

CITY OF ISHPEMING, MICHIGAN
FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

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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, 2016, 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, 2016, 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, budgetary comparison and analyses of funding progress information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ishpeming, Michigan's basic financial statements. The other financial information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other financial information is the responsibility of management and was derived from and relates 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 is fairly stated in all material respects in relation to the basic financial statements as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the City of Ishpeming, Michigan's basic financial statements for the year ended December 31, 2015, 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 of Ishpeming, Michigan's basic financial statements as a whole. The major governmental funds budgetary comparison schedules and the enterprise funds comparative statement of net position, statement of revenues, expenditures and changes in net position and statement of cash flows related to the 2015 financial statements for the year ended December 31, 2015, 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 2015 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 2015 major governmental funds budgetary comparison schedules and the enterprise funds comparative statement of net position, statement of revenues, expenditures and changes in net position and statement of cash flows are fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2017, on our consideration of the City of Ishpeming, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Ishpeming, Michigan's internal control over financial reporting and compliance.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

June 28, 2017

City of Ishpeming, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the City of Ishpeming, Michigan's financial performance provides an overview of the City's financial activities for the year ended December 31, 2016. Please read it in conjunction with the financial statements included below.

FINANCIAL HIGHLIGHTS

- Net position for the City as a whole increased by \$338,780 as a result of this year's operations. Net position of our business-type activities decreased by (\$51,678) or 0.4 percent, and net position of our governmental activities increased by \$390,458 or 3 percent.
- During the year, the City had expenses for governmental activities that were \$5,681,816 and generated \$6,072,274 in general revenues and other program sources.
- The City's business-type activities had expenses of \$3,015,483 and generated \$2,963,805 in revenues.
- The general fund reported a net change in fund balance of \$121,336. This is \$417,144 higher than the forecasted decrease of \$295,808.

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, 2016 and 2015.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$5,828,508	\$6,412,555	\$579,676	\$979,157	\$6,408,184	\$7,391,712
Non-current assets	56,617	56,617	7,219,293	7,295,648	7,275,910	7,352,265
Capital assets, net	18,962,719	17,847,749	7,739,742	6,775,780	26,702,461	24,623,529
Total Assets	24,847,844	24,316,921	15,538,711	15,050,585	40,386,555	39,367,506
Deferred outflows of resources	1,303,567	762,351	296,960	211,008	1,600,527	973,359
Current and other liabilities	904,835	1,168,132	711,777	179,060	1,616,612	1,347,192
Long-term liabilities	10,028,753	9,386,398	3,048,749	3,012,178	13,077,502	12,398,576
Total Liabilities	10,933,588	10,554,530	3,760,526	3,191,238	14,694,114	13,745,768
Deferred inflows of resources	3,021,306	2,718,683	56,468	-	3,077,774	2,718,683
Net Position:						
Net investment in capital assets	15,852,119	14,690,799	14,711,146	13,765,870	30,563,265	28,456,669
Restricted	1,569,865	1,796,220	-	-	1,569,865	1,796,220
Unrestricted	(5,225,467)	(4,680,960)	(2,692,469)	(1,695,515)	(7,917,936)	(6,376,475)
Total Net Position	\$12,196,517	\$11,806,059	\$12,018,677	\$12,070,355	\$24,215,194	\$23,876,414

Net position of the City's governmental activities stood at \$12,196,517. *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 (\$5,225,467).

The (\$5,225,467) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The net position of our business-type activities stood at \$12,018,677. The City can generally only use these net positions to finance continuing operations of the water and sewer systems.

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

The results of this year's operations for the City as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net position for fiscal year 2016 and 2015.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Program Revenues:						
Charges for services	\$1,290,391	\$1,245,434	\$2,962,268	\$2,835,426	\$4,252,659	\$4,080,860
Operating grants and contributions	1,764,226	860,569	-	-	1,764,226	860,569
Capital grants and contributions	-	-	-	-	-	-
General Revenues:						
Property taxes	2,057,403	2,026,581	-	-	2,057,403	2,026,581
Unrestricted intergovernmental	818,817	806,208	-	-	818,817	806,208
Investment earnings	38,923	18,504	1,537	1,612	40,460	20,116
Fines and forfeitures	46,066	58,054	-	-	46,066	58,054
Miscellaneous	56,448	130,408	-	-	56,448	130,408
Gain/(loss) on sale of assets	-	-	-	-	-	-
Total Revenues	6,072,274	5,145,758	2,963,805	2,837,038	9,036,079	7,982,796
Program Expenses:						
Legislative	15,468	13,966	-	-	15,468	13,966
General government	1,719,846	1,466,604	-	-	1,719,846	1,466,604
Public safety	1,001,424	810,528	-	-	1,001,424	810,528
Public works	1,869,408	2,343,643	-	-	1,869,408	2,343,643
Community and economic development	21,912	13,968	-	-	21,912	13,968
Recreation and culture	402,688	481,403	-	-	402,688	481,403
Other governmental	1,148	120,366	-	-	1,148	120,366
Capital outlay	546,572	39,503	-	-	546,572	39,503
Interest on long-term debt	103,350	109,614	-	-	103,350	109,614
Sewer	-	-	1,504,240	1,012,915	1,504,240	1,012,915
Water	-	-	1,511,243	1,642,142	1,511,243	1,642,142
Total Expenses	5,681,816	5,399,595	3,015,483	2,655,057	8,697,299	8,054,652
Excess (deficiency) before transfers	390,458	(253,837)	(51,678)	181,981	338,780	(71,856)
Transfers in (out)	-	-	-	-	-	-
Increase (decrease) in net position	390,458	(253,837)	(51,678)	181,981	338,780	(71,856)
Net Position, Beginning	11,806,059	12,059,896	12,070,355	11,888,374	23,876,414	23,948,270
Net Position, Ending	\$12,196,517	\$11,806,059	\$12,018,677	\$12,070,355	\$24,215,194	\$23,876,414

The City's total revenues were \$9,036,079; the total cost of all programs and services was \$8,697,299 leaving an increase in net position of \$338,780. Our analysis below separately considers the operations of governmental and business-type activities:

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

Governmental Activities

Government activities net position increased by \$390,458. This overall increase was due to a change in combined governmental fund balance of (\$325,326), changes in general fixed assets of \$1,114,971, proceeds from borrowing of (\$234,900), principal payments on debt of \$153,060, a change in accrued interest of (\$3,657), adjustments due to amortization of deferred amounts on bond of (\$1,111), pension liability expense of (\$170,775) related to MERS, pension liability expense related to the Police and Fire Retirement System of (\$163,576), and a change in compensated absences of \$21,772.

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	\$1,719,846	\$1,539,184
Public Safety	1,001,424	990,803
Public Works	1,869,408	(899,394)

Business-type Activities

Business-type activities net position decreased by \$51,678. The Sewer Fund and the Water Fund experienced a change in net position of (\$92,501) and \$40,823, respectively, resulting in a net decrease in Business-Type Activities of \$51,678.

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 \$2,966,608, a decrease of \$325,326 from the beginning of the year.

The combined fund balance decrease of \$325,326 was due to an increase in the fund balance of General Fund, offset by decreases in the fund balances of the Major Street Fund, Local Street Fund, Garbage & Rubbish Fund, Public Improvement Fund and Facilities Improvement Fund, and other governmental funds. The decrease is primarily attributable to management closely monitoring expenditures in the General Fund resulting in net income to the General Fund of \$121,336 offset against a purposeful spend down of fund balance in the Garbage & Rubbish Fund of (\$93,614) and Carnegie Library renovations from the Library Fund that resulted in a net loss of (\$94,454).

General Fund Budgetary Highlights

General Fund expenses were \$194,350 less than the final budget because Legislative expenses were \$6,082 less than the final budget; General government expenses were \$47,220 less than the final budget; Public Safety was \$18,968 less than the final budget; Public Works was \$101,815 less than the final budget; Community and economic development was \$688 less than the final budget; and Recreation and Culture was \$19,577 less than the final budget.

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

General Fund revenues were \$41,223 more than the final revenue budget mainly due to interest income and rentals being \$43,895 more than anticipated. In addition, all other categories were \$2,672 less than anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2016, the City had \$26,702,461 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)

	2016			2015 Total
	Governmental Activities	Business-type Activities	Total	
Land	\$1,273,779	\$10,888	\$1,284,667	\$1,270,030
Historical treasures	135,275	-	135,275	135,275
Construction in progress	50,169	880,138	930,307	2,026,376
Buildings and improvements	4,042,432	31,104	4,073,536	2,236,112
Land improvements	2,905,270	-	2,905,270	3,000,062
Equipment and vehicles	587,487	308,591	896,078	995,811
Infrastructure	9,968,307	-	9,968,307	8,750,926
Sewer system and equipment	-	4,643,220	4,643,220	4,788,863
Water system and equipment	-	1,865,801	1,865,801	1,420,074
Total	<u>\$18,962,719</u>	<u>\$7,739,742</u>	<u>\$26,702,461</u>	<u>\$24,623,529</u>

In 2016, the City's major capital additions included the improvements related to the library, concluded construction projects for remodeling City Hall and DPW, the purchase of a mower and blade, the purchase of a paint stripe machine, concluded the round-a-bout project, and costs related to a future 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 \$3,273,089 in bonds and notes outstanding as depicted in Table 5 below.

Table 5
Outstanding Debt at Year-End

	2016			2015 Total
	Governmental Activities	Business-type Activities	Total	
Bonds	\$2,950,200	\$-	\$2,950,200	\$2,848,360
Contracts and notes payable	75,000	247,889	322,889	400,558
Total	<u>\$3,025,200</u>	<u>\$247,889</u>	<u>\$3,273,089</u>	<u>\$3,248,918</u>

During the year the City made draws on its USDA loans totaling \$234,900. During the year the City made principal payments on debt totaling \$210,729.

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City of Ishpeming is nearing the end of a multi-year process to close on an \$8,980,000 low-interest loan from the United States Department of Agriculture – Rural Development (RD) to improve the aging water system. RD has also awarded the City of Ishpeming a \$3,020,000 grant to bring the total project budget to \$12 million. The City of Ishpeming plans on breaking ground on this project in July 2017 and anticipates the project to be completed by the end of 2018. As of the date of this report, the City of Ishpeming has advanced approximately \$790,000 in project costs that will be reimbursed to the City of Ishpeming upon closing on the RD loan. The closing with RD is anticipated to take place in July 2017.

The Carnegie Library is continuing with its multi-year renovations, which are being paid for with donations raised from our generous community. The pillar renovation project that began in 2016 is slated to be finalized during 2017 at a cost of \$9,000. Future improvements to the Carnegie Library being discussed include roof repairs to prevent water penetration and tuck-pointing the building.

The City of Ishpeming continues a proactive approach to dealing with financial challenges as a means to improve its overall financial position. The City of Ishpeming is continuing to work with Marquette County Equalization to re-assess the property within the City of Ishpeming, beginning with commercial properties, to ensure the City of Ishpeming is adequately valuing and taxing the properties. This project is on-going with an anticipated completion date of 2018.

As identified in the notes to the financial statements (Note Z), 2016 was the second year of a multi-year deficit elimination plan for the City of Ishpeming Water Fund. The deficit elimination plan filed for 2015, the initial year of deficit, was approved by the Michigan Department of Treasury. This deficit elimination plan anticipated a reported deficit of \$1,117,187 as of December 31, 2016. The actual reportable deficit in the Water Fund as of December 31, 2016 is \$1,078,057, which is \$39,103 better than estimated in the deficit elimination plan. The City of Ishpeming will continue to file with the Michigan Department of Treasury an annual update to the Water Fund deficit elimination plan as required by law. The City of Ishpeming has five years from the year in which the deficit was originally reported to eliminate the deficit, and management believes the deficit will be eliminated within that time period.

Management is working on plans to replace the City of Ishpeming's aging equipment. In 2017, the council approved the purchase of a new front end loader for the Department of Public Works at an approximate cost of \$130,000, along with another \$100,000 to purchase three pickup trucks. The City of Ishpeming is planning on establishing an equipment fund by capturing equipment rental rates to fund future equipment purchases. The City of Ishpeming is also placing a millage request before the voters at the August 2017 election in order to fund the purchase of a fire truck at an estimated cost of \$850,000.

Management is working in coordination with the community to spur economic development within the City. In March 2017, the City of Ishpeming approved a PILOT ordinance for the Jasperlite Senior Living project, which will be a \$5.3 million project to bring 36 ADA compliant senior housing units to the City of Ishpeming at the site of the former hospital located near the downtown district. The Anderson Building, a historic brick and sandstone building located on the city's Main Street in the heart of the downtown, was recently purchased by local entrepreneurs who are committed to its restoration and revitalization. An urban farm has been established in downtown Ishpeming that states its mission "is dedicated to improving local access to fresh produce, building a healthy community, and promoting education on sustainable food systems." Additional economic development projects are pending.

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

The City of Ishpeming is continuing its work, in conjunction with Marquette County, on eliminating blight issues and unsafe buildings in order to improve the overall look of the community. Along those lines, The City of Ishpeming beautification initiative continues to flourish with the help of volunteers and support from the community. These are just several of the many exciting changes taking place within the City of Ishpeming.

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 network 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 mountain biking destination. Also, during February 2017, the City of Ishpeming hosted its first U. S. Ski & Snowboard Association (USSA) SuperTour event. The success of that event led to the USSA recently announcing the City of Ishpeming will host a second SuperTour event in February 2018.

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, 2016

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Unit
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 2,747,560	\$ -	\$ 2,747,560	\$ 144,585
Investments	924,207	52,766	976,973	266,920
Receivables, net	2,159,257	524,394	2,683,651	196,404
Primary government internal balances	(2,516)	2,516	-	-
Due from primary government	-	-	-	670,449
Prepaid expenses and other assets	-	-	-	-
Non-current Assets:				
Long-term receivables	56,617	-	56,617	-
Investment in Wastewater Treatment Facility	-	3,711,970	3,711,970	-
Investment in Joint Water Authority	-	3,507,323	3,507,323	-
Capital assets:				
Land, construction in progress and other non-depreciable assets	1,459,223	891,026	2,350,249	-
Other capital assets, net of depreciation	17,503,496	6,848,716	24,352,212	2,082,445
Total Capital Assets	18,962,719	7,739,742	26,702,461	2,082,445
TOTAL ASSETS	24,847,844	15,538,711	40,386,555	3,360,803
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amounts related to pension	1,114,839	296,960	1,411,799	-
Contributions subsequent to measurement date	188,728	-	188,728	-
Deferred amounts on refunding	-	-	-	-
Premium on investment	-	-	-	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,303,567	296,960	1,600,527	-
LIABILITIES				
Current Liabilities:				
Cash overdrafts	-	495,211	495,211	-
Accounts payable	120,640	90,554	211,194	156
Due to component unit	670,449	-	670,449	-
Customer deposits payable	-	106,395	106,395	-
Accrued liabilities	86,591	19,617	106,208	1,041
Accrued interest	27,155	-	27,155	29,458
Non-current Liabilities:				
Portion due or payable within one year:				
Notes payable	25,000	59,341	84,341	-
Bonds payable	136,890	-	136,890	118,110
Compensated absences	11,158	1,670	12,828	-
Portion due or payable after one year:				
Notes payable	50,000	188,548	238,548	-
Bonds payable	2,798,300	-	2,798,300	1,794,690
Compensated absences	200,879	20,287	221,166	-
Net pension liability	6,806,526	2,778,903	9,585,429	-
TOTAL LIABILITIES	10,933,588	3,760,526	14,694,114	1,943,455
DEFERRED INFLOWS OF RESOURCES				
Taxes levied for a subsequent period	2,029,679	-	2,029,679	250,499
Transportation appropriation	-	-	-	-
Deferred amounts related to pension	991,627	56,468	1,048,095	-
Discount on investment	-	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	3,021,306	56,468	3,077,774	250,499
NET POSITION				
Net investment in capital assets	15,852,119	14,711,146	30,563,265	169,645
Restricted	1,569,865	-	1,569,865	920,449
Unrestricted	(5,225,467)	(2,692,469)	(7,917,936)	76,755
TOTAL NET POSITION	\$ 12,196,517	\$ 12,018,677	\$ 24,215,194	\$ 1,166,849

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

City of Ishpeming, Michigan

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

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			Component Unit
					Governmental Activities	Business-type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 15,468	\$ -	\$ -	\$ -	\$ (15,468)	\$ -	\$ (15,468)	\$ -
General government	1,719,846	180,662	-	-	(1,539,184)	-	(1,539,184)	-
Public safety	1,001,424	1,499	9,122	-	(990,803)	-	(990,803)	-
Public works	1,869,408	1,041,421	1,727,381	-	899,394	-	899,394	-
Community and economic development	21,912	-	-	-	(21,912)	-	(21,912)	-
Recreation and culture	402,688	56,608	27,723	-	(318,357)	-	(318,357)	-
Other governmental	1,148	10,201	-	-	9,053	-	9,053	-
Capital outlay	546,572	-	-	-	(546,572)	-	(546,572)	-
Interest on long-term debt	103,350	-	-	-	(103,350)	-	(103,350)	-
Total Governmental Activities	5,681,816	1,290,391	1,764,226	-	(2,627,199)	-	(2,627,199)	-
Business-Type Activities:								
Sewer	1,504,240	1,410,202	-	-	-	(94,038)	(94,038)	-
Water	1,511,243	1,552,066	-	-	-	40,823	40,823	-
Total Business-Type Activities	3,015,483	2,962,268	-	-	-	(53,215)	(53,215)	-
TOTAL PRIMARY GOVERNMENT	\$ 8,697,299	\$ 4,252,659	\$ 1,764,226	\$ -	(2,627,199)	(53,215)	(2,680,414)	-
Component Unit:								
Downtown Development Authority	\$ 299,936	\$ -	\$ 100	\$ -	-	-	-	(299,936)
General Revenues:								
Taxes:								
Property taxes					2,057,403	-	2,057,403	251,982
Unrestricted intergovernmental sources					818,817	-	818,817	-
Interest and investment earnings					38,923	1,537	40,460	2,103
Fines and Forfeitures					46,066	-	46,066	-
Miscellaneous					56,448	-	56,448	-
Gain/(loss) on sale of assets					-	-	-	-
Transfers					-	-	-	-
TOTAL GENERAL REVENUES & TRANSFERS					3,017,657	1,537	3,019,194	254,085
CHANGE IN NET POSITION					390,458	(51,678)	338,780	(45,751)
Net position, beginning of year					11,806,059	12,070,355	23,876,414	1,212,600
NET POSITION, END OF YEAR					\$ 12,196,517	\$ 12,018,677	\$ 24,215,194	\$ 1,166,849

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

City of Ishpeming, Michigan

GOVERNMENTAL FUNDS

BALANCE SHEET

December 31, 2016

	Special Revenue				Capital Projects		Other Governmental Funds	Total Governmental Funds
	General Fund	Major Street Fund	Local Street Fund	Garbage & Rubbish Fund	Public Improvement Fund	Facilities Improvement Fund		
ASSETS								
Cash and cash equivalents	\$ 1,475,554	\$ -	\$ 154,393	\$ 423,886	\$ 535,013	\$ -	\$ 450,926	\$ 3,039,772
Investments	48,000	-	-	-	-	-	876,207	924,207
Accounts receivable, net	103,584	-	-	18,313	108	-	-	122,005
Taxes receivable	1,326,591	-	-	-	443,445	-	-	1,770,036
Other receivable	-	-	-	28,081	-	-	-	28,081
Due from other governments	140,070	67,790	26,567	-	-	-	-	234,427
Due from other funds	135,467	242,463	-	-	-	-	-	377,930
Prepaid expenses	-	-	-	-	-	-	-	-
Notes receivable	56,617	-	-	-	-	-	-	56,617
TOTAL ASSETS	3,285,883	310,253	180,960	470,280	978,566	-	1,327,133	6,553,075
DEFERRED OUTFLOWS OF RESOURCES								
Premium on investment	-	-	-	-	-	-	-	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 3,285,883	\$ 310,253	\$ 180,960	\$ 470,280	\$ 978,566	\$ -	\$ 1,327,133	\$ 6,553,075
LIABILITIES								
Cash overdrafts	\$ -	\$ 292,212	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 292,212
Accounts payable	72,442	7,554	843	18,200	21,601	-	-	120,640
Due to component unit	670,449	-	-	-	-	-	-	670,449
Accrued payroll	70,516	10,487	4,804	192	-	-	-	85,999
Accrued sick and vacation leave	11,158	-	-	-	-	-	-	11,158
Accrued liabilities	592	-	-	-	-	-	-	592
Due to other funds	2,516	-	-	-	242,463	-	130,759	375,738
TOTAL LIABILITIES	827,673	310,253	5,647	18,392	264,064	-	130,759	1,556,788
DEFERRED INFLOWS OF RESOURCES								
Taxes levied for a subsequent period	1,521,326	-	-	-	508,353	-	-	2,029,679
Transportation appropriation	-	-	-	-	-	-	-	-
Discount on investment	-	-	-	-	-	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	1,521,326	-	-	-	508,353	-	-	2,029,679
FUND BALANCE								
Non-spendable	56,617	-	-	-	-	-	988,983	1,045,600
Restricted	-	-	175,313	-	206,149	-	142,803	524,265
Committed	-	-	-	-	-	-	-	-
Assigned	33,000	-	-	451,888	-	-	64,588	549,476
Unassigned	847,267	-	-	-	-	-	-	847,267
TOTAL FUND BALANCE	936,884	-	175,313	451,888	206,149	-	1,196,374	2,966,608
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 3,285,883	\$ 310,253	\$ 180,960	\$ 470,280	\$ 978,566	\$ -	\$ 1,327,133	\$ 6,553,075

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, 2016

Total Fund Balances for Governmental Funds \$ 2,966,608

*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	\$ 1,459,223	
Other capital assets, net of depreciation	<u>17,503,496</u>	18,962,719

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

Net pension liability -		
Michigan Municipal Employees' Retirement System	(4,895,041)	
Police and Fire Retirement System	(1,911,485)	
Deferred outflows of resources related to pension -		
Michigan Municipal Employees' Retirement System	556,353	
Police and Fire Retirement System	558,486	
Employer contributions subsequent to measurement date		
Police and Fire Retirement System	188,728	
Deferred (inflows) of resources related to net pension liability		
Michigan Municipal Employees' Retirement System	(123,713)	
Police and Fire Retirement System	<u>(867,914)</u>	(6,494,586)

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	(136,890)	
Current portion of notes and contracts payable	(25,000)	
Accrued interest on debt	(27,155)	
Compensated absences	(200,879)	
Bonds payable	(2,813,310)	
Long-term contracts and notes payable	(50,000)	
Deferred amounts on bonds	15,010	
Deferred gain on refunding	<u>-</u>	<u>(3,238,224)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 12,196,517**

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, 2016

	Special Revenue				Capital Projects		Other Governmental Funds	Total Governmental Funds
	General Fund	Major Street Fund	Local Street Fund	Garbage & Rubbish Fund	Public Improvement Fund	Facilities Improvement Fund		
REVENUES:								
Taxes	\$ 1,566,721	\$ -	\$ -	\$ -	\$ 490,680	\$ -	\$ -	\$ 2,057,401
Federal sources	-	756,975	-	-	-	-	-	756,975
State sources	827,939	718,717	251,689	-	-	-	8,893	1,807,238
Licenses and permits	158,525	-	-	-	-	-	-	158,525
Charges for service	74,566	-	-	492,533	117,486	-	10,201	694,786
Interest income and rentals	436,945	9	377	709	992	-	32,861	471,893
Contributions	5,721	-	-	-	6,989	-	11,950	24,660
Fines and forfeitures	52,946	-	-	-	-	-	-	52,946
Other revenues	40,861	5,600	-	764	-	-	625	47,850
TOTAL REVENUES	3,164,224	1,481,301	252,066	494,006	616,147	-	64,530	6,072,274
EXPENDITURES:								
Current Operations:								
Legislative	15,468	-	-	-	-	-	-	15,468
General government	1,291,965	-	-	-	-	-	-	1,291,965
Public safety	791,885	-	-	-	-	-	-	791,885
Public works	640,410	1,714,636	343,030	587,620	-	-	-	3,285,696
Community and economic development	21,912	-	-	-	-	-	-	21,912
Recreation and culture	359,736	-	-	-	-	-	16,307	376,043
Other governmental	-	-	-	-	-	-	1,148	1,148
Debt service:								
Principal	-	31,020	9,240	-	48,800	-	64,000	153,060
Interest and fiscal charges	-	4,115	1,226	-	30,669	5,000	57,572	98,582
Capital outlay	-	-	-	-	226,935	263,444	106,362	596,741
TOTAL EXPENDITURES	3,121,376	1,749,771	353,496	587,620	306,404	268,444	245,389	6,632,500
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	42,848	(268,470)	(101,430)	(93,614)	309,743	(268,444)	(180,859)	(560,226)
OTHER FINANCING SOURCES (USES):								
Proceeds from borrowing	-	-	-	-	-	234,900	-	234,900
Proceeds from sale of capital assets	-	-	-	-	-	-	-	-
Transfers in	85,902	242,463	-	-	-	32,186	128,986	489,537
Transfers (out)	(7,414)	-	-	-	(396,221)	-	(85,902)	(489,537)
TOTAL OTHER FINANCING SOURCES (USES)	78,488	242,463	-	-	(396,221)	267,086	43,084	234,900
CHANGE IN FUND BALANCE	121,336	(26,007)	(101,430)	(93,614)	(86,478)	(1,358)	(137,775)	(325,326)
Fund balance, beginning of year	815,548	26,007	276,743	545,502	292,627	1,358	1,334,149	3,291,934
FUND BALANCE, END OF YEAR	\$ 936,884	\$ -	\$ 175,313	\$ 451,888	\$ 206,149	\$ -	\$ 1,196,374	\$ 2,966,608

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, 2016

Net Change in Fund Balances - Total Governmental Funds **\$ (325,326)**

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

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

Capital outlays	\$ 1,698,622	
Depreciation expense	(583,651)	
Net book value of disposed assets	<u>-</u>	1,114,971

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.		(234,900)
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Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		153,060
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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.		(3,657)
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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	(1,111)	
Current year amortization of premium on refunding	<u>-</u>	(1,111)

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	(170,775)	
Pension liability expense - Fire-Police Retirement	(163,576)	
Compensated absences	<u>21,772</u>	<u>(312,579)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 390,458</u>
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The accompanying notes are an integral part of these financial statements.

City of Ishpeming, Michigan

PROPRIETARY FUNDS

STATEMENTS OF NET POSITION

December 31, 2016

	Business-type Activities Enterprise Funds		
	Sewer Fund	Water Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 793,946	\$ -	\$ 793,946
Investments	52,766	-	52,766
Accounts receivable	120,454	357,034	477,488
Allowance for uncollectible accounts	-	-	-
Delinquent utilities	-	46,906	46,906
Due from other funds	-	2,516	2,516
Due from other governmental units	-	-	-
Non-current Assets:			
Investment in Wastewater Treatment Facility	3,711,970	-	3,711,970
Investment in Joint Water Authority	-	3,507,323	3,507,323
Capital Assets:			
Land and construction in progress	87,121	803,905	891,026
Other capital assets, net of depreciation	4,979,881	1,868,835	6,848,716
Total Capital Assets	<u>5,067,002</u>	<u>2,672,740</u>	<u>7,739,742</u>
TOTAL ASSETS	<u>9,746,138</u>	<u>6,586,519</u>	<u>16,332,657</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts related to pension	96,515	200,445	296,960
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>96,515</u>	<u>200,445</u>	<u>296,960</u>
LIABILITIES			
Current Liabilities:			
Cash overdrafts	-	1,289,157	1,289,157
Accounts payable	15,742	74,812	90,554
Customer deposits payable	-	106,395	106,395
Accrued payroll	5,468	14,149	19,617
Due to other funds	-	-	-
Non-current Liabilities:			
Portion due or payable within one year			
Notes payable	59,341	-	59,341
Compensated absences	225	1,445	1,670
Portion due or payable after one year			
Notes payable	188,548	-	188,548
Compensated absences	494	19,793	20,287
Net pension liability	<u>885,769</u>	<u>1,893,134</u>	<u>2,778,903</u>
TOTAL LIABILITIES	<u>1,155,587</u>	<u>3,398,885</u>	<u>4,554,472</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts related to pension	19,354	37,114	56,468
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>19,354</u>	<u>37,114</u>	<u>56,468</u>
NET POSITION			
Net investment in capital assets	8,531,083	6,180,063	14,711,146
Unrestricted	<u>136,629</u>	<u>(2,829,098)</u>	<u>(2,692,469)</u>
TOTAL NET POSITION	<u>\$ 8,667,712</u>	<u>\$ 3,350,965</u>	<u>\$ 12,018,677</u>

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

City of Ishpeming, Michigan

PROPRIETARY FUNDS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2016

	Business-type Activities		
	Enterprise Funds		
	Sewer Fund	Water Fund	Total
OPERATING REVENUES:			
Federal sources	\$ -	\$ -	\$ -
State sources	-	-	-
Charges for services	1,410,052	1,544,436	2,954,488
Other operating revenue	150	7,630	7,780
TOTAL OPERATING REVENUES	1,410,202	1,552,066	2,962,268
OPERATING EXPENSES:			
Personal services	313,282	586,500	899,782
Contractual services	580,294	499,292	1,079,586
Supplies	23,291	78,131	101,422
Utilities	2,088	15,031	17,119
Depreciation	394,893	73,525	468,418
Other expenses	105,176	258,764	363,940
TOTAL OPERATING EXPENSES	1,419,024	1,511,243	2,930,267
OPERATING INCOME (LOSS)	(8,822)	40,823	32,001
NON-OPERATING REVENUES (EXPENSES):			
Interest expense	(8,861)	-	(8,861)
Gain/(loss) on wastewater facility	(76,355)	-	(76,355)
Interest income and rentals	1,537	-	1,537
TOTAL NON-OPERATING REVENUES (EXPENSES)	(83,679)	-	(83,679)
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	(92,501)	40,823	(51,678)
Transfers in	-	-	-
Transfers (out)	-	-	-
CHANGE IN NET POSITION	(92,501)	40,823	(51,678)
Net position, beginning of year	8,760,213	3,310,142	12,070,355
NET POSITION, END OF YEAR	\$ 8,667,712	\$ 3,350,965	\$ 12,018,677

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, 2016

	Business-type Activities Enterprise Funds		
	Sewer Fund	Water Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from fees and charges for services	\$ 1,396,476	\$ 1,562,896	\$ 2,959,372
Other operating revenues	150	7,630	7,780
Cash payments to employees for services	(284,937)	(544,655)	(829,592)
Cash payments to suppliers for goods and services	(699,220)	(830,775)	(1,529,995)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	412,469	195,096	607,565
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Increase (decrease) in cash overdraft	-	986,795	986,795
(Increase) decrease in due to (from)	-	(2,516)	(2,516)
Transfers in (out)	-	-	-
Increase in due to other funds	-	-	-
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	-	984,279	984,279
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal payments on notes	(57,669)	-	(57,669)
Interest paid on notes	(8,861)	-	(8,861)
Proceeds from the issuance of notes	-	-	-
Cash payments for capital assets	(253,005)	(1,179,375)	(1,432,380)
Proceeds sale of capital assets	-	-	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(319,535)	(1,179,375)	(1,498,910)
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Increase) decrease in investments	(211)	-	(211)
Investment income	1,537	-	1,537
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	1,326	-	1,537
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	94,260	-	94,260
Cash and cash equivalents, beginning of year	699,686	-	699,686
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 793,946	\$ -	\$ 793,946
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (8,822)	\$ 40,823	\$ 32,001
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	394,893	73,525	468,418
Change in assets and liabilities:			
(Increase) decrease in accounts receivable, net	(13,576)	18,460	4,884
(Increase) decrease in due from other governmental units	-	-	-
Increase (decrease) in accounts payable	11,629	12,448	24,077
Increase (decrease) in customer deposits payable	-	7,995	7,995
Increase (decrease) in accrued payroll	1,801	3,633	5,434
Increase (decrease) in accrued sick and vacation	(173)	(13,022)	(13,195)
Increase (decrease) in net pension liability and related	26,717	51,234	77,951
NET ADJUSTMENTS	421,291	154,273	575,564
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 412,469	\$ 195,096	\$ 607,565

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

City of Ishpeming, Michigan

FIDUCIARY FUNDS

STATEMENTS OF FIDUCIARY NET POSITION

December 31, 2016

	Pension Trust Fund	Agency Funds
ASSETS		
Cash and equivalents	\$ 88,654	\$ 719,048
Investments	4,353,602	-
Taxes receivable	141,857	-
Other receivables	6	-
Due from other governments	-	-
Due from other funds	-	-
TOTAL ASSETS	4,584,119	\$ 719,048
DEFERRED OUTFLOWS OF RESOURCES	-	
LIABILITIES		
Due to other funds	-	\$ 4,708
Due to other governmental units	-	714,340
TOTAL LIABILITIES	-	\$ 719,048
DEFERRED INFLOWS OF RESOURCES		
Taxes levied for a subsequent period	163,358	
TOTAL DEFERRED INFLOWS OF RESOURCES	163,358	
NET POSITION		
Restricted for pension benefits	4,420,761	
TOTAL NET POSITION	\$ 4,420,761	

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, 2016

	Pension Trust Fund
ADDITIONS:	
Contributions:	
Taxes	\$ 188,728
Employee	26,124
Gifts, bequests and endowments	177
Total Contributions	<u>215,029</u>
Investment Income:	
Net appreciation (depreciation) in fair value of investments	114,348
Interest and dividends	139,666
Administrative expense	(42,757)
Net Investment Income (Loss)	<u>211,257</u>
TOTAL ADDITIONS	<u>426,286</u>
DEDUCTIONS:	
Benefits and annuity withdrawals	411,793
Refunds of contributions	19,786
Other expenditures	-
TOTAL DEDUCTIONS	<u>431,579</u>
CHANGE IN NET POSITION	(5,293)
Net position, beginning of year	<u>4,426,054</u>
NET POSITION, END OF YEAR	<u><u>\$ 4,420,761</u></u>

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

CITY OF ISHPEMING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

REPORTING ENTITY

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

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

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

BLENDED COMPONENT UNITS

Governmental Fund Type

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

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

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

DISCRETELY PRESENTED COMPONENT UNITS

Governmental Fund Type

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

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

RELATED ORGANIZATIONS

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

Summary financial information as of and for the fiscal year ended December 31, 2015, is as follows:

Total Assets	\$3,913,003
Total Liabilities	213,893
Total Net Position	3,699,110
Total Operating Revenues	742,639
Total Operating Expenses	1,165,594
Total Non-Operating Revenues(expenses)	1,563
Capital Grant Contributions	137,079
Net Increase (Decrease) in Net Position	(284,313)

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

The City reports the following major proprietary funds:

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

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

BASIS OF ACCOUNTING

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

Accrual

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

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

Modified Accrual

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

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

FINANCIAL STATEMENT AMOUNTS

Cash and Cash Equivalents

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

Investments

Investments are 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 as expenditures when incurred.

Interfund Receivables/Payables

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

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

Capital Assets

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

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

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

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

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

Deferred Outflows of Resources

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

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

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

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

Long-Term Liabilities

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

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

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

Deferred Inflows of Resources

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

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

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

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

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

Encumbrances

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

Compensated Absences

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

Equity Classification

Government-Wide Statements

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

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

Fund Statements

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

Revenues

Government-Wide Statements

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

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

Fund Statements

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

Property Taxes

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

Expenses/Expenditures

Government-Wide Statements

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

Fund Statements

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

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

Interfund Activity

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

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

Budgets and Budgetary Accounting

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

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

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

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

Use of Estimates

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

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through June 28, 2017, 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:

Cash and cash equivalents:	
Primary government	\$2,252,349
Fiduciary funds	807,702
Component unit	144,585
TOTAL REPORTING ENTITY	<u>\$3,204,636</u>

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State law does not require and the City does not have a deposit policy for custodial credit risk. As of December 31, 2016, the carrying amount of the City's deposits with financial institutions was \$3,204,636 and the bank balance

NOTE B – CASH AND EQUIVALENTS (Continued):

was \$3,425,380. Of the bank balance, \$599,940 or approximately 18% 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	\$599,940
Amount collateralized with securities held by the pledging financial institutions trust department in the City's name:	
Collateralized and uninsured	2,825,440
TOTAL REPORTING ENTITY	<u>\$3,425,380</u>

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, 2016, the City had the following investments:

	Fair Value	Investment Maturity (in Years)			
		Less Than 1	1-5	6-10	More Than 10
PRIMARY GOVERNMENT:					
CDs and money market ²	\$604,034	\$604,034	\$-	\$-	\$-
U.S. Government Agencies ¹	290,235	-	191,460	87,041	11,734
U.S. Treasury Bonds ¹	82,704	-	82,704	-	-
TOTAL PRIMARY GOVERNMENT	<u>\$976,973</u>	<u>\$604,034</u>	<u>\$274,164</u>	<u>\$87,041</u>	<u>\$11,734</u>
FIDUCIARY FUNDS:					
Mutual Equity Funds ¹	\$2,905,381	\$-	\$-	\$-	\$2,905,381
Mutual Equity Index Funds ¹	1,448,221	-	-	-	1,448,221
TOTAL FIDUCIARY	<u>\$4,353,602</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$4,353,602</u>
COMPONENT UNIT:					
CDs and money market ²	\$266,920	\$266,920	\$-	\$-	\$-
TOTAL COMPONENT UNIT	<u>\$266,920</u>	<u>\$266,920</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>

1 – Level 1 input

2 – Level 2 input

3 – Level 3 input

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.

NOTE C – INVESTMENTS (Continued):

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

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

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

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

NOTE D – ACCOUNTS RECEIVABLE AND TAXES RECEIVABLE:

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

Type	Governmental Activities	Business- Type Activities	Total Primary Government
Property taxes – current	\$1,770,036	\$-	\$1,770,036
Accounts receivable	122,005	-	122,005
Utilities receivable	28,081	477,488	505,569
Delinquent utilities receivable	-	46,906	46,906
Other receivables	-	-	-
Due from other government units	234,427	-	234,427
Receivable from fiduciary funds	4,708	-	4,708
Total	<u>\$2,159,257</u>	<u>\$524,394</u>	<u>\$2,683,651</u>

Receivable balances have been disaggregated by type and presented separately in the financial statements. Only receivables with allowances for uncollectible accounts as of December 31, 2016, including the applicable allowances for uncollectible accounts, are presented below.

Gross accounts receivable	\$185,939
Less: allowance for uncollectible accounts	<u>(63,934)</u>
Net receivable	<u>\$122,005</u>

NOTE E – LONG-TERM RECEIVABLES:

Loans made to individual businesses in the City of Ishpeming, Michigan by the Revolving Loan Fund are recorded as long-term receivables. The 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. The total outstanding amount of loans issued as of December 31, 2016 was \$56,617.

A summary of notes receivable recorded in the General Fund at December 31, 2016 is as follows:

Debtor	Balance December 31, 2016	Year of Award	Interest Rate	Terms in Years
Argall	\$56,617	2000	2.0%	15
Total	<u>\$56,617</u>			

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

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

A summary of the interfund receivables and payables at December 31, 2016 is as follows:

		DUE FROM OTHER FUNDS				
		General Fund	Major Street Fund	Other Gov'tl Funds	Water Fund	Fiduciary Funds
DUE TO OTHER FUNDS	General Fund	\$-	\$-	\$-	\$2,516	\$-
	Public Improvement Fund	-	242,463	-	-	-
	Other Gov'tl Funds	130,759	-	-	-	-
	Water Fund	-	-	-	-	-
	Fiduciary Funds	4,708	-	-	-	-
	Total Due From Other Funds	<u>\$135,467</u>	<u>\$242,463</u>	<u>\$-</u>	<u>\$2,516</u>	<u>\$-</u>
						Total Due To Other Funds
						\$380,446

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.

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

The transfers between funds for the year ended December 31, 2016 are as follows:

TRANSFERS IN FROM OTHER FUNDS								
	General Fund	Major Street Fund	Local Street Fund	Garbage & Rubbish	Facilities Improvement Funds	Other Gov'tl Funds	Enterprise Funds	Total Transfers Out to Other Funds
TRANSFERS OUT TO OTHER FUNDS								
General Fund	\$-	\$-	\$-	\$-	\$-	\$7,414	\$-	\$7,414
Major Street Fund	-	-	-	-	-	-	-	-
Garbage & Rubbish	-	-	-	-	-	-	-	-
Public Improvement	-	242,463	-	-	32,186	121,572	-	396,221
Facilities Improvement	-	-	-	-	-	-	-	-
Other Gov'tl Funds	85,902	-	-	-	-	-	-	85,902
Enterprise Funds	-	-	-	-	-	-	-	-
Total Transfers In from Other Funds	\$85,902	\$242,463	\$-	\$-	\$32,186	\$128,986	\$-	\$489,537

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

NOTE G – CAPITAL ASSETS:

A summary of the changes in governmental activities capital assets for the year ended December 31, 2016 is as follows:

	Balance January 1, 2016	Additions	Deductions	Balance December 31, 2016
GOVERNMENTAL ACTIVITIES:				
Capital assets not being depreciated:				
Land	\$1,259,142	\$14,637	\$-	\$1,273,779
Historical treasures	135,275	-	-	135,275
Construction in progress	1,847,313	50,169	(1,847,313)	50,169
Subtotal	3,241,730	64,806	(1,847,313)	1,459,223
Capital assets being depreciated:				
Buildings and improvements	10,310,001	1,959,375	-	12,269,376
Land improvements	3,211,036	-	-	3,211,036
Equipment and vehicles	5,181,006	49,795	(45,112)	5,185,689
Infrastructure	9,389,600	1,471,959	-	10,861,559
Subtotal	28,091,643	3,481,129	(45,112)	31,527,660
Total Capital Assets	31,333,373	3,545,935	(1,892,425)	32,986,883
Less accumulated depreciation:				
Buildings and improvements	(8,106,722)	(120,222)	-	(8,226,944)
Land improvements	(210,974)	(94,792)	-	(305,766)
Equipment and vehicles	(4,529,255)	(114,059)	45,112	(4,598,202)
Infrastructure	(638,674)	(254,578)	-	(893,252)
Total Accumulated Depreciation	(13,485,625)	(583,651)	45,112	(14,024,164)
CAPITAL ASSETS, NET	\$17,847,748	\$2,962,284	(\$1,847,313)	\$18,962,719

NOTE G – CAPITAL ASSETS (Continued):

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

Governmental Activities:	
General Government	\$429,841
Public Works	93,899
Public Safety	41,791
Recreation and Culture	18,120
Total Depreciation Expense	<u>\$583,651</u>

A summary of changes in business-type activities capital assets as of December 31, 2016 is as follows:

	Balance January 1, 2016	Additions	Deductions	Balance December 31, 2016
BUSINESS-TYPE ACTIVITIES:				
Capital assets not being depreciated:				
Land	\$10,888	\$-	\$-	\$10,888
Construction in progress	179,063	701,075	-	880,138
Subtotal	<u>189,951</u>	<u>701,075</u>	<u>-</u>	<u>891,026</u>
Capital assets being depreciated:				
Building and improvements	68,793	-	-	68,793
Equipment	447,228	-	-	447,228
Sewer system	14,524,469	213,571	-	14,738,040
Water system	3,772,470	517,734	-	4,290,204
Subtotal	<u>18,812,960</u>	<u>731,305</u>	<u>-</u>	<u>19,544,265</u>
Total Capital Assets	<u>19,002,911</u>	<u>1,432,380</u>	<u>-</u>	<u>20,435,291</u>
Less accumulated depreciation:				
Building and improvements	(35,961)	(1,728)	-	(37,689)
Equipment	(103,168)	(35,469)	-	(138,637)
Sewer system	(9,735,606)	(359,214)	-	(10,094,820)
Water system	(2,352,396)	(72,007)	-	(2,424,403)
Total Accumulated Depreciation	<u>(12,227,131)</u>	<u>(468,418)</u>	<u>-</u>	<u>(12,695,549)</u>
CAPITAL ASSETS, NET	<u>\$6,775,780</u>	<u>\$963,962</u>	<u>\$-</u>	<u>\$7,739,742</u>

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

Business-type Activities:	
Sewer	\$394,893
Water	73,525
Total Depreciation Expense	<u>\$468,418</u>

A summary of the changes in component unit activities capital assets for the year ended December 31, 2016 is as follows:

NOTE G – CAPITAL ASSETS (Continued):

	Balance January 1, 2016	Additions	Deductions	Balance December 31, 2016
COMPONENT UNIT:				
Capital assets not being depreciated:				
Land	\$	\$-	\$-	\$
Construction in progress	-	-	-	-
Subtotal	-	-	-	-
Capital assets being depreciated:				
Land improvements	71,329	68,500	-	139,829
Infrastructure	2,169,572	-	-	2,169,572
Subtotal	2,240,901	68,500	-	2,309,401
Total Capital Assets	2,240,901	68,500	-	2,309,401
Less accumulated depreciation:				
Land improvements	(2,389)	(4,755)	-	(7,144)
Infrastructure	(114,341)	(105,471)	-	(219,812)
Total Accumulated Depreciation	(116,730)	(110,226)	-	(226,956)
CAPITAL ASSETS, NET	\$2,124,171	(\$41,726)	\$	\$2,082,445

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

Component Unit Activities:	
DDA	\$110,226
Total Depreciation Expense	<u>\$110,226</u>

NOTE H – CONSTRUCTION IN PROGRESS:

The City has a number of projects underway which involve additions, extensions, and improvements to the City Library, City's streets, sanitary sewer, and water systems. Major construction projects in progress as of December 31, 2016 include the following:

Library Entrance Project, \$50,169; the project began in 2016 to the City's Carnegie Library including masonry improvements to the main stairway and entrance. The majority of this project has been financed through local contributions and fund raising efforts.

Water Improvement Project-SAW grant, \$87,121; the City is in the preliminary stages of securing grant and USDA funding for a large water line replacement project within the City. In conjunction with that project the City is planning on replacing sewer lines that are degraded. The City is planning on utilizing a Stormwater, Asset Management, and Wastewater (SAW) grant through Michigan Department of Environmental Quality (MDEQ). Costs incurred to date relate to engineering for the future project.

Water Improvement Project, \$793,017; the City is in the preliminary stages of securing grant and USDA funding for a large water line replacement project within the City. Costs incurred to date relate to engineering for the future project.

As of December 31, 2016, total construction in progress costs incurred amounted to \$50,169 in the governmental type activities, \$880,138 in the business-type activities, and \$-0- in the component unit.

NOTE I – LONG-TERM PAYABLE TO DDA:

In the past the DDA loaned the City money to finance various City projects. In 2015, the City Council agreed to a 20-year payment plan schedule to pay back the DDA the amount owed with annual payments of \$37,247 beginning in 2015. The balance outstanding as of December 31, 2016 is \$670,449.

NOTE J – LONG -TERM DEBT:

A summary of long-term obligations at December 31, 2016 and transactions related thereto for the year then ended is as follows:

	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016	Due Within One Year
GOVERNMENTAL ACTIVITIES:					
Installment payable for purchase of fire truck. Payable annually beginning January 1, 2006 including 4.375%. Secured by equipment.	\$95,000	\$-	(\$20,000)	\$75,000	\$25,000
Limited Tax General Obligation Building Authority Bonds, Series 2000. Payable semi-annually including interest of 4.25% per annum.	626,000	-	(29,000)	597,000	30,000
Limited Tax General Obligation Building Authority Bonds, Series 2002. Payable semi-annually including interest of 4.75% per annum.	66,000	-	(3,000)	63,000	3,000
Michigan Transportation Fund Bonds, Series 2003. Payable semi-annually including interest of 4.25%.	125,660	-	(40,260)	85,400	42,090
General Obligation Limited Tax Capital Improvement Bonds, Series 2011. Payable semi-annually including interest of 3.00% to 5.00% per annum.	615,600	-	(28,800)	586,800	28,800
Building Authority Bonds, Series 2015. Payable semi-annually including interest of 3.25% per annum.	1,361,800	38,200	(27,000)	1,373,000	28,000
Building Authority Bonds, Series 2016. Payable semi-annually including interest of 3.125% per annum.	53,300	196,700	(5,000)	245,000	5,000
SUBTOTAL	2,943,360	234,900	(153,060)	3,025,200	161,890
Less: Premium on bonds	(16,121)	-	1,111	(15,010)	-
SUBTOTAL	2,927,239	234,900	(151,949)	3,010,190	161,890
Compensated absences	231,712	-	(19,675)	212,037	11,158
TOTAL GOVERNMENTAL ACTIVITIES	\$3,158,951	\$234,900	(\$171,624)	\$3,222,227	\$173,048

NOTE J – LONG -TERM DEBT (Continued):

	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016	Due Within One Year
BUSINESS-TYPE ACTIVITIES:					
Installment payable for purchase of Vacall Freightliner. Payable annually beginning November 1, 2016 including interest of 2.9%. Secured by equipment.	\$305,558	-	(\$57,669)	\$247,889	\$59,341
SUBTOTAL	305,558	-	(57,669)	247,889	59,341
Compensated absences	35,152	-	(13,195)	21,957	1,670
TOTAL BUSINESS-TYPE ACTIVITIES	\$340,710	\$-	(\$70,864)	\$269,846	\$61,011

COMPONENT UNIT:

Michigan Transportation Fund Bonds, Series 2003. Payable semi-annually including interest of 4.25% per annum.	\$80,340	\$-	(\$25,740)	\$54,600	\$26,910
General Obligation Limited Tax Capital Improvement Bonds, 2011 Series. Payable semi-annually including interest of 3.00% to 5.00% per annum.	1,949,400	-	(91,200)	1,858,200	91,200
TOTAL COMPONENT UNIT	\$2,029,740	\$-	(\$116,940)	\$1,912,800	\$118,110

The annual principal and interest requirements for the years ending December 31, 2016 and thereafter, excluding accrued compensated absences, are as follows:

	Governmental Activities		Business-Type Activities		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$161,890	\$117,765	\$59,341	\$7,189	\$118,110	\$83,063
2018	168,510	110,993	61,062	5,468	126,490	78,462
2019	147,400	103,198	62,832	3,697	159,600	71,910
2020	127,800	96,926	64,654	1,875	167,200	65,165
2021	132,000	91,473	-	-	171,000	57,978
2022-2026	631,200	379,214	-	-	592,800	209,838
2027-2031	670,400	229,106	-	-	577,600	58,453
2032-2036	303,000	140,158	-	-	-	-
2037-2041	355,000	88,254	-	-	-	-
2042-2046	328,000	26,726	-	-	-	-
Totals	\$3,025,200	\$1,383,813	\$247,889	\$18,229	\$1,912,800	\$624,869

NOTE K – COMPENSATED ABSENCES:

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

NOTE K – COMPENSATED ABSENCES (Continued):

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	\$-	\$11,158	\$11,158
Sewer Fund	-	225	225
Water Fund	-	1,445	1,445
Long-term Portion:			
Governmental Activities	121,692	79,187	200,879
Sewer Fund	193	301	494
Water Fund	11,639	8,154	19,793
TOTAL	<u>\$133,524</u>	<u>\$100,470</u>	<u>\$233,994</u>

NOTE L – TAXES LEVIED FOR A SUBSEQUENT PERIOD:

Property taxes levied on December 1, 2016 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	\$1,521,326
Public Improvement Fund	508,353
Subtotal	<u>2,029,679</u>
Fiduciary:	
Pension Trust Fund	163,358
Component Unit:	
DDA Fund	250,499
TOTAL	<u>\$2,443,536</u>

NOTE M – FUND BALANCES – GOVERNMENTAL FUNDS:

As of December 31, 2016, fund balances of the governmental funds are classified as follows:

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

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

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

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

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

Unassigned — all other spendable amounts.

As of December 31, 2016, 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	\$-	\$-	\$-	\$-	\$-
Corpus	-	-	-	988,983	988,983
Long-term note receivable	56,617	-	-	-	56,617
Restricted:					
Transportation Funds	-	175,313	-	-	175,313
Public Improvement	-	-	206,149	-	206,149
Facilities Improvement	-	-	-	-	-
Library State Aid	-	-	-	-	-
Perpetual Care	-	-	-	134,812	134,812
Cemetery Care	-	-	-	7,991	7,991
Committed	-	-	-	-	-
Assigned:					
Garbage Activities	-	451,888	-	-	451,888
Building Authority	-	-	-	-	-
Library Improvements	-	-	-	53,538	53,538
Lake Bancroft	-	-	-	11,050	11,050
DEQ Monitoring	33,000	-	-	-	33,000
Unassigned	847,267	-	-	-	847,267
Total fund balances	\$936,884	\$627,201	\$206,149	\$1,196,374	\$2,966,608

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

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

NOTE N – DEFINED BENEFIT PENSION PLAN:

The following information is based upon the latest available actuarial valuation (as of December 31, 2015).

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.

Benefits Provided:

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

Employees covered by benefit terms – At the December 31, 2015 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits:	37
Inactive employees entitled to but not yet receiving:	5
Active employees:	28
Total	<u>70</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, 2015 are as follows:

NOTE N – DEFINED BENEFIT PENSION PLAN (Continued):

Division	Employer Contribution	Employee Contribution
01 – CI & Pub Wks	34.74%	5.35%
10 – Supervisory	52.90%	7.51%
11 – Union/Supervisor	91.25%	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, 2016, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as December 31, 2015.

Actuarial assumptions – The total pension liability in the December 31, 2015 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increases: 4.00% 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 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	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount rate – The discount rate used to measure the total pension liability is 8.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially

NOTE N – DEFINED BENEFIT PENSION PLAN (Continued):

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 12/31/2015	\$14,660,364	\$7,329,222	\$7,331,142
Changes for the Year			
Service Cost	183,436	-	183,436
Interest on Total Pension Liability	1,177,043	-	1,177,043
Changes in benefits	-	-	-
Difference between expected and actual experience	(240,242)	-	(240,242)
Change in assumptions	805,071	-	805,071
Employer Contributions	-	537,665	(537,665)
Employee Contributions	-	141,948	(141,948)
Net Investment Income	-	822,998	(822,998)
Benefit payments, including employee refunds	(969,793)	(969,793)	-
Administrative expense	-	(16,241)	16,241
Other changes	(96,136)	-	(96,136)
Net Changes	859,379	516,577	342,802
Balances at 12/31/2016	\$15,519,743	\$7,845,799	\$7,673,944

Net Pension Liability (NPL):

MERS – Primary Government	\$7,673,944
Police-Fire – Primary Government (see Note P)	1,911,485
NPL reported in the Statement of Net Position	<u>\$9,585,429</u>

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

	1% Decrease 7.25%	Current Discount Rate 8.25%	1% Increase 9.25%
Net Pension Liability at 12/31/2016	\$7,673,944	\$7,673,944	\$7,673,944
Change in Net Pension Liability	1,740,399	-	(1,463,237)
Calculated Net Pension Liability	<u>\$9,414,343</u>	<u>\$7,673,944</u>	<u>\$6,210,707</u>

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

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

For the year ended 2016 the employer recognized pension expense of \$248,726. 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	\$-	(\$180,181)
Difference in assumptions	603,803	-
Excess (Deficit) Investment Returns	249,510	-
Subtotal	853,313	(180,181)
Contributions subsequent to the measurement date*	-	-
Total	<u>\$853,313</u>	<u>(\$180,181)</u>

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

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

Year Ended:	Amount
2017	\$239,776
2018	239,776
2019	239,776
2020	(46,196)
2021	-
Thereafter	-
Total	<u>\$673,132</u>

Payable to the Pension Plan

At December 31, 2016, there was a reported payable of \$44,811 for the outstanding amount of contributions to the pension plan.

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

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

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

General Information about the Pension Plan

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

Benefits Provided:

	2015 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%
	To age 55: 1.5% multiple
Non-duty Disability:	At age 55: same as above
	To age 55: 50% AFC
	At age 55: same as above w/ service credit from date of disability to age 55.
Duty Disability:	

Employees covered by benefit terms – At the December 31, 2015 valuation date, the latest actuarial valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits:	20
Inactive employees entitled to but not yet receiving:	5
Active employees:	9
Total	<u>34</u>

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

The contribution rates as a percentage of payroll as December 31, 2015 are as follows: employer 36.21% 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, 2015, 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, 2015 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Inflation: 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-2000 Mortality table (combined healthy), projected to the year 2017 using Projection Scale BB, set back 0 years for men and 0 years for women.

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocations were estimated based on the asset allocation provided by the City as of December 31, 2015. 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, 2015, these best estimates are summarized in the following table:

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

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

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

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

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

Doubleline Total Return – 41,220.0020 Units	\$437,756
AQR Intl Equity CL – 27,090.2490 Units	259,254

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

NOTE O – POLICEMEN AND FIREMEN – DEFINED BENEFIT PENSION PLAN (Continued):**Changes in Net Pension Liability**

Calculating the Net Pension Liability			
Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 12/31/2014	\$6,415,944	\$4,848,171	\$1,567,773
Changes for the Year			
Service Cost	111,812	-	111,812
Interest on Total Pension Liability	438,498	-	438,498
Changes in benefits	-	-	-
Difference between expected and actual experience	(157,156)	-	(157,156)
Change in assumptions	(56,392)	-	(56,392)
Employer Contributions	-	199,322	(199,322)
Employee Contributions	-	23,844	(23,844)
Net Investment Income	-	(187,393)	187,393
Benefit payments, including employee refunds	(415,168)	(415,168)	-
Administrative expense	-	(42,723)	42,723
Other changes	1	1	-
Net Changes	(78,405)	(422,117)	343,712
Balances at 12/31/2015	\$6,337,539	\$4,426,054	\$1,911,485

Note: Based on December 31, 2015 actuarial valuation, the most recent actuarial report available.

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

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net Pension Liability at 12/31/2015	\$1,911,485	\$1,911,485	\$1,911,485
Change in Net Pension Liability	731,094	-	(611,827)
Calculated Net Pension Liability	<u>\$2,642,579</u>	<u>\$1,911,485</u>	<u>\$1,299,658</u>

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

For the year ended 2016 the employer recognized pension expense of \$163,576. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference in experience	\$-	(\$457,299)
Difference in assumptions	-	(410,615)
Excess (Deficit) Investment Returns	558,486	-
Subtotal	558,486	(867,914)
Contributions subsequent to the measurement date*	-	-
Total	<u>\$558,486</u>	<u>(\$867,914)</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 2016.

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

Plan Year Ended:	Amount
2016	\$113,857
2017	113,857
2018	113,858
2019	65,974
2020	(37,735)
Thereafter	(679,239)
Total	<u>(\$309,428)</u>

Payable to the Pension Plan

At December 31, 2016, there was a reported payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2016.

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

The components of the net pension liability of the City at December 31, 2016, are as follows:

Total pension liability	\$6,337,539 *
Plan fiduciary net position	<u>4,426,054</u>
City's net pension liability	<u>\$1,911,485</u>

Plan fiduciary net position as
a percentage of the total pension liability 69.84%

*As of December 31, 2015, the most recent actuarial report available.

NOTE Q – DEFERRED COMPENSATION PLAN:

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

NOTE Q – DEFERRED COMPENSATION PLAN (Continued):

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

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

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

NOTE R – OTHER POST-EMPLOYMENT BENEFITS:

The City provides post-employment health benefits to eligible retirees, terminated employees and their dependents. The benefits are provided in accordance with City ordinances, collective bargaining agreements and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The criteria to determine eligibility is defined in the Employer Participation Agreement for the Post-Employment Health Plan for Public Employees. The plan is administered by Nationwide Retirement Solutions. During 2016, expenses of \$28,060 were recognized for post-employment health benefits. Expenses for post-retirement health care benefits are recognized as employer contributions are made to the Plan.

NOTE S – PROPERTY TAXES:

The City of Ishpeming levied 13.4433 mills for the General Fund, 4.4810 mills for the Public Improvement Fund, and 1.7212 mills for the Policemen and Firemen Retirement Fund for calendar year 2016. The millage rate is based on each \$1,000.00 of property assessed valuation and the current Taxable Value of the City is \$116,655,984.

NOTE T – IRON ORE HERITAGE RECREATION AUTHORITY:

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

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, 2016 is as follows:

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

Assets	\$3,251,290
Deferred Outflows of Resources	-
Liabilities	11,054
Deferred Inflows of Resources	323,609
Net Position	2,916,627
Operating Revenues	450,640
Operating Expenses	217,226

NOTE U – JOINT VENTURES:Ishpeming Area Joint Wastewater Treatment Facility

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

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

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

A summary of condensed financial information of the Facility, in the aggregate, as of December 31, 2016, is as follows:

Assets	\$7,314,651
Deferred Outflows of Resources	115,626
Liabilities	465,481
Deferred Inflows of Resources	-
Equity - All local units	6,964,796
Operating Revenues	1,140,120
Operating Expenses	1,482,941
Other Income	75,671
Increase (decrease) in net position	(267,150)
City's Share of Net Income (loss)	(76,355)

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

NOTE U – JOINT VENTURES (Continued):

disposal at the site of Non-toxic Type II and Type III Solid Waste, to fund all of the above activities, to charge and collect fees in connection with the operation of the landfill and to provide for the reimbursement with receipt of bond proceeds to the City of Marquette and Sands Township of their respective costs and expenses incurred in connection with the establishment and administration of the Solid Waste Authority and the System Facility.

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

The City's share of assets, liabilities, and fund equity is 10.16 percent. Summary financial information as of and for the fiscal year ended June 30, 2016 is as follows:

Assets	\$11,676,536
Deferred Outflows of Resources	541,720
Liabilities	4,116,903
Deferred Inflows of Resources	47,103
Net Position	8,054,250
Operating Revenues	2,906,835
Operating Expenses	3,236,957
Non-operating Revenues (Expenses)	226,096
Net Income (Loss)	(104,026)

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, 2016 is as follows:

NOTE U – JOINT VENTURES (Continued):

Total Assets	\$2,405,882
Total Liabilities	26,284
Total Net Position	2,379,598
Total Operating Revenues	668,894
Total Operating Expenses	660,568
Other Revenues and (Expenses)	(178)
Change in Net Position	8,148

The balance of the investment in Board for the year ended December 31, 2016 of \$3,507,323 represents the City's net investment in the Board.

NOTE V – CONTINGENT LIABILITIES:

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

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

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

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

NOTE W – SINGLE AUDIT:

The Michigan Department of Transportation (MDOT) requires that the City report all Federal and State grants pertaining to their city. During the year ended December 31, 2016, the Federal aid received and expended by the City was \$756,975 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). The Federal aid received and expended by the City was \$-0- for negotiated projects. Negotiated projects are projects where the City administers the grant and either performs the work or contracts it out. The City would be subject to single audit requirements if they expended \$750,000 under the Uniform Guidance. As the City did not exceed \$750,000 in negotiated projects, they are not subject to a single audit.

NOTE X – NEW GASB STANDARDS:

Recently Issued and Adopted Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. GASB No. 72 addresses accounting and financial reporting issues related to fair value measurements. It provides guidance for determining a fair value measurement for financial reporting purposes. This Statement is effective for periods beginning after June 15, 2015. The adoption of GASB No. 72 does not have any impact on the City's financial statements.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for periods beginning after June 15, 2015. The adoption of GASB No. 76 does not have any impact on the City's financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contributions. Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. This Statement is effective for periods beginning after June 15, 2016. The adoption of GASB No. 82 does not have any impact on the City's financial statements.

Other Recently Issued Accounting Pronouncements

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB 67 and 68*. GASB No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. This Statement is effective for periods beginning after June 15, 2015. The City does not have any pension plans that meet the criteria of GASB 73.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. GASB No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. This Statement is effective for periods beginning after June 15, 2015. The City does not have any external

NOTE X – NEW GASB STANDARDS (Continued):

investment pools; therefore, GASB 79 is not applicable to the City.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. GASB 77 requires governments to disclose tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The information required to be disclosed includes the taxes being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanisms by which taxes are abated provision for recapturing abated taxes, and the types of commitments being made by tax abatement recipients. Additionally the gross dollar amount of taxes abated during the period will have to be disclosed along with any other commitments made by a government, other than to abate taxes, as part of the tax abatement agreement. This Statement is effective for periods beginning after December 15, 2015. The City does not have any tax abatements; therefore, GASB No. 77 is not applicable to the City.

In December 2015, the GASB issued Statement No. 78, *Pension Plans Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. GASB 78 amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This Statement is effective for periods beginning after December 15, 2015. The City does not have any pension plans that meet the criteria for GASB 78; therefore, GASB 78 is not applicable to the City.

NOTE Y – UPCOMING CHANGES IN ACCOUNTING STANDARDS:

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

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

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

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

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

GASB 75: Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

Effective for fiscal years beginning after June 15, 2017 (City's FY 2018)

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

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

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a non-employer entity provides financial support for OPEB of employees of another entity.

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

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

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

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

GASB 81: Irrevocable Split-Interest Agreements

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

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the

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

resources become applicable to the reporting period.

GASB 83: Certain Asset Retirement Obligations

Effective for fiscal years beginning after June 15, 2018 (City's FY 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 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 FY 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)

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

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 Z – 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, 2016 the City had unrestricted net position deficit in the Water Fund totaling \$2,829,098.

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 \$1,078,057. A deficit elimination plan has been filed.

NOTE AA – SUBSEQUENT EVENTS:

Subsequent to the balance sheet date the City Council decided to no longer budget or make disbursements to the volunteer fireman organization for longevity payments. The Council is in discussions with the volunteer fireman organization on developing policies and procedures for utilizing the accumulated balance for future longevity payments.

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)

	2016	2015
Change in total pension liability		
Service cost	\$ 183,436	\$ 176,348
Interest	1,177,043	1,111,444
Change in benefit terms	-	-
Differences between expected and actual experience	(240,242)	-
Changes in assumptions	805,071	-
Benefit payments, including refunds of member contributions	(969,793)	(896,652)
Other	(96,136)	16,018
Net change in total pension liability	859,379	407,158
Total pension liability, beginning of year	14,660,364	14,253,206
Total pension liability, end of year (a)	15,519,743	14,660,364
Change in plan fiduciary net position		
Contributions – employer	537,665	474,475
Contributions – member	141,948	73,403
Net investment income	822,998	(113,758)
Benefit payments, including refunds of member contributions	(969,793)	(896,652)
Administrative expense	(16,241)	(16,811)
Net change in plan fiduciary net position	516,577	(479,343)
Plan fiduciary net position, beginning of year	7,329,222	7,808,565
Plan fiduciary net position, end of year (b)	7,845,799	7,329,222
City's net pension liability, end of year (a)-(b)	\$ 7,673,944	\$ 7,331,142
Plan fiduciary net position as a percentage of the total pension liability	50.55%	49.99%
Covered-employee payroll	\$ 1,229,890	\$ 1,195,774
City's net pension liability as a percentage of covered payroll	623.95%	613.09%

City of Ishpeming, Michigan

MICHIGAN MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

DEFINED BENEFIT PENSION PLAN

ANALYSIS OF FUNDING INFORMATION

SCHEDULE OF CONTRIBUTIONS

(Ultimately 10 years will be displayed)

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%

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)

		2016	2015	2014
Change in total pension liability				
Service cost		Not Available *	\$ 111,812	\$ 114,128
Interest		Not Available *	438,498	477,261
Change in benefit terms		Not Available *	-	-
Differences between expected and actual experience		Not Available *	(157,156)	(333,359)
Changes in assumptions		Not Available *	(56,392)	(387,579)
Benefit payments, including refunds of member contributions		Not Available *	(415,168)	(430,902)
Other changes		Not Available	1	-
Net change in total pension liability		Not Available *	(78,405)	(560,451)
Total pension liability, beginning of year		Not Available *	6,415,944	6,976,395
Total pension liability, end of year	(a)	Not Available *	6,337,539	6,415,944
Change in plan fiduciary net position				
Contributions – employer		188,728	199,322	201,791
Contributions – member		26,301	23,844	22,745
Net investment income		(254,014)	(187,393)	101,472
Benefit payments, including refunds of member contributions		(431,579)	(415,168)	(430,902)
Administrative expense		(42,757)	(42,723)	(39,761)
Other changes		-	1	-
Net change in plan fiduciary net position		(513,321)	(422,117)	(144,655)
Plan fiduciary net position, beginning of year		4,426,054	4,848,171	4,992,826
Plan fiduciary net position, end of year	(b)	3,912,733	4,426,054	4,848,171
City's net pension liability, end of year	(a)-(b)	Not Available *	\$ 1,911,485	\$ 1,567,773
Plan fiduciary net position as a percentage of the total pension liability		Not Available *	69.84%	75.56%
Covered-employee payroll		Not Available *	\$ 462,485	\$ 462,485
City's net pension liability as a percentage of covered payroll		Not Available *	413.31%	338.99%

*Actuarial information not available

Notes to Schedules:

City's net pension liability is based on most recent actuarial valuation date, December 31, 2015.

City of Ishpeming, Michigan

POLICE AND FIRE RETIREMENT SYSTEM

DEFINED BENEFIT PENSION PLAN

ANALYSIS OF FUNDING INFORMATION

SCHEDULE OF CITY CONTRIBUTIONS

(Ultimately 10 years will be displayed)

Fiscal Year Ending	Actuarial Determined Contribution	Contribution in Relation to the Actuarial Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as Percentage of Covered Payroll
2007	\$ 94,165	\$ 94,165	\$ -	\$ 472,266	19.94%
2008	108,895	108,895	-	450,111	24.19%
2009	113,460	113,460	-	490,598	23.13%
2010	139,448	139,448	-	441,036	31.62%
2011	160,724	160,724	-	407,599	39.43%
2012	149,207	149,207	-	475,834	31.36%
2013	158,948	158,948	-	487,529	32.60%
2014	201,791	201,791	-	462,485	43.63%
2015	199,322	199,322	-	458,896	43.44%
2016	188,906	188,906	-	424,035	44.55%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date: December 31, 2015

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 tabel of rates that are specific to the type of eligible conidtion. Last updated for the 2003 valuation.
Mortality	The RP-2000 Mortality Table (combined healthy), projected to 2017 using projection scale BB, set back 0 years for men and 0 years fo 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.
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)

<u>Fiscal Year Ended December 31,</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expense</u>
2014	7.00%
2015	7.00%
2016	Not available

City of Ishpeming, Michigan

MAJOR GOVERNMENTAL FUNDS

GENERAL FUND

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

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

SPECIAL REVENUE FUNDS

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

CAPITAL PROJECTS FUNDS

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

City of Ishpeming, Michigan

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2016

With Comparative Actual Amounts for the Year Ended December 31, 2015

	2016			Variance with	
	Original Budget	Final Budget	Actual GAAP Basis	Final Budget Positive (Negative)	2015
REVENUES:					
Taxes	\$ 1,505,000	\$ 1,567,982	\$ 1,566,721	\$ (1,261)	\$ 1,544,970
State sources	843,500	826,300	827,939	1,639	815,679
Licenses and permits	172,900	159,853	158,525	(1,328)	174,315
Service charges	59,800	73,260	74,566	1,306	58,261
Interest income and rentals	473,600	393,050	436,945	43,895	385,040
Contributions	-	5,650	5,721	71	6,638
Fines and forfeitures	51,770	52,030	52,946	916	64,863
Other revenues	45,000	44,876	40,861	(4,015)	64,350
TOTAL REVENUES	3,151,570	3,123,001	3,164,224	41,223	3,114,116
EXPENDITURES:					
Current Operations:					
Legislative	21,100	21,550	15,468	6,082	13,966
General government	1,415,147	1,339,185	1,291,965	47,220	1,081,540
Public safety	788,351	810,853	791,885	18,968	728,119
Public works	748,225	742,225	640,410	101,815	762,922
Community and economic development	17,650	22,600	21,912	688	13,968
Recreation and culture	310,303	379,313	359,736	19,577	319,032
Debt Service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Capital outlay	-	-	-	-	-
TOTAL EXPENDITURES	3,300,776	3,315,726	3,121,376	194,350	2,919,547
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(149,206)	(192,725)	42,848	235,573	194,569
OTHER FINANCING SOURCES (USES):					
Proceeds from sale of capital assets	-	-	-	-	-
Transfers in	23,400	85,917	85,902	(15)	8,017
Transfers (out)	(189,000)	(189,000)	(7,414)	181,586	(9,631)
TOTAL OTHER FINANCING SOURCES (USES)	(165,600)	(103,083)	78,488	181,571	(1,614)
CHANGE IN FUND BALANCE	(314,806)	(295,808)	121,336	417,144	192,955
Fund balance, beginning of year	815,548	815,548	815,548	-	622,593
FUND BALANCE, END OF YEAR	\$ 500,742	\$ 519,740	\$ 936,884	\$ 417,144	\$ 815,548

City of Ishpeming, Michigan

MAJOR SPECIAL REVENUE FUNDS

MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2016

With Comparative Actual Amounts for the Year Ended December 31, 2015

	2016				
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	2015
REVENUES:					
Federal sources	\$ 855,000	\$ 757,000	\$ 756,975	\$ (25)	\$ -
State sources	419,100	719,459	718,717	(742)	453,986
Interest income and rentals	-	-	9	9	33
Other revenue	-	5,600	5,600	-	-
TOTAL REVENUES	1,274,100	1,482,059	1,481,301	(758)	454,019
EXPENDITURES:					
Public Works:					
Construction	1,728,618	1,345,000	1,261,011	83,989	106,505
Routine maintenance	35,510	51,200	50,562	638	23,734
Traffic service	14,650	9,450	8,858	592	19,380
Winter maintenance	302,000	329,650	327,301	2,349	234,242
Administration	29,175	26,375	25,577	798	27,727
State trunkline	41,290	44,428	41,327	3,101	34,285
Total Public Works	2,151,243	1,806,103	1,714,636	91,467	445,873
Debt Service:					
Principal	31,020	31,020	31,020	-	29,610
Interest and fiscal charges	4,365	4,365	4,115	250	5,373
Total Debt Service	35,385	35,385	35,135	250	34,983
TOTAL EXPENDITURES	2,186,628	1,841,488	1,749,771	91,717	480,856
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(912,528)	(359,429)	(268,470)	90,959	(26,837)
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	-	-	-	-	-
Transfers in	912,528	334,028	242,463	(91,565)	52,844
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	912,528	334,028	242,463	(91,565)	52,844
CHANGE IN FUND BALANCE	-	(25,401)	(26,007)	(606)	26,007
Fund balance, beginning of year	26,007	26,007	26,007	-	-
FUND BALANCE, END OF YEAR	\$ 26,007	\$ 606	\$ -	\$ (606)	\$ 26,007

City of Ishpeming, Michigan

MAJOR SPECIAL REVENUE FUNDS

LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2016

With Comparative Actual Amounts for the Year Ended December 31, 2015

	2016				
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	2015
REVENUES:					
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ 5,667
State sources	206,500	251,696	251,689	(7)	253,345
Interest income and rentals	-	350	377	27	547
Other revenue	-	-	-	-	-
TOTAL REVENUES	206,500	252,046	252,066	20	259,559
EXPENDITURES:					
Public Works:					
Construction	10,000	10,000	2,773	7,227	8,835
Routine maintenance	43,000	84,900	80,219	4,681	37,391
Traffic service	18,160	13,900	12,789	1,111	11,644
Winter maintenance	291,250	236,135	225,993	10,142	190,609
Administration	27,125	21,881	21,256	625	26,516
Total Public Works	389,535	366,816	343,030	23,786	274,995
Debt Service:					
Principal	9,240	9,240	9,240	-	8,820
Interest and fiscal charges	1,300	1,300	1,226	74	1,601
Total Debt Service	10,540	10,540	10,466	74	10,421
TOTAL EXPENDITURES	400,075	377,356	353,496	23,860	285,416
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(193,575)	(125,310)	(101,430)	23,880	(25,857)
OTHER FINANCING SOURCES (USES):					
Transfers in	20,244	-	-	-	-
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	20,244	-	-	-	-
CHANGE IN FUND BALANCE	(173,331)	(125,310)	(101,430)	23,880	(25,857)
Fund balance, beginning of year	276,743	276,743	276,743	-	302,600
FUND BALANCE, END OF YEAR	\$ 103,412	\$ 151,433	\$ 175,313	\$ 23,880	\$ 276,743

City of Ishpeming, Michigan

MAJOR SPECIAL REVENUE FUNDS

GARBAGE & RUBBISH FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2016

With Comparative Actual Amounts for the Year Ended December 31, 2015

	2016				
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	2015
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	433,100	494,800	492,533	(2,267)	525,814
Interest income and rentals	1,200	1,200	709	(491)	935
Contributions	-	-	-	-	-
Other revenue	-	800	764	(36)	1,070
TOTAL REVENUES	<u>434,300</u>	<u>496,800</u>	<u>494,006</u>	<u>(2,794)</u>	<u>527,819</u>
EXPENDITURES:					
Current Operations:					
Public Works	589,925	606,170	587,620	18,550	622,328
TOTAL EXPENDITURES	<u>589,925</u>	<u>606,170</u>	<u>587,620</u>	<u>18,550</u>	<u>622,328</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(155,625)</u>	<u>(109,370)</u>	<u>(93,614)</u>	<u>15,756</u>	<u>(94,509)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN FUND BALANCE	<u>(155,625)</u>	<u>(109,370)</u>	<u>(93,614)</u>	<u>15,756</u>	<u>(94,509)</u>
Fund balance, beginning of year	545,502	545,502	545,502	-	640,011
FUND BALANCE, END OF YEAR	<u>\$ 389,877</u>	<u>\$ 436,132</u>	<u>\$ 451,888</u>	<u>\$ 15,756</u>	<u>\$ 545,502</u>

City of Ishpeming, Michigan

MAJOR CAPITAL PROJECTS FUNDS

PUBLIC IMPROVEMENT FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2016

With Comparative Actual Amounts for the Year Ended December 31, 2015

	2016			Variance with	
	Original Budget	Final Budget	Actual GAAP Basis	Final Budget Positive (Negative)	2015
REVENUES:					
Taxes	\$ 449,204	\$ 486,869	\$ 490,680	\$ 3,811	\$ 481,611
Federal sources	-	-	-	-	-
State sources	-	-	-	-	-
Charges for services	142,000	142,000	117,486	(24,514)	91,232
Interest income and rentals	1,100	1,100	992	(108)	931
Contributions	-	7,000	6,989	(11)	-
Other revenue	-	-	-	-	-
TOTAL REVENUES	592,304	636,969	616,147	(20,822)	573,774
EXPENDITURES:					
Capital Outlay:					
City manager	-	-	-	-	-
City assessor	-	-	-	-	-
City clerk	-	-	-	-	-
City treasurer	-	4,846	4,698	148	33,153
City hall and grounds	35,000	30,000	25,622	4,378	56
Cemetery	17,500	22,855	22,795	60	3,145
Police	11,100	18,939	12,645	6,294	43,322
Fire	28,500	22,928	20,284	2,644	21,893
Public works	50,000	66,328	25,254	41,074	136,761
Parks	17,000	-	-	-	39
Playlots	-	-	-	-	-
Al Quaal	15,000	30,000	19,877	10,123	27,504
Library	38,300	42,540	36,528	6,012	39,150
Contracted services	67,500	77,700	59,232	18,468	26,835
Total Capital Outlay	279,900	316,136	226,935	89,201	331,858
Debt Service:					
Principal	80,800	48,800	48,800	-	47,600
Interest and fiscal charges	90,489	30,669	30,669	-	36,418
Total Debt Service	171,289	79,469	79,469	-	84,018
TOTAL EXPENDITURES	451,189	395,605	306,404	89,201	415,876
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	141,115	241,364	309,743	68,379	157,898
OTHER FINANCING SOURCES (USES):					
Proceeds from sale of capital assets	-	-	-	-	-
Transfers in	180,000	180,000	-	(180,000)	-
Transfers (out)	(420,747)	(487,790)	(396,221)	91,569	(117,848)
TOTAL OTHER FINANCING SOURCES (USES)	(240,747)	(307,790)	(396,221)	(88,431)	(117,848)
CHANGE IN FUND BALANCE	(99,632)	(66,426)	(86,478)	(20,052)	40,050
Fund balance, beginning of year	292,627	292,627	292,627	-	252,577
FUND BALANCE, END OF YEAR	\$ 192,995	\$ 226,201	\$ 206,149	\$ (20,052)	\$ 292,627

City of Ishpeming, Michigan

MAJOR CAPITAL PROJECTS FUNDS

FACILITIES IMPROVEMENT FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2016

With Comparative Actual Amounts for the Year Ended December 31, 2015

	2016				
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	2015
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-	-
State sources	-	-	-	-	-
Charges for services	-	-	-	-	-
Interest income and rentals	-	-	-	-	-
Contributions	-	-	-	-	-
Other revenue	-	-	-	-	-
TOTAL REVENUES	-	-	-	-	-
EXPENDITURES:					
Capital Outlay:					
City manager	-	-	-	-	-
City assessor	-	-	-	-	-
City clerk	-	-	-	-	-
City treasurer	-	-	-	-	-
City hall and grounds	-	-	-	-	141,374
Cemetery	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Public works	-	263,445	263,444	1	1,161,453
Parks	-	-	-	-	-
Playlots	-	-	-	-	-
Al Quaal	-	-	-	-	-
Library	-	-	-	-	-
Contracted services	-	-	-	-	-
Total Capital Outlay	-	263,445	263,444	1	1,302,827
Debt Service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	5,000	5,000	-	19,080
Total Debt Service	-	5,000	5,000	-	19,080
TOTAL EXPENDITURES	-	268,445	268,444	1	1,321,907
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(268,445)	(268,444)	1	(1,321,907)
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	-	234,900	234,900	-	1,415,100
Transfers in	-	32,187	32,186	(1)	-
Transfers (out)	-	-	-	-	(91,835)
TOTAL OTHER FINANCING SOURCES (USES)	-	267,087	267,086	(1)	1,323,265
CHANGE IN FUND BALANCE	-	(1,358)	(1,358)	-	1,358
Fund balance, beginning of year	1,358	1,358	1,358	-	-
FUND BALANCE, END OF YEAR	\$ 1,358	\$ -	\$ -	\$ -	\$ 1,358

OTHER FINANCIAL INFORMATION

City of Ishpeming, Michigan

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

CAPITAL PROJECTS FUNDS

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

PERMANENT FUNDS

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

City of Ishpeming, Michigan

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

December 31, 2016

	Special Revenue Funds	Permanent Funds		Total Non-Major Governmental Funds
		Perpetual Care Fund	Cemetery Care Fund	
ASSETS				
Cash and cash equivalents	\$ 64,588	\$ 311,901	\$ 74,437	\$ 450,926
Investments	-	775,350	100,857	876,207
Accounts receivable, net	-	-	-	-
Taxes receivable	-	-	-	-
Other receivable	-	-	-	-
Due from other governments	-	-	-	-
Due from other funds	-	-	-	-
Notes receivable	-	-	-	-
TOTAL ASSETS	64,588	1,087,251	175,294	1,327,133
DEFERRED OUTFLOWS OF RESOURCES				
Premium on investment	-	-	-	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 64,588	\$ 1,087,251	\$ 175,294	\$ 1,327,133
LIABILITIES				
Cash overdrafts	\$ -	\$ -	\$ -	\$ -
Accounts payable	-	-	-	-
Accrued payroll	-	-	-	-
Accrued sick and vacation	-	-	-	-
Due to other funds	-	109,153	21,606	130,759
TOTAL LIABILITIES	-	109,153	21,606	130,759
DEFERRED INFLOWS OF RESOURCES				
Taxes levied for a subsequent period	-	-	-	-
Discount on investment	-	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	-	-	-	-
FUND BALANCE				
Non-spendable	-	843,286	145,697	988,983
Restricted	-	134,812	7,991	142,803
Committed	-	-	-	-
Assigned	64,588	-	-	64,588
Unassigned	-	-	-	-
TOTAL FUND BALANCE	64,588	978,098	153,688	1,196,374
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 64,588	\$ 1,087,251	\$ 175,294	\$ 1,327,133

City of Ishpeming, Michigan

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended December 31, 2016

	Special Revenue Funds	Permanent Funds Perpetual Care Fund	Cemetery Care Fund	Total Non-Major Governmental Funds
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-
State sources	8,893	-	-	8,893
Charges for services	-	10,201	-	10,201
Interest income and rentals	175	28,021	4,665	32,861
Contributions	11,950	-	-	11,950
Other revenues	-	-	625	625
TOTAL REVENUES	21,018	38,222	5,290	64,530
EXPENDITURES:				
Current Operations:				
Public works	-	-	-	-
Recreation and culture	16,307	-	-	16,307
Other governmental	-	1,148	-	1,148
Debt Service:				
Principal	64,000	-	-	64,000
Interest and fiscal charges	57,572	-	-	57,572
Capital outlay	106,362	-	-	106,362
TOTAL EXPENDITURES	244,241	1,148	-	245,389
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(223,223)	37,074	5,290	(180,859)
OTHER FINANCING SOURCES (USES):				
Transfers in	128,986	-	-	128,986
Transfers (out)	(56,617)	(25,000)	(4,285)	(85,902)
TOTAL OTHER FINANCING SOURCES (USES)	72,369	(25,000)	(4,285)	43,084
CHANGE IN FUND BALANCE	(150,854)	12,074	1,005	(137,775)
Fund balance, beginning of year	215,442	966,024	152,683	1,334,149
FUND BALANCE, END OF YEAR	\$ 64,588	\$ 978,098	\$ 153,688	\$ 1,196,374

City of Ishpeming, Michigan

NON-MAJOR SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

December 31, 2016

	Building Authority Fund	Library State Aid Fund	Library Fund	Revolving Loan Fund	Lake Bancroft Fund	Total
ASSETS						
Cash and cash equivalents	\$ -	\$ -	\$ 53,538	\$ -	\$ 11,050	\$ 64,588
Investments	-	-	-	-	-	-
Accounts receivable, net	-	-	-	-	-	-
Taxes receivable	-	-	-	-	-	-
Other receivable	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-
TOTAL ASSETS	<u>-</u>	<u>-</u>	<u>53,538</u>	<u>-</u>	<u>11,050</u>	<u>64,588</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,538</u>	<u>\$ -</u>	<u>\$ 11,050</u>	<u>\$ 64,588</u>
LIABILITIES						
Cash overdrafts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	-	-	-	-	-	-
Accrued payroll	-	-	-	-	-	-
Accrued sick and vacation	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES						
Taxes levied for a subsequent period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE						
Non-spendable	-	-	-	-	-	-
Restricted	-	-	-	-	-	-
Committed	-	-	-	-	-	-
Assigned	-	-	53,538	-	11,050	64,588
Unassigned	-	-	-	-	-	-
TOTAL FUND BALANCE	<u>-</u>	<u>-</u>	<u>53,538</u>	<u>-</u>	<u>11,050</u>	<u>64,588</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,538</u>	<u>\$ -</u>	<u>\$ 11,050</u>	<u>\$ 64,588</u>

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, 2016

	Building Authority Fund	Library State Aid Fund	Library Fund	Revolving Loan Fund	Lake Bancroft Fund	Total
REVENUES:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-	-	-
State sources	-	8,893	-	-	-	8,893
Charges for services	-	-	-	-	-	-
Interest and rentals	-	-	158	-	17	175
Contributions	-	-	11,750	-	200	11,950
Fines and forfeitures	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-
TOTAL REVENUES	-	8,893	11,908	-	217	21,018
EXPENDITURES:						
Current Operations:						
Public works	-	-	-	-	-	-
Recreation and culture	-	16,307	-	-	-	16,307
Other governmental	-	-	-	-	-	-
Debt Service:						
Principal	64,000	-	-	-	-	64,000
Interest and fiscal charges	57,572	-	-	-	-	57,572
Capital outlay	-	-	106,362	-	-	106,362
TOTAL EXPENDITURES	121,572	16,307	106,362	-	-	244,241
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(121,572)	(7,414)	(94,454)	-	217	(223,223)
OTHER FINANCING SOURCES:						
Transfers in	121,572	7,414	-	-	-	128,986
Transfers (out)	-	-	-	(56,617)	-	(56,617)
TOTAL OTHER FINANCING SOURCES (USES)	121,572	7,414	-	(56,617)	-	72,369
CHANGE IN FUND BALANCE	-	-	(94,454)	(56,617)	217	(150,854)
Fund balance, beginning of year	-	-	147,992	56,617	10,833	215,442
FUND BALANCE, END OF YEAR	\$ -	\$ -	\$ 53,538	\$ -	\$ 11,050	\$ 64,588

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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 793,946	\$ 699,686
Investments	52,766	52,555
Accounts receivable	120,454	106,878
Allowance for uncollectible accounts	-	-
Non-current Assets:		
Investment in Wastewater Treatment Facility	3,711,970	3,788,325
Capital Assets:		
Land and construction in progress	87,121	47,687
Other capital assets, net of depreciation	<u>4,979,881</u>	<u>5,161,203</u>
Total Capital Assets	<u>5,067,002</u>	<u>5,208,890</u>
TOTAL ASSETS	<u>9,746,138</u>	<u>9,856,334</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts related to pension	<u>96,515</u>	<u>67,055</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>96,515</u>	<u>67,055</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	15,742	4,113
Accrued payroll	5,468	3,667
Due to other funds	-	-
Non-current Liabilities:		
Portion due or payable within one year		
Notes payable	59,341	57,669
Compensated absences	225	-
Portion due or payable after one year		
Notes payable	188,548	247,889
Compensated absences	494	892
Net pension liability	<u>885,769</u>	<u>848,946</u>
TOTAL LIABILITIES	<u>1,155,587</u>	<u>1,163,176</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts related to pension	<u>19,354</u>	<u>-</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>19,354</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	8,531,083	8,691,657
Unrestricted	<u>136,629</u>	<u>68,556</u>
TOTAL NET POSITION	<u><u>\$ 8,667,712</u></u>	<u><u>\$ 8,760,213</u></u>

City of Ishpeming, Michigan

SEWER FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2016

With Comparative Actual Amounts for the Year Ended December 31, 2015

	2016	2015
OPERATING REVENUES:		
Federal sources	\$ -	\$ -
State sources	-	-
Charges for services	1,410,052	1,366,846
Other revenue	150	100
TOTAL OPERATING REVENUES	<u>1,410,202</u>	<u>1,366,946</u>
OPERATING EXPENSES:		
Personal services	313,282	314,721
Contractual services	580,294	519,204
Supplies	23,291	11,360
Utilities	2,088	2,026
Depreciation	394,893	360,943
Other expenses	105,176	134,485
TOTAL OPERATING EXPENSES	<u>1,419,024</u>	<u>1,342,739</u>
OPERATING INCOME (LOSS)	<u>(8,822)</u>	<u>24,207</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest expense	(8,861)	-
Gain/(Loss) on wastewater facility	(76,355)	329,824
Interest income and rentals	1,537	1,548
TOTAL NON-OPERATING (EXPENSES)	<u>(83,679)</u>	<u>331,372</u>
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	<u>(92,501)</u>	<u>355,579</u>
Transfers in	-	-
Transfers (out)	-	-
CHANGE IN NET POSITION	<u>(92,501)</u>	<u>355,579</u>
Net position, beginning of year	<u>8,760,213</u>	<u>8,404,634</u>
NET POSITION, END OF YEAR	<u><u>\$ 8,667,712</u></u>	<u><u>\$ 8,760,213</u></u>

City of Ishpeming, Michigan

SEWER FUND

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2016

With Comparative Actual Amounts for the Year Ended December 31, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fees and charges for services	\$ 1,396,476	\$ 1,370,180
Other operating revenues	150	100
Cash payments to employees for services	(284,937)	(285,827)
Cash payments to suppliers for goods and services	(699,220)	(663,501)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	412,469	420,952
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers in (out)	-	-
Increase (decrease) in due to other funds	-	(30,000)
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	-	(30,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on notes	(57,669)	-
Interest paid on notes	(8,861)	-
Proceeds from the issuance of notes	-	305,558
Cash payments for capital assets	(253,005)	(387,195)
Proceeds from sale of capital assets	-	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(319,535)	(81,637)
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in investments	(211)	(200)
Investment income	1,537	1,548
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	1,326	1,348
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	94,260	310,663
Cash and cash equivalents, beginning of year	699,686	389,023
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 793,946	\$ 699,686
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (8,822)	\$ 24,207
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	394,893	360,943
Change in assets and liabilities:		
(Increase) decrease in accounts receivable, net	(13,576)	3,334
Increase (decrease) in accounts payable	11,629	3,574
Increase (decrease) in accrued payroll	1,801	1,105
Increase (decrease) in accrued sick and vacation	(173)	(7,813)
Increase (decrease) in net pension liability and related	26,717	35,602
NET ADJUSTMENTS	421,291	396,745
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 412,469	\$ 420,952

City of Ishpeming, Michigan

WATER FUND

COMPARATIVE STATEMENT OF NET POSITION

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable	357,034	392,501
Allowance for uncollectible accounts	-	-
Delinquent utilities	46,906	29,899
Due from other funds	2,516	-
Due from other governmental units	-	-
Non-current Assets:		
Investment in Joint Water Authority	3,507,323	3,507,323
Capital Assets:		
Land and construction in progress	803,905	142,264
Other capital assets, net of depreciation	<u>1,868,835</u>	<u>1,424,626</u>
Total Capital Assets	<u>2,672,740</u>	<u>1,566,890</u>
TOTAL ASSETS	<u>6,586,519</u>	<u>5,496,613</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts related to pension	<u>200,445</u>	<u>143,953</u>
	<u>200,445</u>	<u>143,953</u>
LIABILITIES		
Current Liabilities:		
Cash overdrafts	1,289,157	302,362
Accounts payable	74,812	62,364
Customer deposits payable	106,395	98,400
Accrued payroll	14,149	10,516
Non-current Liabilities:		
Portion due or payable within one year		
Compensated absences	1,445	4,712
Portion due or payable after one year		
Compensated absences	19,793	29,548
Net pension liability	<u>1,893,134</u>	<u>1,822,522</u>
TOTAL LIABILITIES	<u>3,398,885</u>	<u>2,330,424</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts related to pension	<u>37,114</u>	<u>-</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>37,114</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	6,180,063	5,074,213
Unrestricted (deficit)	<u>(2,829,098)</u>	<u>(1,764,071)</u>
TOTAL NET POSITION	<u><u>\$ 3,350,965</u></u>	<u><u>\$ 3,310,142</u></u>

City of Ishpeming, Michigan

WATER FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2016

With Comparative Actual Amounts for the Year Ended December 31, 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES:		
Federal sources	\$ -	\$ -
State sources	-	-
Charges for services	1,544,436	1,459,343
Other revenue	<u>7,630</u>	<u>9,137</u>
TOTAL OPERATING REVENUES	<u>1,552,066</u>	<u>1,468,480</u>
OPERATING EXPENSES:		
Personal services	586,500	697,528
Contractual services	499,292	573,756
Supplies	78,131	92,113
Utilities	15,031	13,134
Depreciation	73,525	73,853
Other expenses	<u>258,764</u>	<u>191,758</u>
TOTAL OPERATING EXPENSES	<u>1,511,243</u>	<u>1,642,142</u>
OPERATING INCOME (LOSS)	<u>40,823</u>	<u>(173,662)</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income and rentals	<u>-</u>	<u>64</u>
TOTAL NON-OPERATING (EXPENSES)	<u>-</u>	<u>64</u>
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	40,823	(173,598)
Transfers in (out)	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	40,823	(173,598)
Net position, beginning of year	<u>3,310,142</u>	<u>3,483,740</u>
NET POSITION, END OF YEAR	<u><u>\$ 3,350,965</u></u>	<u><u>\$ 3,310,142</u></u>

City of Ishpeming, Michigan

WATER FUND

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2016

With Comparative Actual Amounts for the Year Ended December 31, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fees and charges for services	\$ 1,562,896	\$ 1,463,678
Other operating revenues	7,630	1,100,077
Cash payments to employees for services	(544,655)	(622,360)
Cash payments to suppliers for goods and services	(830,775)	(1,189,491)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	195,096	751,904
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Increase (decrease) in cash overdraft	986,795	(620,592)
(Increase) decrease in due to(from)	(2,516)	-
Transfers in(out)	-	-
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	984,279	(620,592)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Cash payments for capital assets	(1,179,375)	(131,376)
Proceeds from sale of capital assets	-	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,179,375)	(131,376)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	-	64
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	-	64
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-	-
Cash and cash equivalents, beginning of year	-	-
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ -	\$ -
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 40,823	\$ (173,662)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	73,525	73,853
Change in assets and liabilities:		
(Increase) decrease in accounts receivable, net	18,460	4,335
(Increase) decrease in due from other governmental units	-	1,090,940
Increase (decrease) in accounts payable	12,448	(319,155)
Increase (decrease) in customer deposits payable	7,995	425
Increase (decrease) in accrued payroll	3,633	5,431
Increase (decrease) in accrued sick and vacation	(13,022)	(6,694)
Increase (decrease) in net pension liability and related	51,234	76,431
NET ADJUSTMENTS	154,273	925,566
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 195,096	\$ 751,904

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, 2016

	Agency Funds		
	Trust & Agency Fund	Tax Collection Fund	Totals
ASSETS			
Cash and equivalents	\$ 2,301	\$ 716,747	\$ 719,048
Due from other governments	-	-	-
Due from other funds	-	-	-
TOTAL ASSETS	\$ 2,301	\$ 716,747	\$ 719,048
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	1,506	3,202	4,708
Due to other governmental units	795	713,545	714,340
TOTAL LIABILITIES	\$ 2,301	\$ 716,747	\$ 719,048

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, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 144,585	\$ 323,993
Investments	266,920	265,126
Accounts receivable, net	-	-
Taxes receivable	196,404	103,552
Other receivable	-	-
Due from other governments	-	-
Primary government internal balances	670,449	707,696
Prepaid expenditures	-	-
Notes receivable	-	-
TOTAL ASSETS	1,278,358	1,400,367
DEFERRED OUTFLOWS OF RESOURCES	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,278,358	\$ 1,400,367
LIABILITIES		
Cash overdrafts	\$ -	\$ -
Accounts payable	156	729
Due to comp unit	-	-
Accrued payroll	1,041	-
Accrued sick and vacation leave	-	-
Accrued liabilities	-	-
Deferred revenue	-	-
Due to other funds	-	-
TOTAL LIABILITIES	1,197	729
DEFERRED INFLOWS OF RESOURCES		
Taxes levied for a subsequent period	250,499	252,011
TOTAL DEFERRED INFLOWS OF RESOURCES	250,499	252,011
FUND BALANCE		
Non-spendable	670,449	707,696
Restricted	250,000	250,000
Committed	50,000	50,000
Assigned	-	115,383
Unassigned	56,213	24,548
TOTAL FUND BALANCE	1,026,662	1,147,627
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 1,278,358	\$ 1,400,367

City of Ishpeming, Michigan

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

December 31, 2016

Total Fund Balances for Downtown Development Authority **\$ 1,026,662**

*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>2,082,445</u>	2,082,445

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	(118,110)	
Accrued interest on debt	(29,458)	
Bonds payable	<u>(1,794,690)</u>	<u>(1,942,258)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 1,166,849**

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, 2016

With Comparative Actual Amounts for the Year Ended December 31, 2015

	2016				
	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)	2015
REVENUES:					
Taxes	\$ 270,500	\$ 251,921	\$ 251,982	\$ 61	\$ 229,375
Federal sources	-	-	-	-	-
State sources	-	-	-	-	-
Interest income and rentals	1,000	1,000	2,103	1,103	3,342
Contributions	-	100	100	-	250,500
Other revenue	-	-	-	-	27
TOTAL REVENUES	271,500	253,021	254,185	1,164	483,244
EXPENDITURES:					
Other governmental	163,915	184,344	171,409	12,935	135,754
Debt service:					
Principal	116,940	116,940	116,940	-	111,970
Interest and fiscal charges	87,008	87,008	86,801	207	90,524
Total Debt Service	203,948	203,948	203,741	207	202,494
TOTAL EXPENDITURES	367,863	388,292	375,150	13,142	338,248
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(96,363)	(135,271)	(120,965)	14,306	144,996
OTHER FINANCING SOURCES (USES):					
Proceeds from sale of capital assets	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-
CHANGE IN FUND BALANCE	(96,363)	(135,271)	(120,965)	14,306	144,996
Fund balance, beginning of year	1,147,627	1,147,627	1,147,627	-	1,002,631
FUND BALANCE, END OF YEAR	\$ 1,051,264	\$ 1,012,356	\$ 1,026,662	\$ 14,306	\$ 1,147,627

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, 2016

Net Change in Fund Balances - Total Governmental Funds **\$ (120,965)**

*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	\$ 68,500	
Depreciation expense	(110,226)	
Net book value of disposed assets	<u>-</u>	(41,726)

Repayment of principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position. 116,940

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

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

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

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (45,751)**

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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ishpeming, Michigan (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 28, 2017.

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 2016-001 and 2016-002.

City of Ishpeming, Michigan's Response to Findings

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

Purpose of this Report

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

Anderson, Tackman & Company, PLLC

Certified Public Accountants

June 28, 2017



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH MICHIGAN PUBLIC
ACT 51 OF 1951, AS AMENDED AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY MICHIGAN PUBLIC ACT 298 OF 2012**

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

Report on Compliance with Act 51

We have audited City of Ishpeming, Michigan's (the City) compliance with the types of compliance requirements described in the *Michigan Public Act 51 of 1951, as amended* (Act 51), for the year ended December 31, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to Act 51.

Auditor's Responsibility

Our responsibility is to conclude on the City's compliance with the provisions of Act 51 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 audit requirements of Act 51. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above 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 conclusion. However, our audit does not provide a legal determination of the City's compliance.

Conclusion on Compliance with Act 51

It is our conclusion that the City, complied, in all material respects, with the types of compliance requirements referred to above for the year ended December 31, 2016.

Report on Internal Control over Compliance with Act 51

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 Act 51, to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with Act 51, and to test and report on internal control over compliance in accordance with the Michigan Public Act 298 of 2012, 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 Act 51 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 Act 51 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. The results of our tests disclosed instance of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying Report to Management as item 2016-001.

City of Ishpeming, Michigan's Response to Findings

The City's response to findings identified in our perform audit is described in the accompanying Report to Management. The City's response was not subjected to the auditing procedures applied in the performance audit and, accordingly, we express no opinion on it.

Purpose of this Report

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 stated above. Accordingly, this report is not suitable for any other purpose.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

June 28, 2017

COMMUNICATIONS SECTION



City of Ishpeming, Michigan
Report to Management
For the Year Ended December 31, 2016

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, 2016, 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 following deficiencies in internal control to be significant deficiencies:

INSTANCES OF NON-COMPLIANCE

2016-001 – ACT 51 EQUIPMENT RENTALS

Condition/Criteria: Charge rates being applied to equipment rentals should agree to the rates listed on Report 375 Equipment Rental Rates Schedule C provided by the Michigan Department of Transportation. There were three items selected in our sample whose charge rates did not agree to Schedule C.

Cause of Condition: Asset identification errors and rate calculation errors were found in the City's spreadsheet used to track and charge equipment rentals. Rental rates were not being reconciled back to the Schedule C Report and agreed to asset numbers given by the City.

Effect: The City is not in compliance with Act 51. The differences in the charge rates were immaterial in the aggregated and did not require an adjustment for financial statement purposes.

Recommendation: We recommend a system be put in place to reconcile rates for equipment rentals to rates provided by Schedule C. Unit equipment numbers assigned by the City should define all Schedule C code number combinations to arrive at the rate being applied.

Management Response:

- Contact person(s) Responsible for Correction:
 - Finance Director
 - DPW Director
- Corrective Action Planned:
 - Management concurs
- Anticipated Completion Date:
 - December 31, 2017

2016-002 – UNRESTRICTED DEFICIT NET POSITION (REPEAT)

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

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

Effect: The City 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:
 - The 2016 fiscal year marks the second year of a multi-year deficit elimination plan for the City's Water Fund. The deficit elimination plan filed for 2015, the initial year of deficit, was approved by the Michigan Department of Treasury and anticipated a reported deficit of \$1,117,187 as of December 31, 2016. At December 31, 2016 the City's actual deficit was \$1,078,057, which is \$39,103 better than estimated in the deficit elimination plan. The City will continue to file annual updates with the

City Council of the
City of Ishpeming, Michigan

Michigan Department of Treasury to its deficit elimination plan as required by law. The City has five years from the year in which the deficit was originally reported to eliminate the deficit, and management believes the deficit will be eliminated within that time period.

- Anticipated Completion Date:
 - December 31, 2017

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

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

Anderson, Tackman & Company, PLLC
Certified Public Accountants

June 28, 2017



City of Ishpeming, Michigan
Communication with Those Charged with Governance
For the Year Ended December 31, 2016

June 28, 2017

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, 2016. 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 December 19, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in the notes to financial statements. No new accounting policies were adopted and application of existing policies was not changed during 2016. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the allowance for doubtful accounts is based on historical charges for services, historical loss levels, and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

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

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

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

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

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive 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. Municipal Employees' Retirement System of Michigan was the actuarial company hired for preparation of the annual actuarial valuation. The disclosures made in Note N were based on information included their report.

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

The disclosure of the City's Pension Liability related to the Police and Firemen Retirement System Defined Benefit Retirement Plan in the Notes to the financial statements includes significant actuarial assumptions used in calculating the valuation. Gabriel Roeder Smith & Company was the actuarial company hired for preparation of the annual actuarial valuation in accordance with GASB 67. The disclosures made in Note P were based on information included their report as of

December 31, 2015. 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 June 28, 2017.

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 Report to Management (item 2016-001 and 2016-002).

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.

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