notes receivable	-	-
	<hr/>	<hr/>
TOTAL ASSETS	1,400,367	1,951,618
	<hr/>	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	-	-
	<hr/>	<hr/>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,400,367	\$ 1,951,618
	<hr/>	<hr/>
LIABILITIES		
Cash overdrafts	\$ -	\$ 699,682
Accounts payable	729	19,271
Due to comp unit	-	-
Accrued payroll	-	1,205
Accrued sick and vacation leave	-	-
Accrued liabilities	-	-
Deferred revenue	-	-
Due to other funds	-	-
	<hr/>	<hr/>
TOTAL LIABILITIES	729	720,158
	<hr/>	<hr/>
DEFERRED INFLOWS OF RESOURCES		
Taxes levied for a subsequent period	252,011	228,829
	<hr/>	<hr/>
TOTAL DEFERRED INFLOWS OF RESOURCES	252,011	228,829
	<hr/>	<hr/>
FUND BALANCE		
Non-spendable	707,696	744,943
Restricted	250,000	-
Committed	50,000	105,000
Assigned	115,383	165,383
Unassigned	24,548	(12,695)
	<hr/>	<hr/>
TOTAL FUND BALANCE	1,147,627	1,002,631
	<hr/>	<hr/>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 1,400,367	\$ 1,951,618
	<hr/>	<hr/>

City of Ishpeming, Michigan

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

December 31, 2015

Total Fund Balances for Downtown Development Authority		\$ 1,147,627
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Land, construction in progress and historical treasurers	\$ -	
Other capital assets, net of depreciation	<u>2,124,171</u>	2,124,171
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	(116,940)	
Accrued interest on debt	(29,458)	
Bonds payable	<u>(1,912,800)</u>	<u>(2,059,198)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 1,212,600</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, 2015

With Comparative Actual Amounts for the Year Ended December 31, 2014

	2015			Variance with Final Budget Positive (Negative)	2014
	Original Budget	Final Budget	Actual GAAP Basis		
REVENUES:					
Taxes	\$ 300,809	\$ 229,329	\$ 229,375	\$ 46	\$ 581,954
Federal sources	-	-	-	-	242,582
State sources	-	-	-	-	-
Interest income and rentals	1,000	3,300	3,342	42	3,052
Contributions	-	250,000	250,500	500	150
Other revenue	-	-	27	27	-
TOTAL REVENUES	301,809	482,629	483,244	615	827,738
EXPENDITURES:					
Other governmental	86,115	142,890	135,754	7,136	859,669
Debt service:					
Principal	111,970	111,970	111,970	-	158,200
Interest and fiscal charges	90,731	90,731	90,524	207	95,099
Total Debt Service	<u>202,701</u>	<u>202,701</u>	<u>202,494</u>	<u>207</u>	<u>253,299</u>
TOTAL EXPENDITURES	288,816	345,591	338,248	7,343	1,112,968
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	12,993	137,038	144,996	7,958	(285,230)
OTHER FINANCING SOURCES (USES):					
Proceeds from sale of capital assets	-	-	-	-	5,000
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	5,000
CHANGE IN FUND BALANCE	12,993	137,038	144,996	7,958	(280,230)
Fund balance, beginning of year	1,002,631	1,002,631	1,002,631	-	1,282,861
FUND BALANCE, END OF YEAR	\$ 1,015,624	\$ 1,139,669	\$ 1,147,627	\$ 7,958	\$ 1,002,631

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, 2015

Net Change in Fund Balances - Total Governmental Funds \$ 144,996

*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	\$ 35,499	
Depreciation expense	(116,385)	
Net book value of disposed assets	<u>(101,363)</u>	(182,249)

Repayment of principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position. 111,970

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. 456

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 \$ 75,173

COMPLIANCE SUPPLEMENTS



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the 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, 2015, 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, 2016.

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 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. 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.

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 2015-001.

City of Ishpeming, Michigan's Response to Findings

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

Purpose of this Report

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

Anderson, Tackman & Company, PLLC
Certified Public Accountants

June 24, 2016



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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Ishpeming, Michigan's compliance with the types of compliance requirements described in *OMB 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, 2015. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City 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, 2015.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

June 24, 2016

City of Ishpeming, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2015

Federal Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditure	Accrued (Deferred) Revenue 1/1/2015	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue 12/31/2015
U.S. DEPARTMENT OF AGRICULTURE							
<i>Passed through Rural Development:</i>							
Community Facilities Loans and Grants Building Authority Bond, Series 2015A	10.766	\$ 1,400,000	\$ -	\$ -	\$ 1,361,800	\$ 415,000	\$ 946,800
Community Facilities Loans and Grants Building Authority Bond, Series 2016	10.766	250,000	-	-	53,300	-	53,300
TOTAL U.S. DEPARTMENT OF AGRICULTURE		1,650,000	-	-	1,415,100	415,000	1,000,100
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	242,582	-	-	-	-
Emergency Water Main Repair Project Grant # MSC 214024-UN	14.228	990,940	990,940	-	-	-	-
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		1,389,983	1,233,522	-	-	-	-
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	-	-	-	-
Highway Research Planning and Construction STP 1352(030)	20.205	375,000	375,000	-	-	-	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		376,356	376,356	-	-	-	-
ENVIRONMENTAL PROTECTION AGENCY							
<i>Direct Award</i>							
Great Lakes Program Partridge Creek Diversion	66.469	8,000,000	486,139	-	-	-	-
TOTAL ENVIRONMENTAL PROTECTION AGENCY		8,000,000	486,139	-	-	-	-

City of Ishpeming, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2015

Federal Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditure	Accrued (Deferred) Revenue 1/1/2015	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue 12/31/2015
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES <i>Passed through Marquette County Health Department Building Healthy Communities</i>	93.991	\$ 5,667	\$ -	\$ -	\$ 5,667	\$ 5,667	\$ -
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		5,667	-	-	5,667	5,667	-
U.S. DEPARTMENT OF HOMELAND SECURITY <i>Passed through Federal Emergency Management Agency Assistance to Firefighters Grant 2013 Assistance to Firefighters Grant 2014</i>	97.044 97.044	24,013 57,958	24,013 57,958	- -	- -	- -	- -
Subtotal		81,971	81,971	-	-	-	-
<i>Passed through Michigan State Police Emergency Management FEMA Disaster Project No. 4122001</i>	97.036	19,611	-	-	-	-	-
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY		101,582	81,971	-	-	-	-
TOTAL FEDERAL FINANCIAL ASSISTANCE		\$ 11,523,588	\$ 2,177,988	\$ -	\$ 1,420,767	\$ 420,667	\$ 1,000,100

CITY OF ISHPEMING, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2015

NOTE A – BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Ishpeming, Michigan for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Ishpeming, Michigan, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Ishpeming, Michigan.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

NOTE C – OVERSIGHT AGENCY:

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

CITY OF ISHPEMING, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year December 31, 2015

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 no significant deficiencies reported.
- There were no instances of noncompliance material to the financial statements identified.

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 the *Uniform Guidance*:
 None were identified.

Major Programs

- The programs tested as a major program were:

Program	CFDA#
Community Facilities Loans and Grants	10.766

- Dollar threshold used to distinguish between Type A and Type B Programs: *\$750,000*
- Auditee qualified as low-risk auditee? *YES*.

SECTION II – FINANCIAL STATEMENT FINDINGS

INSTANCES OF NON-COMPLIANCE

2015-001 – UNRESTRICTED DEFICIT NET POSITION

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

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

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

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

CITY OF ISHPEMING, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the year December 31, 2015

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - James R. Lampman, CPA, Finance Director
- Corrective Action Planned:
 - The Water Fund has faced challenges since the winter deep freeze of fiscal year 2014 whereby the Water Fund incurred close to \$1.4 million in expenditures related to freeze damages. While the Water Fund was reimbursed approximately \$930,000 through federal and state grants, the Water Fund was left in a negative cash position from which it has not yet recovered. Per the guidance provided in the State of Michigan Department of Treasury Numbered Letter 2014-1 Deficit Elimination Plans, the City of Ishpeming calculates a deficit of \$51,242 in the Water Fund as of December 31, 2015 using the four steps of the Proprietary Fund, Fiduciary Fund, and Discretely Presented Component Unit Deficit Test.

The City of Ishpeming is in the initial phase 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 (RD) to replace an estimated fifty percent of the water system. In a letter from RD dated April 9, 2015, RD proposed, if all conditions are met by the City of Ishpeming, an \$8,980,000 loan at the poverty interest rate of 2.125% over 40 years along with a grant of \$3,020,000. During fiscal year 2015, the City of Ishpeming incurred \$88,700 in engineering and other costs associated with the initial phase of this project that will be reimbursed by RD once the loan is in place. Had the City of Ishpeming not incurred these expenditures in 2015, then the Water Fund would not have had a reportable deficit under the State of Michigan Department of Treasury Numbered Letter 2014-1. The City of Ishpeming fronting these costs has directly led to the deficit. The City of Ishpeming estimates spending \$600,000 – \$650,000 on engineering costs through fiscal year 2017 during the initial phase of the project; however all of these costs are expected to be reimbursed to the City of Ishpeming once the RD loan is in place in late 2017 or early 2018.

On January 1, 2016, a five percent increase in water rates for the City's utility customers took effect based on the ordinance change approved by City Council in December 2013. The water rate increases five percent annually.

On May 23, 2016, in response to Water Fund's negative cash position and the high number of delinquent utility accounts, the City Council approved a new policy for collection of utility payments that takes effect July 11, 2016. The new policy provides equal/fair treatment to customers and clearly sets the number of days a utility bill may remain unpaid before shutoff. City Ordinance 12-100 authorizes this policy. The new policy allows for the City to turn off the water for any utility account with a balance approximately 45 days outstanding. The City of Ishpeming anticipates collecting approximately \$22,000 in past due accounts within several months of the new policy taking effect, which will improve cash flow in the Water Fund in order to help eliminate the negative cash position. The City of Ishpeming purchases its water from the Negaunee-Ishpeming Water Authority for resale to the City's utility customers. The City of Ishpeming anticipates reducing its cost of water consumption by not providing water to utility customers who do not timely pay.

CITY OF ISHPEMING, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the year December 31, 2015

- Anticipated Completion Date:
 - December 31, 2016

SECTION III – FEDERAL AWARDS AND QUESTIONED COSTS

- None reported.

CITY OF ISHPEMING, MICHIGAN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year December 31, 2015

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 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

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.

CITY OF ISHPEMING, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

For the year December 31, 2015

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:

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.

CITY OF ISHPEMING, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

For the year December 31, 2015

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.

COMMUNICATIONS SECTION



City of Ishpeming, Michigan
Report to Management Letter
For the Year Ended December 31, 2015

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

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Ishpeming, Michigan as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Ishpeming, Michigan'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 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.

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the City of Ishpeming, Michigan's internal control presented in the Schedule of Findings and Questioned Costs to be significant deficiencies (item 2015-001).

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

City Council of the
City of Ishpeming, Michigan

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

Anderson, Tackman & Company, PLLC
Certified Public Accountants

June 24, 2016



City of Ishpeming, Michigan
Communication with Those Charged with Governance
For the Year Ended December 31, 2015

June 24, 2016

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ishpeming, Michigan (the City) for the year ended December 31, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 11, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in the notes to the financial statements. As described in the footnotes to the financial statements, the City changed accounting policies related to pensions by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68, *Accounting and Financial Reporting of Pensions* and Statement of Governmental Accounting Standards (GASB Statement) No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* in fiscal year 2015. Accordingly, the cumulative effect of the new accounting changes as of the beginning of the year is reported as a prior period adjustment on the Statement of Activities as enumerated upon in the footnotes to the financial statements. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the allowance for doubtful accounts is based on historical charges for services, historical loss levels, and an analysis of the

collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

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

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

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

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

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive 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 N 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 O were based on information included their report.

The disclosure of the City's Pension Liability related to the Police and Firemen Retirement System Defined Benefit Retirement Plan in the Notes to the financial

statements includes significant actuarial assumptions used in calculating the valuation. Gabriel Roeder Smith & Company was the actuarial company hired for preparation of the annual actuarial valuation in accordance with GASB 67. The disclosures made in Note P were based on information included their report as of December 31, 2014.

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. The Summary of Audit Differences summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually, and in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of the audit procedures were corrected by management:

- 1) Record the acquisition and/or disposal of assets.
- 2) Record depreciation expense for enterprise funds.
- 3) Record net pension liability for enterprise funds.
- 4) Adjustments to accounts receivable and accounts payable.
- 5) Adjustments to record unrealized gain/loss on investments.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 24, 2016.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Our consideration of internal control was for the limited purpose described in a separate letter 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.

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 2015-001.

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

Other Matters

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

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

City Council of the
City of Ishpeming, Michigan

Restriction on Use

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

Very truly yours,

Anderson, Tackman & Company, PLLC
Certified Public Accountants