

**CITY OF ISHPEMING, MICHIGAN**  
**FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2018**

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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, 2018, 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, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

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

### ***Other Information***

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

The Other Financial Information 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 Other Financial Information 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 (the City) basic financial statements for the year ended December 31, 2017, which are not presented with the accompanying financial statements and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The major governmental funds budgetary comparison schedules and the enterprise funds' and internal service fund's comparative statements related to the 2017 financial statements for the year ended December 31, 2017, 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 2017 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 2017 major governmental funds budgetary comparison schedules and the enterprise funds' and internal service fund's comparative statements 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 May 20, 2019, 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 solely 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 the effectiveness of the City's 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's internal control over financial reporting and compliance.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

May 20, 2019

## City of Ishpeming, Michigan

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

Our discussion and analysis of the City of Ishpeming, Michigan's (the City) financial performance provides an overview of the City's financial activities for the year ended December 31, 2018. Please read it in conjunction with the financial statements included below.

#### FINANCIAL HIGHLIGHTS

- Net position for the City as a whole increased by \$1,199,990 as a result of this year's operations. Net position of our business-type activities increased by \$1,577,214 or 12 percent, and net position of our governmental activities decreased by \$377,224 or 3 percent.
- During the year, the City had expenses for governmental activities that were \$5,784,068 and generated \$5,406,844 in general revenues and other program sources.
- The City's business-type activities had expenses of \$3,166,784 and generated \$4,743,998 in revenues.
- The general fund reported a net change in fund balance of \$8,172; this is \$176,962 higher than the forecasted decrease of \$168,790.

#### 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, 2018 and 2017.

**Table 1**  
**Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$6,783,739	\$6,137,627	\$1,992,772	\$1,195,302	\$8,776,511	\$7,332,929
Non-current assets	-	56,617	8,211,453	7,919,699	8,211,453	7,976,316
Capital assets, net	18,790,081	19,443,837	16,996,256	9,439,452	35,786,337	28,883,289
Total Assets	25,573,820	25,638,081	27,200,481	18,554,453	52,774,301	44,192,534
Deferred outflows of resources	1,008,060	1,159,166	337,219	177,831	1,345,279	1,336,997
Current and other liabilities	819,177	848,353	967,399	449,064	1,786,576	1,297,417
Long-term liabilities	11,469,692	10,988,326	12,216,550	5,487,184	23,686,242	16,475,510
Total Liabilities	12,288,869	11,836,679	13,183,949	5,936,248	25,472,818	17,772,927
Deferred inflows of resources	2,190,574	2,480,907	-	19,499	2,190,574	2,500,406
Net Position:						
Net investment in capital assets	15,310,281	15,692,217	15,063,452	13,934,282	30,373,733	29,626,499
Restricted	2,459,401	2,050,151	986,233	602,630	3,445,634	2,652,781
Unrestricted	(5,667,245)	(5,262,707)	(1,695,934)	(1,760,375)	(7,363,179)	(7,023,082)
Total Net Position	\$12,102,437	\$12,479,661	\$14,353,751	\$12,776,537	\$26,456,188	\$25,256,198

Net position of the City's governmental activities stood at \$12,102,437. *Unrestricted* net position—the part of net position that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at (\$5,667,245).

The (\$5,667,245) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

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

The net position of our business-type activities stood at \$14,353,751. 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 2018 and 2017.

**Table 2**  
**Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Program Revenues:						
Charges for services	\$868,127	\$1,324,829	\$3,649,141	\$3,867,346	\$4,517,268	\$5,192,175
Operating grants and contributions	1,277,025	992,306	-	-	1,277,025	992,306
Capital grants and contributions	-	-	1,091,944	-	1,091,944	-
General Revenues:						
Property taxes	2,213,626	2,079,080	-	-	2,213,626	2,079,080
Unrestricted intergovernmental	874,516	857,858	-	-	874,516	857,858
Investment earnings	15,446	15,844	2,913	2,290	18,359	18,134
Fines and forfeitures	49,647	48,992	-	-	49,647	48,992
Miscellaneous	108,457	349,177	-	-	108,457	349,177
Gain/(loss) on sale of assets	-	-	-	-	-	-
Total Revenues	5,406,844	5,668,086	4,743,998	3,869,636	10,150,842	9,537,722
Program Expenses:						
Legislative	15,582	12,560	-	-	15,582	12,560
General government	1,772,207	1,805,191	-	-	1,772,207	1,805,191
Public safety	1,072,491	275,609	-	-	1,072,491	275,609
Public works	2,138,049	2,420,523	-	-	2,138,049	2,420,523
Community and economic development	32,202	32,625	-	-	32,202	32,625
Recreation and culture	615,875	601,752	-	-	615,875	601,752
Other governmental	43	53	-	-	43	53
Capital outlay	2,942	102,637	-	-	2,942	102,637
Interest on long-term debt	134,677	133,992	-	-	134,677	133,992
Sewer	-	-	1,593,960	1,556,725	1,593,960	1,556,725
Water	-	-	1,572,824	1,555,051	1,572,824	1,555,051
Total Expenses	5,784,068	5,384,942	3,166,784	3,111,776	8,950,852	8,496,718
Excess (deficiency) before transfers	(377,224)	283,144	1,577,214	757,860	1,199,990	1,041,004
Transfers in (out)	-	-	-	-	-	-
Increase (decrease) in net position	(377,224)	283,144	1,577,214	757,860	1,199,990	1,041,004
Net Position, Beginning	12,479,661	12,196,517	12,776,537	12,018,677	25,256,198	24,215,194
Net Position, Ending	\$12,102,437	\$12,479,661	14,353,751	\$12,776,537	\$26,456,188	\$25,256,198

The City's total revenues were \$10,150,842; the total cost of all programs and services was \$8,950,852 leaving an increase in net position of \$1,199,990. Our analysis below separately considers the operations of governmental and business-type activities:

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

### **Governmental Activities**

Government activities net position decreased by \$377,224. This overall decrease was due to a change in combined governmental fund balance of \$385,462, changes in general fixed assets of (\$553,459), proceeds from borrowing of \$-0-, principal payments on debt of \$228,510, a change in accrued interest of \$2,687, adjustments due to amortization of deferred amounts on bond of (\$1,112), internal service fund activity of \$104,168, pension liability expense of (\$412,023) related to MERS, pension liability expense related to the Police and Fire Retirement System of (\$141,516), and a change in compensated absences of \$10,059.

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	\$1,772,207	\$1,590,851
Public Safety	1,072,491	1,050,997
Public Works	2,138,049	346,324
Recreation and Culture	615,875	477,068

### **Business-type Activities**

Business-type activities net position increased by \$1,577,214. The Sewer Fund and the Water Fund experienced a change in net position of \$269,334 and \$1,307,880, respectively, resulting in a net increase in Business-Type Activities of \$1,577,214.

## **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 \$3,558,724, an increase of \$385,462 from the beginning of the year.

The combined fund balance increase of \$385,462 was due to a decrease in the fund balance of Garbage & Rubbish Fund, offset by increases in the fund balances of the General Fund, Major Street Fund, Local Street Fund, Public Improvement Fund, and other governmental funds. The increase is primarily attributable to management closely monitoring expenditures in the General Fund resulting in net income in the General Fund of \$8,172, net income in the Major Street Fund of \$184,748, net income in the Local Street Fund of \$115,713, net loss in the Garbage & Rubbish Fund of (\$74,943), net income in the Public Improvement Fund of \$137,775, and net income of \$13,997 in the Other Governmental Funds.

### **General Fund Budgetary Highlights**

General Fund expenses were \$132,944 less than the final budget because Legislative expenses were \$2,139 less than the final budget; General government expenses were \$54,655 less than the final budget; Public Safety was \$12,385 less than the final budget; Public Works was \$43,095 less than the final budget; Community and economic development was \$1,328 less than the final budget; and Recreation and Culture was \$19,342 less than the final budget.

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

General Fund revenues were \$39,943 more than the final revenue budget mainly due to State sources being \$14,390 more than anticipated and other revenues being \$16,913 more than anticipated than anticipated.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At the end of fiscal 2018, the City had \$35,786,337 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)**

	2018			2017 Total
	Governmental Activities	Business-type Activities	Total	
Land	\$1,280,750	\$10,888	\$1,291,638	\$1,291,638
Historical treasures	135,275	-	135,275	135,275
Construction in progress	65,798	11,097,949	11,163,747	3,883,347
Buildings and improvements	3,678,288	27,648	3,705,936	3,923,589
Land improvements	2,781,667	-	2,781,667	2,879,932
Equipment and vehicles	1,444,125	237,655	1,681,780	1,031,477
Infrastructure	9,404,178	-	9,404,178	9,676,931
Sewer system and equipment	-	3,925,586	3,925,586	4,279,975
Water system and equipment	-	1,696,530	1,696,530	1,781,125
Total	<u>\$18,790,081</u>	<u>\$16,996,256</u>	<u>\$35,786,337</u>	<u>\$28,883,289</u>

In 2018, the City's major capital additions included the down payment towards a new columbarium at the cemetery, additional equipment related to the new fire truck, engineering costs associated with the new pavilion project at Lake Bancroft, street improvements, continued work on the SAW grant project, and costs related to the water replacement project.

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

#### Debt

At year-end, the City had \$12,442,286 in bonds and notes outstanding as depicted in Table 5 below.

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

	2018			2017 Total
	Governmental Activities	Business-type Activities	Total	
Bonds	\$3,454,800	\$8,835,000	\$12,289,800	\$6,110,310
Contracts and notes payable	25,000	127,486	152,486	238,548
Total	<u>\$3,479,800</u>	<u>\$8,962,486</u>	<u>\$12,442,286</u>	<u>\$6,348,858</u>

During the year the City made draws on its USDA loans totaling \$6,528,000 related to the water replacement project.

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

During the year the City made principal payments on debt totaling \$434,572.

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

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

As of the end of 2018, the City of Ishpeming completed approximately 80 percent of a \$12,000,000 United States Department of Agriculture – Rural Development (RD) funded project to improve the aging water system. The City broke ground on this project in July 2017 and anticipates the project to be completed by the fall of 2019. As of December 31, 2018, the City has drawn down \$8,980,000 in RD loan proceeds and \$715,500 of RD grants funds. The remaining \$2,304,500 in RD grant funds will be utilized in 2019.

The City of Ishpeming has been holding regular sustainability meetings to develop plans for long-term financial sustainability and success for the city. One challenge the City faces is the projected increases in the annual pension contributions required to reduce the unfunded pension liability. In March 2019, the City filed a corrective action plan with the Municipal Stability Board (MSB) for addressing the \$8,000,000 MERS unfunded pension liability. As of the date of this report, the City has yet to receive approval of the plan from the MSB.

As identified in the notes to the financial statements-Note AB, the City of Ishpeming has a deficit in the Water Fund that requires filing a deficit elimination plan. The deficit was originally identified in 2015, and the City has been providing the Michigan Department of Treasury with annual updates to its five-year deficit elimination plan. The Water Fund's deficit elimination plan calls for elimination of the deficit in the year 2020, and management continues to believe the deficit will be eliminated within that time frame.

In May 2018, the City Council approved the purchase of a 2019 single axle Peterbilt plow truck at a cost of \$195,617. The plow truck will be paid for with a \$45,000 down payment from the Motor Pool and Equipment Fund and the remaining portion financed over a period of five years. The plow truck is anticipated to be delivered in May 2019. The City of Ishpeming evaluates equipment needs as part of the five-year capital improvement plan as well as during the budget process.

During the summer of 2019 the City of Ishpeming plans to build a pavilion at Lake Bancroft. This \$600,000 project is being funded with \$50,000 from the City of Ishpeming Downtown Development Authority, \$250,000 from Cliffs Eagle Mine Marquette County Community Foundation grant, and \$300,000 from a Michigan DNR grant. This will be a wonderful facility that will be available for community events.

The City of Ishpeming, in conjunction with Marquette County, is continuing its work on eliminating blight issues and unsafe buildings in order to improve the overall look of the community. Several committees have been formed, such as the blight committee and neighborhood improvement committee, to gather community input and support and keep the momentum moving forward in a positive direction of enhancing the beauty of our City.

The City of Ishpeming is also supporting further development of the ski and biking trails within the City, including the Iron Ore Heritage Trail and the RAMBA trail networks just to name a few. Biking events such as the Marji Gesick and the 906 Polar Roll are helping to establish the City of Ishpeming as a national mountain biking destination. These are just several of the many exciting developments taking place within the City of Ishpeming.

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

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

**City of Ishpeming, Michigan**  
**STATEMENT OF NET POSITION**  
December 31, 2018

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Unit
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 3,232,277	\$ 970,350	\$ 4,202,627	\$ 173,044
Investments	940,773	53,385	994,158	270,116
Receivables, net	2,534,372	969,037	3,503,409	195,751
Primary government internal balances	-	-	-	-
Due from primary government	-	-	-	595,955
Prepaid expenses and other assets	76,317	-	76,317	-
Non-current Assets:				
Cash and cash equivalents - restricted	-	1,181,771	1,181,771	-
Long-term receivables, net	-	-	-	-
Investment in Wastewater Treatment Facility	-	3,522,359	3,522,359	-
Investment in Joint Water Authority	-	3,507,323	3,507,323	-
Capital assets:				
Land, construction in progress and other non-depreciable assets	1,481,823	11,108,837	12,590,660	-
Other capital assets, net of depreciation	17,308,258	5,887,419	23,195,677	1,855,610
Total Capital Assets	18,790,081	16,996,256	35,786,337	1,855,610
TOTAL ASSETS	25,573,820	27,200,481	52,774,301	3,090,476
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amounts related to pension	829,435	337,219	1,166,654	-
Contributions subsequent to measurement date	178,625	-	178,625	-
Deferred amounts on refunding	-	-	-	-
Premium on investment	-	-	-	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,008,060	337,219	1,345,279	-
LIABILITIES				
Current Liabilities:				
Cash overdrafts	-	-	-	-
Accounts payable	107,441	792,110	899,551	-
Due to component unit	595,955	-	595,955	-
Customer deposits payable	-	143,095	143,095	-
Accrued liabilities	76,238	16,549	92,787	245
Accrued interest	39,543	15,645	55,188	25,034
Unearned revenue	-	-	-	2,250
Non-current Liabilities:				
Portion due or payable within one year:				
Notes payable	25,000	62,832	87,832	-
Bonds payable	182,400	148,000	330,400	159,600
Compensated absences	10,057	-	10,057	-
Portion due or payable after one year:				
Notes payable	-	64,654	64,654	-
Bonds payable	3,259,614	8,687,000	11,946,614	1,508,600
Compensated absences	222,265	9,729	231,994	-
Net pension liability	7,770,356	3,244,335	11,014,691	-
TOTAL LIABILITIES	12,288,869	13,183,949	25,472,818	1,695,729
DEFERRED INFLOWS OF RESOURCES				
Taxes levied for a subsequent period	2,130,140	-	2,130,140	236,809
Transportation appropriation	-	-	-	-
Deferred amounts related to pension	60,434	-	60,434	-
Discount on investment	-	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	2,190,574	-	2,190,574	236,809
NET POSITION				
Net investment in capital assets	15,310,281	15,063,452	30,373,733	187,410
Restricted	2,459,401	986,233	3,445,634	845,955
Unrestricted	(5,667,245)	(1,695,934)	(7,363,179)	124,573
TOTAL NET POSITION	\$ 12,102,437	\$ 14,353,751	\$ 26,456,188	\$ 1,157,938

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



City of Ishpeming, Michigan

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

Function / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Component Unit
					Governmental Activities	Business-type Activities		
<b>Primary Government:</b>								
Governmental Activities:								
Legislative	\$ 15,582	\$ -	\$ -	\$ -	\$ (15,582)	\$ -	\$ (15,582)	\$ -
General government	1,772,207	181,356	-	-	(1,590,851)	-	(1,590,851)	-
Public safety	1,072,491	13,095	8,399	-	(1,050,997)	-	(1,050,997)	-
Public works	2,138,049	597,165	1,194,560	-	(346,324)	-	(346,324)	-
Community and economic development	32,202	-	-	-	(32,202)	-	(32,202)	-
Recreation and culture	615,875	64,741	74,066	-	(477,068)	-	(477,068)	-
Other governmental	43	11,770	-	-	11,727	-	11,727	-
Capital outlay	2,942	-	-	-	(2,942)	-	(2,942)	-
Interest on long-term debt	134,677	-	-	-	(134,677)	-	(134,677)	-
Total Governmental Activities	5,784,068	868,127	1,277,025	-	(3,638,916)	-	(3,638,916)	-
Business-Type Activities:								
Sewer	1,593,960	1,483,937	-	376,444	-	266,421	266,421	-
Water	1,572,824	2,165,204	-	715,500	-	1,307,880	1,307,880	-
Total Business-Type Activities	3,166,784	3,649,141	-	1,091,944	-	1,574,301	1,574,301	-
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 8,950,852</b>	<b>\$ 4,517,268</b>	<b>\$ 1,277,025</b>	<b>\$ 1,091,944</b>	<b>(3,638,916)</b>	<b>1,574,301</b>	<b>(2,064,615)</b>	<b>-</b>
<b>Component Unit:</b>								
Downtown Development Authority	\$ 264,175	\$ -	\$ 5,442	\$ -	-	-	-	(258,733)
General Revenues:								
Taxes:								
Property taxes					2,213,626	-	2,213,626	222,999
Unrestricted intergovernmental sources					874,516	-	874,516	-
Interest and investment earnings					15,446	2,913	18,359	2,290
Fines and Forfeitures					49,647	-	49,647	-
Miscellaneous					108,457	-	108,457	-
Gain/(loss) on sale of assets					-	-	-	-
Transfers					-	-	-	-
<b>TOTAL GENERAL REVENUES &amp; TRANSFERS</b>					<b>3,261,692</b>	<b>2,913</b>	<b>3,264,605</b>	<b>225,289</b>
<b>CHANGE IN NET POSITION</b>					<b>(377,224)</b>	<b>1,577,214</b>	<b>1,199,990</b>	<b>(33,444)</b>
Net position, beginning of year					12,479,661	12,776,537	25,256,198	1,191,382
<b>NET POSITION, END OF YEAR</b>	<b>\$ 12,102,437</b>	<b>\$ 14,353,751</b>	<b>\$ 26,456,188</b>	<b>\$ 1,157,938</b>				

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

City of Ishpeming, Michigan

GOVERNMENTAL FUNDS

BALANCE SHEET

December 31, 2018

		Special Revenue			Capital Projects		
	General Fund	Major Street Fund	Local Street Fund	Garbage & Rubbish Fund	Public Improvement Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash and cash equivalents	\$ 1,210,979	\$ 228,629	\$ 226,912	\$ 150,523	\$ 373,742	\$ 718,570	\$ 2,909,355
Investments	48,000	-	-	-	-	892,773	940,773
Accounts receivable, net	46,241	-	-	22,607	82	224	69,154
Taxes receivable	1,524,678	-	-	-	497,828	107,634	2,130,140
Other receivable	3,698	-	-	29,472	-	-	33,170
Due from other governments	146,239	78,993	75,158	-	-	-	300,390
Due from other funds	144,929	-	-	-	-	-	144,929
Inventory	49,605	-	-	-	-	-	49,605
Prepaid expenses	-	-	-	26,712	-	-	26,712
Notes receivable, net	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>3,174,369</b>	<b>307,622</b>	<b>302,070</b>	<b>229,314</b>	<b>871,652</b>	<b>1,719,201</b>	<b>6,604,228</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
Premium on investment	-	-	-	-	-	-	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 3,174,369</b>	<b>\$ 307,622</b>	<b>\$ 302,070</b>	<b>\$ 229,314</b>	<b>\$ 871,652</b>	<b>\$ 1,719,201</b>	<b>\$ 6,604,228</b>
<b>LIABILITIES</b>							
Cash overdrafts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	86,869	-	-	186	3,713	2,764	93,532
Due to component unit	595,955	-	-	-	-	-	595,955
Accrued payroll	62,247	5,148	4,201	84	-	-	71,680
Accrued sick and vacation leave	9,870	-	-	-	-	-	9,870
Accrued liabilities	916	-	-	-	-	-	916
Due to other funds	-	-	-	-	-	143,411	143,411
<b>TOTAL LIABILITIES</b>	<b>755,857</b>	<b>5,148</b>	<b>4,201</b>	<b>270</b>	<b>3,713</b>	<b>146,175</b>	<b>915,364</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Taxes levied for a subsequent period	1,524,678	-	-	-	497,828	107,634	2,130,140
Unearned revenue	-	-	-	-	-	-	-
Transportation appropriation	-	-	-	-	-	-	-
Discount on investment	-	-	-	-	-	-	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>1,524,678</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>497,828</b>	<b>107,634</b>	<b>2,130,140</b>
<b>FUND BALANCE</b>							
Non-spendable	49,605	-	-	26,712	-	988,983	1,065,300
Restricted	-	302,474	297,869	-	370,111	423,647	1,394,101
Committed	-	-	-	-	-	-	-
Assigned	33,960	-	-	202,332	-	52,762	289,054
Unassigned	810,269	-	-	-	-	-	810,269
<b>TOTAL FUND BALANCE</b>	<b>893,834</b>	<b>302,474</b>	<b>297,869</b>	<b>229,044</b>	<b>370,111</b>	<b>1,465,392</b>	<b>3,558,724</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	<b>\$ 3,174,369</b>	<b>\$ 307,622</b>	<b>\$ 302,070</b>	<b>\$ 229,314</b>	<b>\$ 871,652</b>	<b>\$ 1,719,201</b>	<b>\$ 6,604,228</b>

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, 2018

**Total Fund Balances for Governmental Funds** **\$ 3,558,724**

*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	\$ 1,481,823	
Other capital assets, net of depreciation	<u>16,857,162</u>	18,338,985

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

Net pension liability -		
Michigan Municipal Employees' Retirement System	(5,745,226)	
Police and Fire Retirement System	(1,921,070)	
Deferred outflows of resources related to pension -		
Michigan Municipal Employees' Retirement System	591,227	
Police and Fire Retirement System	174,468	
Employer contributions subsequent to measurement date		
Police and Fire Retirement System	178,625	
Deferred (inflows) of resources related to net pension liability		
Michigan Municipal Employees' Retirement System	-	
Police and Fire Retirement System	<u>(42,381)</u>	(6,764,357)

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

Net position	<u>685,561</u>	685,561
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Current portion of bonds payable	(182,400)	
Current portion of notes and contracts payable	(25,000)	
Accrued interest on debt	(39,543)	
Compensated absences	(209,919)	
Bonds payable	(3,272,400)	
Long-term contracts and notes payable	-	
Deferred amounts on bonds	12,786	
Deferred gain on refunding	<u>-</u>	(3,716,476)

<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>12,102,437</u></b>	
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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, 2018

		Special Revenue			Capital Projects		
	General Fund	Major Street Fund	Local Street Fund	Garbage & Rubbish Fund	Public Improvement Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>							
Taxes	\$ 1,613,349	\$ -	\$ -	\$ -	\$ 493,824	\$ 106,455	\$ 2,213,628
Federal sources	-	-	-	-	-	-	-
State sources	882,915	759,910	418,861	-	15,789	10,723	2,088,198
Licenses and permits	171,834	-	-	-	-	-	171,834
Charges for service	86,750	-	-	597,165	-	10,725	694,640
Interest income and rentals	7,645	413	428	501	1,071	9,015	19,073
Contributions	6,975	-	-	-	8,378	56,303	71,656
Fines and forfeitures	56,716	-	-	-	-	-	56,716
Other revenues	26,581	-	-	-	-	250	26,831
<b>TOTAL REVENUES</b>	<b>2,852,765</b>	<b>760,323</b>	<b>419,289</b>	<b>597,666</b>	<b>519,062</b>	<b>193,471</b>	<b>5,342,576</b>
<b>EXPENDITURES:</b>							
Current Operations:							
Legislative	15,582	-	-	-	-	-	15,582
General government	1,278,301	-	-	-	-	-	1,278,301
Public safety	841,850	-	-	-	-	8,000	849,850
Public works	394,180	540,787	293,214	672,609	-	-	1,900,790
Community and economic development	32,202	-	-	-	-	-	32,202
Recreation and culture	348,484	-	-	-	-	27,374	375,858
Other governmental	-	-	-	-	-	43	43
Debt service:							
Principal	-	33,370	9,940	-	56,200	129,000	228,510
Interest and fiscal charges	-	1,418	422	-	26,708	107,704	136,252
Capital outlay	-	-	-	-	102,078	56,916	158,994
<b>TOTAL EXPENDITURES</b>	<b>2,910,599</b>	<b>575,575</b>	<b>303,576</b>	<b>672,609</b>	<b>184,986</b>	<b>329,037</b>	<b>4,976,382</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(57,834)</b>	<b>184,748</b>	<b>115,713</b>	<b>(74,943)</b>	<b>334,076</b>	<b>(135,566)</b>	<b>366,194</b>
<b>OTHER FINANCING SOURCES (USES):</b>							
Proceeds from borrowing	-	-	-	-	-	-	-
Premium on bond	-	-	-	-	-	-	-
Proceeds from sale of capital assets	-	-	-	-	-	-	-
Insurance recoveries	64,268	-	-	-	-	-	64,268
Transfers in	7,085	-	-	-	-	156,648	163,733
Transfers (out)	(5,347)	-	-	-	(196,301)	(7,085)	(208,733)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>66,006</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(196,301)</b>	<b>149,563</b>	<b>19,268</b>
<b>CHANGE IN FUND BALANCE</b>	<b>8,172</b>	<b>184,748</b>	<b>115,713</b>	<b>(74,943)</b>	<b>137,775</b>	<b>13,997</b>	<b>385,462</b>
Fund balance, beginning of year	885,662	117,726	182,156	303,987	232,336	1,451,395	3,173,262
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 893,834</b>	<b>\$ 302,474</b>	<b>\$ 297,869</b>	<b>\$ 229,044</b>	<b>\$ 370,111</b>	<b>\$ 1,465,392</b>	<b>\$ 3,558,724</b>

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

**City of Ishpeming, Michigan**

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

For the Year Ended December 31, 2018

**Net Change in Fund Balances - Total Governmental Funds** \$ 385,462

*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	\$ 156,052	
Depreciation expense	(709,511)	
Net book value of disposed assets	-	(553,459)

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.

-

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

228,510

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

2,687

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	-	(1,112)

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

Change in net position	104,168	
Capital Outlays	-	
Depreciation expense	-	104,168

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	(412,023)	
Pension liability expense - Fire-Police Retirement	(141,516)	
Compensated absences	10,059	(543,480)

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ (377,224)

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

**City of Ishpeming, Michigan**

**PROPRIETARY FUNDS**

**STATEMENTS OF NET POSITION**

December 31, 2018

	<b>Business-type Activities Enterprise Funds</b>			<b>Internal Service Funds</b>
	<b>Sewer Fund</b>	<b>Water Fund</b>	<b>Total</b>	<b>Motor Pool</b>
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 1,166,712	\$ -	\$ 1,166,712	\$ 322,922
Investments	53,385	-	53,385	-
Accounts receivable	100,524	477,388	577,912	-
Allowance for uncollectible accounts	-	-	-	-
Delinquent utilities	-	50,725	50,725	-
Due from other funds	-	-	-	-
Due from other governmental units	-	340,400	340,400	-
Non-current Assets:				
Cash and cash equivalents - restricted	-	1,181,771	1,181,771	-
Investment in Wastewater Treatment Facility	3,522,359	-	3,522,359	-
Investment in Joint Water Authority	-	3,507,323	3,507,323	-
Capital Assets:				
Land and construction in progress	1,339,825	9,769,012	11,108,837	-
Other capital assets, net of depreciation	4,190,889	1,696,530	5,887,419	451,096
Total Capital Assets	5,530,714	11,465,542	16,996,256	451,096
<b>TOTAL ASSETS</b>	<b>10,373,694</b>	<b>17,023,149</b>	<b>27,396,843</b>	<b>774,018</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred amounts related to pension	112,582	224,637	337,219	63,740
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>112,582</b>	<b>224,637</b>	<b>337,219</b>	<b>63,740</b>
<b>LIABILITIES</b>				
Current Liabilities:				
Cash overdrafts	-	196,362	196,362	-
Accounts payable	37,095	755,015	792,110	13,909
Customer deposits payable	-	143,095	143,095	-
Accrued payroll	6,698	9,851	16,549	3,642
Accrued interest	-	15,645	15,645	-
Due to other funds	-	-	-	-
Non-current Liabilities:				
Portion due or payable within one year				
Bonds payable	-	148,000	148,000	-
Notes payable	62,832	-	62,832	-
Compensated absences	-	-	-	187
Portion due or payable after one year				
Bonds payable	-	8,687,000	8,687,000	-
Notes payable	64,654	-	64,654	-
Compensated absences	1,453	8,276	9,729	12,346
Net pension liability	1,046,365	2,197,970	3,244,335	104,060
<b>TOTAL LIABILITIES</b>	<b>1,219,097</b>	<b>12,161,214</b>	<b>13,380,311</b>	<b>134,144</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred amounts related to pension	-	-	-	18,053
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,053</b>
<b>NET POSITION</b>				
Net investment in capital assets	8,925,587	6,137,865	15,063,452	451,096
Restricted:				
Debt service	-	986,233	986,233	-
Unrestricted	341,592	(2,037,526)	(1,695,934)	234,465
<b>TOTAL NET POSITION</b>	<b>\$ 9,267,179</b>	<b>\$ 5,086,572</b>	<b>\$ 14,353,751</b>	<b>\$ 685,561</b>

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, 2018

	<b>Business-type Activities Enterprise Funds</b>			<b>Internal Service Funds</b>
	<b>Sewer Fund</b>	<b>Water Fund</b>	<b>Total</b>	<b>Motor Pool</b>
<b>OPERATING REVENUES:</b>				
Rentals	\$ -	\$ -	\$ -	\$ 679,354
Charges for services	1,483,937	2,160,561	3,644,498	-
Other operating revenue	-	4,643	4,643	-
<b>TOTAL OPERATING REVENUES</b>	<b>1,483,937</b>	<b>2,165,204</b>	<b>3,649,141</b>	<b>679,354</b>
<b>OPERATING EXPENSES:</b>				
Personal services	395,262	727,705	1,122,967	298,363
Contractual services	562,966	452,400	1,015,366	11,580
Supplies	15,193	41,122	56,315	210,373
Utilities	2,263	10,248	12,511	-
Depreciation	390,068	86,112	476,180	100,297
Other expenses	117,044	162,184	279,228	-
<b>TOTAL OPERATING EXPENSES</b>	<b>1,482,796</b>	<b>1,479,771</b>	<b>2,962,567</b>	<b>620,613</b>
<b>OPERATING INCOME (LOSS)</b>	<b>1,141</b>	<b>685,433</b>	<b>686,574</b>	<b>58,741</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Interest expense	(5,468)	(93,053)	(98,521)	-
Gain/(loss) on wastewater facility	(105,696)	-	(105,696)	-
Interest income	2,913	-	2,913	427
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(108,251)</b>	<b>(93,053)</b>	<b>(201,304)</b>	<b>427</b>
<b>INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS</b>	<b>(107,110)</b>	<b>592,380</b>	<b>485,270</b>	<b>59,168</b>
Federal grant	-	715,500	715,500	-
State grant	376,444	-	376,444	-
Transfers in	-	-	-	45,000
Transfers (out)	-	-	-	-
<b>CHANGE IN NET POSITION</b>	<b>269,334</b>	<b>1,307,880</b>	<b>1,577,214</b>	<b>104,168</b>
Net position, beginning of year, as restated	8,997,845	3,778,692	12,776,537	581,393
<b>NET POSITION, END OF YEAR</b>	<b>\$ 9,267,179</b>	<b>\$ 5,086,572</b>	<b>\$ 14,353,751</b>	<b>\$ 685,561</b>

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, 2018

	<b>Business-type Activities Enterprise Funds</b>			<b>Internal Service Funds</b>
	<b>Sewer Fund</b>	<b>Water Fund</b>	<b>Total</b>	<b>Motor Pool</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from fees and charges for services	\$ 1,488,094	\$ 2,108,924	\$ 3,597,018	\$ -
Other operating revenues	-	(281,757)	(281,757)	679,354
Cash payments to employees for services	(314,553)	(581,369)	(895,922)	(223,815)
Cash payments to suppliers for goods and services	(715,955)	(127,634)	(843,589)	(208,044)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>457,586</u>	<u>1,118,164</u>	<u>1,575,750</u>	<u>247,495</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>				
Increase (decrease) in cash overdraft	-	(461,951)	(461,951)	-
(Increase) decrease in due from other funds	-	902	902	30,000
Increase (decrease) in due to other funds	(36,230)	(20,230)	(56,460)	-
Transfers in (out)	-	-	-	45,000
<b>NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES</b>	<u>(36,230)</u>	<u>(481,279)</u>	<u>(517,509)</u>	<u>75,000</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Principal payments on debt	(61,062)	(145,000)	(206,062)	-
Interest paid on debt	(5,468)	(93,053)	(98,521)	-
Proceeds from borrowing	-	6,528,000	6,528,000	-
Cash payments for capital assets	(788,102)	(7,244,882)	(8,032,984)	-
Proceeds sale of capital assets	-	-	-	-
Proceeds from federal and state grants for capital assets	376,444	715,500	1,091,944	-
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(478,188)</u>	<u>(239,435)</u>	<u>(717,623)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
(Increase) decrease in investments	(377)	-	(377)	-
Investment income	2,913	-	2,913	427
(Increase) decrease in restricted assets	-	(397,450)	(397,450)	-
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>2,536</u>	<u>(397,450)</u>	<u>(394,914)</u>	<u>427</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(54,296)</u>	<u>-</u>	<u>(54,296)</u>	<u>322,922</u>
Cash and cash equivalents, beginning of year	<u>1,221,008</u>	<u>-</u>	<u>1,221,008</u>	<u>-</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 1,166,712</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,166,712</u></u>	<u><u>\$ 322,922</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ 1,141	\$ 685,433	\$ 686,574	\$ 58,741
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	390,068	86,112	476,180	100,297
Change in assets and liabilities:				
(Increase) decrease in accounts receivable, net	4,157	(51,637)	(47,480)	-
(Increase) decrease in due from other governmental units	-	(286,400)	(286,400)	-
Increase (decrease) in accounts payable	(18,489)	516,909	498,420	13,909
Increase (decrease) in customer deposits payable	-	20,125	20,125	-
Increase (decrease) in accrued payroll	701	(2,197)	(1,496)	3,642
Increase (decrease) in accrued interest	-	1,286	1,286	-
Increase (decrease) in accrued sick and vacation	525	(543)	(18)	12,533
Increase (decrease) in net pension liability and related	79,483	149,076	228,559	58,373
<b>NET ADJUSTMENTS</b>	<u>456,445</u>	<u>432,731</u>	<u>889,176</u>	<u>188,754</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u><u>\$ 457,586</u></u>	<u><u>\$ 1,118,164</u></u>	<u><u>\$ 1,575,750</u></u>	<u><u>\$ 247,495</u></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, 2018

	<b>Pension Trust Fund</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and equivalents	\$ 50,215	\$ 903,198
Investments	3,944,946	-
Taxes receivable	221,821	2,333,233
Other receivables	-	-
Due from other governments	-	-
Due from other funds	-	-
<b>TOTAL ASSETS</b>	<b>4,216,982</b>	<b>\$ 3,236,431</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>-</b>	
<b>LIABILITIES</b>		
Due to other funds	-	\$ 1,518
Due to others	-	16,968
Due to other governmental units	-	3,221,643
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>\$ 3,240,129</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Taxes levied for a subsequent period	221,821	
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>221,821</b>	
<b>NET POSITION</b>		
Restricted for pension benefits	3,995,161	
<b>TOTAL NET POSITION</b>	<b>\$ 3,995,161</b>	

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, 2018

	<b>Pension Trust Fund</b>
<b>ADDITIONS:</b>	
Contributions:	
Taxes	\$ 170,497
Employer	8,128
Employee	24,981
Gifts, bequests and endowments	-
Total Contributions	<u>203,606</u>
Investment Income:	
Net appreciation (depreciation) in fair value of investments	(520,273)
Interest and dividends	140,065
Administrative expense	(44,633)
Net Investment Income (Loss)	<u>(424,841)</u>
<b>TOTAL ADDITIONS</b>	<u>(221,235)</u>
<b>DEDUCTIONS:</b>	
Benefits and annuity withdrawals	485,291
Refunds of contributions	-
Other expenditures	-
<b>TOTAL DEDUCTIONS</b>	<u>485,291</u>
<b>CHANGE IN NET POSITION</b>	(706,526)
Net position, beginning of year	<u>4,701,687</u>
<b>NET POSITION, END OF YEAR</b>	<u><u>\$ 3,995,161</u></u>

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

CITY OF ISHPEMING, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS

December 31, 2018

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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

**REPORTING ENTITY**

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

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

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

**BLENDED COMPONENT UNITS**

**Governmental Fund Type**

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

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

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

### DISCRETELY PRESENTED COMPONENT UNITS

#### Governmental Fund Type

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

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

### RELATED ORGANIZATIONS

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

Summary financial information as of and for the fiscal year ended December 31, 2017, is as follows:

Total Assets	\$2,969,634
Total Liabilities	162,193
Total Net Position	2,807,441
Total Operating Revenues	677,746
Total Operating Expenses	1,132,749
Total Non-Operating Revenues(expenses)	1,530
Capital Grant Contributions	-
Net Increase (Decrease) in Net Position	(453,473)

### BASIS OF PRESENTATION

#### Government-Wide Financial Statements

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

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

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

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

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

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

### Fund Financial Statements

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

#### *Governmental Funds:*

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

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

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

### *Proprietary Funds:*

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

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

### *Fiduciary Funds:*

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

### *Major Funds:*

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

### BASIS OF ACCOUNTING

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

#### *Accrual*

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

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

#### *Modified Accrual*

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

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

### FINANCIAL STATEMENT AMOUNTS

#### Cash and Cash Equivalents

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

#### Investments

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

#### Receivables

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

#### Inventory

Inventory costs are recorded at average cost which approximates market. Inventories consist of expandable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed rather than purchased.

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

	Depreciation Life
Buildings, structures, and improvements	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 reports the following in this category:

The government reports deferred outflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension plan.

The City's Policemen and Firemen Retirement System has a plan year of January 1 to December 31; however, the actuarial valuation for the plan is not available at the time of the preparation of the financial statements. Therefore, the most recent actuarial valuation is used which is for the previous plan year ended December 31. Under GASB 71, the contributions made to the plan subsequent to the measurement date are reported as deferred outflows of resources.

### **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 reports the following in this category:

The government reports deferred inflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension plan.

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.

### 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 1<sup>st</sup> based on the taxable value of property. City property tax revenues are recognized when levied to the extent that they result in current receivables.

### Expenses/Expenditures

#### *Government-Wide Statements*

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

### *Fund Statements*

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

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

### Interfund Activity

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

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

### Budgets and Budgetary Accounting

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

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

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

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

### Use of Estimates

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

### Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through May 20, 2019, which is the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

## NOTE B – CASH AND EQUIVALENTS:

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

	Primary Government	Fiduciary Funds	Component Unit	Total Reporting Entity
Cash and cash equivalents:				
Unrestricted	\$4,202,627	\$953,413	\$173,044	\$5,329,084
Restricted	1,181,771	-	-	1,181,771
TOTAL	<u>\$5,384,398</u>	<u>\$953,413</u>	<u>\$173,044</u>	<u>\$6,510,855</u>

**NOTE B – CASH AND EQUIVALENTS (Continued):**

*Custodial Credit Risk – Deposits* – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State law does not require and the City does not have a deposit policy for custodial credit risk. As of December 31, 2018, the carrying amount of the City's deposits with financial institutions was \$6,510,855 and the bank balance was \$6,395,427, of which, \$394,209 or approximately 6% 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	\$394,209
Amount collateralized with securities held by the pledging financial institutions trust department in the City's name:	
Collateralized and uninsured	6,001,218
<b>TOTAL REPORTING ENTITY</b>	<b><u>\$6,395,427</u></b>

**NOTE C – INVESTMENTS:**

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of December 31, 2018, the City had the following investments:

		Investment Maturity (in Years)			
	Fair Value	Less Than 1	1-5	6-10	More Than 10
<b>PRIMARY GOVERNMENT:</b>					
CDs and money market <sup>2</sup>	\$656,984	\$555,841	\$101,143	\$-	\$-
U.S. Government Agencies <sup>1</sup>	252,792	67,946	110,308	74,538	-
U.S. Treasury Bonds <sup>1</sup>	84,382	-	84,382	-	-
TOTAL PRIMARY GOVERNMENT	<u>\$994,158</u>	<u>\$623,787</u>	<u>\$295,833</u>	<u>\$74,538</u>	<u>\$-</u>
<b>FIDUCIARY FUNDS:</b>					
Mutual Equity Funds <sup>1</sup>	\$3,160,800	\$-	\$-	\$-	\$3,160,800
Mutual Equity Index Funds <sup>1</sup>	784,146	-	-	-	784,146
TOTAL FIDUCIARY	<u>\$3,944,946</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$3,944,946</u>
<b>COMPONENT UNIT:</b>					
CDs and money market <sup>2</sup>	\$270,116	\$270,116	\$-	\$-	\$-
TOTAL COMPONENT UNIT	\$270,116	\$270,116	\$-	\$-	\$-

1 – Level 1 input

2 – Level 2 input

3 – Level 3 input

## NOTE C – INVESTMENTS (Continued):

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

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

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

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

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

## NOTE D – RESTRICTED ASSETS:

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

Assets restricted by applicable bond covenants are as follows:

		December 31, 2018	
		Required Balance	Actual Balance
<b>I. Construction accounts</b>			
These accounts are used to receive loan/grant proceeds and pay construction costs.			
a.	To be used for the monies received from the utility system construction.	\$444,213	\$444,213
<b>II. Bond payment accounts</b>			
These accounts are required to be funded per bond issues. The fund shall be used solely for payment of principal and interest on the bonds as to which would otherwise be in default.			
a.	2017 Water Supply System Revenue Bond, ½ of interest due on next payment and not less than ¼ of the principal due the next year.	83,936	178,007

**NOTE D – RESTRICTED ASSETS (Continued):**

		December 31, 2018	
		Required Balance	Actual Balance
<b>III. Bond reserve accounts</b>			
These accounts are required to be funded per bond issues. The fund shall be used solely for payment of principal and interest on the bonds as to which would otherwise be in default.			
a.	2017 Water Supply System Revenue Bond, \$8,400 quarterly up to \$336,000.	\$42,000	\$42,000
<b>IV. Capital improvement accounts</b>			
These accounts are required to be funded per bond. These funds are to be used for repairs, replacement, or improvements to the water system. If the amounts in the bond reserve accounts are not sufficient to pay on the bonds when due, these monies may be transferred for that purpose.			
a.	2017 Water Supply System Revenue Bond, \$17,281.25 per quarter less the amount deposited in the Reserve Account (\$8,400 quarterly) or \$8,881.25 quarterly.	44,406	44,406
<b>V. Operations and maintenance accounts</b>			
These accounts are required to be funded per bond issues. The fund shall be used solely for the operation and maintenance of the System.			
a.	2017 Water Supply System Revenue Bond, sum sufficient to provide for payment of next quarter's expenses of administration and operation	371,678	473,145
Total		<u>\$986,233</u>	<u>\$1,181,771</u>

**NOTE E – ACCOUNTS RECEIVABLE AND TAXES RECEIVABLE:**

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

Type	Governmental Activities	Business- Type Activities	Total Primary Government
Property taxes – current	\$2,130,140	\$-	\$2,130,140
Accounts receivable	69,153	3,042	72,195
Utilities receivable	29,473	574,870	604,343
Delinquent utilities receivable	-	50,725	50,725
Other receivables	-	-	-
Due from other government units	300,390	340,400	640,790
Receivable from fiduciary funds	5,216	-	5,216
Total	<u>\$2,534,372</u>	<u>\$969,037</u>	<u>\$3,503,409</u>

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

**NOTE F – LONG-TERM RECEIVABLES:**

Loans made to individual businesses by the City's Revolving Loan Fund are recorded as long-term receivables. The Revolving Loan Fund was closed during fiscal year 2016 and the amounts recorded as long-term receivables are now being accounted for in the General Fund. A summary of notes receivable outstanding in the General Fund at December 31, 2018 is as follows:

Debtor	Balance 12/31/2018	Year of Award	Interest Rate	Terms in Years
Argall	\$56,617	2000	2.0%	15
Total	<u>\$56,617</u>			

For financial statement purposes, the amount reported in the General Fund and on the Statement of Net Position is net of any applicable allowance for doubtful accounts. As of December 31, 2018, the net loan receivable was \$-0-.

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

The City 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, 2018 is as follows:

		DUE FROM OTHER FUNDS				
		General Fund	Capital Projects	Water	Internal Service	Total Due To Other Funds
DUE TO OTHER FUNDS	General Fund	\$-	\$-	\$-	\$-	\$-
	Garbage	-	-	-	-	-
	Other Governmental	143,411	-	-	-	143,411
	Fiduciary	1,518	-	-	-	1,518
	Water	-	-	-	-	-
	Sewer	-	-	-	-	-
	Total Due From	<u>\$144,929</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$144,929</u>

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

The transfers between funds for the year ended December 31, 2018 are as follows:

		TRANSFERS IN FROM OTHER FUNDS				
		General Fund	Capital Projects	Other Governmental	Internal Service	Total Transfers Out
TRANSFERS OUT TO OTHER FUNDS	General Fund	\$-	\$-	\$5,347	\$-	\$5,347
	Capital Projects	-	-	151,301	45,000	196,301
	Non-Major Governmental	7,085	-	-	-	7,085
	Total Transfers In	<u>\$7,085</u>	<u>\$-</u>	<u>\$156,648</u>	<u>\$45,000</u>	<u>\$208,733</u>



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

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

**NOTE H – CAPITAL ASSETS:**

A summary of the changes in governmental activities capital assets is as follows:

	Balance December 31, 2017	Additions	Deductions	Balance December 31, 2018
<b>GOVERNMENTAL ACTIVITIES:</b>				
Capital assets not being depreciated:				
Land	\$1,280,750	\$-	\$-	\$1,280,750
Historical treasures	135,275	-	-	135,275
Construction in progress	818,382	74,917	(827,501)	65,798
Subtotal	<u>2,234,407</u>	<u>74,917</u>	<u>(827,501)</u>	<u>1,481,823</u>
Capital assets being depreciated:				
Buildings and improvements	12,335,416	5,135	-	12,340,551
Land improvements	3,280,490	-	-	3,280,490
Equipment and vehicles	5,370,859	827,501	-	6,198,360
Infrastructure	10,861,559	76,000	-	10,937,559
Subtotal	<u>31,848,324</u>	<u>908,636</u>	<u>-</u>	<u>32,756,960</u>
Total Capital Assets	<u>34,082,731</u>	<u>983,553</u>	<u>(827,501)</u>	<u>34,238,783</u>
Less accumulated depreciation:				
Buildings and improvements	(8,441,203)	(221,060)	-	(8,662,263)
Land improvements	(400,558)	(98,265)	-	(498,823)
Equipment and vehicles	(4,612,505)	(141,730)	-	(4,754,235)
Infrastructure	(1,184,628)	(348,753)	-	(1,533,381)
Total Accumulated Depreciation	<u>(14,638,894)</u>	<u>(809,808)</u>	<u>-</u>	<u>(15,448,702)</u>
CAPITAL ASSETS, NET	<u>\$19,443,837</u>	<u>\$173,745</u>	<u>(\$827,501)</u>	<u>\$18,790,081</u>

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

Governmental Activities:	
General Government	\$465,716
Public Works	106,929
Public Safety	50,531
Recreation and Culture	86,335
Internal Service Fund charged to above activities	100,297
Total Depreciation Expense	<u>\$809,808</u>

## NOTE H – CAPITAL ASSETS (Continued):

A summary of changes in business-type activities capital assets is as follows:

	Balance December 31, 2017	Additions	Deductions	Balance December 31, 2018
<b>BUSINESS-TYPE ACTIVITIES:</b>				
Capital assets not being depreciated:				
Land	\$10,888	\$-	\$-	\$10,888
Construction in progress	3,064,965	8,032,984	-	11,097,949
Subtotal	3,075,853	8,032,984	-	11,108,837
Capital assets being depreciated:				
Building and improvements	68,793	-	-	68,793
Equipment	447,228	-	-	447,228
Sewer system	14,738,040	-	-	14,738,040
Water system	4,290,204	-	-	4,290,204
Subtotal	19,544,265	-	-	19,544,265
Total Capital Assets	22,620,118	8,032,984	-	30,653,102
Less accumulated depreciation:				
Building and improvements	(39,417)	(1,728)	-	(41,145)
Equipment	(174,105)	(35,468)	-	(209,573)
Sewer system	(10,458,065)	(354,389)	-	(10,812,454)
Water system	(2,509,079)	(84,595)	-	(2,593,674)
Total Accumulated Depreciation	(13,180,666)	(476,180)	-	(13,656,846)
CAPITAL ASSETS, NET	\$9,439,452	\$7,556,804	\$-	\$16,996,256

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

Business-type Activities:	
Sewer	\$390,068
Water	86,112
Total Depreciation Expense	<u>\$476,180</u>

A summary of the changes in component unit activities capital assets is as follows:

	Balance December 31, 2017	Additions	Deductions	Balance December 31, 2018
<b>COMPONENT UNIT:</b>				
Capital assets not being depreciated:				
Land	\$-	\$-	\$-	\$-
Construction in progress	-	-	-	-
Subtotal	-	-	-	-

**NOTE H – CAPITAL ASSETS (Continued):**

	Balance December 31, 2017	Additions	Deductions	Balance December 31, 2018
Capital assets being depreciated:				
Land improvements	\$139,829	\$-	\$-	\$139,829
Infrastructure	2,169,572	-	-	2,169,572
Subtotal	2,309,401	-	-	2,309,401
Total Capital Assets	2,309,401	-	-	2,309,401
Less accumulated depreciation:				
Land improvements	(15,091)	(7,946)	-	(23,037)
Infrastructure	(325,283)	(105,471)	-	(430,754)
Total Accumulated Depreciation	(340,374)	(113,417)	-	(453,791)
CAPITAL ASSETS, NET	<u>\$1,969,027</u>	<u>(\$113,417)</u>	<u>\$-</u>	<u>\$1,855,610</u>

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

Component Unit Activities:	
DDA	<u>\$113,417</u>
Total Depreciation Expense	<u>\$113,417</u>

**NOTE I – CONSTRUCTION IN PROGRESS:**

The City has a number of projects underway which involve additions, extensions, and improvements to the City cemetery, parks, streets, sanitary sewer, and water systems. Major construction projects in progress as of December 31, 2018 include the following:

Lake Bancroft Pavilion, \$47,798; the City began preliminary engineering for the Pavilion at Lake Bancroft. Total cost for the project is expected to be \$600,000. Funding for the project through \$50,000 from DDA, \$250,000 from Cliffs Eagle Mine grants, and \$300,000 from DNR grant.

Columbarium, \$18,000; the City placed an order for a new Columbarium at the cemetery. Total cost is \$19,000 and the columbarium is expected to be delivered and installed in the spring of 2019.

Water Improvement Project-SAW grant, \$1,339,825; in conjunction with the City's Water Improvement Project (see below) the City began replacing sewer lines that are degraded. The City is utilizing a Stormwater, Asset Management, and Wastewater (SAW) grant through Michigan Department of Environmental Quality (MDEQ).

Water Improvement Project, \$9,758,124; the City has secured grant and USDA funding for a large water line replacement project within the City. The project is estimated to cost approximately \$12,000,000 with funding being provided through a USDA loan totaling \$8,980,000 and a USDA grant totaling \$3,020,000. It is anticipated that the project will be complete in fiscal year 2019.

As of December 31, 2018, total construction in progress costs incurred amounted to \$65,798 in the governmental type activities and \$11,097,949 in the business-type activities.

**NOTE J – LONG-TERM PAYABLE TO DDA:**

In the past the DDA loaned the City money to finance various City projects. In 2015, the City Council agreed to a 20-year payment plan schedule to pay back the DDA the amount owed with annual payments of \$37,247 beginning in 2015. The balance outstanding as of December 31, 2018 is \$595,955.

**NOTE K – LONG -TERM DEBT:**

A summary of long-term obligations at December 31, 2018 and transactions related thereto for the year then ended is as follows:

	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Due Within One Year
<b>GOVERNMENTAL ACTIVITIES:</b>					
Installment payable for purchase of fire truck. Payable annually beginning January 1, 2006 including 4.375%. Secured by equipment.	\$50,000	\$-	(\$25,000)	\$25,000	\$25,000
Limited Tax General Obligation Building Authority Bonds, Series 2000. Payable semi-annually including interest of 4.25% per annum.	567,000	-	(32,000)	535,000	33,000
Limited Tax General Obligation Building Authority Bonds, Series 2002. Payable semi-annually including interest of 4.75% per annum.	60,000	-	(3,000)	57,000	3,000
Michigan Transportation Fund Bonds, Series 2003. Payable semi-annually including interest of 4.25%.	43,310	-	(43,310)	-	-
General Obligation Limited Tax Capital Improvement Bonds, Series 2011. Payable semi-annually including interest of 3.00% to 5.00% per annum.	558,000	-	(31,200)	526,800	50,400
Building Authority Bonds, Series 2015. Payable semi-annually including interest of 3.25% per annum.	1,345,000	-	(29,000)	1,316,000	30,000
Building Authority Bonds, Series 2016. Payable semi-annually including interest of 3.125% per annum.	240,000	-	(5,000)	235,000	6,000
General Obligation Unlimited Tax Bonds, Series 2017. Payable semi-annually including interest of 3.00% to 3.125% per annum.	845,000	-	(60,000)	785,000	60,000
SUBTOTAL	3,708,310	-	(228,510)	3,479,800	207,400
Less: Premium on bonds	(13,898)	-	1,112	(12,786)	-
SUBTOTAL	3,694,412	-	(227,398)	3,467,014	207,400
Compensated absences	238,990	-	(6,668)	232,322	10,057
TOTAL GOVERNMENTAL ACTIVITIES	\$3,933,402	\$-	(\$234,066)	\$3,699,336	\$217,457

# NOTE K – LONG -TERM DEBT (Continued):

	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Due Within One Year
<b>BUSINESS-TYPE ACTIVITIES:</b>					
Installment payable for purchase of Vacall Freightliner. Payable annually beginning November 1, 2016 including interest of 2.9%. Secured by equipment.	\$188,548	-	(\$61,062)	\$127,486	\$62,832
Water Revenue Bonds, Series 2017. Payable semi-annually beginning June 1, 2018 including interest of 2.125%	2,452,000	6,528,000	(145,000)	8,835,000	148,000
<b>SUBTOTAL</b>	<b>2,640,548</b>	<b>6,528,000</b>	<b>(206,062)</b>	<b>8,962,486</b>	<b>210,832</b>
Compensated absences	9,747	-	(18)	9,729	-
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>\$2,650,295</b>	<b>\$6,528,000</b>	<b>(\$206,080)</b>	<b>\$8,972,215</b>	<b>\$210,832</b>

## COMPONENT UNIT:

Michigan Transportation Fund Bonds, Series 2003. Payable semi-annually including interest of 4.25% per annum.	\$27,690	\$-	(\$27,690)	\$-	\$-
General Obligation Limited Tax Capital Improvement Bonds, 2011 Series. Payable semi-annually including interest of 3.00% to 5.00% per annum.	1,767,000	-	(98,800)	1,668,200	159,600
<b>TOTAL COMPONENT UNIT</b>	<b>\$1,794,690</b>	<b>\$-</b>	<b>(\$126,490)</b>	<b>\$1,668,200</b>	<b>\$159,600</b>

The annual principal and interest requirements for the years ending December 31, 2018 and thereafter, excluding accrued compensated absences, are as follows:

	Governmental Activities		Business-Type Activities		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$207,400	\$125,948	\$210,832	\$189,868	\$159,600	\$71,910
2020	192,800	117,801	215,654	184,869	167,200	65,165
2021	197,000	110,398	154,000	179,754	171,000	57,978
2022	185,800	103,170	157,000	176,450	110,200	52,003
2023	191,000	96,111	161,000	173,071	114,000	47,239
2024-2028	1,063,200	364,068	857,000	832,060	649,800	154,229
2029-2033	574,600	181,006	950,000	716,125	296,400	14,820
2034-2038	319,000	120,306	1,057,000	609,569	-	-
2039-2043	382,000	64,892	1,175,000	491,142	-	-
2044-2048	167,000	8,080	1,304,000	359,551	-	-
2049-2053	-	-	1,450,000	213,349	-	-
2054-2058	-	-	1,271,000	54,600	-	-
<b>Totals</b>	<b>\$3,479,800</b>	<b>\$1,291,780</b>	<b>\$8,962,486</b>	<b>\$4,180,408</b>	<b>\$1,668,200</b>	<b>\$463,344</b>

**NOTE L – COMPENSATED ABSENCES:**

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

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

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

	Sick	Vacation	Total
Current Portion:			
General Fund	\$-	\$9,870	\$9,870
Motor Pool Fund	-	187	187
Sewer Fund	-	-	-
Water Fund	-	-	-
Long-term Portion:			
Governmental Activities	132,187	90,078	222,265
Sewer Fund	562	891	1,453
Water Fund	2,596	5,680	8,276
TOTAL	<u>\$135,345</u>	<u>\$106,706</u>	<u>\$242,051</u>

**NOTE M – TAXES LEVIED FOR A SUBSEQUENT PERIOD:**

Property taxes levied on December 1, 2018 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	\$1,524,678
Public Improvement Fund	497,828
Fire Fund	107,634
Subtotal	<u>2,130,140</u>
Fiduciary:	
Pension Trust Fund	221,821
Component Unit:	
DDA Fund	236,809
TOTAL	<u>\$2,588,770</u>

## NOTE N – FUND BALANCES – GOVERNMENTAL FUNDS:

Fund balances of the governmental funds are classified as follows:

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

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

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

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

*Unassigned* — all other spendable amounts.

As of December 31, 2018, 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	\$-	\$26,712	\$-	\$-	\$26,712
Inventory	49,605	-	-	-	49,605
Corpus	-	-	-	988,983	988,983
Long-term note receivable	-	-	-	-	-
Restricted:					
Transportation Funds	-	600,343	-	-	600,343
Public Improvement Levy	-	-	370,111	-	370,111
Fire Levy	-	-	-	21,105	21,105
Firefighter Longevity	-	-	-	224,999	224,999
Library State Aid	-	-	-	-	-
Perpetual Care	-	-	-	169,046	169,046
Cemetery Care	-	-	-	8,497	8,497
Committed	-	-	-	-	-
Assigned:					
Garbage Activities	-	202,332	-	-	202,332
Building Authority	-	-	-	-	-
Library Improvements	-	-	-	45,560	45,560
Lake Bancroft	-	-	-	7,202	7,202
DEQ Monitoring	33,000	-	-	-	33,000
Welcome baskets	960	-	-	-	960
Unassigned	810,269	-	-	-	810,269
Total fund balances	\$893,834	\$829,387	\$370,111	\$1,465,392	\$3,558,724

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

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

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

## NOTE O – DEFINED BENEFIT PENSION PLAN:

The following information is based upon the latest available actuarial valuation (as of December 31, 2017).

### Summary of Significant Accounting Policies

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

### General Information about the Pension Plan

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

### Benefits Provided:

	2017 Valuation		
	01 – CI & Pub Wks: Open Division	10 – Supervisory: Open Division	11 – Union/Supervisor: Open Division
Benefit Multiplier:	2.50% Multiplier (80% max)	2.50% Multiplier (80% max)	2.50% Multiplier (80% max)
Normal Retirement Age:	60	60	60
Vesting:	10 years	10 years	10 years
Early Retirement (Unreduced):	50/25	50/25	50/25
Early Retirement (Reduced):	55/15	55/15	55/15
Final Average Compensation:	3 years	3 years	3 years
COLA for Future Retirees:	2.50% (Non-compound)	2.50% (Non-compound)	2.50% (Non-compound)
Employee Contributions:	5.35%	7.51%	9.70%
Act 88:	Yes (Adopted 2/3/1965)	Yes (Adopted 2/3/1965)	Yes (Adopted 2/3/1965)



**NOTE O – DEFINED BENEFIT PENSION PLAN (Continued):**

**Employees covered by benefit terms** – At the December 31, 2017 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits:	41
Inactive employees entitled to but not yet receiving:	4
Active employees:	<u>27</u>
Total	<u><u>72</u></u>

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

The contribution rates as a percentage of payroll as December 31, 2017 are as follows:

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

There were no contributions requirements for closed divisions.

**Net Pension Liability** – The employer's Net Pension Liability was measured as of December 31, 2018, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as December 31, 2017.

**Actuarial assumptions** – The total pension liability in the December 31, 2017 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increases: 3.75% in the long-term

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

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

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

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

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

**NOTE O – DEFINED BENEFIT PENSION PLAN (Continued):**

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	55.5%	3.41%
Global Fixed Income	18.5%	0.23%
Real Assets	13.5%	0.97%
Diversifying Strategies	12.5%	0.63%

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

**Changes in Net Pension Liability**

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 12/31/2017	\$16,329,953	\$8,482,340	\$7,847,613
<b>Changes for the Year</b>			
Service Cost	202,632	-	202,632
Interest on Total Pension Liability	1,267,953	-	1,267,953
Changes in benefits	(24)	-	(24)
Difference between expected and actual experience	42,208	-	42,208
Change in assumptions	-	-	-
Employer Contributions	-	601,641	(601,641)
Employee Contributions	-	81,803	(81,803)
Net Investment Income	-	(316,588)	316,588
Benefit payments, including employee refunds	(1,163,689)	(1,163,689)	-
Administrative expense	-	(16,112)	16,112
Other changes	83,985	2	83,983
<b>Net Changes</b>	<b>433,065</b>	<b>(812,943)</b>	<b>1,246,008</b>
<b>Balances at 12/31/2018</b>	<b>\$16,763,018</b>	<b>\$7,669,397</b>	<b>\$9,093,621</b>

**NOTE O – DEFINED BENEFIT PENSION PLAN (Continued):**

Net Pension Liability (NPL):

MERS – Primary Government	\$9,093,621
Police-Fire – Primary Government (see Note P)	<u>1,921,070</u>
NPL reported in the Statement of Net Position	<u>\$11,014,691</u>

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

	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
Net Pension Liability at 12/31/2018	\$9,093,621	\$9,093,621	\$9,093,621
Change in Net Pension Liability	<u>1,858,087</u>	<u>-</u>	<u>(1,562,022)</u>
Calculated Net Pension Liability	<u>\$10,951,708</u>	<u>\$9,093,621</u>	<u>\$7,531,599</u>

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

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

For the year ended 2018 the employer recognized pension expense of \$1,300,596. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference in experience	\$186,066	(\$1,244)
Difference in assumptions	218,076	(16,809)
Excess (Deficit) Investment Returns	<u>588,044</u>	<u>-</u>
Total	<u>\$992,186</u>	<u>(\$18,053)</u>

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

Plan Year Ended:	Amount
2019	\$470,477
2020	184,504
2021	124,087
2022	195,065
2023	-
Thereafter	<u>-</u>
Total	<u>\$974,133</u>

**NOTE O – DEFINED BENEFIT PENSION PLAN (Continued):**

A reconciliation of deferred amounts related to pension reported on the Statement of Net Position for all pension plans is as follows:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
MERS – Primary Government	\$992,186	(\$18,053)
Police-Fire – Primary Government (see Note P)	174,468	(42,381)
Total	<u>\$1,166,654</u>	<u>(\$60,434)</u>
Contributions subsequent to the measurement date:		
Police-Fire – Primary Government (see Note P)	<u>\$178,625</u>	

**Payable to the Pension Plan**

At December 31, 2018, there was a reported payable of \$52,043 for the outstanding amount of contributions to the pension plan.

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

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

**General Information about the Pension Plan**

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

**Benefits Provided:**

	2017 Valuation
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%
Non-duty Disability:	To age 55: 1.5% multiple At age 55: same as above

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

	2017 Valuation
	To age 55: 50% AFC
Duty Disability:	At age 55: same as above w/ service credit from date of disability to age 55.

**Employees covered by benefit terms** – At the December 31, 2017 valuation date, the latest actuarial valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits:	23
Inactive employees entitled to but not yet receiving:	4
Active employees:	9
Total	<u>36</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, 2017 are as follows: employer 34.94% 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, 2017, 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, 2017 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 3.5%

Salary Increases: 3.5% in the long-term

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

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

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

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

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocations were estimated based on the asset allocation provided by the City as of December 31, 2017. 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, 2017, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	3.22%	-0.01%
Domestic Equity – Large Cap	28.00%	1.40%
Domestic Equity – Small Cap	28.00%	1.73%
International Equity	7.00%	0.42%
Emerging Markets	7.00%	0.61%
Domestic Corporate Fixed Income	15.78%	0.16%
Domestic Government Fixed Income	7.89%	0.03%
Treasury Inflation Protected Securities	0.00%	0.00%
High Yield Bonds	0.00%	0.00%
Real Estate	3.10%	0.13%
Private Equity	0.00%	0.00%
Hedge Funds	0.00%	0.00%
Other Alternatives	0.00%	0.00%
<b>TOTAL</b>	<b>100.00%</b>	
Total Real Rate of Return		4.47%

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

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

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

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

Ishares Core S&P 500	1,505.0000 units	\$378,673
Schwab US Large Cap	4,008.0000 units	276,271
Dodge & Cox Income Fund	34,245.8340 units	456,487
Doubleline Core Fixed	43,266.9300 units	459,062
AQR Intel Equity Ln I	32,224.6140 units	282,932
JOHcm Gbl Eqty Fd Cl I	18,236.8390 units	256,957
Pimco Rae Intl Inst	48,145.5080 units	428,014
Pimco Rae US Inst	43,895.7620 units	427,545
RWC Global Emrg Eqty I	23,985.9050 units	242,018
Tortoise MLP & Pipeline	17,345.8520 units	190,978

**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 3.31%. 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 2117. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2116, and the municipal bond rate was applied to all benefit payments after that date.

### Changes in Net Pension Liability

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 12/31/2016	\$6,464,961	\$4,420,761	\$2,044,200
<b>Changes for the Year</b>			
Service Cost	106,350	-	106,350
Interest on Total Pension Liability	440,259	-	440,259
Changes in benefits	-	-	-
Difference between expected and actual experience	68,626	-	68,626
Change in assumptions	-	-	-
Employer Contributions	-	163,490	(163,490)
Employee Contributions	-	24,927	(24,927)
Net Investment Income	-	561,745	(561,745)
Benefit payments, including employee refunds	(457,439)	(457,439)	-
Administrative expense	-	(11,797)	11,797
Other changes	-	-	-
<b>Net Changes</b>	157,796	280,926	(123,130)
<b>Balances at 12/31/2017</b>	<b>\$6,622,757</b>	<b>\$4,701,687</b>	<b>\$1,921,070</b>

Note: Based on December 31, 2017 actuarial valuation, the most recent actuarial report available.

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

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

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net Pension Liability at 12/31/2017	\$1,921,070	\$1,921,070	\$1,921,070
Change in Net Pension Liability	773,933	-	(643,286)
Calculated Net Pension Liability	<u>\$2,695,003</u>	<u>\$1,921,070</u>	<u>\$1,277,784</u>

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

For the year ended 2018 the employer recognized pension expense of \$320,111. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference in experience	\$-	(\$42,381)
Difference in assumptions	74,270	-
Excess (Deficit) Investment Returns	100,198	-
Subtotal	<u>174,468</u>	<u>(\$42,381)</u>
Contributions subsequent to the measurement date*	<u>178,625</u>	
Total	<u>\$353,093</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 2018.

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

Plan Year Ended:	Amount
2018	\$111,569
2019	95,704
2020	(22,761)
2021	(52,425)
2022	-
Thereafter	-
Total	<u>\$132,087</u>

**Payable to the Pension Plan**

At December 31, 2018, there was a reported payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2018.



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

The components of the net pension liability of the City at December 31, 2018, are as follows:

Total pension liability	\$6,622,757 *
Plan fiduciary net position	<u>4,701,687</u>
City's net pension liability	<u>\$1,921,070</u>

Plan fiduciary net position as  
a percentage of the total pension liability 70.99%

\*As of December 31, 2017, the most recent actuarial report available.

## **NOTE R – DEFERRED COMPENSATION PLAN:**

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

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

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

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

## **NOTE S – OTHER POST-EMPLOYMENT BENEFITS:**

The City has a defined contribution Post Employment Health Plan (PEHP) administered by Nationwide Retirement Solutions. The purpose of the PEHP plan is to provide reimbursement of qualifying health care and medical insurance premium expenses upon separation from employment for employees covered by collective bargaining agreements.

Terms for eligibility and contribution rates are specified in the City's various collective bargaining agreements. Individual employee accounts consist of employer contributions and investment returns. The Plan does not have any vesting requirements; therefore, employees are immediately vested. Employee contributions range from \$28 to \$32 per pay period, respectively, based on union contracts. The City matches employee contributions to the Plan. For the year ended December 31, 2018, the City's contributions totaled approximately \$28,140.

**NOTE T – PROPERTY TAXES:**

The City of Ishpeming levied 13.3545 mills for the General Fund, 4.4514 mills for the Public Improvement Fund, 0.8940 mills for Fire Equipment, and 1.9835 mills for the Policemen and Firemen Retirement Fund for calendar year 2018. The millage rate is based on each \$1,000.00 of property assessed valuation and the current Taxable Value of the City is \$120,072,296.

**NOTE U – IRON ORE HERITAGE RECREATION AUTHORITY:**

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

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

The Board shall obtain an annual audit of the Authority. A summary of financial information from the separately audited financial statements of the Authority for the year ended December 31, 2018 is as follows:

Assets	\$3,464,579
Deferred Outflows of Resources	-
Liabilities	8,290
Deferred Inflows of Resources	329,674
Net Position	3,126,615
Operating Revenues	362,589
Operating Expenses	240,569

**NOTE V – JOINT VENTURES:****Ishpeming Area Joint Wastewater Treatment Facility**

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

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

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

**NOTE V – JOINT VENTURES (Continued):**

A summary of condensed financial information of the Facility, in the aggregate, as of December 31, 2018, is as follows:

Assets	\$6,549,040
Deferred Outflows of Resources	177,702
Liabilities	351,321
Deferred Inflows of Resources	-
Equity - All local units	6,375,421
Operating Revenues	1,119,610
Operating Expenses	1,524,597
Other Income	94,043
Increase (decrease) in net position	(310,944)
City's Share of Net Income (loss)	(105,696)

**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, deferred outflows of resources, liabilities, deferred inflows of resources, and fund equity is 10.16 percent. Summary financial information as of and for the fiscal year ended June 30, 2018 is as follows:

Assets	\$13,610,511
Deferred Outflows of Resources	102,492
Liabilities	3,180,530
Deferred Inflows of Resources	128,509
Net Position	10,403,964
Operating Revenues	3,179,632
Operating Expenses	3,465,106
Non-operating Revenues (Expenses)	89,592
Net Income (Loss)	(195,882)

## **NOTE V – JOINT VENTURES (Continued):**

### **Negaunee - Ishpeming Water Authority Board**

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

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

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

A summary of the audited financial statements of the Board as of and for the year ended December 31, 2018 is as follows:

Total Assets	\$2,312,660
Total Liabilities	26,192
Total Net Position	2,286,468
Total Operating Revenues	615,271
Total Operating Expenses	680,780
Other Revenues and (Expenses)	9,752
Change in Net Position	(55,757)

The balance of the investment in Board for the year ended December 31, 2018 of \$3,507,323 represents the City's net investment in the Board.

## **NOTE W – CONTINGENT LIABILITIES:**

Risk Management – The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The City was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The City joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

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

## **NOTE W – CONTINGENT LIABILITIES (Continued):**

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

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

## **NOTE X – TAX ABATEMENTS**

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

For purposes of disclosure under GASB 77, the City discloses tax abatements by issuing government and type greater than \$5,000 in the aggregate. For the fiscal year ended December 31, 2018, there were no other significant tax abatements made by the City or any other governmental unit within the City.

## **NOTE Y – SINGLE AUDIT:**

During the year ended December 31, 2018, the Federal aid received and expended by the City was \$7,243,500. This is greater than the single audit threshold of \$750,000; therefore the City is subject to a single audit under the Uniform Guidance.

## **NOTE Z – NEW GASB STANDARDS:**

### Recently Issued and Adopted Accounting Pronouncements

None

### Other Recently Issued Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 provides improved accounting and financial reporting by state and local governments for postemployment benefits other than pension. It also provides information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement 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

## **NOTE Z – NEW GASB STANDARDS (Continued):**

employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. This statement is effective for periods beginning after June 15, 2017. The City does not have other postemployment benefits that meet the criteria for GASB 75; therefore, GASB 75 is not applicable to the City.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. GASB 85 provides guidance on a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Some of the items specifically addressed relate to the following: 1) Measuring certain money market investments and participating interest-earning investment contracts at amortized cost 2) Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus 3) Recognizing on-behalf payments for pension or OPEB in employer financial statements 4) Presenting payment-related measures in required supplementary information for purposes or reporting by OPEB plans and employers that provide OPEB 5) Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plan. This statement is effective for periods beginning after June 15, 2017. The City does not have pension and OPEB plans that meet the criteria for GASB 85; therefore, GASB 85 is not applicable to the City.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. GASB 86 provides improved consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This statement is effective for periods beginning after June 15, 2017. The City does not have any debt extinguishment issues that meet the criteria for GASB 86; therefore, GASB 86 is not applicable to the City.

## **NOTE AA – UPCOMING STANDARDS:**

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

### **GASB 83: Certain Asset Retirement Obligations**

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

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

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination

## **NOTE AA – UPCOMING STANDARDS (Continued):**

of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. It requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. A deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

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

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

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

### **GASB 84: Fiduciary Activities**

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

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

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

## **NOTE AA – UPCOMING STANDARDS (Continued):**

### **GASB 87: Leases**

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

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

### **GASB 88: Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements**

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

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

### **GASB 89: Accounting for Interest Cost incurred before the end of a Construction Period**

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

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that was previously accounted for in accordance with the requirements of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statement prepared using the economic resources measurement focus.

### **GASB 90: Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61**

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

This statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity



## **NOTE AA – UPCOMING STANDARDS (Continued):**

method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority interest in a legally separate organization results in a government being financially accountable for a legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit.

## **NOTE AB – UNRESTRICTED NET POSITION DEFICIT:**

In accordance with Public Act 140 of 1970, the City is required to file a deficit elimination plan for all funds that have a deficit at the end of the fiscal year. As of December 31, 2018, the City had unrestricted net position deficit in the Water Fund totaling \$2,037,526.

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

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

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

The results of performing the deficit test revealed the Water Fund is required to file a deficit elimination plan with the Department of Treasury for \$251,455. A deficit elimination plan has been filed.

**NOTE AC – NET POSITION RESTATEMENT:**

In fiscal year 2017, the City created the Motor Pool Fund, an Internal Service Fund, to account for the maintenance and purchasing of vehicles and equipment utilized in various departments and funds of the City. The City reviewed its listing of general fixed assets as of December 31, 2017 for vehicles and equipment to be transferred over to the new Motor Pool Fund. As such, Net Position for the Motor Pool Fund was restated at the beginning of the year for the net book value of the assets transferred from the general fixed asset account group as follows:

	Motor Pool Fund
Net position/fund balance, beginning of year	\$30,000
Prior period adjustments:	
Cost of fixed assets transferred	4,294,150
Accumulated depreciation of fixed assets transferred	<u>(3,742,757)</u>
Net position/fund balance, beginning of year, as restated	<u><u>\$581,393</u></u>

On the government-wide statements no restatement is necessary as the Motor Pool Fund is a governmental activity Internal Service Fund.

**NOTE AD – BUDGET VIOLATION:**

Public Act 621 of 1978, Section 18(1), as amended, provides that a unit of government shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City's actual expenditures and budgeted expenditures have been shown on an activity and/or program level.

During the year ended December 31, 2018 the City incurred functional expenditures which were in excess of the amounts appropriated as follows:

	Final Budget	Actual	Variance
<b>Major Street Fund:</b>			
Winter Maintenance	\$321,600	\$356,852	\$35,252

## 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)

	2018	2017	2016	2015
<b>Change in total pension liability</b>				
Service cost	\$ 202,632	\$ 200,575	\$ 183,436	\$ 176,348
Interest	1,267,953	1,209,026	1,177,043	1,111,444
Change in benefit terms	(24)	(131)	-	-
Differences between expected and actual experience	42,208	426,449	(240,242)	-
Changes in assumptions	-	-	805,071	-
Benefit payments, including refunds of member contributions	(1,163,689)	(1,014,405)	(969,793)	(896,652)
Other	83,985	(11,304)	(96,136)	16,018
<b>Net change in total pension liability</b>	<b>433,065</b>	<b>810,210</b>	<b>859,379</b>	<b>407,158</b>
<b>Total pension liability, beginning of year</b>	<b>16,329,953</b>	<b>15,519,743</b>	<b>14,660,364</b>	<b>14,253,206</b>
<b>Total pension liability, end of year (a)</b>	<b>16,763,018</b>	<b>16,329,953</b>	<b>15,519,743</b>	<b>14,660,364</b>
<b>Change in plan fiduciary net position</b>				
Contributions – employer	601,641	565,838	537,665	474,475
Contributions – member	81,803	81,314	141,948	73,403
Net investment income	(316,588)	1,019,969	822,998	(113,758)
Benefit payments, including refunds of member contributions	(1,163,689)	(1,014,405)	(969,793)	(896,652)
Administrative expense	(16,112)	(16,175)	(16,241)	(16,811)
Other	2	-	-	-
<b>Net change in plan fiduciary net position</b>	<b>(812,943)</b>	<b>636,541</b>	<b>516,577</b>	<b>(479,343)</b>
<b>Plan fiduciary net position, beginning of year</b>	<b>8,482,340</b>	<b>7,845,799</b>	<b>7,329,222</b>	<b>7,808,565</b>
<b>Plan fiduciary net position, end of year (b)</b>	<b>7,669,397</b>	<b>8,482,340</b>	<b>7,845,799</b>	<b>7,329,222</b>
City's net pension liability, end of year (a)-(b)	<b>\$ 9,093,621</b>	<b>\$ 7,847,613</b>	<b>\$ 7,673,944</b>	<b>\$ 7,331,142</b>
Plan fiduciary net position as a percentage of the total pension liability	45.75%	51.94%	50.55%	49.99%
Covered-employee payroll	\$ 1,312,420	\$ 1,296,057	\$ 1,229,890	\$ 1,195,774
City's net pension liability as a percentage of covered payroll	692.89%	605.50%	623.95%	613.09%

**Notes to Schedules:**

City's net pension liability is based on most recent actuarial valuation date, December 31, 2017.

**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)

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
2015	\$ 474,475	\$ 474,475	\$ -	\$ 1,195,774	39.68%
2016	537,665	537,665	-	1,229,890	43.72%
2017	565,838	565,838	-	1,296,057	43.66%
2018	601,641	601,641	-	1,312,420	45.84%

**City of Ishpeming, Michigan**  
**POLICE AND FIRE RETIREMENT SYSTEM**  
**DEFINED BENEFIT PENSION PLAN**  
**ANALYSIS OF FUNDING INFORMATION**

**SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS**  
(Ultimately 10 years will be displayed)

		Plan Year Ending December 31,				
		2018	2017	2016	2015	2014
<b>Change in total pension liability</b>						
Service cost		Not Available *	\$ 106,350	\$ 91,455	\$ 111,812	\$ 114,128
Interest		Not Available *	440,259	431,723	438,498	477,261
Change in benefit terms		Not Available *	-	-	-	-
Differences between expected and actual experience		Not Available *	68,626	(142,763)	(157,156)	(333,359)
Changes in assumptions		Not Available *	-	178,587	(56,392)	(387,579)
Benefit payments, including refunds of member contributions		Not Available *	(457,439)	(431,579)	(415,168)	(430,902)
Other changes		Not Available	-	(1)	1	-
<b>Net change in total pension liability</b>		Not Available *	157,796	127,422	(78,405)	(560,451)
<b>Total pension liability, beginning of year</b>		Not Available *	6,464,961	6,337,539	6,415,944	6,976,395
<b>Total pension liability, end of year</b>	(a)	Not Available *	6,622,757	6,464,961	6,337,539	6,415,944
<b>Change in plan fiduciary net position</b>						
Contributions – employer		178,625	163,490	188,906	199,322	201,791
Contributions – member		24,981	24,927	26,124	23,844	22,745
Net investment income		(520,273)	561,745	211,257	(187,393)	101,472
Benefit payments, including refunds of member contributions		(485,291)	(457,439)	(431,579)	(415,168)	(430,902)
Administrative expense		(44,633)	(11,797)	-	(42,723)	(39,761)
Other changes		-	-	(1)	1	-
<b>Net change in plan fiduciary net position</b>		(846,591)	280,926	(5,293)	(422,117)	(144,655)
<b>Plan fiduciary net position, beginning of year</b>		4,701,687	4,420,761	4,426,054	4,848,171	4,992,826
<b>Plan fiduciary net position, end of year</b>	(b)	3,855,096	4,701,687	4,420,761	4,426,054	4,848,171
City's net pension liability, end of year	(a)-(b)	Not Available *	\$ 1,921,070	\$ 2,044,200	\$ 1,911,485	\$ 1,567,773
Plan fiduciary net position as a percentage of the total pension liability		Not Available *	70.99%	68.38%	69.84%	75.56%
Covered-employee payroll		Not Available *	\$ 475,382	\$ 424,035	\$ 458,896	\$ 462,485
City's net pension liability as a percentage of covered payroll		Not Available *	404.11%	482.08%	416.54%	338.99%

\*Actuarial information not available

**Notes to Schedules:**

City's net pension liability is based on most recent actuarial valuation date, December 31, 2017.

# City of Ishpeming, Michigan

## POLICE AND FIRE RETIREMENT SYSTEM

### DEFINED BENEFIT PENSION PLAN

#### ANALYSIS OF FUNDING INFORMATION

#### SCHEDULE OF CITY CONTRIBUTIONS

Fiscal Year Ending	Actuarial Determined Contribution	Contribution in Relation to the Actuarial Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as Percentage of Covered Payroll
2009	\$ 113,460	\$ 113,460	\$ -	\$ 490,598	23.13%
2010	139,448	139,448	-	441,036	31.62%
2011	160,724	160,724	-	407,599	39.43%
2012	149,207	149,207	-	475,834	31.36%
2013	158,948	158,948	-	487,529	32.60%
2014	197,820	201,791	(3,971)	462,485	43.63%
2015	192,780	199,322	(6,542)	458,896	43.44%
2016	181,160	188,906	(7,746)	424,035	44.55%
2017	171,758	163,490	8,268	475,382	34.39%
2018	178,606	178,625	(19)	519,999	34.35%
2019	214,696				

#### NOTES TO SCHEDULE OF CONTRIBUTIONS

**Valuation Date:** December 31, 2017

**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	24 Years
Asset Valuation Method	5-Year smoothed market; 20% corridor
Inflation	3.5% wage inflation; 2.75% price inflation
Salary Increases	3.5% to 7.3% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience - based table of rates that are specific to the type of eligible condition. Last updated for the 2003 valuation.
Mortality	The RP-2000 Mortality Table (combined healthy), projected to 2017 using 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.

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

**City of Ishpeming, Michigan**

**POLICE AND FIRE RETIREMENT SYSTEM**

**DEFINED BENEFIT PENSION PLAN**

**ANALYSIS OF FUNDING INFORMATION**

**SCHEDULE OF INVESTMENT RETURNS**

(Ultimately 10 years will be displayed)

Plan Year Ended December 31,	Annual Money-Weighted Rate of Return, Net of Investment Expense
2014	4.71%
2015	5.40%
2016	4.98%
2017	4.47%
2018	Not Available



City of Ishpeming, Michigan

MAJOR GOVERNMENTAL FUNDS

**GENERAL FUND**

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

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

**SPECIAL REVENUE FUNDS**

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

**City of Ishpeming, Michigan**

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2018

With Comparative Actual Amounts for the Year Ended December 31, 2017

	2018				
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	2017
<b>REVENUES:</b>					
Taxes	\$ 1,610,798	\$ 1,609,076	\$ 1,613,349	\$ 4,273	\$ 1,580,157
State sources	813,400	868,525	882,915	14,390	866,475
Licenses and permits	166,300	175,694	171,834	(3,860)	186,496
Service charges	59,750	83,995	86,750	2,755	65,841
Interest income and rentals	6,200	6,598	7,645	1,047	411,061
Contributions	3,500	6,960	6,975	15	7,455
Fines and forfeitures	47,800	52,306	56,716	4,410	55,916
Other revenues	20,000	9,668	26,581	16,913	51,666
<b>TOTAL REVENUES</b>	<b>2,727,748</b>	<b>2,812,822</b>	<b>2,852,765</b>	<b>39,943</b>	<b>3,225,067</b>
<b>EXPENDITURES:</b>					
Current Operations:					
Legislative	16,900	17,721	15,582	2,139	12,560
General government	1,242,305	1,332,956	1,278,301	54,655	1,323,409
Public safety	865,826	854,235	841,850	12,385	789,501
Public works	361,800	437,275	394,180	43,095	646,291
Community and economic development	30,300	33,530	32,202	1,328	32,625
Recreation and culture	325,180	367,826	348,484	19,342	385,998
Debt Service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Capital outlay	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>2,842,311</b>	<b>3,043,543</b>	<b>2,910,599</b>	<b>132,944</b>	<b>3,190,384</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(114,563)</b>	<b>(230,721)</b>	<b>(57,834)</b>	<b>172,887</b>	<b>34,683</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from sale of capital assets	-	-	-	-	-
Insurance recoveries	-	63,746	64,268	522	44,832
Transfers in	8,000	6,435	7,085	650	5,566
Transfers (out)	(9,000)	(8,250)	(5,347)	2,903	(136,303)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,000)</b>	<b>61,931</b>	<b>66,006</b>	<b>4,075</b>	<b>(85,905)</b>
<b>CHANGE IN FUND BALANCE</b>	<b>(115,563)</b>	<b>(168,790)</b>	<b>8,172</b>	<b>176,962</b>	<b>(51,222)</b>
Fund balance, beginning of year	885,662	885,662	885,662	-	936,884
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 770,099</b>	<b>\$ 716,872</b>	<b>\$ 893,834</b>	<b>\$ 176,962</b>	<b>\$ 885,662</b>

**City of Ishpeming, Michigan**

**MAJOR SPECIAL REVENUE FUNDS**

**MAJOR STREET FUND**

**BUDGETARY COMPARISON SCHEDULE**

For the Year Ended December 31, 2018

With Comparative Actual Amounts for the Year Ended December 31, 2017

	2018				
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	2017
<b>REVENUES:</b>					
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	578,000	697,924	759,910	61,986	676,393
Interest income and rentals	40	250	413	163	151
Other revenue	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>578,040</b>	<b>698,174</b>	<b>760,323</b>	<b>62,149</b>	<b>676,544</b>
<b>EXPENDITURES:</b>					
Public Works:					
Construction	-	76,000	76,000	-	5,293
Routine maintenance	30,700	36,300	34,139	2,161	70,949
Traffic service	17,650	25,090	20,217	4,873	15,111
Winter maintenance	303,000	321,600	356,852	(35,252)	324,745
Administration	15,500	15,000	10,780	4,220	16,634
State trunkline	38,835	45,835	42,799	3,036	90,860
Total Public Works	405,685	519,825	540,787	(20,962)	523,592
Debt Service:					
Principal	33,370	33,370	33,370	-	32,430
Interest and fiscal charges	1,668	1,668	1,418	250	2,796
Total Debt Service	35,038	35,038	34,788	250	35,226
<b>TOTAL EXPENDITURES</b>	<b>440,723</b>	<b>554,863</b>	<b>575,575</b>	<b>(20,712)</b>	<b>558,818</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>137,317</b>	<b>143,311</b>	<b>184,748</b>	<b>41,437</b>	<b>117,726</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from borrowing	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN FUND BALANCE</b>	<b>137,317</b>	<b>143,311</b>	<b>184,748</b>	<b>41,437</b>	<b>117,726</b>
Fund balance, beginning of year	117,726	117,726	117,726	-	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 255,043</b>	<b>\$ 261,037</b>	<b>\$ 302,474</b>	<b>\$ 41,437</b>	<b>\$ 117,726</b>

**City of Ishpeming, Michigan**

**MAJOR SPECIAL REVENUE FUNDS**

**LOCAL STREET FUND**

**BUDGETARY COMPARISON SCHEDULE**

For the Year Ended December 31, 2018

With Comparative Actual Amounts for the Year Ended December 31, 2017

	2018				
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	2017
<b>REVENUES:</b>					
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	285,500	363,147	418,861	55,714	287,860
Interest income and rentals	300	300	428	128	375
Other revenue	-	-	-	-	-
<b>TOTAL REVENUES</b>	<u>285,800</u>	<u>363,447</u>	<u>419,289</u>	<u>55,842</u>	<u>288,235</u>
<b>EXPENDITURES:</b>					
Public Works:					
Construction	-	-	-	-	179
Routine maintenance	37,200	56,200	53,078	3,122	19,035
Traffic service	17,700	17,700	9,871	7,829	16,286
Winter maintenance	229,000	232,000	220,605	11,395	221,606
Administration	15,000	15,000	9,660	5,340	13,793
Total Public Works	<u>298,900</u>	<u>320,900</u>	<u>293,214</u>	<u>27,686</u>	<u>270,899</u>
Debt Service:					
Principal	9,940	9,940	9,940	-	9,660
Interest and fiscal charges	497	497	422	75	833
Total Debt Service	<u>10,437</u>	<u>10,437</u>	<u>10,362</u>	<u>75</u>	<u>10,493</u>
<b>TOTAL EXPENDITURES</b>	<u>309,337</u>	<u>331,337</u>	<u>303,576</u>	<u>27,761</u>	<u>281,392</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(23,537)</u>	<u>32,110</u>	<u>115,713</u>	<u>83,603</u>	<u>6,843</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>CHANGE IN FUND BALANCE</b>	<u>(23,537)</u>	<u>32,110</u>	<u>115,713</u>	<u>83,603</u>	<u>6,843</u>
Fund balance, beginning of year	<u>182,156</u>	<u>182,156</u>	<u>182,156</u>	<u>-</u>	<u>175,313</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 158,619</u>	<u>\$ 214,266</u>	<u>\$ 297,869</u>	<u>\$ 83,603</u>	<u>\$ 182,156</u>

**City of Ishpeming, Michigan**

**MAJOR SPECIAL REVENUE FUNDS**

**GARBAGE & RUBBISH FUND**

**BUDGETARY COMPARISON SCHEDULE**

For the Year Ended December 31, 2018

With Comparative Actual Amounts for the Year Ended December 31, 2017

	2018			Variance with Final Budget Positive (Negative)	2017
	Original Budget	Final Budget	Actual GAAP Basis		
<b>REVENUES:</b>					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	543,730	590,530	597,165	6,635	532,594
Interest income and rentals	400	400	501	101	523
Contributions	-	-	-	-	-
Other revenue	800	-	-	-	1,284
<b>TOTAL REVENUES</b>	<b>544,930</b>	<b>590,930</b>	<b>597,666</b>	<b>6,736</b>	<b>534,401</b>
<b>EXPENDITURES:</b>					
Current Operations:					
Public Works	635,500	710,500	672,609	37,891	682,302
<b>TOTAL EXPENDITURES</b>	<b>635,500</b>	<b>710,500</b>	<b>672,609</b>	<b>37,891</b>	<b>682,302</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(90,570)</b>	<b>(119,570)</b>	<b>(74,943)</b>	<b>44,627</b>	<b>(147,901)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN FUND BALANCE</b>	<b>(90,570)</b>	<b>(119,570)</b>	<b>(74,943)</b>	<b>44,627</b>	<b>(147,901)</b>
Fund balance, beginning of year	303,987	303,987	303,987	-	451,888
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 213,417</b>	<b>\$ 184,417</b>	<b>\$ 229,044</b>	<b>\$ 44,627</b>	<b>\$ 303,987</b>

## OTHER FINANCIAL INFORMATION

City of Ishpeming, Michigan

NON-MAJOR GOVERNMENTAL FUNDS

**SPECIAL REVENUE FUNDS**

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

**PERMANENT FUNDS**

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

**City of Ishpeming, Michigan**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
December 31, 2018

	<b>Special Revenue Funds</b>	<b>Permanent Funds Perpetual Care Fund</b>	<b>Cemetery Care Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 301,406	\$ 342,531	\$ 74,633	\$ 718,570
Investments	-	790,139	102,634	892,773
Accounts receivable, net	224	-	-	224
Taxes receivable	107,634	-	-	107,634
Other receivable	-	-	-	-
Due from other governments	-	-	-	-
Due from other funds	-	-	-	-
Notes receivable	-	-	-	-
<b>TOTAL ASSETS</b>	<b>409,264</b>	<b>1,132,670</b>	<b>177,267</b>	<b>1,719,201</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Premium on investment	-	-	-	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 409,264</b>	<b>\$ 1,132,670</b>	<b>\$ 177,267</b>	<b>\$ 1,719,201</b>
<b>LIABILITIES</b>				
Cash overdrafts	\$ -	\$ -	\$ -	\$ -
Accounts payable	2,764	-	-	2,764
Accrued payroll	-	-	-	-
Accrued sick and vacation	-	-	-	-
Due to other funds	-	120,338	23,073	143,411
<b>TOTAL LIABILITIES</b>	<b>2,764</b>	<b>120,338</b>	<b>23,073</b>	<b>146,175</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Taxes levied for a subsequent period	107,634	-	-	107,634
Discount on investment	-	-	-	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>107,634</b>	<b>-</b>	<b>-</b>	<b>107,634</b>
<b>FUND BALANCE</b>				
Non-spendable	-	843,286	145,697	988,983
Restricted	246,104	169,046	8,497	423,647
Committed	-	-	-	-
Assigned	52,762	-	-	52,762
Unassigned	-	-	-	-
<b>TOTAL FUND BALANCE</b>	<b>298,866</b>	<b>1,012,332</b>	<b>154,194</b>	<b>1,465,392</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	<b>\$ 409,264</b>	<b>\$ 1,132,670</b>	<b>\$ 177,267</b>	<b>\$ 1,719,201</b>



**City of Ishpeming, Michigan**

**NON-MAJOR GOVERNMENTAL FUNDS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

For the Year Ended December 31, 2018

	<b>Special Revenue Funds</b>	<b>Permanent Funds</b>		<b>Total Non-Major Governmental Funds</b>
		<b>Perpetual Care Fund</b>	<b>Cemetery Care Fund</b>	
<b>REVENUES:</b>				
Taxes	\$ 106,455	\$ -	\$ -	\$ 106,455
Federal sources	-	-	-	-
State sources	10,723	-	-	10,723
Charges for services	-	10,725	-	10,725
Interest income and rentals	668	7,352	995	9,015
Contributions	56,303	-	-	56,303
Other revenues	250	-	-	250
<b>TOTAL REVENUES</b>	<b>174,399</b>	<b>18,077</b>	<b>995</b>	<b>193,471</b>
<b>EXPENDITURES:</b>				
Current Operations:				
Public safety	8,000	-	-	8,000
Public works	-	-	-	-
Recreation and culture	27,374	-	-	27,374
Other governmental	-	-	43	43
Debt Service:				
Principal	129,000	-	-	129,000
Interest and fiscal charges	107,704	-	-	107,704
Capital outlay	56,916	-	-	56,916
<b>TOTAL EXPENDITURES</b>	<b>328,994</b>	<b>-</b>	<b>43</b>	<b>329,037</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(154,595)</b>	<b>18,077</b>	<b>952</b>	<b>(135,566)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from borrowing	-	-	-	-
Premium on bond	-	-	-	-
Transfers in	156,648	-	-	156,648
Transfers (out)	-	(6,325)	(760)	(7,085)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>156,648</b>	<b>(6,325)</b>	<b>(760)</b>	<b>149,563</b>
<b>CHANGE IN FUND BALANCE</b>	<b>2,053</b>	<b>11,752</b>	<b>192</b>	<b>13,997</b>
Fund balance, beginning of year	296,813	1,000,580	154,002	1,451,395
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 298,866</b>	<b>\$ 1,012,332</b>	<b>\$ 154,194</b>	<b>\$ 1,465,392</b>

**City of Ishpeming, Michigan**

**NON-MAJOR SPECIAL REVENUE FUNDS**

**COMBINING BALANCE SHEET**

December 31, 2018

	Fire Fund	Firefighter Longevity Fund	Lake Bancroft Fund	Building Authority Fund	Carnegie Library Fund	Library State Aid Fund	Total
<b>ASSETS</b>							
Cash and cash equivalents	\$ 21,105	\$ 224,999	\$ 9,833	\$ -	\$ 45,336	\$ 133	\$ 301,406
Investments	-	-	-	-	-	-	-
Accounts receivable, net	-	-	-	-	224	-	224
Taxes receivable	107,634	-	-	-	-	-	107,634
Other receivable	-	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>128,739</b>	<b>224,999</b>	<b>9,833</b>	<b>-</b>	<b>45,560</b>	<b>133</b>	<b>409,264</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 128,739</b>	<b>\$ 224,999</b>	<b>\$ 9,833</b>	<b>\$ -</b>	<b>\$ 45,560</b>	<b>\$ 133</b>	<b>\$ 409,264</b>
<b>LIABILITIES</b>							
Cash overdrafts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	-	-	2,631	-	-	133	2,764
Accrued payroll	-	-	-	-	-	-	-
Accrued sick and vacation	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>2,631</b>	<b>-</b>	<b>-</b>	<b>133</b>	<b>2,764</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Taxes levied for a subsequent period	107,634	-	-	-	-	-	107,634
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>107,634</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>107,634</b>
<b>FUND BALANCE</b>							
Non-spendable	-	-	-	-	-	-	-
Restricted	21,105	224,999	-	-	-	-	246,104
Committed	-	-	-	-	-	-	-
Assigned	-	-	7,202	-	45,560	-	52,762
Unassigned	-	-	-	-	-	-	-
<b>TOTAL FUND BALANCE</b>	<b>21,105</b>	<b>224,999</b>	<b>7,202</b>	<b>-</b>	<b>45,560</b>	<b>-</b>	<b>298,866</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	<b>\$ 128,739</b>	<b>\$ 224,999</b>	<b>\$ 9,833</b>	<b>\$ -</b>	<b>\$ 45,560</b>	<b>\$ 133</b>	<b>\$ 409,264</b>

**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, 2018

	Fire Fund	Firefighter Longevity Fund	Lake Bancroft Fund	Building Authority Fund	Carnegie Library Fund	Library State Aid Fund	Total
<b>REVENUES:</b>							
Taxes	\$ 106,455	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 106,455
Federal sources	-	-	-	-	-	-	-
State sources	-	-	-	-	-	10,723	10,723
Charges for services	-	-	-	-	-	-	-
Interest and rentals	78	493	1	-	96	-	668
Contributions	-	30	50,000	-	6,273	-	56,303
Fines and forfeitures	-	-	-	-	-	-	-
Other revenue	250	-	-	-	-	-	250
<b>TOTAL REVENUES</b>	<b>106,783</b>	<b>523</b>	<b>50,001</b>	<b>-</b>	<b>6,369</b>	<b>10,723</b>	<b>174,399</b>
<b>EXPENDITURES:</b>							
Current Operations:							
Public safety	-	8,000	-	-	-	-	8,000
Public works	-	-	-	-	-	-	-
Recreation and culture	-	-	-	-	11,304	16,070	27,374
Other governmental	-	-	-	-	-	-	-
Debt Service:							
Principal	60,000	-	-	69,000	-	-	129,000
Interest and fiscal charges	25,403	-	-	82,301	-	-	107,704
Capital outlay	9,119	-	47,797	-	-	-	56,916
<b>TOTAL EXPENDITURES</b>	<b>94,522</b>	<b>8,000</b>	<b>47,797</b>	<b>151,301</b>	<b>11,304</b>	<b>16,070</b>	<b>328,994</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>12,261</b>	<b>(7,477)</b>	<b>2,204</b>	<b>(151,301)</b>	<b>(4,935)</b>	<b>(5,347)</b>	<b>(154,595)</b>
<b>OTHER FINANCING SOURCES:</b>							
Proceeds from borrowing	-	-	-	-	-	-	-
Premium on bond	-	-	-	-	-	-	-
Transfers in	-	-	-	151,301	-	5,347	156,648
Transfers (out)	-	-	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>151,301</b>	<b>-</b>	<b>5,347</b>	<b>156,648</b>
<b>CHANGE IN FUND BALANCE</b>	<b>12,261</b>	<b>(7,477)</b>	<b>2,204</b>	<b>-</b>	<b>(4,935)</b>	<b>-</b>	<b>2,053</b>
Fund balance, beginning of year	8,844	232,476	4,998	-	50,495	-	296,813
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 21,105</b>	<b>\$ 224,999</b>	<b>\$ 7,202</b>	<b>\$ -</b>	<b>\$ 45,560</b>	<b>\$ -</b>	<b>\$ 298,866</b>

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,166,712	\$ 1,221,008
Investments	53,385	53,008
Accounts receivable	100,524	104,681
Allowance for uncollectible accounts	-	-
Non-current Assets:		
Investment in Wastewater Treatment Facility	3,522,359	3,628,055
Capital Assets:		
Land and construction in progress	1,339,825	551,723
Other capital assets, net of depreciation	4,190,889	4,580,957
Total Capital Assets	<u>5,530,714</u>	<u>5,132,680</u>
<b>TOTAL ASSETS</b>	<u>10,373,694</u>	<u>10,139,432</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amounts related to pension	<u>112,582</u>	<u>50,373</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>112,582</u>	<u>50,373</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	37,095	55,584
Accrued payroll	6,698	5,997
Due to other funds	-	36,230
Non-current Liabilities:		
Portion due or payable within one year		
Notes payable	62,832	61,062
Compensated absences	-	87
Portion due or payable after one year		
Notes payable	64,654	127,486
Compensated absences	1,453	841
Net pension liability	<u>1,046,365</u>	<u>904,673</u>
<b>TOTAL LIABILITIES</b>	<u>1,219,097</u>	<u>1,191,960</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred amounts related to pension	<u>-</u>	<u>-</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>		
Net investment in capital assets	8,925,587	8,572,187
Unrestricted	<u>341,592</u>	<u>425,658</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 9,267,179</u></u>	<u><u>\$ 8,997,845</u></u>

**City of Ishpeming, Michigan**

**SEWER FUND**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

For the Year Ended December 31, 2018

With Comparative Actual Amounts for the Year Ended December 31, 2017

	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES:</b>		
Charges for services	\$ 1,483,937	\$ 1,434,646
Other revenue	<u>-</u>	<u>-</u>
<b>TOTAL OPERATING REVENUES</b>	<u>1,483,937</u>	<u>1,434,646</u>
<b>OPERATING EXPENSES:</b>		
Personal services	395,262	349,055
Contractual services	562,966	583,304
Supplies	15,193	19,153
Utilities	2,263	1,816
Depreciation	390,068	398,924
Other expenses	<u>117,044</u>	<u>113,369</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>1,482,796</u>	<u>1,465,621</u>
<b>OPERATING INCOME (LOSS)</b>	<u>1,141</u>	<u>(30,975)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Interest expense	(5,468)	(7,189)
Gain/(Loss) on wastewater facility	(105,696)	(83,915)
Interest income	<u>2,913</u>	<u>2,290</u>
<b>TOTAL NON-OPERATING (EXPENSES)</b>	<u>(108,251)</u>	<u>(88,814)</u>
<b>INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS</b>	<u>(107,110)</u>	<u>(119,789)</u>
Federal sources	-	-
State sources	376,444	449,922
Transfers in	-	-
Transfers (out)	<u>-</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	269,334	330,133
Net position, beginning of year	<u>8,997,845</u>	<u>8,667,712</u>
<b>NET POSITION, END OF YEAR</b>	<u><u>\$ 9,267,179</u></u>	<u><u>\$ 8,997,845</u></u>

**City of Ishpeming, Michigan**

**SEWER FUND**

**STATEMENT OF CASH FLOWS**

For the Year Ended December 31, 2018

With Comparative Actual Amounts for the Year Ended December 31, 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from fees and charges for services	\$ 1,488,094	\$ 1,450,419
Other operating revenues	-	449,922
Cash payments to employees for services	(314,553)	(302,625)
Cash payments to suppliers for goods and services	(715,955)	(677,800)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>457,586</b>	<b>919,916</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Transfers in (out)	-	-
Increase (decrease) in due to other funds	(36,230)	36,230
<b>NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES</b>	<b>(36,230)</b>	<b>36,230</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Principal payments on debt	(61,062)	(59,341)
Interest paid on debt	(5,468)	(7,189)
Proceeds from borrowing	-	-
Cash payments for capital assets	(788,102)	(464,602)
Proceeds from sale of capital assets	-	-
Proceeds from federal and state grants for capital assets	376,444	-
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(478,188)</b>	<b>(531,132)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase) decrease in investments	(377)	(242)
Investment income	2,913	2,290
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>2,536</b>	<b>2,048</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(54,296)</b>	<b>427,062</b>
Cash and cash equivalents, beginning of year	1,221,008	793,946
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 1,166,712</b>	<b>\$ 1,221,008</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ 1,141	\$ 418,947
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	390,068	398,924
Change in assets and liabilities:		
(Increase) decrease in accounts receivable, net	4,157	15,773
Increase (decrease) in accounts payable	(18,489)	39,842
Increase (decrease) in accrued payroll	701	529
Increase (decrease) in accrued sick and vacation	525	209
Increase (decrease) in net pension liability and related	79,483	45,692
<b>NET ADJUSTMENTS</b>	<b>456,445</b>	<b>500,969</b>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 457,586</b>	<b>\$ 919,916</b>

**City of Ishpeming, Michigan**

WATER FUND

COMPARATIVE STATEMENT OF NET POSITION

December 31, 2018 and 2017

	2018	2017
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable	477,388	411,790
Allowance for uncollectible accounts	-	-
Delinquent utilities	50,725	64,686
Due from other funds	-	902
Due from other governmental units	340,400	54,000
Non-current Assets:		
Cash and cash equivalents - restricted	1,181,771	784,321
Investment in Joint Water Authority	3,507,323	3,507,323
Capital Assets:		
Land and construction in progress	9,769,012	2,524,130
Other capital assets, net of depreciation	1,696,530	1,782,642
Total Capital Assets	<u>11,465,542</u>	<u>4,306,772</u>
<b>TOTAL ASSETS</b>	<u>17,023,149</u>	<u>9,129,794</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amounts related to pension	<u>224,637</u>	<u>127,458</u>
	<u>224,637</u>	<u>127,458</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Cash overdrafts	196,362	658,313
Accounts payable	755,015	238,106
Customer deposits payable	143,095	122,970
Accrued payroll	9,851	12,048
Accrued interest	15,645	14,359
Due to other funds	-	20,230
Non-current Liabilities:		
Portion due or payable within one year		
Bonds payable	148,000	145,000
Compensated absences	-	1,490
Portion due or payable after one year		
Bonds payable	8,687,000	2,307,000
Compensated absences	8,276	7,329
Net pension liability	<u>2,197,970</u>	<u>1,932,216</u>
<b>TOTAL LIABILITIES</b>	<u>12,161,214</u>	<u>5,459,061</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred amounts related to pension	<u>-</u>	<u>19,499</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>-</u>	<u>19,499</u>
<b>NET POSITION</b>		
Net investment in capital assets	6,137,865	5,362,095
Restricted for:		
Debt service	986,233	602,630
Unrestricted (deficit)	<u>(2,037,526)</u>	<u>(2,186,033)</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 5,086,572</u></u>	<u><u>\$ 3,778,692</u></u>



**City of Ishpeming, Michigan**

**WATER FUND**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

For the Year Ended December 31, 2018

With Comparative Actual Amounts for the Year Ended December 31, 2017

	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES:</b>		
Charges for services	\$ 2,160,561	\$ 1,978,774
Other revenue	<u>4,643</u>	<u>4,004</u>
<b>TOTAL OPERATING REVENUES</b>	<u>2,165,204</u>	<u>1,982,778</u>
<b>OPERATING EXPENSES:</b>		
Personal services	727,705	702,387
Contractual services	452,400	440,141
Supplies	41,122	79,774
Utilities	10,248	11,721
Depreciation	86,112	86,193
Other expenses	<u>162,184</u>	<u>220,476</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>1,479,771</u>	<u>1,540,692</u>
<b>OPERATING INCOME (LOSS)</b>	<u>685,433</u>	<u>442,086</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Interest expense	(93,053)	(14,359)
Interest income and rentals	<u>-</u>	<u>-</u>
<b>TOTAL NON-OPERATING (EXPENSES)</b>	<u>(93,053)</u>	<u>(14,359)</u>
<b>INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS</b>	592,380	427,727
Federal sources	715,500	-
State sources	-	-
Transfers in	-	-
Transfers (out)	<u>-</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	1,307,880	427,727
Net position, beginning of year	<u>3,778,692</u>	<u>3,350,965</u>
<b>NET POSITION, END OF YEAR</b>	<u><u>\$ 5,086,572</u></u>	<u><u>\$ 3,778,692</u></u>

**City of Ishpeming, Michigan**

**WATER FUND**

**STATEMENT OF CASH FLOWS**

For the Year Ended December 31, 2018

With Comparative Actual Amounts for the Year Ended December 31, 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from fees and charges for services	\$ 2,108,924	\$ 1,906,238
Other operating revenues	(281,757)	(49,996)
Cash payments to employees for services	(581,369)	(622,453)
Cash payments to suppliers for goods and services	(127,634)	(557,884)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>1,118,164</b>	<b>675,905</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Increase (decrease) in cash overdraft	(461,951)	(630,844)
(Increase) decrease in due from other funds	902	1,614
Increase (decrease) in due to other funds	(20,230)	20,230
Transfers in (out)	-	-
<b>NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES</b>	<b>(481,279)</b>	<b>(609,000)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Principal payments on debt	(145,000)	-
Interest paid on debt	(93,053)	(14,359)
Proceeds from borrowing	6,528,000	2,452,000
Cash payments for capital assets	(7,244,882)	(1,720,225)
Proceeds from sale of capital assets	-	-
Proceeds from federal and state grants for capital assets	715,500	-
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(239,435)</b>	<b>717,416</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment income	-	-
(Increase) decrease in restricted assets	(397,450)	(784,321)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>(397,450)</b>	<b>(784,321)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>-</b>	<b>-</b>
Cash and cash equivalents, beginning of year	-	-
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ -</b>	<b>\$ -</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ 685,433	\$ 442,086
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	86,112	86,193
Change in assets and liabilities:		
(Increase) decrease in accounts receivable, net	(51,637)	(72,536)
(Increase) decrease in due from other governmental units	(286,400)	(54,000)
Increase (decrease) in accounts payable	516,909	163,294
Increase (decrease) in customer deposits payable	20,125	16,575
Increase (decrease) in accrued payroll	(2,197)	(2,101)
Increase (decrease) in accrued interest	1,286	14,359
Increase (decrease) in accrued sick and vacation	(543)	(12,419)
Increase (decrease) in net pension liability and related	149,076	94,454
<b>NET ADJUSTMENTS</b>	<b>432,731</b>	<b>233,819</b>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 1,118,164</b>	<b>\$ 675,905</b>

City of Ishpeming, Michigan

INTERNAL SERVICE FUNDS

The function of the Internal Service Funds is to account for funds that are used to finance, administer and account for the financing of goods and services provided by one department or agency to other departments or agencies of the governmental unit or to other governmental units on a cost reimbursement basis.

MOTOR POOL FUND to operate as a self-supporting fund, and will be responsible for the maintenance and purchasing of vehicles and equipment utilized in various departments of the City.

**City of Ishpeming, Michigan**

**MOTOR POOL FUND**

**COMPARATIVE STATEMENT OF NET POSITION**

December 31, 2018 and 2017

	2018	2017
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 322,922	\$ -
Due from other funds	-	30,000
Non-current Assets:		
Capital Assets:		
Land and construction in progress	-	-
Other capital assets, net of depreciation	451,096	-
Total Capital Assets	<u>451,096</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>774,018</u>	<u>30,000</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amounts related to pension	<u>63,740</u>	<u>-</u>
	<u>63,740</u>	<u>-</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	13,909	-
Accrued payroll	3,642	-
Due to other funds	-	-
Non-current Liabilities:		
Portion due or payable within one year		
Compensated absences	187	-
Portion due or payable after one year		
Compensated absences	12,346	-
Net pension liability	<u>104,060</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>134,144</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred amounts related to pension	<u>18,053</u>	<u>-</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>18,053</u>	<u>-</u>
<b>NET POSITION</b>		
Net investment in capital assets	451,096	-
Restricted	-	-
Unrestricted (deficit)	<u>234,465</u>	<u>30,000</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 685,561</u></u>	<u><u>\$ 30,000</u></u>

**City of Ishpeming, Michigan**

**MOTOR POOL FUND**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

For the Year Ended December 31, 2018

With Comparative Actual Amounts for the Year Ended December 31, 2017

	2018	2017
<b>OPERATING REVENUES:</b>		
Federal sources	\$ -	\$ -
State sources	-	-
Rentals	679,354	-
Charges for services	-	-
Other revenue	-	-
<b>TOTAL OPERATING REVENUES</b>	<b>679,354</b>	<b>-</b>
<b>OPERATING EXPENSES:</b>		
Personal services	298,363	-
Contractual services	11,580	-
Supplies	210,373	-
Depreciation	100,297	-
Other expenses	-	-
<b>TOTAL OPERATING EXPENSES</b>	<b>620,613</b>	<b>-</b>
<b>OPERATING INCOME (LOSS)</b>	<b>58,741</b>	<b>-</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Interest income	427	-
<b>TOTAL NON-OPERATING (EXPENSES)</b>	<b>427</b>	<b>-</b>
<b>INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS</b>	<b>59,168</b>	<b>-</b>
Transfers in	45,000	30,000
Transfers (out)	-	-
<b>CHANGE IN NET POSITION</b>	<b>104,168</b>	<b>30,000</b>
Net position, beginning of year, as restated	581,393	-
<b>NET POSITION, END OF YEAR</b>	<b>\$ 685,561</b>	<b>\$ 30,000</b>

**City of Ishpeming, Michigan**

**MOTOR POOL FUND**

**STATEMENT OF CASH FLOWS**

For the Year Ended December 31, 2018

With Comparative Actual Amounts for the Year Ended December 31, 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from fees and charges for services	\$ -	\$ -
Other operating revenues	679,354	-
Cash payments to employees for services	(223,815)	-
Cash payments to suppliers for goods and services	(208,044)	-
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>247,495</u>	<u>-</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
(Increase) decrease in due from other funds	30,000	(30,000)
Increase (decrease) in due to other funds	-	-
Transfers in (out)	45,000	30,000
<b>NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES</b>	<u>75,000</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Cash payments for capital assets	-	-
Proceeds from sale of capital assets	-	-
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment income	427	-
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>427</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	322,922	-
Cash and cash equivalents, beginning of year	-	-
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 322,922</u></u>	<u><u>\$ -</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ 58,741	\$ -
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	100,297	-
Change in assets and liabilities:		
Increase (decrease) in accounts payable	13,909	-
Increase (decrease) in accrued payroll	3,642	-
Increase (decrease) in accrued sick and vacation	12,533	-
Increase (decrease) in net pension liability and related	58,373	-
<b>NET ADJUSTMENTS</b>	<u>188,754</u>	<u>-</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u><u>\$ 247,495</u></u>	<u><u>\$ -</u></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, 2018

	<b>Agency Funds</b>		
	<b>Trust &amp; Agency Fund</b>	<b>Tax Collection Fund</b>	<b>Totals</b>
<b>ASSETS</b>			
Cash and equivalents	\$ 14,788	\$ 888,410	\$ 903,198
Taxes receivable	-	2,333,233	2,333,233
Due from other governments	-	-	-
Due from other funds	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 14,788</b>	<b>\$ 3,221,643</b>	<b>\$ 3,236,431</b>
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	1,518	-	1,518
Due to others	13,270	3,698	16,968
Due to other governmental units	-	3,221,643	3,221,643
<b>TOTAL LIABILITIES</b>	<b>\$ 14,788</b>	<b>\$ 3,225,341</b>	<b>\$ 3,240,129</b>



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, 2018 and 2017

	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 173,044	\$ 245,892
Investments	270,116	268,242
Accounts receivable, net	-	-
Taxes receivable	195,751	123,784
Other receivable	-	-
Due from other governments	-	-
Primary government internal balances	595,955	633,202
Prepaid expenditures	-	-
Notes receivable	-	-
<b>TOTAL ASSETS</b>	<b>1,234,866</b>	<b>1,271,120</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>-</b>	<b>-</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 1,234,866</b>	<b>\$ 1,271,120</b>
<b>LIABILITIES</b>		
Cash overdrafts	\$ -	\$ -
Accounts payable	-	-
Due to comp unit	-	-
Accrued payroll	245	418
Accrued sick and vacation leave	-	-
Accrued liabilities	-	-
Unearned revenue	2,250	3,600
Due to other funds	-	-
<b>TOTAL LIABILITIES</b>	<b>2,495</b>	<b>4,018</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Taxes levied for a subsequent period	236,809	223,244
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>236,809</b>	<b>223,244</b>
<b>FUND BALANCE</b>		
Non-spendable	595,955	633,202
Restricted	250,000	250,000
Committed	-	50,000
Assigned	-	-
Unassigned	149,607	110,656
<b>TOTAL FUND BALANCE</b>	<b>995,562</b>	<b>1,043,858</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	<b>\$ 1,234,866</b>	<b>\$ 1,271,120</b>

**City of Ishpeming, Michigan**

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

December 31, 2018

**Total Fund Balances for Downtown Development Authority** **\$ 995,562**

*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 treasurers	\$ -	
Other capital assets, net of depreciation	<u>1,855,610</u>	1,855,610

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	(159,600)	
Accrued interest on debt	(25,034)	
Bonds payable	<u>(1,508,600)</u>	<u>(1,693,234)</u>

**NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ 1,157,938**

**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, 2018

With Comparative Actual Amounts for the Year Ended December 31, 2017

	2018				
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	2017
<b>REVENUES:</b>					
Taxes	\$ 222,580	\$ 222,964	\$ 222,999	\$ 35	\$ 250,459
Federal sources	-	-	-	-	-
State sources	-	-	-	-	-
Interest income and rentals	1,400	2,135	2,290	155	1,589
Contributions	4,000	5,132	5,442	310	2,050
Other revenue	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>227,980</b>	<b>230,231</b>	<b>230,731</b>	<b>500</b>	<b>254,098</b>
<b>EXPENDITURES:</b>					
Other governmental	27,190	77,380	73,712	3,668	35,936
Debt service:					
Principal	126,490	126,490	126,490	-	118,110
Interest and fiscal charges	79,073	79,033	78,825	208	82,856
Total Debt Service	<u>205,563</u>	<u>205,523</u>	<u>205,315</u>	<u>208</u>	<u>200,966</u>
<b>TOTAL EXPENDITURES</b>	<b>232,753</b>	<b>282,903</b>	<b>279,027</b>	<b>3,876</b>	<b>236,902</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(4,773)</b>	<b>(52,672)</b>	<b>(48,296)</b>	<b>4,376</b>	<b>17,196</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from sale of capital assets	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN FUND BALANCE</b>	<b>(4,773)</b>	<b>(52,672)</b>	<b>(48,296)</b>	<b>4,376</b>	<b>17,196</b>
Fund balance, beginning of year	1,043,858	1,043,858	1,043,858	-	1,026,662
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 1,039,085</b>	<b>\$ 991,186</b>	<b>\$ 995,562</b>	<b>\$ 4,376</b>	<b>\$ 1,043,858</b>

**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, 2018

**Net Change in Fund Balances - Total Governmental Funds** \$ (48,296)

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

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

Capital outlays	\$ -	
Depreciation expense	(113,417)	
Net book value of disposed assets	<u>-</u>	(113,417)

Repayment of principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	126,490
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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.	-
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	1,779
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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.	<u>-</u>
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<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$ (33,444)</u></u></b>
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## **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 (the City), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 20, 2019.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Report to Management as items 2018-001 and 2018-002.

## **City of Ishpeming, Michigan's Response to Findings**

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

## **Purpose of this Report**

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

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

May 20, 2019





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

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Ishpeming, Michigan's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2018. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

To the City Council of the  
City of Ishpeming, Michigan

### ***Opinion on Each Major Federal Program***

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

### **Report on Internal Control over Compliance**

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

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

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

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

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

May 20, 2019

**City of Ishpeming, Michigan**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the year ended December 31, 2018

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	Current Year Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Direct Award</i>			
Water and Waste Disposal Systems for Rural Communities			
Loan Portion	10.760	\$ 8,980,000	\$ 6,528,000
Grant Portion	10.760	<u>3,020,000</u>	<u>715,500</u>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>		<b><u>12,000,000</u></b>	<b><u>7,243,500</u></b>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>		<b><u>\$ 12,000,000</u></b>	<b><u>\$ 7,243,500</u></b>

## **CITY OF ISHPEMING, MICHIGAN**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended December 31, 2018**

#### **NOTE A – BASIS OF PRESENTATION:**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Ishpeming, Michigan (the City) for the year ended December 31, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

#### **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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

#### **NOTE C – OVERSIGHT AGENCY:**

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

**CITY OF ISHPEMING, MICHIGAN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year December 31, 2018**

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

**General Purpose Financial Statements**

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

**Federal Awards**

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

**Major Programs**

- The programs tested as a major program were:

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

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

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**INSTANCES OF NON-COMPLIANCE**

**2018-001 – UNRESTRICTED DEFICIT NET POSITION (REPEAT)**

**Condition/Criteria:** Public Act 275 of 1980 requires that a corrective action plan for the deficit to be filed with the State Treasurer within 90 days of the end of the fiscal year. As enumerated upon in the notes to the financial statements, at the end of the fiscal year, the City of Ishpeming, Michigan had an unrestricted equity deficit of \$2,037,526 in the Water Fund. As of this time, the City of Ishpeming, Michigan has filed a plan with the State Treasurer.

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

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

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

**CITY OF ISHPEMING, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**For the Year December 31, 2018**

**SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)**

**Management Response – Corrective Action Plan:**

- Contact Person(s) Responsible for Correction:
  - Finance Director
- Corrective Action Planned:
  - See separate Corrective Action Plan.
- Anticipated Completion Date:
  - December 31, 2020

**2018-002 – EXPENDITURES OVER APPROPRIATIONS**

**Condition/Criteria:** Public Act 621 of 1978, Section 18 (1) as amended, provides that local governmental units shall not incur expenditures in excess of the amount appropriated. The City's actual expenditures and budgeted expenditures for the Governmental Funds have been shown on a functional basis. The approved budgets of these funds were adopted on an activity and/or program level. During the year ended December 31, 2018, the City incurred functional expenditures which were in excess of the amounts appropriated in the Major Street Fund as enumerated upon in the notes to the financial statements.

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

**Effect:** The City is not in compliance with State law.

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

**Management Response – Corrective Action Plan:**

- Contact Person(s) Responsible for Correction:
  - Finance Director
- Corrective Action Planned:
  - See separate Corrective Action Plan.
- Anticipated Completion Date:
  - December 31, 2019

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

- None reported.

**CITY OF ISHPEMING, MICHIGAN**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**For the year December 31, 2018**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**INSTANCES OF NON-COMPLIANCE**

**2017-001 – UNRESTRICTED DEFICIT NET POSITION (REPEAT)**

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

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

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

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

**Management Response – Corrective Action Plan:**

- Contact Person(s) Responsible for Correction:
  - Finance Director
- Corrective Action Planned:
  - See separate Corrective Action Plan.
- Anticipated Completion Date:
  - December 31, 2020

**Status:** Repeated; refer to current year finding 2018-001.

**2017-002 – ACT 345 PENSION CONTRIBUTIONS**

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

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

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

**Recommendation:** The City should contribute the \$8,238 from the General Fund for fiscal year 2017 to the pension plan as soon as possible. Additionally, the City should review the calculation for fiscal year 2018 to ensure that the amount of the taxes collected will be sufficient to make the

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

**SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)**

employer's 2018 contribution amount. If the amount levied is not sufficient, the City should budget for and make the appropriate contribution to the pension plan from the General Fund.

**Management Response – Corrective Action Plan:**

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

**Status:** Corrected.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

- None.





## CITY OF ISHPERING, MICHIGAN

100 East Division Street • Ishpeming, Michigan 49849

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

### *Corrective Action Plan*

For the year December 31, 2018

May 20, 2019

In response to the findings disclosed in the audited financial statements for the year ended December 31, 2018:

#### **2018-001 – UNRESTRICTED DEFICIT NET POSITION (REPEAT)**

##### **Corrective Action Plan:**

As identified in the notes to the financial statements (Note AB), the City of Ishpeming has a deficit in the Water Fund that requires filing a deficit elimination plan. The deficit was originally identified in 2015, and the City of Ishpeming has been providing the Michigan Department of Treasury with annual updates to its five-year deficit elimination plan. The Water Fund's deficit elimination plan calls for elimination of the deficit in the year 2020, and management continues to believe the deficit will be eliminated within that time frame.

#### **2018-002 – EXPENDITURES OVER APPROPRIATIONS**

##### **Corrective Action Plan:**

The City of Ishpeming reviews and amends its budget throughout the course of the year as required by Public Act 621, the Uniform Budgeting and Accounting Act. The final 2018 budget amendments were approved by the city council on December 5, 2018; however, the final budget amendment estimates for Winter Maintenance in the Major Street Fund did not account for the above-average level of snowfall experienced during the month of December 2018. Management will continue its process of reviewing and amending the budget, and will strive for more accurate estimates in order to avoid future violations of Public Act 621.

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

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

## **COMMUNICATIONS SECTION**



***City of Ishpeming, Michigan***  
***Report to Management***  
For the Year Ended December 31, 2018

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

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ishpeming, Michigan (the City) as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control listed in the schedule of findings and questioned costs to be significant deficiencies, (items 2018-001 and 2018-002).

The City's written response to the significant deficiencies identified in our audit is disclosed in the accompanying Corrective Action Plan and 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

May 20, 2019



***City of Ishpeming, Michigan***  
***Communication with Those Charged with Governance***  
***For the Year Ended December 31, 2018***

May 20, 2019

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ishpeming, Michigan (the City) for the year ended December 31, 2018. 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 November 30, 2018. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Findings**

***Qualitative Aspects of Accounting Practices***

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

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

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

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

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

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

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

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

Management's estimate of the net book value of fixed assets transferred to the Motor Pool Fund at the beginning of the year is based on historical cost and estimated useful lives of the vehicles and equipment included in the City's general fixed asset account group lapse schedule. The fixed asset lapse schedule was reviewed by management for vehicle and equipment items that were now being utilized by the Motor Pool Fund. We evaluated the key factors and assumptions used to develop the net book value used to record the prior period adjustment, in determining that it is reasonable in relation to the financial statements taken as a whole.

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

The disclosure of Defined Benefit Retirement Plan in the Notes to the financial statements includes significant actuarial assumptions used in calculating the valuation. CBIZ Retirement Plan Services was the actuarial company hired for preparation of the annual actuarial valuation. The disclosures made in the notes to the financial statements 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 the notes to the financial statements 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 notes to the financial statements were based on information included their report as of December 31, 2017. The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

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

#### *Corrected and Uncorrected Misstatements*

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

#### *Disagreements with Management*

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

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated May 20, 2019.

#### *Management Consultations with Other Independent Accountants*

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

### *Other Audit Findings or Issues*

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

Our consideration of internal control was for the limited purpose described in an accompanying letter and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did not identify certain deficiencies in internal control that we consider to be significant deficiencies.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, described in the accompanying schedule of findings and questioned costs (items 2018-001 and 2018-002).

### Other Matters

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

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

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



City Council of the  
City of Ishpeming, Michigan

Restriction on Use

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

Very truly yours,

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants