

**AUDITED FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTAL INFORMATION
OTHER FINANCIAL INFORMATION
AND SUPPLEMENTAL REPORTS**

**CITY OF IRONWOOD
GOGEBIC COUNTY, MICHIGAN**

June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and Members of the Commission
City of Ironwood, Michigan
Ironwood, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of City of Ironwood, Michigan as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Ironwood, Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Ironwood Housing Commission, which represent 100 percent of the assets, net position, and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Ironwood Housing Commission, is based solely on the report of the other auditors. 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 misstatements 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, based on our audit and the report of other auditors, 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 aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Ironwood, Michigan as of June 30, 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 Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information on pages 7 through 16 and 79 through 83 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 supplemental 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 Ironwood, Michigan's basic financial statements. The accompanying Other Financial Information, which includes the combining and individual fund financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The accompanying Statement of Application of Block Grant Funds is presented for purposes of additional analysis as required by U.S. Department of Housing and Urban Development and is also not a required part of the basic financial statements of City of Ironwood, Michigan.

The Other Financial Information and the Schedule of Expenditures of Federal Awards and the Statement of Application of Block Grant Funds are the responsibility of management and were derived

from and relate directly to the underlying accounting and other records used to prepare the basic 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, the Schedule of Expenditures of Federal Awards and the Statement of Application of Block Grant Funds information are fairly stated in all material respects in relation to the basic financial statements as a whole and the information included in the Statement of Application of Block Grant Funds for the period of June 1, 2014 through May 31, 2016, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 27, 2016 on our consideration of City of Ironwood, 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 the 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 City of Ironwood, Michigan's internal control over financial reporting and compliance.

Makela, Pollock & Ahonen, PLLC

Certified Public Accountants

Ironwood, Michigan
December 27, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2016

Management's Discussion and Analysis

This section of the City of Ironwood, Michigan's (City) annual financial report presents our discussion and analysis of the City's financial performance during the year ended June 30, 2016. It is to be read in conjunction with the City's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments* and is intended to provide the financial results for the fiscal year ended June 30, 2016.

Government-wide Financial Statements

The Government-wide financial statements appear first in the financial report. These financial statements include the statement of net position and the statement of activities. They report information about the City as a whole. The statements are prepared using the accrual method of accounting which is the accounting method used by most private sector businesses. The statement of net position includes all of the City's assets, liabilities, deferred outflows and inflows of resources except the fiduciary funds. All current year revenues and expenses are reported in the statement of activities. The two statements report the governmental, business-type activities and component unit of the City that include all services performed by the City.

The statement of net position shows the City's assets and liabilities. The corresponding balance between the assets and liabilities equals the net position of the City. A deficit occurs when there are more liabilities than there are assets to pay those liabilities. This statement measures the financial strength of the City; the greater the net position figure, generally the healthier the financial position of the City. It helps management determine if the City will be able to fund current obligations and whether they have resources available for future use.

The statement of activities shows the current year change in net position on a revenue less expenditure basis. It generally shows the operating results for a given year of the City. Any excess of revenues over expenses results in a surplus for the year that in turn increases the net position available to fund future needs of the City.

Fund Financial Statements

The City's fund financial statements show detail of funds that are determined to be significant, called major funds. The governmental funds that are separately stated as major funds are the General Fund, Major Street Fund, Capital Improvement Fund and Local Street Fund. The Water Utility Fund, Sewer Utility Fund and Internal Service Fund are reported as major proprietary funds. All other governmental funds are considered nonmajor and are reported as one column.

Fund Financial Statements (Continued)

Governmental funds are reported in the fund financial statements and contain the same functions reported as governmental activities in the government-wide financial statements. However, the fund statements provide a different view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to the government-wide financial statements to assist in understanding the differences between these two perspectives.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. There are two kinds of proprietary funds. These are enterprise funds and internal service funds. Enterprise funds include the same functions reported as business-type activities in government-wide financial statements. Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. Because the City's internal service fund primarily serves other City functions, it is included within the governmental activities of the government-wide financial statements.

Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail for major enterprise funds.

Fiduciary funds, such as the employee pension plans, are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund City programs. Fiduciary fund financial statements report similarly to proprietary funds.

Government-wide Financial Statements – Condensed Financial Information

Statement of Net Position

The following tables show the condensed statements of net position with a detailed analysis of the statements below.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Net Position (Continued)

	<u>June 30, 2016</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
ASSETS			
Cash and investments	\$ 3,548,934	\$ 1,133,962	\$ 4,682,896
Receivables	703,868	369,989	1,073,857
Other current assets	50,641	251,863	302,504
Notes receivable, noncurrent	608,923		608,923
Restricted cash		919,349	919,349
Investment in Gogebic-Iron Wastewater Authority		2,629,516	2,629,516
Other noncurrent assets		16,126	16,126
Capital assets, net of accumulated depreciation	<u>11,564,306</u>	<u>28,819,658</u>	<u>40,383,964</u>
Total Assets	<u>\$ 16,476,672</u>	<u>\$ 34,140,463</u>	<u>\$ 50,617,135</u>
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	<u>\$ 1,573,938</u>	<u>\$ 328,210</u>	<u>\$ 1,902,148</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Net Position (Continued)

	<u>June 30, 2016</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
LIABILITIES			
Accounts payable	\$ 392,734	\$ 224,638	\$ 617,372
Customer deposits		57,823	57,823
Other current liabilities	16,168	68,242	84,410
Current portion of long-term liabilities	443,208	315,444	758,652
Compensated absences	473,629	162,849	636,478
Bonds, notes and contracts payable	2,099,796	12,650,149	14,749,945
Net pension liability	<u>8,115,322</u>	<u>1,672,755</u>	<u>9,788,077</u>
Total Liabilities	<u>\$ 11,540,857</u>	<u>\$ 15,151,900</u>	<u>\$ 26,692,757</u>
DEFERRED INFLOW OF RESOURCES			
Unavailable Revenue	\$ 320,000		\$ 320,000
Related to pensions	<u>84,029</u>	<u>\$ 18,738</u>	<u>102,767</u>
Total Deferred Inflow of Resources	<u>\$ 404,029</u>	<u>\$ 18,738</u>	<u>\$ 422,767</u>
NET POSITION			
Investment in capital assets, net of related debt	\$ 9,078,668	\$ 15,854,065	\$ 24,932,733
Restricted	979,426	919,349	1,898,775
Unrestricted	<u>(3,952,370)</u>	<u>2,524,621</u>	<u>(1,427,749)</u>
Total Net Position	<u>\$ 6,105,724</u>	<u>\$ 19,298,035</u>	<u>\$ 25,403,759</u>

The City's net position is \$25,403,759 at June 30, 2016. Capital assets, net of related debt are \$24,932,733. This figure is derived by taking the original costs of the City's assets, subtracting accumulated depreciation to date and comparing this figure to the amount of long-term debt used to finance the acquisition of those assets. Restricted net position is restricted for debt service, by donors and by grant spending requirements. The unrestricted net position is a deficit of \$1,427,749 as of June 30, 2016. This is the net accumulated results of the current and past years' operations and includes the result of the implementation of new pension accounting standards during the year ended June 30, 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Net Position (Continued)

	<u>June 30, 2015</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
ASSETS			
Cash and investments	\$ 5,097,123	\$ 1,171,885	\$ 6,269,008
Receivables	626,007	294,409	920,416
Other current assets	66,316	210,961	277,277
Notes receivable, noncurrent	820,201		820,201
Restricted cash		431,241	431,241
Investment in Gogebic-Iron Wastewater Authority		2,629,516	2,629,516
Other noncurrent assets		17,710	17,710
Capital assets, net of accumulated depreciation	<u>9,523,352</u>	<u>26,637,506</u>	<u>36,160,858</u>
Total Assets	<u>\$ 16,132,999</u>	<u>\$ 31,393,228</u>	<u>\$ 47,526,227</u>
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	<u>\$ 350,510</u>	<u>\$ 72,098</u>	<u>\$ 422,608</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Net Position (Continued)

	<u>June 30, 2015</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
LIABILITIES			
Accounts payable	\$ 317,027	\$ 587,006	\$ 904,033
Customer deposits		59,314	59,314
Other current liabilities	26,201	76,875	103,076
Current portion of long-term liabilities	374,310	269,745	644,055
Compensated absences	573,569	152,525	726,094
Net pension liability	6,788,248	1,396,282	8,184,530
Bonds, notes and contracts payable	<u>2,485,882</u>	<u>10,336,593</u>	<u>12,822,475</u>
Total Liabilities	<u>\$ 10,565,237</u>	<u>\$ 12,878,340</u>	<u>\$ 23,443,577</u>
DEFERRED INFLOW OF RESOURCES			
Unavailable Revenue	<u>\$ 320,900</u>		<u>\$ 320,900</u>
NET POSITION			
Investment in capital assets, net of related debt	\$ 6,663,160	\$ 15,595,909	\$ 22,259,069
Restricted	2,797,289	431,241	3,228,530
Unrestricted	<u>(3,863,077)</u>	<u>2,559,836</u>	<u>(1,303,241)</u>
Total Net Position	<u>\$ 5,597,372</u>	<u>\$ 18,586,986</u>	<u>\$ 24,184,358</u>

The City's net position is \$24,184,358 at June 30, 2015. Capital assets, net of related debt are \$22,259,069. Restricted net position is restricted for debt service, by donors and by grant spending requirements. The unrestricted net position is a deficit of \$1,303,241 as of June 30, 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Activities

The results of operations for the City as a whole are reported in the statement of activities. This statement reports the changes in net position for the fiscal year.

		<u>Year ended June 30, 2016</u>		
		<u>Primary Government</u>		
		<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
		<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Revenues:				
Program Revenues:				
Charges for services		\$ 943,439	\$ 3,741,920	\$ 4,685,359
Operating grants		1,602,191	1,316,492	2,918,683
General Revenues:				
State grants		919,849		919,849
Property taxes		2,057,217	87,800	2,145,017
Other		<u>361,582</u>	<u>526</u>	<u>362,108</u>
	Total Revenues	\$ 5,884,278	\$ 5,146,738	\$ 11,031,016
Program expenses:				
Governmental activities		\$ 5,375,926		\$ 5,375,926
Business-type activities			<u>\$ 4,435,689</u>	<u>4,435,689</u>
	Total Program Expenses	\$ 5,375,926	\$ 4,435,689	\$ 9,811,615
	Increase in Net Position	<u>\$ 508,352</u>	<u>\$ 711,049</u>	<u>\$ 1,219,401</u>

		<u>Year ended June 30, 2015</u>		
		<u>Primary Government</u>		
		<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
		<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Revenues:				
Program Revenues:				
Charges for services		\$ 503,020	\$ 3,694,186	\$ 4,197,206
Operating grants		1,089,187	353,742	1,442,929
General Revenues:				
State grants		884,058		884,058
Property taxes		2,056,215	88,329	2,144,544
Other		<u>417,638</u>	<u>10,255</u>	<u>427,893</u>
	Total Revenues	\$ 4,950,118	\$ 4,146,512	\$ 9,096,630
Program expenses:				
Governmental activities		\$ 4,561,231		\$ 4,561,231
Business-type activities			<u>\$ 3,792,295</u>	<u>3,792,295</u>
	Total Program Expenses	\$ 4,561,231	\$ 3,792,295	\$ 8,353,526
	Increase in Net Position	<u>\$ 388,887</u>	<u>\$ 354,217</u>	<u>\$ 743,104</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Activities (Continued)

The City had an overall increase in net position of \$1,219,401 and \$743,104 for the years ended June 30, 2016 and 2015, respectively.

The City's revenues totaled \$11,031,016 and \$9,096,630 for the years ended June 30, 2016 and 2015, respectively.

The City's total cost to fund all governmental activities was \$5,375,926 and \$4,561,231, business-type activities was \$4,435,689 and \$3,792,295 for the years ended June 30, 2016 and 2015, respectively.

Major Individual Funds

An analysis of balances and transactions of major individual funds, including changes in fund balances or net positions follows:

<u>Fund</u>	Fund Balance/ Net Position at July 1, <u>2015</u>	Revenues and Other Financing <u>Sources</u>	Expenditures/ Expenses and Other Financing <u>Uses</u>	Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing <u>Uses</u>	Fund Balance/ Net Position at <u>June 30, 2016</u>
General	\$ 2,014,214	\$ 3,764,489	\$ 3,679,940	\$ 84,549	\$ 2,098,763
Major Street	459,097	1,048,554	1,107,957	(59,403)	399,694
Local Street	69,514	542,055	542,055	0	69,514
Capital Improvement	1,541,168	5,520	1,546,688	(1,541,168)	0
Water Utility	8,628,246	2,398,570	2,084,891	313,679	8,941,925
Sewer Utility	9,332,813	2,539,166	2,141,791	397,375	9,730,188
Civic Center	625,927	209,002	209,007	(5)	625,922
Internal Service	<u>765,265</u>	<u>719,438</u>	<u>586,910</u>	<u>132,528</u>	<u>897,793</u>
	<u>\$ 23,436,244</u>	<u>\$ 11,226,794</u>	<u>\$ 11,899,239</u>	<u>\$ (672,445)</u>	<u>\$ 22,763,799</u>

Capital Assets

At June 30, 2016, the City had \$40,383,964 invested in capital assets, net of depreciation. The City's net capital assets increased during the past fiscal year by \$4,223,106. Additions totaling \$5,552,136 were offset by depreciation charges of \$1,315,055 and the net book value of disposals of \$13,975. The City reported \$1,639,061 of infrastructure asset additions and \$2,697,855 of proprietary activities construction in progress costs during the year ended June 30, 2016.

Governmental Fund Budgetary Items

During the year, the City revised its original budget to account for the changing environment of funding sources and spending needs. The City had no significant areas where it overspent its budget during the year ended June 30, 2016. A schedule showing the City's original budget, final budget and the actual results for major funds is included as required supplemental information in the financial section of the audit report.

Debt

The City had \$16,145,075 of long-term liabilities at June 30, 2016. This amount consists of revenue bonds payable, general obligation bonds and note payable, accrued compensated absences payable to employees, a financing agreement and equipment purchase contracts payable. \$758,652 will be payable within one year.

Future Considerations

The City of Ironwood continues to move forward with infrastructure improvement projects in 2017. With a Phase 4 water and sanitary sewer improvement project currently being designed for the Washington Street/Southerland Street neighborhood, a spring 2017 construction start is anticipated. This project is estimated at approximately \$4.7 million with funding coming from USDA Rural Development in a combination of low interest loans and grants.

The City has received notice that it will benefit from a \$240,000 grant from the Michigan Economic Development Corporation (MEDC) through its round two "Hardest Hit" blight elimination grant program. The MEDC has also indicated that the \$150,000 of funds remaining from the round one "Hardest Hit" blight elimination grant can be utilized to remove additional blighted structures throughout the community. This grant funding will result in the demolition of around 20 blighted residential structures.

Municipal Employees' Retirement System (MERS), the City's pension fiduciary and administrator, recently completed an experience study of the City's defined benefit plan. To ensure the adequacy and sustainability of the pension plan, MERS performs this study every five years to review MERS' funding policy and compare actual experience with current actuarial assumptions. The results of the study show an increase in the City's pension liability, which will result in a significant increase in employer contributions to its retirement fund.

Future Considerations (Continued)

The City continues to work with the U.S. Environmental Protection Agency (USEPA) and the Michigan Department of Environmental Quality on the final closeout documents and the “ability to pay” analysis for the environmental clean-up of the old city gas plant site along the Montreal River. The City may be required to pay back all or some of the clean-up costs incurred by the USEPA.

The City of Ironwood is moving forward with becoming a Redevelopment Ready Community (RRC) through a program established by the Michigan Economic Development Corporation (MEDC). Over the next twelve months, the City will be updating its zoning ordinance and following the compliance requirements mandated under this program. Being a part of the RRC program will make Ironwood redevelopment ready, and will also allow the City to apply for various grant funding opportunities through the MEDC.

Component Unit

Separate financial statements for the Ironwood Housing Commission may be obtained at its administrative offices at 515 East Vaughn Street, Ironwood, Michigan.

Contacting the City

If you have any questions about this report or need additional information, contact the City offices at City of Ironwood, 213 South Marquette Street, Ironwood, MI 49938; telephone number (906) 932-5050.

BASIC
FINANCIAL
STATEMENTS

STATEMENT OF
CITY OF IRONWOOD,
June 30,

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 2,977,435	\$ 1,133,962	\$ 4,111,397	\$ 810,165
Investments	571,499		571,499	
Receivables (net, where applicable, of allowances for uncollectibles):				
Accounts	703,868	369,989	1,073,857	58,334
Notes, noncurrent	608,923		608,923	
Inventories	33,630	218,565	252,195	3,938
Internal balances	(24,030)	26,653	2,623	
Prepaid expenses	41,041	6,645	47,686	7,616
Capital assets, net of accumulated depreciation	11,564,306	28,819,658	40,383,964	1,990,130
Investment in Gogebic-Iron Wastewater Authority		2,629,516	2,629,516	
Bond discount, net of amortization		16,126	16,126	
Restricted cash		919,349	919,349	
TOTAL ASSETS	<u>\$ 16,476,672</u>	<u>\$ 34,140,463</u>	<u>\$ 50,617,135</u>	<u>\$ 2,870,183</u>
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	<u>\$ 1,573,938</u>	<u>\$ 328,210</u>	<u>\$ 1,902,148</u>	<u>\$ 108,395</u>

NET POSITION

MICHIGAN

2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
LIABILITIES				
Accounts payable	\$ 392,734	\$ 224,638	\$ 617,372	\$ 104,988
Undistributed tax collections	16,168		16,168	
Interest payable		68,242	68,242	
Customer deposits		57,823	57,823	
Long-term liabilities:				
Compensated absences:				
Due within one year	57,366		57,366	
Due beyond one year	473,629	162,849	636,478	11,458
Bonds, notes payable, capital lease and equipment contracts payable:				
Due within one year	385,842	315,444	701,286	
Due beyond one year	2,099,796	12,650,149	14,749,945	
Net pension liability	<u>8,115,322</u>	<u>1,672,755</u>	<u>9,788,077</u>	<u>594,280</u>
TOTAL LIABILITIES	<u>\$ 11,540,857</u>	<u>\$ 15,151,900</u>	<u>\$ 26,692,757</u>	<u>\$ 710,726</u>
DEFERRED INFLOW OF RESOURCES				
Unavailable Revenue	\$ 320,000		\$ 320,000	
Related to pensions	<u>84,029</u>	<u>\$ 18,738</u>	<u>102,767</u>	
	<u>\$ 404,029</u>	<u>\$ 18,738</u>	<u>\$ 422,767</u>	
NET POSITION				
Net position:				
Invested in capital assets, net of related debt	\$ 9,078,668	\$ 15,854,065	\$ 24,932,733	\$ 1,990,130
Restricted	979,426	919,349	1,898,775	
Unrestricted	<u>(3,952,370)</u>	<u>2,524,621</u>	<u>(1,427,749)</u>	<u>277,722</u>
TOTAL NET POSITION	<u>\$ 6,105,724</u>	<u>\$ 19,298,035</u>	<u>\$ 25,403,759</u>	<u>\$ 2,267,852</u>

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

STATEMENT
CITY OF IRONWOOD,
Year ended

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
Legislative	\$ 40,510			
General government	881,211	\$ 641,266	\$ 84,063	
Public safety	1,010,882	32,482		
Public works	1,228,066	212,077	1,429,427	
Recreation and culture	377,959	57,614	88,701	
Health and welfare	1,055,561			
Other functions	107,708			
Interest on long-term debt	44,687			
Depreciation (unallocated)	<u>629,342</u>			
Total Governmental Activities	\$ 5,375,926	\$ 943,439	\$ 1,602,191	\$ 0
Business-type activities:				
Water Utility	\$ 2,084,891	\$ 1,866,994	531,297	
Sewer Utility	2,141,791	1,753,732	785,195	
Civic Center	<u>209,007</u>	<u>121,194</u>		
Total Business-Type Activities	\$ 4,435,689	\$ 3,741,920	1,316,492	
Total Primary Government	<u>\$ 9,811,615</u>	<u>\$ 4,685,359</u>	<u>\$ 2,918,683</u>	<u>\$ 0</u>
Component Unit	<u>\$ 820,898</u>	<u>\$ 432,813</u>	<u>\$ 283,488</u>	<u>\$ 75,348</u>
General revenues:				
Taxes				
Licenses and permits				
State grants				
Contributions from local units				
Fines and forfeits				
Interest and rents				
Other revenues				
Loss on disposal of equipment				
Total General Revenues				

Change in Net Position

Net position at July 1, 2015

Net position at June 30, 2016

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

OF ACTIVITIES

MICHIGAN

June 30, 2016

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (40,510)		\$ (40,510)	
(155,882)		(155,882)	
(978,400)		(978,400)	
413,438		413,438	
(231,644)		(231,644)	
(1,055,561)		(1,055,561)	
(107,708)		(107,708)	
(44,687)		(44,687)	
<u>(629,342)</u>		<u>(629,342)</u>	
\$ (2,830,296)	\$ 0	\$ (2,830,296)	
	\$ 313,400	\$ 313,400	
	397,136	397,136	
	<u>(87,813)</u>	<u>(87,813)</u>	
	<u>\$ 622,723</u>	<u>\$ 622,723</u>	
\$ (2,830,296)	\$ 622,723	\$ (2,207,573)	
			\$ (29,249)
\$ 2,057,217	\$ 87,800	\$ 2,145,017	
84,868		84,868	
919,849		919,849	
900		900	
37,986		37,986	
9,466	526	9,992	\$ 6,598
236,331		236,331	26,878
<u>(7,969)</u>		<u>(7,969)</u>	
<u>\$ 3,338,648</u>	<u>\$ 88,326</u>	<u>\$ 3,426,974</u>	<u>\$ 33,476</u>
\$ 508,352	\$ 711,049	\$ 1,219,401	\$ 4,227
<u>5,597,372</u>	<u>18,586,986</u>	<u>24,184,358</u>	<u>2,263,625</u>
<u>\$ 6,105,724</u>	<u>\$ 19,298,035</u>	<u>\$ 25,403,759</u>	<u>\$ 2,267,852</u>

COMBINED BALANCE SHEET - GOVERNMENTAL FUNDS

CITY OF IRONWOOD, MICHIGAN

June 30, 2016

	General	Major Street Fund	Local Street Fund	Capital Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 2,864,969		\$ 2,228		\$ 110,238	\$ 2,977,435
Investments					571,499	571,499
Receivables (net, where applicable, of allowances for uncollectibles):						
Accounts	532,141	\$ 83,725	46,865		41,137	703,868
Notes					608,923	608,923
Due from other funds	2,623	345,591	28,512		651	377,377
Inventories	33,630					33,630
Prepaid expenses	28,681	3,933	5,900		912	39,426
	<u>\$ 3,462,044</u>	<u>\$ 433,249</u>	<u>\$ 83,505</u>	<u>\$ 0</u>	<u>\$ 1,333,360</u>	<u>\$ 5,312,158</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND MUNICIPAL EQUITY						
Accounts payable	\$ 279,947	\$ 33,555	\$ 13,991		\$ 21,781	\$ 349,274
Due other funds	1,067,166					1,067,166
Undistributed tax collections	16,168					16,168
	\$ 1,363,281	\$ 33,555	\$ 13,991	\$ 0	\$ 21,781	\$ 1,432,608
Deferred inflow of resources - Unavailable revenue					320,000	320,000
Municipal equity:						
Fund balance:						
Nonspendable	\$ 62,311					\$ 62,311
Restricted	28,540				\$ 950,886	979,426
Committed	423,700					423,700
Assigned	1,064,419	\$ 399,694	\$ 69,514		40,693	1,574,320
Unassigned	519,793					519,793
	<u>\$ 2,098,763</u>	<u>\$ 399,694</u>	<u>\$ 69,514</u>		<u>\$ 991,579</u>	<u>\$ 3,559,550</u>
	<u>\$ 3,462,044</u>	<u>\$ 433,249</u>	<u>\$ 83,505</u>	<u>\$ 0</u>	<u>\$ 1,333,360</u>	<u>\$ 5,312,158</u>

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

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
CITY OF IRONWOOD, MICHIGAN

June 30, 2016

Fund balances - total governmental funds		\$ 3,559,550
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 governmental funds:		
Governmental capital assets	\$ 20,509,963	
Less accumulated depreciation	<u>(9,935,197)</u>	10,574,766
Deferred outflow and inflow of resources of resources - related to pensions		1,412,122
Equipment accounts payable not payable with current funds and therefore are not reported as liabilities in the funds.		(23,663)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds:		
Accumulated absences	\$ (441,057)	
Bonds and notes payable	<u>(2,201,372)</u>	(2,642,429)
Net pension liability		(7,672,415)
Internal Service Fund net assets are presented in the Statement of Net Position as a governmental activity, but are not included in the Combined Balance Sheet for Governmental Funds.		<u>897,793</u>
Net position of governmental activities		<u>\$ 6,105,724</u>

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

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2016

	General	Major Street	Local Street Fund	Capital Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 1,782,752				\$ 274,465	\$ 2,057,217
Licenses and permits	84,868					84,868
State grants	919,849	\$ 614,624	\$ 297,001		4,642	1,836,116
Federal grants	4,200	433,930			84,059	522,189
Contributions from local units					900	900
Fines and forfeits					37,986	37,986
Charges for services	674,339				57,023	731,362
Interest and rents	171,130		8		2,063	173,201
Other revenues	<u>127,351</u>		<u>55,000</u>	<u>\$ 5,520</u>	<u>48,460</u>	<u>236,331</u>
Total Revenues	\$ 3,764,489	\$ 1,048,554	\$ 352,009	\$ 5,520	\$ 509,598	\$ 5,680,170
Expenditures:						
Current:						
Legislative	\$ 38,937					\$ 38,937
General government	795,174				\$ 91,662	886,836
Public safety	985,579				13,170	998,749
Public works	117,085	\$ 574,767	\$ 415,776			1,107,628
Recreation and culture	190,352				169,792	360,144
Health and welfare	717,818				296,751	1,014,569
Other functions	86,590				21,118	107,708
Capital outlay	519,974	517,812	8,884	\$ 1,546,688	26,535	2,619,893
Debt service		<u>15,378</u>	<u>117,395</u>		<u>160,814</u>	<u>293,587</u>
Total Expenditures	<u>\$ 3,451,509</u>	<u>\$ 1,107,957</u>	<u>\$ 542,055</u>	<u>\$ 1,546,688</u>	<u>\$ 779,842</u>	<u>\$ 7,428,051</u>

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUNDS (CONTINUED)

	General	Major Street	Local Street Fund	Capital Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
Excess (Deficiency) of Revenues Over Expenditures	\$ 312,980	\$ (59,403)	\$ (190,046)	\$ (1,541,168)	\$ (270,244)	\$ (1,747,881)
Other financing sources (uses) - Operating transfers in (out)	<u>(228,431)</u>	<u> </u>	<u>190,046</u>	<u> </u>	<u>38,385</u>	<u> </u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ 84,549	\$ (59,403)	\$ 0	\$ (1,541,168)	\$ (231,859)	\$ (1,747,881)
Fund balance at July 1, 2015	<u>2,014,214</u>	<u>459,097</u>	<u>69,514</u>	<u>1,541,168</u>	<u>1,223,438</u>	<u>5,307,431</u>
FUND BALANCE AT JUNE 30, 2016	<u>\$2,098,763</u>	<u>\$ 399,694</u>	<u>\$ 69,514</u>	<u>\$ 0</u>	<u>\$ 991,579</u>	<u>\$ 3,559,550</u>

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS WITH THE STATEMENT OF ACTIVITIES

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2016

Net change in fund balance - total governmental funds		\$ (1,747,881)
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 depreciated over their estimated useful lives:		
Expenditures for capital assets	\$ 2,619,893	
Less current year depreciation	<u>(629,342)</u>	1,990,551
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.		
		257,378
Proceeds from sale of assets is recorded as an other financing source in the year of sale of governmental funds. In the statement of activities, the difference between the sale proceeds and the net book value of the asset sold is recorded as a gain or loss.		
Proceeds from sale of assets	\$ 0	
Loss on sale of assets	<u>(13,975)</u>	(13,975)
Compensated absences not payable from current year resources are not reported as expenditures of the current year. In the Statement of Activities, those costs represent expenses of the current year. The net change from beginning to end of year does not affect the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance.		
		44,138
In the statement of activities operating expenses for pension related items are measured by amounts earned during the year while the governmental funds report expenditures as amounts are paid. This year the amount earned for pension related items was more than the amount paid.		
		(178,050)
Prior year accounts payable not payable with current funds paid in current year.		
		23,663
Change in Net Position of the Internal Service Fund is reported in the Statement of Activities, but is not included in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance.		
		<u>132,528</u>
Change in net position of governmental funds		<u>\$ 508,352</u>

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

COMBINED STATEMENT OF NET POSITION - PROPRIETARY FUNDS

CITY OF IRONWOOD, MICHIGAN

June 30, 2016

	Business-Type Activities Enterprise Funds				Governmental Activities Internal Service Fund
	Water Utility	Sewer Utility	Nonmajor Pat O'Donnell Civic Center	Total Enterprise Funds	
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 314,571	\$ 709,680	\$ 109,711	\$ 1,133,962	
Accounts receivable, less \$14,403 allowance for uncollectibles	122,234	246,389	1,366	369,989	
Due from other funds					\$ 665,759
Prepaid expenses	4,758	1,391	496	6,645	1,615
Inventories	<u>199,275</u>	<u>19,290</u>		<u>218,565</u>	
Total Current Assets	\$ 640,838	\$ 976,750	\$ 111,573	\$ 1,729,161	\$ 667,374
Capital Assets:					
Capital assets	\$ 17,141,293	\$ 10,170,982	\$ 1,674,104	\$ 28,986,379	\$ 3,710,811
Less allowances for depreciation	<u>(5,358,601)</u>	<u>(2,007,718)</u>	<u>(928,640)</u>	<u>(8,294,959)</u>	<u>(2,721,271)</u>
	\$ 11,782,692	\$ 8,163,264	\$ 745,464	\$ 20,691,420	\$ 989,540
Construction in progress	<u>3,868,564</u>	<u>4,259,674</u>		<u>8,128,238</u>	
Total Capital Assets	\$ 15,651,256	\$ 12,422,938	\$ 745,464	\$ 28,819,658	\$ 989,540
Other Assets:					
Investment in Gogebic-Iron Wastewater Authority		\$ 2,629,516		\$ 2,629,516	
Bond discount, net of amortization	\$ 16,126			16,126	
Restricted cash:					
Bond reserve accounts	346,126	196,026		542,152	
Bond redemption accounts	192,627	180,606	\$ 3,148	376,381	
Construction accounts	<u>602</u>	<u>214</u>		<u>816</u>	
Total Other Assets	\$ 555,481	\$ 3,006,362	\$ 3,148	\$ 3,564,991	
Total Assets	<u>\$ 16,847,575</u>	<u>\$ 16,406,050</u>	<u>\$ 860,185</u>	<u>\$ 34,113,810</u>	<u>\$ 1,656,914</u>
Deferred Outflows of Resources - Related to pensions	<u>\$ 262,943</u>	<u>\$ 60,159</u>	<u>\$ 5,108</u>	<u>\$ 328,210</u>	<u>\$ 82,148</u>

COMBINED STATEMENT OF NET POSITION - PROPRIETARY FUNDS (CONTINUED)

	Business-Type Activities Enterprise Funds			Total Enterprise Funds	Governmental Activities Internal Service Fund
	Water Utility	Sewer Utility	Nonmajor Pat O'Donnell Civic Center		
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 71,189	\$ 143,582	\$ 9,867	\$ 224,638	\$ 19,797
Accrued interest	38,319	29,454	469	68,242	
Due to (from) other funds	69,539	(96,192)		(26,653)	
Customer deposits	57,823			57,823	
Current maturities on long-term debt	<u>168,000</u>	<u>122,000</u>	<u>25,444</u>	<u>315,444</u>	<u>118,002</u>
Total Current Liabilities	\$ 404,870	\$ 198,844	\$ 35,780	\$ 639,494	\$ 137,799
Long-term debt:					
Compensated absences	\$ 97,264	\$ 65,585		\$ 162,849	\$ 89,938
Revenue bonds	6,459,000	6,305,000	\$ 201,593	12,965,593	
Equipment contract and note payable					284,266
Less portion included in current liabilities	(168,000)	(122,000)	(25,444)	(315,444)	(118,002)
Net pension liability	<u>1,361,284</u>	<u>284,302</u>	<u>27,169</u>	<u>1,672,755</u>	<u>442,907</u>
Total Noncurrent Liabilities	\$ 7,749,548	\$ 6,532,887	\$ 203,318	\$ 14,485,753	\$ 699,109
Total Liabilities	<u>\$ 8,154,418</u>	<u>\$ 6,731,731</u>	<u>\$ 239,098</u>	<u>\$ 15,125,247</u>	<u>\$ 836,908</u>
NET POSITION					
Deferred inflow of resources-					
Related to pensions	<u>\$ 14,175</u>	<u>\$ 4,290</u>	<u>\$ 273</u>	<u>\$ 18,738</u>	<u>\$ 4,361</u>
Net Position:					
Invested in capital assets, net of related debt	\$ 9,192,256	\$ 6,117,938	\$ 543,871	\$ 15,854,065	\$ 705,274
Restricted	539,355	376,846	3,148	919,349	
Unrestricted	<u>(789,686)</u>	<u>3,235,404</u>	<u>78,903</u>	<u>2,524,621</u>	<u>192,519</u>
Total Net Position	<u>\$ 8,941,925</u>	<u>\$ 9,730,188</u>	<u>\$ 625,922</u>	<u>\$ 19,298,035</u>	<u>\$ 897,793</u>

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

COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - PROPRIETARY FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2016

	Business-Type Activities Enterprise Funds				Governmental Activities Internal Service Fund
	Water Utility	Sewer Utility	Nonmajor Pat O'Donnell Civic Center	Total Enterprise Funds	
Operating revenues:					
Charges for service	\$ 1,865,320	\$ 1,753,732	\$ 118,439	\$ 3,737,491	\$ 712,623
Other	<u>1,674</u>		<u>2,755</u>	<u>4,429</u>	<u>810</u>
	\$ 1,866,994	\$ 1,753,732	\$ 121,194	\$ 3,741,920	\$ 713,433
Operating expenses:					
Personnel services	\$ 557,689	\$ 335,471	\$ 63,162	\$ 956,322	\$ 175,768
Purchase of services	1,099,889	1,590,976	60,192	2,751,057	129,544
Materials and supplies	77,349	20,516	34,110	131,975	110,340
Provision for depreciation	<u>307,584</u>	<u>171,601</u>	<u>45,601</u>	<u>524,786</u>	<u>162,510</u>
	\$ 2,042,511	\$ 2,118,564	\$ 203,065	\$ 4,364,140	\$ 578,162
Operating Income (Loss)	\$ (175,517)	\$ (364,832)	\$ (81,871)	\$ (622,220)	\$ 135,271
Nonoperating revenues (expenses):					
Interest earned	\$ 279	\$ 239	\$ 8	\$ 526	
Property taxes			87,800	87,800	
Debt service interest	(42,380)	(23,227)	(5,942)	(71,549)	\$ (8,748)
State grants		563,995		563,995	
Federal grants	531,297	221,200		752,497	
Gain on the sale of assets					<u>6,005</u>
	<u>\$ 489,196</u>	<u>\$ 762,207</u>	<u>\$ 81,866</u>	<u>\$ 1,333,269</u>	<u>\$ (2,743)</u>
Change in Net Position	\$ 313,679	\$ 397,375	\$ (5)	\$ 711,049	\$ 132,528
Net position at July 1, 2015	<u>8,628,246</u>	<u>9,332,813</u>	<u>625,927</u>	<u>18,586,986</u>	<u>765,265</u>
NET POSITION AT JUNE 30, 2016	<u>\$ 8,941,925</u>	<u>\$ 9,730,188</u>	<u>\$ 625,922</u>	<u>\$ 19,298,035</u>	<u>\$ 897,793</u>

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

COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2016

	Business-Type Activities Enterprise Funds			Total Enterprise Funds	Governmental Activities Internal Service Fund
	Water Utility	Sewer Utility	Nonmajor Pat O'Donnell Civic Center		
Cash flows from operating activities:					
Cash received from customers	\$ 1,848,062	\$ 1,677,635	\$ 125,644	\$ 3,651,341	\$ 711,818
Cash paid to employees and suppliers for goods and services	(1,702,575)	(1,873,385)	(161,775)	(3,737,735)	(391,875)
Internal activity - net payment from (to) other funds	(11)	(25,913)		(25,924)	26,863
Net Cash Provided by (Used in) Operating Activities	\$ 145,476	\$ (221,663)	\$ (36,131)	\$ (112,318)	\$ 346,806
Cash flows from noncapital and related financing activities -					
Cash received from property tax levies			87,801	87,801	
Cash flows from capital and related financing activities:					
Acquisition and construction of property and equipment	\$ (1,377,058)	\$ (1,763,556)		\$ (3,140,614)	\$ (226,887)
Principal paid on long-term debt	(212,000)	(120,000)	\$ (24,745)	(356,745)	(117,176)
Interest paid on long-term debt	(36,518)	(18,439)	(5,999)	(60,956)	(8,748)
Proceeds from the sale of assets					6,005
Proceeds from borrowing	1,283,000	1,433,000		2,716,000	
Grants received	531,297	785,195		1,316,492	
Net Cash Provided by (Used in) Capital and Related Financing Activities	\$ 188,721	\$ 316,200	\$ (30,744)	\$ 474,177	\$ (346,806)
Cash flows from investing activities - Interest earned	279	238	8	525	
Net Increase in Cash	\$ 334,476	\$ 94,775	\$ 20,934	\$ 450,185	\$ 0
Cash and cash equivalents at July 1, 2016	519,450	991,751	91,925	1,603,126	0
CASH AND CASH EQUIVALENTS AT JUNE 30, 2016	<u>\$ 853,926</u>	<u>\$ 1,086,526</u>	<u>\$ 112,859</u>	<u>\$ 2,053,311</u>	<u>\$ 0</u>

COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)

	Business-Type Activities Enterprise Funds			Total Enterprise Funds	Governmental Activities Internal Service Fund
	Water Utility	Sewer Utility	Nonmajor Pat O'Donnell Civic Center		
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ (175,517)	\$ (364,832)	\$ (81,871)	\$ (622,220)	\$ 135,271
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	\$ 307,584	\$ 171,601	\$ 45,601	\$ 524,786	\$ 162,510
Related to pensions	31,280	7,217	600	39,097	9,624
(Increase) decrease in current assets:					
Accounts receivable	8,584	(89,110)	4,946	(75,580)	
Due from other funds		(25,913)		(25,913)	26,863
Prepaid expense	(4,758)	(1,391)	(496)	(6,645)	(1,615)
Inventories	(22,758)	14,404		(8,354)	
Increase (decrease) in liabilities:					
Trade accounts payable	(11,932)	57,862	(5,163)	40,767	10,887
Salaries payable	7,895	4,775	252	12,922	1,702
Due other funds	(11)			(11)	
Customer deposits	(1,491)			(1,491)	
Compensated absences	6,600	3,724		10,324	1,564
Total adjustments	\$ 320,993	\$ 143,169	\$ 45,740	\$ 509,902	\$ 211,535
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 145,476	\$ (221,663)	\$ (36,131)	\$ (112,318)	\$ 346,806

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

COMBINED STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS

CITY OF IRONWOOD, MICHIGAN

June 30, 2016

	Pension Trust Funds	Retiree Healthcare Fund	Agency Funds	Total
ASSETS				
Cash	\$ 162,131	\$ 427,721	\$ 2,623	\$ 592,475
Delinquent property taxes receivable	5,365	3,426		8,791
Investments - Money market funds	<u> </u>	<u>1,051,573</u>	<u> </u>	<u>1,051,573</u>
Total Assets	<u>\$ 167,496</u>	<u>\$ 1,482,720</u>	<u>\$ 2,623</u>	<u>\$ 1,652,839</u>
LIABILITIES				
Liabilities:				
Accounts payable		\$ 4,230		\$ 4,230
Due to General Fund	<u> </u>	<u> </u>	<u>\$ 2,623</u>	<u>2,623</u>
	<u>\$ 0</u>	<u>\$ 4,230</u>	<u>\$ 2,623</u>	<u>\$ 6,853</u>
NET POSITION				
Net position held in trust for:				
Pension benefits	\$ 167,496			\$ 167,496
Post-employment health care benefits	<u> </u>	<u>\$ 1,478,490</u>	<u> </u>	<u>1,478,490</u>
Total Net Position	<u>\$ 167,496</u>	<u>\$ 1,478,490</u>	<u>\$ 0</u>	<u>\$ 1,645,986</u>

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

COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
PENSION TRUST FUNDS
CITY OF IRONWOOD, MICHIGAN
Year ended June 30, 2016

Additions:			
Property taxes		\$	351,736
Contributions			390,036
Interest earned			<u>213</u>
	Total Additions	\$	741,985
Deductions:			
Administrative expense	\$	1,360	
Transfer to Municipal Employees' Retirement System	<u>1,071,920</u>		<u>1,073,280</u>
	Net Decrease	\$	(331,295)
Net position held in trust			
Balance at July 1, 2015			<u>498,791</u>
	NET POSITION HELD IN TRUST AT JUNE 30, 2016	\$	<u>167,496</u>

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

NOTES
TO
FINANCIAL
STATEMENTS

NOTES TO FINANCIAL STATEMENTS

CITY OF IRONWOOD, MICHIGAN

June 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Ironwood operates under an elected City Commission. The financial statements of the City have been prepared in conformity with generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial-reporting principles. The more significant of the City's accounting policies are described below.

Financial Reporting Entity

The financial statements of the reporting entity include those of City of Ironwood (primary government) and its component unit as required by generally accepted accounting principles.

The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and 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. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The component unit discussed below is included in the City's reporting entity as a discretely presented component unit because of the significance of its operational or financial relationships with the City. This component unit is reported in a separate column to emphasize that it is legally separate from the City.

Ironwood Housing Commission - The Commission is located within the City's boundaries and provides housing to elderly individuals. The members of the governing board of the Ironwood Housing Commission are all appointed by the City Manager and confirmed by the City of Ironwood City Commission, the Housing Commission is required to make annual payments in lieu of taxes in amounts established by the City Commission, and employees of the Housing Commission are considered to be employees of the City of Ironwood. Separate financial statements for the Ironwood Housing Commission may be obtained at its administrative offices at 515 East Vaughn Street, Ironwood, Michigan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A wastewater system constructed in part within the City's boundaries is provided to citizens through a regional wastewater authority. The financial statements of the City do not include the wastewater authority, which operates autonomously under an intergovernmental service agreement; however, the City's investment in the wastewater authority is accounted for in the Sewer Utility Fund.

Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements (Statement of Net Position and Statement of Activities) report information on all of the activities of the City except for the fiduciary activities. All of the City's activities are considered to be governmental activities or business-type activities. Interfund activity including operating transfers between activities and amounts due to and from activities has been eliminated in the government-wide financial statements.

Fund-based Financial Statements

Separate financial statements are provided for on the basis of funds, each of which is considered a separate fiscal and accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Governmental, business-type activities, as well as fiduciary funds are provided. The various fund types are grouped in the financial statements as major funds or nonmajor funds. The City reports the following major funds:

General Fund – the general operating fund of the City. This fund is used to account for all financial resources except those required to be accounted for in another fund.

Major Street Fund – used to account for the financial transactions of the City's major street system.

Local Street Fund – used to account for the financial transactions of the City's local street system.

Capital Improvement Fund – is used to account for proceeds from borrowing and for financing of major capital projects.

Water Utility Fund – used to account for the financial transactions of the water utility system.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Fund-based Financial Statements (Continued)

Sewer Utility Fund – used to account for the financial transactions of the sewer utility system.

Internal Service Fund – used to account for the financial transactions of the City's equipment provided to other departments and funds on a cost-reimbursement basis.

All other funds are considered to be nonmajor. They include:

Special Revenue Funds - are used by the City to account for the proceeds of specific revenue sources (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Debt Service Funds - are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Pat O'Donnell Civic Center Fund - is used to account for operations of the civic center.

Fiduciary Funds are used to account for assets held in a trustee capacity or as an agent for others.

Basis of Accounting

Government-wide Financial Statements

The Government-wide financial statements report all financial and capital assets, short and long-term liabilities, revenues, expenses and gains and losses using the economic resources measurement focus and the accrual basis of accounting. All revenue is recorded when earned and expenses are recorded when a liability is incurred.

The Statement of Activities reports net cost information based on the City's functions. Direct expenses are listed by function with program revenues for each function offset against those expenses. Program revenues include charges for services that are fees and other charges to the users or recipients of the services the City provides. Program revenues also include operating grants and contributions that are restricted for a particular purpose. Property taxes and state and federal grant revenues that are not program revenues are reported as general revenues. Internal Service Fund charges to other funds and expenses paid are eliminated from the Statement of Activities.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Fund-based Financial Statements

Governmental fund types use the modified accrual basis of accounting and the flow of expendable financial resources (measurement focus). Under the modified accrual basis of accounting, revenues are recorded when all applicable eligibility requirements are met and resources are available to finance expenditures of the fiscal period. Revenues are available when they are collectible during the period and the actual collection will occur either (a) during the current period or (b) after the end of the period but in time to pay fund liabilities. The City considers revenues to be available if they are expected to be collected within 60 days of the end of the year. Property tax revenues are recognized as revenue when they are levied, with proper allowances made for estimated uncollectible accounts and delinquent accounts. Other tax revenues, fees and nontax revenues are recognized when received. Grants, entitlements and shared revenues are recorded when they are susceptible to accrual. Expenditure-based grants are recorded as revenue when the conditions of the grants are satisfied. Expenditures, if measurable, are recorded when they have used or are expected to use current expendable financial resources, except unmaturing interest on general long-term debt is recorded when due.

Proprietary, Internal Service and Fiduciary Fund Financial Statements

Proprietary fund types, Internal Service and Fiduciary Funds use the accrual basis of accounting and the flow of all economic resources (measurement focus). This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises. Revenues are recorded when earned and expenses are recorded when incurred.

Operating revenues of proprietary and Internal Service funds include charges for services. Nonoperating revenues include property taxes, interest earned and federal and state grant revenues.

Granting of Credit

The General Fund grants credit to the State of Michigan and various local units of government and individuals in the western Upper Peninsula of Michigan. The City also extends credit to its Cemetery Trust Fund and Enterprise Fund customers on a routine basis. In addition, the City has loaned monies to various individuals, partnerships and corporations explained in Note E below.

Cash and Cash Equivalents

Cash applicable to a particular fund is readily identifiable. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments. For purposes of the Statement of Cash Flows, cash includes all cash equivalents with an original maturity of three months or less.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

City funds are invested by the City Treasurer in accordance with Michigan Public Act 20 of the Public Acts of 1943, as amended, with the objectives of safety of principal, diversification, liquidity and return on investment. State statutes and the City Charter authorize the City to invest in bonds, securities and other obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States and in commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The City is also authorized to invest in repurchase agreements that shall be negotiated only with dealers or financial institutions with whom the City has negotiated a Master Repurchase Agreement, bankers' acceptances of U.S. banks, mutual funds registered under the Investment Company Act of 1940 that maintain a \$1 per share net asset value and investment pools organized under the surplus funds investment pool act or local government investment pool act. Investments are stated at fair market value.

Receivables

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

Due To and Due From Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. In the Statement of Net Position, interfund receivables and payables between funds classified as governmental activities and funds classified as business-type activities have been eliminated.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and balance sheet 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 periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City recognizes deferred outflows for pension related items which are expensed in the plan year in which it applies.

In addition to liabilities, the statement of financial position 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 future periods and so will not be recognized as an inflow of resources (revenue) until that time. The City has future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The provision for pension cost is recorded on the accrual basis, and the City's policy is to fund pension costs according to actuarial valuations.

Interest Receivable

Interest on investments and certain receivables is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

Inventories

Inventories for all governmental funds and proprietary funds are valued at cost (first-in, first-out).

Other Assets

Other assets held are recorded and accounted for at cost.

Restricted Cash and Investments

Enterprise Funds, because of certain bond covenants, are required to establish and maintain prescribed amounts of restricted resources (consisting of cash and temporary investments) that can be used only to service outstanding debt.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets and Depreciation

Capital assets, including land and improvements, buildings, furniture and fixtures, equipment, vehicles, library books and infrastructure assets (roads, bridges, sidewalks and similar items) are reported in the Government-wide financial statements. Capital assets are defined by the City as assets with an acquisition cost of generally more than \$5,000 or betterments totaling \$20,000 with an estimated useful life of five or more years. Assets meeting this criteria are recorded at historical cost or estimated historical costs if the amount is not known. Any donated capital assets are recorded at estimated fair market value at the date of donation. Interest on debt obligations for construction projects over one year is capitalized as part of the cost of the project. The costs of capital assets are charged to expense using an annual allocation of depreciation expense. Taking the depreciable cost of an asset and dividing that cost by its estimated useful life calculates the annual expense.

The expense is recorded in the Government-wide Statement of Activities and included as a direct expense of an identifiable function if the assets sole purpose can be identified as being for the function. Depreciation expense (unallocated) is the amount of depreciation expense that cannot be charged to any particular function. It is the City's policy to not charge depreciation expense for governmental activities to any function.

The capital assets are depreciated using the straight-line method over the following useful lives:

Land	Not depreciated
Land improvements	20 years
Buildings	25-50 years
Furniture, fixtures and other equipment	5-20 years
Vehicles	5-10 years
Library books	5 years
Roads	5-30 years
Other infrastructure	12-80 years

Impairment of Long-lived Assets

Management reviews long-lived assets held and used by the City for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed.

Long-Term Debt

The City reports long-term debt and other long-term obligations in the Government-wide Statement of Net Position. Amounts are recorded at face value along with any accrued interest to June 30, 2016.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Tax Revenues

Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available. Allowances are made for estimated uncollectible accounts and delinquent accounts.

Property taxes attach as an enforceable lien on property as of December 31. City and School taxes are levied on the ensuing July 1, and County taxes are levied on July 1 and December 1. The City bills and collects its own property taxes and also collects current rolls for the County, State, School District and Intermediate School District.

Delinquent real property taxes of the City are purchased annually by the County of Gogebic.

Vacation, Sick Leave and Other Compensated Absences

City employees are entitled to certain compensated absences based on their length of employment. Compensated absences either vest or accumulate and are accrued when they are earned.

Investment in Capital Assets, Net of Related Debt

This is the portion of net position of the City that consists of capital assets, net of accumulated depreciation and reduced by liabilities attributable to the acquisition, construction or improvement of those assets.

Restricted Net Position

Net position is restricted when there are constraints placed on their use by external parties or by statute.

Unrestricted Net Position

Net position not meeting either category above are considered unrestricted.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Policies

Fund balance measures the net financial resources available to finance expenditures of future periods. Fund balance is the difference between assets and liabilities reported in a governmental fund. The City's Unassigned General Fund Balance will be maintained to provide the City with sufficient working capital and a margin of safety to address local emergencies without unnecessary borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the City Commission. It is recognized that it will not always be possible to avoid borrowing to provide cash flow.

Fund Balances of the City may be committed for a specific purpose by formal action of the Commission. Amendments or modifications to the Committed Fund Balance must also be approved by formal action of the Commission. Committed Fund Balance does not lapse at year end.

The Commission delegates authority to assign fund balance for a specific purpose to the Finance Director and/or City Manager. Assigned Fund Balance does not lapse at year end.

Restricted Fund Balances are those amounts that can only be spent for the specific purposes stipulated by external resource providers.

Nonspendable Fund Balances include amounts that are not in a spendable form. The City reports inventories and prepaid expenses as Nonspendable Fund Balances.

For purposes of fund balance classification, expenditures are to be spent from Restricted Fund Balance first (when appropriate), followed in order by Committed Fund Balance, Assigned Fund Balance and lastly, Unassigned Fund Balance.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget

Formal budgetary accounting is employed as a management control for all funds of the City; however, legal budgets are adopted only for the General, Special Revenue, Capital Improvement and Debt Service Funds. Thus, the budgetary financial statements included in this report do not include proprietary funds or fiduciary funds. For each fund for which a formal budget is adopted, the same basis of accounting is used to reflect actual revenues and expenditures recognized on the basis of generally accepted accounting principles.

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

1. Prior to July 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is held to obtain taxpayers' comments.
3. Prior to July 1, the budget is legally enacted at the annual meeting by City Commission adoption of a resolution authorizing a General Appropriation Act for the fiscal year.
4. Any revisions to the budgeted amounts are approved by the City Commission.
5. Budgeted amounts are as originally adopted, plus amendments made on or before June 30, by the City Commission.
6. The budget expires on June 30 of the budget year.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through the date of the audit report, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Public Act 275 of 1980 Disclosure

The City did not have any funds with a fund balance deficit at June 30, 2016.

The following activities and fund report an unrestricted deficit in net position at June 30, 2016:

Governmental activities	\$ (3,952,370)
Business-type activities:	
Enterprise Funds -	
Water Utility	\$ (789,686)

Public Act 621 of 1978 Disclosure

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. In the body of the financial statements, the City's actual expenditures and appropriations have been shown on a functional basis. The approved budgets for the City for these budgetary funds were also adopted on the functional level.

During the year ended June 30, 2016, the City monitored and amended its budget and was in substantial compliance with the Act.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Compliance with Bond Covenants

Revenue bond ordinances issued by the Water Utility and Sewer Utility Funds require the City to segregate receipts to establish several reserve accounts. Following is a summary of required reserves and funding levels at June 30, 2016:

	June 30, 2016	
	Required Reserve	Reserve Balance
2013 Capital Improvement Bonds		
Bond Redemption Account	\$ 0	\$ 3,148
1999 and 2000 Water Supply System Revenue Bond -		
Bond Redemption Account	0	1,212
2010 Water Supply System Revenue Bonds:		
Bond Redemption Account	57,894	121,096
Bond Reserve Account	58,993	63,024
Repairs, Replacements and Improvement Account	0	175,292
2010 Sewage Disposal System Revenue Bonds:		
Bond Redemption Account	26,012	121,125
Bond Reserve Account	45,121	48,824
Repairs, Replacements and Improvement Account	0	85,167
2014 Water Supply System Revenue Bonds:		
Construction	0	602
Bond Redemption	0	70,319
Bond Reserve Account	42,320	47,610
Repairs, Replacements and Improvement Account	0	60,200
2014 Sewage Disposal System Revenue Bonds:		
Construction	0	214
Bond Redemption	0	59,481
Bond Reserve Account	40,920	46,035
Repairs, Replacements and Improvement Account	0	16,000
	<u>\$ 271,260</u>	<u>\$ 919,349</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C – CASH AND INVESTMENT INFORMATION

Cash and Cash Equivalents

Deposits are carried at cost plus accrued interest. The carrying amount of deposits is separately presented on the balance sheet as “Cash and cash equivalents” and “Restricted cash”. Total deposits in financial institutions of the primary government at June 30, 2016, totaled \$5,703,666 of which \$252,756 was covered by depository insurance and \$5,450,910 exceeded insurance limits or were in accounts not covered by depository insurance. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City’s deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City places its deposits with, what it believes to be, high quality financial institutions. Although such deposits were not fully insured, they are, in the opinion of the City, subject to minimal risk.

All deposits at June 30, 2016, were made in accordance with State of Michigan statutes and under authorization of the City Commission.

Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the City’s investing activities are managed under the custody of the City Treasurer. All investments were made in accordance with State of Michigan statutes and under authorization of the City Commission. Investments are stated at fair market value.

For investments, custodial risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party. All of the City’s investments are insured or registered or for which the securities are held by the City or its agent in the City’s name.

The City has credit risk relating to the domestic corporation obligations, which are obligations of a local nonprofit corporation. Concentration of credit risk is the risk that an issuer or other counter party will not fulfill its obligations and the City will not recover the value of the investments. The City believes the money market mutual fund is subject to minimal concentration of credit risk.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C – CASH AND INVESTMENT INFORMATION (CONTINUED)

At June 30, 2016, the City's reporting entity had the following investments:

<u>Type of Investment</u>	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality Rating (1)</u>	<u>Effective Duration (2)</u>	<u>Weighted Average Months to Maturity (2)</u>
Primary Government					
Money Market Mutual Fund	\$ 571,499	\$ 571,499	N/A	N/A	N/A
Fiduciary Funds					
Retiree Healthcare Fund - Money Market Mutual Fund	<u>1,051,573</u>	<u>1,051,573</u>	N/A	N/A	N/A
Total Investments	<u>\$ 1,623,072</u>	<u>\$ 1,623,072</u>			

(1) Ratings are provided where applicable to indicate associated credit risk. N/A indicates not applicable.

(2) Interest rate risk is estimated using either duration or weighted average months to maturity depending on the respective policy. Amounts are shown in months except as otherwise noted. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D – ACCOUNTS RECEIVABLE

Accounts receivable were comprised of the following at June 30, 2016:

<u>Fund</u>			
PRIMARY GOVERNMENT			
General:			
Delinquent taxes	\$	26,225	
State of Michigan		443,629	
Other		<u>68,843</u>	
	\$	538,697	
Less allowances for uncollectibles		<u>(6,556)</u>	\$ 532,141
Special Revenue:			
Customer accounts and local units of government	\$	36,807	
State of Michigan		130,590	
Delinquent taxes		<u>4,330</u>	171,727
Enterprise:			
Customer accounts	\$	259,986	
State of Michigan		124,406	
Less allowances for uncollectibles		<u>(14,403)</u>	369,989
Fiduciary -			
Delinquent taxes			<u>8,791</u>
		Total Primary Government	\$ 1,082,648
COMPONENT UNIT - Customer accounts			<u>58,334</u>
		Total	<u>\$ 1,140,982</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E – NOTES RECEIVABLE

Special Revenue Funds

Notes receivable included in assets of the Special Revenue Fund consisted of the following at June 30, 2016:

Economic Development Fund:

Eight notes receivable from individuals, corporations, another governmental unit and limited liability companies, at varying interest rates from 4.5% to 7.25%, and collateralized by security interests in real and personal property and by personal guarantees. \$288,923

Housing Development Fund - 0% note receivable from partnership, payable in full on August 16, 2018. This note is collateralized by a second real estate mortgage on land and building in Ironwood, Michigan, and by a security interest in related furnishings, fixtures, machinery and equipment. 320,000

\$608,923

Principal and interest collected on the notes receivable included in the Economic Development Fund is restricted for economic development purposes. The note receivable included in the Housing Development Fund is restricted for housing development purposes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS

Changes in primary governmental and proprietary activities capital assets are summarized below:

	Balance at July 1, <u>2015</u>	<u>Additions</u>	<u>Disposals</u>	Balance at June 30, <u>2016</u>
PRIMARY GOVERNMENT				
<u>Governmental Activities</u>				
Land and land improvements	\$ 278,062			\$ 278,062
Buildings and improvements	9,784,607	\$ 411,688		10,196,295
Machinery and equipment	515,509			515,509
Office equipment and furniture	485,230			485,230
Vehicles	693,267	228,502	\$ 197,851	723,918
Library books	831,905	16,134		848,039
Infrastructure	<u>5,364,108</u>	<u>1,639,061</u>	<u> </u>	<u>7,003,169</u>
	\$ 17,952,688	\$ 2,295,385	\$ 197,851	\$ 20,050,222
Less accumulated depreciation	(9,489,731)	(629,342)	(183,876)	(9,935,197)
Construction in progress	<u>135,232</u>	<u>324,509</u>	<u> </u>	<u>459,741</u>
Net	\$ 8,598,189	\$ 1,990,552	\$ 13,975	\$ 10,574,766
<u>Internal Service Fund</u>				
Rental equipment	\$ 3,541,815	\$ 226,887	\$ 57,891	\$ 3,710,811
Less accumulated depreciation	<u>(2,616,652)</u>	<u>(162,510)</u>	<u>(57,891)</u>	<u>(2,721,271)</u>
Net	\$ <u>925,163</u>	\$ <u>64,377</u>	\$ <u>0</u>	\$ <u>989,540</u>
Total Governmental Activities	\$ 9,523,352	\$ 2,054,929	\$ 13,975	\$ 11,564,306

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS (CONTINUED)

	Balance at July 1, <u>2015</u>	<u>Additions</u>	<u>Disposals</u>	Balance at June 30, <u>2016</u>
<u>Proprietary Activities</u>				
<u>Major Funds</u>				
Water Utility Fund:				
Land and land rights	\$ 38,701			\$ 38,701
Water production and distribution plant	<u>17,102,592</u>			<u>17,102,592</u>
	\$ 17,141,293	\$ 0	\$ 0	\$ 17,141,293
Less accumulated depreciation	(5,052,600)	(306,001)		(5,358,601)
Construction in progress	<u>2,626,251</u>	<u>1,242,313</u>		<u>3,868,564</u>
Net	\$ 14,714,944	\$ 936,312	\$ 0	\$ 15,651,256
Sewer Utility Fund:				
Land and land rights	\$ 7,600			\$ 7,600
Sewage transmission	<u>10,155,882</u>	\$ 7,500		<u>10,163,382</u>
	\$ 10,163,482	\$ 7,500	\$ 0	\$ 10,170,982
Less accumulated depreciation	(1,836,117)	(171,601)		(2,007,718)
Construction in progress	<u>2,804,132</u>	<u>1,455,542</u>		<u>4,259,674</u>
Net	\$ 11,131,497	\$ 1,291,441	\$ 0	\$ 12,422,938
<u>Nonmajor Fund</u>				
Pat O'Donnell Civic Center Operations Fund:				
Civic Center building and equipment	\$ 1,674,104			\$ 1,674,104
Less accumulated depreciation	<u>(883,039)</u>	<u>(45,601)</u>		<u>(928,640)</u>
Net	\$ 791,065	\$ (45,601)		\$ 745,464
Total Proprietary Funds Activities	\$ 26,637,506	\$ 2,182,152	\$ 0	\$ 28,819,658
<u>Component Unit</u>				
Housing Commission:				
Land	\$ 422,048			\$ 422,048
Building and improvements	8,188,759	\$ 75,348		8,264,107
Equipment	<u>103,720</u>	<u>6,599</u>	\$ 6,150	<u>104,169</u>
	\$ 8,714,527	\$ 81,947	\$ 6,150	\$ 8,790,324
Less accumulated depreciation	<u>(6,609,286)</u>	<u>(197,058)</u>	<u>(6,150)</u>	<u>(6,800,194)</u>
Net	\$ 2,105,241	\$ (115,111)	\$ 0	\$ 1,990,130
	<u>\$ 38,266,099</u>	<u>\$ 4,121,970</u>	<u>\$ 13,975</u>	<u>\$ 42,374,094</u>

Land is the only capital asset that is not depreciated. The City's capital asset records do not separate accumulated depreciation by capital asset type.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F – CAPITAL ASSETS (CONTINUED)

Construction in Progress – Governmental Activities

The City has three construction projects that are currently in progress as of June 30, 2016. Two of the projects started during the June 30, 2015 fiscal year and the third during the June 30, 2016 fiscal year. Total accumulated costs were \$459,741 as of June 30, 2016. The total amount consists of \$10,401 out of the Library Fund and \$8,884 out of the Local Street Fund and \$440,456 out of the Capital Improvements Fund monies. The Library Fund project is for an improvement to the facade of the library building and is expected to be completed in the June 30, 2017 year. The projects using Local Street Fund and Capital Improvement Fund monies are for street improvements and are expected to be completed during the June 30, 2017 fiscal year using Local Street Fund monies.

Construction in Progress - Water and Sewer Utility Funds

The City has a construction project that is currently in progress and is shared between the Water Utility and Sewer Utility Funds. The project started during the year ended June 30, 2008, and had costs accumulated as of June 30, 2016, of \$3,868,564 in the Water Utility Fund and \$4,259,674 in the Sewer Utility Fund. \$530,944 of capitalized interest is included in the accumulated costs as of June 30, 2016. The project has four phases planned. Phase I is described as the Jessieville/Aurora Street project and was complete as of June 30, 2013 with the total cost being \$3,070,166; Phase 2 is the Norrie project and was complete as of June 30, 2014 with the total cost being \$8,662,707; Phase 3 is the US-2 (and area north of US-2) project and Phase 4 is the Pumpstation and Wellfield upgrade project. Phase 3 is currently being worked on with completion expected during the year ending June 30, 2017. Phase 4 is in the planning stage. Total Phase 3 costs incurred as of June 30, 2016 were \$8,128,238. The cost of this project is financed by loans and grants from Rural Development.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G – LONG-TERM DEBT

A summary of changes in long-term debt follows:

	Balance at July 1, <u>2015</u>	<u>Increase</u>	<u>Decrease</u>	Balance at June 30, <u>2016</u>	Amount Due Within <u>One Year</u>
PRIMARY GOVERNMENT					
<u>Governmental Activities</u>					
Capital Improvement Street Bonds	\$ 765,000		\$ 100,000	\$ 665,000	\$ 105,000
Capital Improvement Bonds	1,557,000		142,000	1,415,000	147,000
Department of Transportation Bonds	136,750		15,378	121,372	15,840
Compensated absences	<u>485,195</u>		<u>44,138</u>	<u>441,057</u>	<u>57,366</u>
Total Governmental Activities	\$ 2,943,945	\$ 0	\$ 301,516	\$ 2,642,429	\$ 325,206
<u>Proprietary Activities</u>					
Revenue and refunding bonds	\$ 10,380,270	\$ 2,716,000	\$ 332,270	\$ 12,764,000	\$ 290,000
Capital Improvement Bonds	226,068		24,475	201,593	25,444
Compensated absences	<u>152,525</u>	<u>10,324</u>		<u>162,849</u>	
Total Proprietary Activities	\$ 10,758,863	\$ 2,726,324	\$ 356,745	\$ 13,128,442	\$ 315,444
<u>Internal Service Fund</u>					
Equipment contracts payable	\$ 401,442		\$ 117,176	\$ 284,266	\$ 118,002
Compensated absences	<u>88,374</u>	<u>1,564</u>		<u>89,938</u>	
Total Internal Service Fund	\$ 489,816	\$ 1,564	\$ 117,176	\$ 374,204	\$ 118,002
TOTAL PRIMARY GOVERNMENT	\$ 14,192,624	\$ 2,727,888	\$ 775,437	\$ 16,145,075	\$ 758,652
COMPONENT UNIT -					
Compensated absences				<u>11,458</u>	
	<u>\$ 14,192,624</u>	<u>\$ 2,727,888</u>	<u>\$ 775,437</u>	<u>\$ 16,156,533</u>	<u>\$ 758,652</u>

The Capital Improvement Street Bonds are being paid through the Local Street Fund with monies transferred from the General Fund. The Capital Improvement Bonds recorded in the governmental activities are paid by the Debt Service Fund and Capital Improvements Fund with funds coming from a property tax levy. The general obligation limited tax and revenue bonds recorded in the proprietary activities are paid by users of the Water and Sewer Funds according to various bond ordinances. The equipment contracts payable are paid by the Internal Service Fund. Compensated absences are paid by various funds as described in the compensated absences footnote below. The net pension liability will be paid by various funds and is described in the accompanying defined benefit pension footnote below.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G – LONG-TERM DEBT (CONTINUED)

The aggregate amounts of long-term debt principal and interest maturities (excluding accumulated compensated absences and bond issues not fully received) for the five years ending June 30, 2021, and in five-year increments thereafter until maturity are:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 700,186	\$ 282,017	\$ 982,203
2018	666,159	266,519	932,678
2019	656,648	251,981	908,629
2020	612,614	236,527	849,141
2021	580,273	223,867	804,140
2022-2026	1,923,251	947,853	2,871,104
2027-2031	1,150,000	792,685	1,942,685
2032-2036	1,278,000	667,934	1,945,934
2037-2041	1,427,000	529,048	1,956,048
2042-2046	1,585,000	373,996	1,958,996
2047-2051	1,773,000	201,068	1,974,068
2052	<u>884,000</u>	<u>35,600</u>	<u>919,600</u>
	<u>\$ 13,236,131</u>	<u>\$ 4,809,095</u>	<u>\$ 18,045,226</u>

Compensated Absences

The City has reported a \$441,057, \$162,849 and \$89,938 liability for accumulated unpaid vacation, sick pay and personal leave and related fringe benefits in its governmental, proprietary and internal service activities, respectively at June 30, 2016. The City has reported a \$11,458 liability for compensated absences in its Component Unit at June 30, 2016.

The City reports the accumulated absence liability for governmental fund employees in the governmental activities and proprietary fund employees as a liability in the business-type activities in the government-wide financial statements. Amounts expected to be paid to employees within sixty days of year end are recorded as a liability in the financial statements of the fund which will pay for the accumulated absences in the fund-based financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G – LONG-TERM DEBT (CONTINUED)

Compensated Absences (Continued)

Following is a summary of employment policies related to accumulated absences:

General City Operations - For employees hired on or before July 1, 1994, sick leave is earned at 1 and 1/12 days per month, with 2,080 hours maximum accumulation. Upon death or retirement, employees receive all unused sick leave and are paid at their current rate of pay. Upon termination other than death or retirement, employees receive 50 percent of unused sick leave.

For employees hired after July 1, 1994, sick leave is earned at 1 and 1/12 days per month, with 800 hours maximum accumulation. Employees receive 50 percent of unused sick leave upon termination, including death or retirement.

Vacation leave is earned at varying rates, depending upon length of service. At termination, employees receive all unused vacation leave and are paid at their current rate of pay.

Public Safety Officers - For employees hired on or before April 1, 1995, sick leave is earned at 1 and 1/12 days per month, with 2,080 hours maximum accumulation. Upon termination after at least 10 years of service, retirement or death, employees are paid for all accumulated sick leave at their current rate of pay.

For employees hired after April 1, 1995, sick leave accumulation is limited. Upon termination, employees are paid for up to 800 hours of accumulated sick leave at 50 percent of their current rate of pay.

For several management employees, sick leave is earned at 1 and 1/12 days per month with maximum accumulation as specified in individual employment agreements. Upon termination, these employees receive no accumulated sick leave benefits.

Other Fringe Benefits - Included in accumulated absences liability are the related social security and retirement costs.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H – BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE

2015 Capital Improvement Bonds

On May 14, 2015, the City issued \$1,557,000 of 2015 Capital Improvement Bonds, to finance capital projects. The bonds are limited tax general obligation bonds issued under provisions of Act 34, Public Acts of Michigan, 2001, as amended. The City has pledged its limited tax full faith and credit for the prompt payment of the bonds. Each year the City shall budget the amount of the debt service coming due in the next fiscal year on the principal of and interest on the bonds and shall advance as a first budget obligation from its general funds available therefor, or, if necessary, levy taxes upon all taxable property in the City subject to applicable constitutional, statutory and charter tax rate limitations, such sums as may be necessary to pay such debt service in said fiscal year. Interest on the bonds is payable on January 1 and July 1 of each year at a rates varying from .75% to 3.00%. Principal payments are due each November 1 through the year ending June 30, 2025. All of the bonds were purchased by Gogebic Range Bank, Bessemer, Michigan, with the Bank acting as the paying agent. The outstanding amount payable on the bonds at June 30, 2016 totals \$1,415,000, with \$147,000 maturing during the year ending June 30, 2017. Annual principal and interest maturities are included in Note G.

2012 Capital Improvement Street Bonds

On July 13, 2012, the City issued \$1,055,000 of 2012 Capital Improvement Street Bonds, to finance street improvements. The bonds are limited tax general obligation bonds issued under provisions of Act 34, Public Acts of Michigan, 2001, as amended. The City has pledged its limited tax full faith and credit for the prompt payment of the bonds. Each year the City shall budget the amount of the debt service coming due in the next fiscal year on the principal of and interest on the bonds and shall advance as a first budget obligation from its general funds available therefor, or, if necessary, levy taxes upon all taxable property in the City subject to applicable constitutional, statutory and charter tax rate limitations, such sums as may be necessary to pay such debt service in said fiscal year. Interest on the bonds is payable on November 1 and May 1 of each year at a rates varying from 1.9% to 2.7%. Principal payments are due each November 1 through the year ending June 30, 2021. All of the bonds were purchased by Gogebic Range Bank, Bessemer, Michigan, with the Bank acting as the paying agent. The outstanding amount payable on the bonds at June 30, 2016 totals \$665,000, with \$105,000 maturing during the year ending June 30, 2017. Annual principal and interest maturities are included in Note G.

2014 Michigan Department of Transportation Loan

On July 2, 2014, the City received a loan from the Michigan Department of Transportation (MDOT) in the amount of \$136,750 to finance upgrades to light poles, banner hangers, overhead power lines and sidewalks. Interest on the loan is payable on July 2 of each year at a rate of 3.0%. Principal payments are due each July 2 through the year ending June 30, 2023. The outstanding amount payable on the loan at June 30, 2016 totaled \$121,372, with \$15,840 maturing during the year ending June 30, 2017. Annual principal and interest maturities are included in Note G.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H – BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE (CONTINUED)

1999 Water Supply System Revenue Bonds

On April 1, 1999, the City issued \$900,000 of Water Supply System Revenue Bonds to finance improvements to its water supply system. The bonds are payable solely from revenues generated by the Water Utility Fund. Interest on the bonds is payable on October 1 and April 1 of each year at a rate of 2.5%. Principal payments are due each April 1 through the year ending June 30, 2019. Funding for the bonds came from the Michigan Drinking Water Revolving Fund Loan Program. J.P. Morgan Trust Company, N.A. is acting as the paying agent. The City is accounting for these bonds in the Water Utility Fund. The outstanding amount payable on the bonds at June 30, 2016 totals \$165,000, with \$55,000 maturing during the year ending June 30, 2017. Annual principal and interest maturities are included in Note G.

Water Supply System Revenue Refunding Bond, Series 2010B

On July 19, 2010, the City issued \$461,000 of Water Supply System Revenue Refunding Bonds, Series 2010B. Funding for the bonds is from United States of America Department of Agriculture Rural Development. The City accounts for these bonds in its Water Utility Fund. Interest on the bonds is payable on July 1 and January 1 of each year at a rate of 4.0%. Principal payments are due each July 1 through the year ending June 30, 2021. The outstanding amount payable on the bonds at June 30, 2016 totals \$253,000, with \$46,000 maturing during the year ending June 30, 2017. Annual principal and interest maturities are included in Note G.

Water Supply System Revenue Bond, Series 2010C

On August 17, 2010, the City issued \$1,203,000 of Water Supply System Revenue Bonds, Series 2010C to finance improvements to its water supply system in the Jessieville area of the City. Funding for the bonds is from United States of America Department of Agriculture Rural Development. The City accounts for these bonds in its Water Utility Fund. Interest on the bonds is payable on July 1 and January 1 of each year at a rate of 2.375%. Principal payments are due each January 1 through the year ending June 30, 2051. The outstanding amount payable on the bonds at June 30, 2016 totals \$1,114,000, with \$19,000 maturing during the year ending June 30, 2017. Annual principal and interest maturities are included in Note G.

Water Supply System Revenue Bond, Series 2014A

On May 15, 2014, the City issued \$1,410,000 of Water Supply System Revenue Bonds, Series 2014A to finance improvements to its water supply system. Funding for the bonds is from United States of America Department of Agriculture Rural Development. Interest on the bonds is payable on November 1 and May 1 of each year at a rate of 2.00%. Principal payments are due each November 1 through the year ending June 30, 2054. The outstanding amount payable on the bonds at June, 2016 totals \$1,363,000, with \$24,000 maturing during the year ending June 30, 2017. Annual principal and interest maturities are included in Note G.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H – BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

Water Supply System Revenue Refunding Bond, Series 2014B

On May 15, 2014, the City issued \$1,396,000 of Water Supply System Revenue Bonds, Series 2014A and used a portion of its bond reserves to refund Series 2010A Water Supply System Revenue Bonds. Funding for the bonds is from United States of America Department of Agriculture Rural Development. The City accounts for these bonds in its Water Utility Fund. Interest on the bonds is payable on November 1 and May 1 of each year at rate of 2.00%. Principal payments are due each November 1 through the year ending June 30, 2054. The outstanding amount payable on the bonds at June 30, 2016 totals \$1,349,000, with \$24,000 maturing during the year ending June 30, 2017. Annual principal and interest maturities are included in Note G.

Water Supply System Revenue Bond, Series 2014C

On May 15, 2014, the City issued \$2,932,000 of Water Supply System Revenue Bonds, Series 2014C to finance improvements to its water supply system. Funding for the bonds is from United States of America Department of Agriculture Rural Development. The bonds will have interest payable on November 1 and May 1 at a rate of 2.00% and principal is due November 1 each year. The City accounts for these bonds in its Water Utility Fund. As of June 30, 2016 the City has received \$2,314,000, with \$99,000 of principal paid back on the bond. The outstanding amount on the bonds at June 30, 2016 totals \$2,215,000, with the remaining proceeds set to be received subsequent to June 30, 2016. Due to this, this bond is not included in the annual principal and interest maturities in Note G.

Sewage Disposal System Revenue Refunding Bond, Series 2010B

On July 19, 2010, the City issued \$117,000 of Sewage Disposal System Revenue Refunding Bonds, Series 2010B. Funding for the bonds is from United States of America Department of Agriculture Rural Development. The City accounts for these bonds in its Sewer Utility Fund. Interest on the bonds is payable on July 1 and January 1 of each year at a rate of 4.00%. Principal payments are due each July 1 through the year ending June 30, 2021. The outstanding amount payable on the bonds at June 30, 2016 totals \$65,000, with \$12,000 maturing during the year June 30, 2017. Annual principal and interest maturities are included in Note G.

Sewage Disposal System Revenue Bond, Series 2010C

On August 17, 2010, the City issued \$930,000 of Sewage Disposal System Revenue Bonds, Series 2010C to finance improvements to its sewage disposal system in the Jessieville area of the City. Funding for the bonds is from United States of America Department of Agriculture Rural Development. The City accounts for these bonds in its Sewer Utility Fund. Interest on the bonds is payable on July 1 and January 1 of each year at a rate of 2.375%. Principal payments are due each January 1 through the year ending June 30, 2051. The outstanding amount payable on the bonds at June 30, 2016 totals \$861,000, with \$15,000 maturing during the year ending June 30, 2017. Annual principal and interest maturities are included in Note G.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H – BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

Sewage Disposal System Revenue Bond, Series 2014A

On May 15, 2014, the City issued \$1,712,000 of Sewage Disposal System Revenue Bonds, Series 2014A to finance improvements to its sewage disposal system. Funding for the bonds is from United States of America Department of Agriculture Rural Development. Interest on the bonds is payable on November 1 and May 1 of each year at a rate of 2% and principal is due on November 1 of each year. The City accounts for these bonds in its Sewer Utility Fund. Principal payments are due through the year ending June 30, 2054. The outstanding amount payable on the bonds at June 30, 2016 totals \$1,655,000, with \$29,000 maturing during the year ending June 30, 2017. Annual principal and interest maturities are included in Note G.

Sewage Disposal System Revenue Refunding Bond, Series 2014B

On May 15, 2014, the City issued \$1,687,000 of Sewage Disposal System Revenue Bonds, Series 2014A and used a portion of its bond reserves to refund Series 2010A Sewage Disposal System Revenue Bonds. Funding for the bonds is from United States of America Department of Agriculture Rural Development. The City accounts for these bonds in its Sewer Utility Fund. Interest on the bonds is payable on November 1 and May 1 of each year at rate of 2.00%. Principal payments are due each November 1 through the year ending June 30, 2054. The outstanding amount payable on the bonds at June 30, 2016 totals \$1,631,000, with \$29,000 maturing during the year ending June 30, 2017. Annual principal and interest maturities are included in Note G.

Sewage Disposal System Revenue Bond, Series 2014C

On May 15, 2014, the City issued \$2,166,000 of Sewage Disposal System Revenue Bonds, Series 2014C to finance improvements to its sewage disposal system. Funding for the bonds is from United States of America Department of Agriculture Rural Development. The City accounts for these bonds in its Sewer Utility Fund. Interest on the bonds is payable on November 1 and May 1 at a rate of 2.00% and principal payments are due November 1 through the year ending June 30, 2054. The outstanding amount payable on the bonds at June 30, 2016 totals \$2,093,000, with \$37,000 maturing during the year ending June 30, 2017. Annual principal and interest maturities are included in Note G.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H – BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

Proprietary Activities Revenue and Refunding Bonds

The City has issued several revenue and refunding bonds in both the Water Supply System and Sewage Disposal System funds. All except the 1999 Bonds are funded from the United States of America Department of Agriculture Rural Development. Interest on the bonds is due each six months and principal payments are due annually. The final bond payment is due in the year 2054. Annual principal and interest maturities are included in Note G. Information relative to the bond issues is as follows:

	<u>Outstanding Balance at June 30, 2016</u>	<u>Maturing Within One Year</u>	<u>Interest Rate</u>
Water Supply System Revenue and Refunding Bonds:			
Revenue Bond, Series 1999	\$ 165,000	\$ 55,000	2.50%
Refunding Bond, Series 2010B	253,000	46,000	4.00%
Revenue Bond, Series 2010C	1,114,000	19,000	2.375%
Revenue Bond, Series 2014A	1,363,000	24,000	2.00%
Refunding Bond, Series 2014B	1,349,000	24,000	2.00%
Revenue Bond, Series 2014C	<u>2,215,000</u>	<u> </u>	2.00%
	\$ 6,459,000	\$ 168,000	
Sewage Disposal System Revenue and Refunding Bonds:			
Refunding Bond, Series 2010B	\$ 65,000	\$ 12,000	4.00%
Revenue Bond, Series 2010C	861,000	15,000	2.375%
Revenue Bond, Series 2014A	1,655,000	29,000	2.00%
Refunding Bond, Series 2014B	1,631,000	29,000	2.00%
Revenue Bond, Series 2014C	<u>2,093,000</u>	<u>37,000</u>	2.00%
	\$ 6,305,000	\$ 122,000	
	<u>\$ 12,764,000</u>	<u>\$ 290,000</u>	

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H – BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE (CONTINUED)

Equipment Contracts Payable

Equipment contracts payable included in liabilities in the Internal Service Fund consist of installment purchase contracts payable to banks at rates of interest varying from 1.75% to 4.5%, payable in monthly installments, including interest, with the final contract maturing during the year ending June 30, 2018. The obligations are collateralized by security interests in equipment. The outstanding amount payable on the equipment contracts at June 30, 2016 totals \$284,266, with \$118,002 maturing during the year ending June 30, 2017. Annual principal and interest maturities are included in Note G.

2013 Capital Improvement Bonds

On September 9, 2013 the City issued \$275,000 of 2013 Capital Improvement Bonds, to finance improvements to the Civic Center. The bonds are limited tax general obligation bonds issued under provisions of Act 34, Public Acts of Michigan, 2001, as amended. The City has pledged its limited tax full faith and credit for the prompt payment of the bonds. Principal and interest payments are due on the 1st of each month through the year ending June 30, 2024. All of the bonds were purchased by Gogebic Range Bank, Bessemer, Michigan, with the Bank acting as the paying agent. The outstanding amount payable on the bonds at June 30, 2016 totals \$201,593, with \$25,444 maturing during the year ending June 30, 2017. Annual principal and interest maturities are included in Note G.

NOTE I – OPERATING LEASES

The City paid \$6,659 during the year ended June 30, 2016, for equipment rented under operating leases. There are no significant minimum future lease obligations under the terms of these leases.

The City is a lessor of building space in various buildings located within its boundaries. All leases are considered to be operating leases.

NOTE J – PROPERTY TAX ADMINISTRATION FEE

In accordance with Public Act 503 of 1982, the City has established a subsidiary ledger to separately account for costs incurred in the collection, assessment and review of property tax levies. For the year ended June 30, 2016, costs incurred totaled \$99,962 and revenues from charging the administrative fee were \$90,603. Cumulative costs since inception of the subsidiary ledger have exceeded cumulative fees.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE K – INTERFUND RECEIVABLES AND PAYABLES

Generally, outstanding balances between funds reported as “due to/from other funds” include outstanding charges by one fund to another for services or goods, and other miscellaneous receivables/payables between funds. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans).

Any residual balances outstanding between the governmental activities and proprietary activities are reported in the government-wide financial statements as “internal balances”. Interfund balances of \$2,623 reported in assets of the primary governmental activities at June 30, 2016 consist of balances due to the General Fund from the Trust and Agency Fund.

The amounts of interfund receivables and payables at June 30, 2016, were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Fund</u>	<u>Interfund Payables</u>
General	\$ 2,623	Trust and Agency	\$ 2,623
Major Street	345,591	General	345,591
Local Street	28,512	General	28,512
Debt Service	651	General	651
Sewer Utility	26,653	General	26,653
Internal Service	<u>665,759</u>	General	<u>665,759</u>
	<u>\$ 1,069,789</u>		<u>\$ 1,069,789</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE L – INTERFUND TRANSFERS

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

Interfund transfers for the year ended June 30, 2016, were made from the General Fund to the Cemetery Fund in the amount of \$41,385, from the General Fund to the Local Street Fund in the amount of \$190,046 and from the Downtown Ironwood Development Authority to the General fund in the net amount of \$3,000.

NOTE M – RESTRICTION OF NET POSITION AND SUMMARY OF FUND BALANCES

Following is a summary of restricted net position for individual funds at June 30, 2016:

<u>Fund</u>	<u>Purpose</u>	<u>Amount of Restriction</u>
Primary Government		
Governmental Activities:		
General Fund	By donors and grants	\$ 28,540
Library Fund	By donors and grants	139,759
Economic Development Fund	Economic development	289,523
Cemetery Trust Fund	Perpetual care	500,000
1995 Debt Service Fund	Debt service	6,301
2015 Debt Service Fund	Debt service	<u>15,303</u>
		\$ 979,426
Business-type Activities:		
Water Utility	Bond reserve, redemption and construction	\$ 539,355
Sewer Utility	Bond reserve and redemption	376,846
Civic Center	Bond redemption	<u>3,148</u>
		<u>\$ 919,349</u>
		<u><u>\$ 1,898,775</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE M – RESTRICTION OF NET POSITION AND SUMMARY OF FUND BALANCES
(CONTINUED)

Following is a summary of fund balances for individual governmental funds for purposes of the Combined Balance Sheet:

<u>Fund</u>	<u>Purpose</u>	<u>Amount of Reserve</u>
Primary Government General Fund:	Nonspendable for inventory and prepaid expenses	\$ 62,311
	Restricted by donors	28,540
	Committed for future project and budgeting purposes	423,700
	Assigned by management for projects	<u>1,064,419</u>
		\$ 1,578,970
Major Governmental Funds:		
Major Street Fund	Assigned	\$ 399,694
Local Street Fund	Assigned	<u>69,514</u>
		\$ 469,208
Nonmajor Governmental Funds:	Restricted:	
Library Fund	By donors and grants	\$ 139,759
Economic Development Fund	Long-term portion of notes receivable	289,523
Cemetery Trust Fund	Future care	500,000
1995 Debt Service Fund	Debt service	6,301
2015 Debt Service Fund	Debt service	<u>15,303</u>
		\$ 950,886
Library Fund	Assigned	\$ 12,641
Downtown Ironwood Development Authority	Assigned	11,432
Cemetery Trust Fund	Assigned	10,000
Volunteer Fire Department Fund	Assigned	<u>6,620</u>
		<u>\$ 40,693</u>
	Total	<u>\$ 3,039,757</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE N – SEGMENT INFORMATION FOR BUSINESS-TYPE ACTIVITIES

The City maintains three Enterprise Funds. Services provided include water, sewer, garbage and civic center operations. Segment information not presented in the basic financial statements for the year ended June 30, 2016, was as follows:

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Pat O'Donnell Civic Center Operations</u>
Tax revenues	\$ 0	\$ 0	\$ 87,800
Current capital contributions	0	0	0
Land, buildings and equipment:			
Additions	1,242,313	1,463,042	0
Disposals	0	0	0

NOTE O – INVESTMENT IN GOGEBIC-IRON WASTEWATER AUTHORITY

Gogebic-Iron Wastewater Authority (the Authority) was organized in 1983 to finance and construct a regional wastewater treatment plant and sewer system (the Project). Members of the Authority are City of Ironwood and one local township. Construction of the Project was financed principally by federal and state grants and loans to the Authority. The participating local units of government provided financing in the forms of pass-through of federal and state grants and loans and direct investment. At June 30, 2016, the City's investment in the Authority consisted of the following:

Pass-through of state grants to Authority	\$ 427,303
Share of costs not eligible for funding by federal and state grants and organizational expenses paid to Authority	1,553,866
Cumulative share of net income of Authority	<u>648,347</u>
	<u>\$ 2,629,516</u>

The City is accounting for its investment in the Authority by the equity method in the Sewer Utility Fund. The cumulative share of net income of the Authority includes the City's share of net income through June 30, 2003. Upon the adoption of GASB Statement No. 34 by the Authority during the year ended June 30, 2004, the City determined the change in the Authority's net position does not reflect a realistic method of increasing or decreasing its investment.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE O – INVESTMENT IN GOGEBIC-IRON WASTEWATER AUTHORITY (CONTINUED)

The Authority owns the Project; however, the Project is being operated and managed by an autonomous Gogebic-Iron Wastewater Board (the Board) which is comprised of members of the Authority and City of Hurley, Wisconsin. Upon payment in full of revenue bonds issued by the Authority, title to the wastewater treatment plant will pass from the Authority to the Board. Each member of the Board will then own, in common, an undivided interest therein. Title to the collection sewer system lying within the boundaries of each local governmental unit will pass to that unit.

Condensed financial information as of and for the year ended June 30, 2016, from the Authority's most recently audited financial statements, which are available at the Authority's administrative office at 700 West Cloverland Drive, Ironwood, Michigan, follows:

	<u>Gogebic-Iron Wastewater Authority</u>	<u>Board</u>	<u>Totals (Memorandum Only)</u>
Total assets	\$ 9,964,918	\$ 73,890	\$ 10,038,808
Deferred outflows of resources	\$ 538,101		\$ 538,101
Total liabilities	\$ 4,192,581	\$ 73,890	\$ 4,266,471
Deferred inflow of resources	\$ 15,480		\$ 15,480
Net position	\$ 6,294,958	\$ 0	\$ 6,294,958
Operating revenues	\$ 1,336,460	\$ 1,015,468	\$ 2,351,928
Operating expenses	<u>1,864,606</u>	<u>1,015,558</u>	<u>2,880,164</u>
	\$ (528,146)	\$ (90)	\$ (528,236)
Net increase in the fair value of investments	70,104		70,104
Interest charges, net of investment earnings	<u>(85,917)</u>	<u>90</u>	<u>(85,827)</u>
Change in Net Position	\$ (543,959)	\$ 0	\$ (543,959)
Net Position at July 1, 2015	<u>6,838,917</u>	<u>0</u>	<u>6,838,917</u>
NET POSITION AT JUNE 30, 2016	<u>\$ 6,294,958</u>	<u>\$ 0</u>	<u>\$ 6,294,958</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE P – SUMMARY OF 2015 TAX LEVY

Details of the City’s 2015 property tax levy (excluding industrial facilities tax) are as follows:

City:		
General Fund	\$	1,704,804
Civic Center		88,792
Library Fund		85,737
Public Safety Retirement System Fund		577,143
Debt Service Fund		177,585
Downtown Ironwood Development Authority		12,048
	Total City Taxes	\$ 2,646,109
School		1,212,152
County		1,327,654
State Education Tax		529,098
	Total Levy	\$ 5,715,013

TAXABLE VALUATION

Tax rate per \$1,000 valuation:		
General Fund	\$	19.2000
Civic Center		1.0000
Library Fund		0.9658
Public Safety Retirement System Fund		6.5000
Debt Service Fund		2.0000
		\$ 29.6658

NOTE Q – DEFINED 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE Q – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Benefits Provided

Benefits provided include plans with multipliers ranging from 2.25% to 2.50%. The vesting period is 10 years. The normal retirement age is 60 with early retirement ranging from 50 to 55 years of age with 20 to 25 years of service. Final average compensation is calculated based on 3 to 5 years of final service. Member contributions range from 4.77% to 5.0%.

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	73
Inactive employees entitled to but not yet receiving benefits	5
Active employees	<u>38</u>
	<u>116</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. Employer contribution was \$592,282 based on annual payroll.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE Q – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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: 3.75% in the long-term

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

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

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

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study covering the period from 2009 through 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:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE Q – DEFINED BENEFIT PENSION PLAN (CONTINUED)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	57.50%	5.02%
Global Fixed Income	20.00%	2.18%
Real Assets	12.50%	4.23%
Diversifying Strategies	10.00%	6.56%

Discount Rate

The discount rate used to measure the total pension liability is 8.00% for 2015. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE Q – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Calculating Net Pension Liability

Changes in Net Pension Liability	Total Pension Liability (a)	<u>Increase (Decrease)</u> Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2015	\$ 17,089,921	\$ 8,905,391	\$ 8,184,530
Changes for the Year			
Service Cost	\$ 223,802		\$ 223,802
Interest on Total Pension Liability	1,366,510		1,366,510
Changes in Benefits	0		0
Difference between expected and actual experience	(154,152)		(154,152)
Changes in assumptions	735,924		735,924
Employer Contributions		\$ 592,282	(592,282)
Employee Contributions		122,989	(122,989)
Net Investment Income		(127,762)	127,762
Benefit payments, including employee refunds	(1,276,131)	(1,276,131)	0
Administrative expense	_____	(18,972)	18,972
	<u>\$ 895,953</u>	<u>\$ (707,594)</u>	<u>\$ 1,603,547</u>
Primary Government			
Balances as of December 31, 2015	<u>\$ 17,985,874</u>	<u>\$ 8,197,797</u>	<u>\$ 9,788,077</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE Q – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Total Pension Liability (a)	\$ 19,845,967	\$ 17,985,877	\$ 16,397,391
Fiduciary Net Position (b)	<u>8,197,800</u>	<u>8,197,800</u>	<u>8,197,800</u>
Net Pension Liability (a) - (b)	<u>\$ 11,648,167</u>	<u>\$ 9,788,077</u>	<u>\$ 8,199,591</u>

Pension Expense and Deferred Outflows of Resources Related to Pensions

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences in experience	\$ 0	\$ 102,767
Differences in assumptions	490,616	0
Excess Investment Returns	766,905	0
Contributions subsequent to the measurement date*	<u>644,627</u>	<u>0</u>
Primary Government Total	<u>\$ 1,902,148</u>	<u>\$ 102,767</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 June 30, 2017.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE Q – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Expense and Deferred Outflows of Resources Related to Pensions (Continued)

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

Year ended June 30,

2017	\$ 393,657
2018	393,657
2019	199,732
2020	<u>167,708</u>
	<u>\$1,154,754</u>

Component Unit

The Ironwood Housing Commission participates in the Municipal Employees' Retirement System (MERS) of Michigan along with the City. The above information is the City's primary government portion only. The Commission's portion can be viewed in the Commission's June 30, 2016 audit report.

NOTE R – POST-EMPLOYMENT HEALTH BENEFITS

In addition to the pension benefits described in Note Q, the City provides post-employment health care benefits for eligible employees who retire from the City, up to age 65. Eligible employees and terms are as follows:

- Non-union and AFSCME Union – benefits in accordance with a resolution adopted by the City Commission and collective bargaining agreement, respectively. Employees hired prior to March 1, 2004, who retire on or after attaining age 55, but before age 60 shall be eligible for retiree only coverage and employees who retire on or after attaining age 60 shall be eligible for retiree coverage and coverage of a spouse to whom the retiree is married on the date of his or her retirement from the City. All retiree health insurance coverage shall cease upon the employee reaching the age of sixty-five (65). Employees hired on or after March 1, 2004, will not be eligible post-employment health care benefits.
- Public Safety Union - benefits in accordance with the collective bargaining agreement. Employees hired prior to November 1, 2014, who retire on or after attaining age 50 shall be eligible for healthcare coverage (including spouse and eligible children). Such coverage shall cease upon the employee reaching the age of sixty-five (65). Employees hired on or after November 1, 2014, will not be eligible post-employment health care benefits.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R – POST-EMPLOYMENT HEALTH BENEFITS (CONTINUED)

The City has implemented a cost sharing program for members retiring after July 1, 2010. Dependent upon date of retirement, the retiree pays 3%-5% of the illustrative premium. Members retiring after July 1, 2012 pay premiums in excess of the “hard cap”. The hard cap is indexed each year by the Medical Care component of the Consumer Price Index and the initial value of the “hard cap” by group.

Eligible membership consisted of the following at December 31, 2015, the date of the latest actuarial valuation:

	<u>General Employee System</u>	<u>Public Safety Employee System</u>
Retirees and beneficiaries		
receiving benefits	10	7
Active plan members	<u>12</u>	<u>10</u>
	<u>22</u>	<u>17</u>

The City is required to record in the financial statements the annual net “Other Post-employment Benefit” (OPEB) cost according to current accounting standards. Accounting standards also require the following information related to the benefits.

The City’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount determined by following the aggregate measurement method for the General group and the entry-age normal, level percent funding method for Public Safety members retiring after April 1, 2004. The City continues the use of “pay-as-you go” financing for Public Safety members who retired prior to April 1, 2004. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. In the year of implementation, the net OPEB obligation is set at zero at the beginning of the year. The City’s computed ARC and funding status at June 30, 2014, 2015 and 2016 (amounts include those of the General group and Public Safety members in total) are included in the Schedule of Funding Progress for Post-Employment Health Benefits included as part of the Required Supplemental Information section of these financial statements.

The information above relating to the City’s Post-Employment Health Benefits does include the component unit’s figures.

NOTE S – DEFERRED COMPENSATION PLANS

The City offers its employees a choice of several deferred compensation plans created in accordance with Internal Revenue Code Section 457. The Plans are available to substantially all full-time employees and permit employees to defer a portion of their salary until future years. Participation in the Plans is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the Plan and all income attributable to those amounts are, until paid or made available to the employee or other beneficiary, to be held in a trust for the exclusive benefit of plan participants and their beneficiaries.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE S – DEFERRED COMPENSATION PLANS (CONTINUED)

Investments are managed by the Plans' trustees under one of several investment options, or a combination thereof. The choice of the investment option(s) is made by the participants. Plan trustees include Edward Jones, MetLife, Nationwide Retirement Solutions and ICMA Retirement Corporation.

Because the City does not have an established trust agreement with the Plan trustees, does not provide investment advice and does not administer the Plan, the City has not established a fiduciary relationship with the Plan. Therefore, the Plan assets are not included in the financial statements of the City.

NOTE T – RISK MANAGEMENT

Risks of Loss

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits claims and workers' compensation claims and participates as a member in the Michigan Municipal Risk Management Authority (MMRMA) for claims relating to general liability, excess liability, auto liability, trunk line liability, errors and omissions and physical damage to equipment, buildings and contents.

The MMRMA operates as a public entity risk-sharing pool for local units in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. The City is sharing risk with the other members of the MMRMA. The deductible is \$250 per occurrence for auto, and \$1,000 for property and crime losses. There is no deductible for sewage system overflow. MMRMA provides, after the deductible, reinsurance up to \$5,000,000 of occurrence-based casualty coverage and property coverage for each incident by internally assuming risks and reinsuring risks through commercial companies.

Share of Losses

The City's liabilities for its share of losses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities can include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. The City estimates that the potential unpaid and unreported claims do not substantially exceed the amount of self-insurance retention reserves available to pay claims.

The City carries commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE U – SUBSEQUENT EVENTS

In August 2012, the United States Environmental Protection Agency (EPA) began cleanup of the former Ironwood Manufactured Gas Plant, located on City property. The cleanup was completed in the summer of 2013. After discovery of the potential contamination due to construction work in the area, testing by the Michigan Department of Environmental Quality and Wisconsin Department of Natural Resources found the contamination to be hazardous. The EPA was contacted and confirmed the presence of hazardous substances. The City has cooperated with the EPA and assisted with the cleanup of the site. The EPA is in the process of performing an ability-to-pay analysis to determine what amount, if any, the City is liable for related to the cleanup. City management is unable to estimate the financial exposure to the City related to this matter.

NOTE V – UPCOMING ACCOUNTING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued by the GASB in June 2015 and will be effective for the City's 2018 fiscal year. The Statement requires governments that participate in defined benefit other post-employment benefit (OPEB) plans to report in the statement of net position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement No. 75 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

GASB Statement No. 77, *Tax Abatement Disclosures*, was issued by GASB in August 2015 and will be effective for the City's 2017 fiscal year. The Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose brief descriptive information about the tax abatements, the gross dollar amount of taxes abated during the period and commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. The Statement will improve the user's understanding on how tax abatements affect the reporting unit's financial position and results of operations, including their ability to raise resources in the future.

REQUIRED
SUPPLEMENTAL
INFORMATION

BUDGETARY COMPARISON SCHEDULE

CITY OF

Year ended

	General Fund		
	Original Budget	Final Budget	Actual
Revenues:			
Taxes	\$ 1,777,000	\$ 1,787,000	\$ 1,782,752
Licenses and permits	38,000	38,000	84,868
State grants	1,019,000	919,000	919,849
Federal grants		4,000	4,200
Charges for services	132,000	744,000	674,339
Interest and rents	158,800	158,800	171,130
Other revenues	<u>31,600</u>	<u>79,600</u>	<u>127,351</u>
Total Revenues	\$ 3,156,400	\$ 3,730,400	\$ 3,764,489
Expenditures:			
Current expenditures:			
Legislative	\$ 32,700	\$ 42,700	\$ 38,937
General government	873,900	878,200	795,174
Public safety	961,200	999,200	985,579
Public works	130,500	120,500	117,085
Recreation and culture	612,400	192,900	190,352
Health and welfare	251,200	881,700	717,818
Other functions	57,600	61,600	86,590
Capital outlay		578,500	519,974
Debt service			
Total Expenditures	<u>\$ 2,919,500</u>	<u>\$ 3,755,300</u>	<u>\$ 3,451,509</u>
Excess (Deficiency) of Revenues Over Expenditures			
	\$ 236,900	\$ (24,900)	\$ 312,980
Other financing sources (uses) -			
Operating transfers in (out)	<u>(80,300)</u>	<u>(370,800)</u>	<u>(228,431)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses			
	\$ 156,600	\$ (395,700)	\$ 84,549
Fund balance at July 1, 2015	<u>2,014,214</u>	<u>2,014,214</u>	<u>2,014,214</u>
FUND BALANCE AT JUNE 30, 2016	<u>\$ 2,170,814</u>	<u>\$ 1,618,514</u>	<u>\$ 2,098,763</u>

MAJOR GOVERNMENTAL FUNDS

IRONWOOD, MICHIGAN

June 30, 2016

<u>Major Street Fund</u>			<u>Local Street Fund</u>			<u>Capital Improvement Fund</u>		
Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
\$ 896,000	\$ 581,000	\$ 614,624	\$ 197,000	\$ 277,000	\$ 297,001			
	435,000	433,930						
<u>262,000</u>	<u>92,000</u>			<u>55,000</u>	<u>55,000</u>			<u>\$ 5,520</u>
\$ 1,158,000	\$ 1,108,000	\$ 1,048,554	\$ 197,000	\$ 332,000	\$ 352,009	\$ 0	\$ 0	\$ 5,520
\$ 563,100	\$ 653,100	\$ 574,767	\$ 443,000	\$ 563,000	\$ 415,776			
652,000	517,000	517,812			8,884	\$ 1,557,000	\$ 1,557,000	\$ 1,546,688
<u>23,200</u>	<u>23,200</u>	<u>15,378</u>	<u>117,500</u>	<u>117,500</u>	<u>117,395</u>			
\$ <u>1,238,300</u>	\$ <u>1,193,300</u>	\$ <u>1,107,957</u>	\$ <u>560,500</u>	\$ <u>680,500</u>	\$ <u>542,055</u>	\$ <u>1,557,000</u>	\$ <u>1,557,000</u>	\$ <u>1,546,688</u>
\$ (80,300)	\$ (85,300)	\$ (59,403)	\$ (363,500)	\$ (348,500)	\$ (190,046)	\$ (1,557,000)	\$ (1,557,000)	\$ (1,541,168)
<u>80,300</u>	<u>85,300</u>		<u>363,500</u>	<u>348,500</u>	<u>190,046</u>			
\$ 0	\$ 0	\$ (59,403)	\$ 0	\$ 0	\$ 0	\$ (1,557,000)	\$ (1,557,000)	\$ (1,541,168)
<u>459,097</u>	<u>459,097</u>	<u>459,097</u>	<u>69,514</u>	<u>69,514</u>	<u>69,514</u>	<u>1,541,168</u>	<u>1,541,168</u>	<u>1,541,168</u>
\$ <u>459,097</u>	\$ <u>459,097</u>	\$ <u>399,694</u>	\$ <u>69,514</u>	\$ <u>69,514</u>	\$ <u>69,514</u>	\$ <u>(15,832)</u>	\$ <u>(15,832)</u>	\$ <u>0</u>

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

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2016

	<u>Year ended December 31,</u>	
	2015	2014
Total Pension Liability		
Service Cost	\$ 223,802	\$ 228,696
Interest	1,366,510	1,342,647
Changes of Benefit Terms	0	0
Difference between expected and actual experience	(154,152)	0
Changes of assumptions	735,924	0
Benefit payments including employee refunds	(1,276,131)	(1,283,165)
Other	<u>0</u>	<u>0</u>
Net Change in Total Pension Liability	\$ 895,953	\$ 288,178
Total Pension Liability, beginning	<u>17,089,921</u>	<u>16,801,743</u>
Total Pension Liability, ending	\$ 17,985,874	\$ 17,089,921
Plan Fiduciary Net Position:		
Contributions-employer	\$ 592,282	\$ 582,606
Contributions-employee	122,989	90,683
Net Investment income	(127,762)	554,792
Benefit payments including employee refunds	(1,276,131)	(1,283,165)
Administrative expense	<u>(18,972)</u>	<u>(20,229)</u>
Net Change in Plan Fiduciary Net Position	\$ (707,594)	\$ (75,313)
Plan Fiduciary Net Position beginning	<u>8,905,391</u>	<u>8,980,704</u>
Plan Fiduciary Net Position ending	\$ <u>8,197,797</u>	\$ <u>8,905,391</u>
Employer Net Pension Liability	\$ <u>9,788,077</u>	\$ <u>8,184,530</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	<u>46%</u>	<u>52%</u>
Covered Employee Payroll (from GASB 68 actuarial page)	\$ <u>1,847,807</u>	\$ <u>1,818,251</u>
Employer's Net Pension Liability as a percentage of covered employee payroll	<u>530%</u>	<u>450%</u>

Notes to schedule:

This schedule is presented to illustrate the City's pension liability in the Municipal Employees' Retirement System for the last 10 fiscal years (amounts were determined as of December 31 of each fiscal year). However, until a full 10 year trend is compiled, the City presents information for those years for which information is available.

Changes of benefit terms: Reflects a COLA that was adopted by the Employer's Governing Board in 2015 that can be found in the actuarial valuation.

Changes of assumptions: Reflects a change in retirement age for 2015 for general employees based on actuarial recommendations.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2016

	<u>Year ended June 30,</u>	
	2016	2015
Actuarial Determined Contributions	\$ 592,282	\$ 582,606
Contributions in relation to the actuarially determined contribution	<u>592,282</u>	<u>582,606</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>
Covered Employee Payroll	<u>\$1,847,807</u>	<u>\$ 1,818,251</u>
Contributions as a percentage of covered employee payroll	<u>32%</u>	<u>32%</u>

Notes to Schedule:

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	10 year smoothed
Inflation	2.5%
Salary increases	3.75%
Investment rate of return	7.75%
Retirement age	60
Mortality	50% Female/50% Male RP-2014 Group Annuity Mortality Table

This schedule is presented to illustrate the City contributions to the Municipal Employees' Retirement System for the last 10 fiscal years (amounts were determined as of June 30 of each fiscal year). However, until a 10 year trend is compiled, reporting units should present information for those years for which information is available.

SCHEDULE OF FUNDING PROGRESS FOR POST-EMPLOYMENT HEALTH BENEFITS

CITY OF IRONWOOD, MICHIGAN

	For the year ended June 30,		
	2014	2015	2016
Annual Other Post-Employment Benefit (OPEB) Cost:			
Annual required contribution	\$ 305,010	\$ 257,282	\$ 66,408
Amounts contributed - payments of current premiums	<u>(305,010)</u>	<u>(257,282)</u>	<u>(66,408)</u>
Increase in Net OPEB obligation	\$ 0	\$ 0	\$ 0
Net OPEB obligation beginning of year	<u>0</u>	<u>0</u>	<u>0</u>
Net OPEB obligation at end of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the years ended June 30, 2014, 2015 and 2016 is as follows:

Annual OPEB costs	\$ 305,010	\$ 257,282	\$ 66,408
Percentage contributed	100%	100%	100%
Net OPEB obligation	\$ 0	\$ 0	\$ 0

The current funding progress of the plan as of December 31, 2015, the date of the most recent valuation using the measurement methods noted above, is as follows:

	General Employee System	Public Safety Employee System
Actuarial accrued liability (AAL)	\$ 1,290,225	\$ 662,496
Actuarial valuation of assets	<u>698,476</u>	<u>748,567</u>
Unfunded AAL (UAAL)	<u>\$ 591,749</u>	<u>\$ (86,071)</u>
Funded ratio	54%	113%

OTHER
FINANCIAL
INFORMATION

BALANCE SHEET - GENERAL FUND

CITY OF IRONWOOD, MICHIGAN

June 30, 2016

ASSETS

Cash		\$ 2,864,969
Receivables:		
Delinquent taxes	\$ 26,225	
State of Michigan	443,629	
Other	<u>68,843</u>	
	\$ 538,697	
Less allowances for uncollectible accounts	<u>(6,556)</u>	532,141
Due from other funds		2,623
Inventory		33,630
Prepaid expenses		<u>28,681</u>
		<u>\$ 3,462,044</u>

LIABILITIES AND FUND BALANCE

Liabilities:		
Accounts payable		\$ 276,646
Due to Housing Commission		3,301
Undistributed tax collections		16,168
Due other funds		<u>1,067,166</u>
	Total Liabilities	\$ 1,363,281
Fund balance:		
Nonspendable	\$ 62,311	
Restricted	28,540	
Committed	423,700	
Assigned	1,064,419	
Unassigned	<u>519,793</u>	<u>2,098,763</u>
		<u>\$ 3,462,044</u>

STATEMENT OF REVENUES - ESTIMATED AND ACTUAL - GENERAL FUND

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2016

	Estimated Revenue	Actual Revenue	Variance Favorable (Unfavorable)
Taxes:			
Property taxes		\$ 1,685,895	
Property tax administrative fees		90,603	
Payment in lieu of taxes		<u>6,254</u>	
	\$ 1,787,000	\$ 1,782,752	\$ (4,248)
City licenses and permits	38,000	84,868	46,868
State grants:			
Liquor licenses		\$ 6,386	
Sales tax		700,987	
Department of Natural Resources		<u>212,476</u>	
	919,000	\$ 919,849	849
Federal grants	4,000	4,200	200
Charges for services - departmental fees and services:			
Public safety		\$ 32,482	
Tourist park		591	
Administration services		113,464	
Blight		524,202	
Sale of supplies and services		<u>3,600</u>	
	744,000	\$ 674,339	(69,661)
Interest and rents:			
Interest earned		\$ 9,466	
Rentals and leases:			
Memorial building rentals		71,283	
Garage rentals		81,801	
Other		<u>8,580</u>	
	158,800	\$ 171,130	12,330

STATEMENT OF REVENUES - ESTIMATED AND ACTUAL - GENERAL FUND (CONTINUED)

	Estimated Revenue	Actual Revenue	Variance Favorable (Unfavorable)
Other revenues:			
Refunds and rebates		\$ 21,250	
Donations		21,765	
Fines and forfeits		14,716	
Miscellaneous		<u>69,620</u>	
	<u>79,600</u>	\$ <u>127,351</u>	<u>47,751</u>
TOTAL REVENUES	<u>\$ 3,730,400</u>	<u>\$ 3,764,489</u>	<u>\$ 34,089</u>

STATEMENT OF APPROPRIATIONS AND EXPENDITURES - GENERAL FUND

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2016

	Appropriations	Expenditures	Variance Favorable (Unfavorable)
Legislative - City commission	\$ 42,700	\$ 38,937	\$ 3,763
General government:			
City manager	\$ 112,100	\$ 99,891	
Elections	12,000	7,694	
Financial administration	179,300	171,558	
City treasurer	40,700	34,822	
City assessor	69,400	63,920	
Computer department	67,000	64,866	
City clerk	175,700	182,235	
Board of review	1,400	1,221	
Building Inspection	50,200	45,343	
City hall and grounds	<u>170,400</u>	<u>123,624</u>	
	\$ 878,200	\$ 795,174	83,026
Public safety:			
Public safety department	\$ 989,800	\$ 982,320	
Volunteer fire department	<u>9,400</u>	<u>3,259</u>	
	\$ 999,200	\$ 985,579	13,621
Public works:			
Street lighting	\$ 103,000	\$ 97,347	
Sanitation	<u>17,500</u>	<u>19,738</u>	
	\$ 120,500	\$ 117,085	3,415
Recreation and culture:			
Parks and recreation	\$ 184,400	\$ 182,024	
City Centre	<u>8,500</u>	<u>8,328</u>	
	\$ 192,900	\$ 190,352	2,548
Health and welfare:			
Community development	\$ 166,000	\$ 151,716	
Code enforcement and blight	<u>715,700</u>	<u>566,102</u>	
	\$ 881,700	\$ 717,818	163,882

STATEMENT OF APPROPRIATIONS AND EXPENDITURES - GENERAL FUND (CONTINUED)

	Appropriations	Expenditures	Variance Favorable (Unfavorable)
Other functions:			
Insurance and bonds	\$ 18,800	\$ 31,633	
Labor relations	5,800	7,397	
Miscellaneous	20,000	39,584	
Programs	<u>17,000</u>	<u>7,976</u>	
	\$ 61,600	\$ 86,590	(24,990)
Capital outlay:			
Recreation and Culture		\$ 291,474	
Public Safety		<u>228,500</u>	
	<u>578,500</u>	\$ <u>519,974</u>	<u>58,526</u>
Total Expenditures	\$ 3,755,300	\$ 3,451,509	\$ 303,791
Other financing uses - operating transfers (in) out:			
Local Street Fund		\$ 190,046	
Cemetery Fund		41,385	
Downtown Ironwood Development Authority		<u>(3,000)</u>	
Total Other Financing Uses	<u>370,800</u>	\$ <u>228,431</u>	<u>142,369</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ <u>4,126,100</u>	\$ <u>3,679,940</u>	\$ <u>446,160</u>

COMBINING BALANCE SHEET

CITY OF

June 30,

	<u>Special Revenue Funds</u>			
	Library Fund	Downtown Ironwood Development Authority	Economic Development Fund	Housing Development Fund
ASSETS				
Cash and cash equivalents	\$ 54,833	\$ 13,887	\$ 600	
Investments	70,438			
Receivables:				
Accounts	36,807			
Delinquent property taxes	1,319	351		
Prepaid expenses	317			
Notes receivable			288,923	\$ 320,000
Due from other funds				
	<u>\$ 163,714</u>	<u>\$ 14,238</u>	<u>\$ 289,523</u>	<u>\$ 320,000</u>
LIABILITIES				
Liabilities -				
Accounts payable	<u>\$ 11,314</u>	<u>\$ 2,806</u>		
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue				<u>\$ 320,000</u>
FUND BALANCE				
Fund balance:				
Restricted	\$ 139,759		\$ 289,523	
Assigned	<u>12,641</u>	<u>\$ 11,432</u>		
	<u>\$ 152,400</u>	<u>\$ 11,432</u>	<u>\$ 289,523</u>	
	<u>\$ 163,714</u>	<u>\$ 14,238</u>	<u>\$ 289,523</u>	<u>\$ 320,000</u>

NONMAJOR GOVERNMENTAL FUNDS

IRONWOOD, MICHIGAN

2016

<u>Special Revenue Funds</u>			<u>Debt Service Funds</u>		Totals
Cemetery Trust Fund	Volunteer Fire Department Fund	Community Development Block Grant Fund	1995 Debt Service Fund	2015 Debt Service Fund	
\$ 15,503	\$ 7,122		\$ 4,198	\$ 14,095	\$ 110,238
501,061					571,499
					36,807
			2,103	557	4,330
595					912
					608,923
				651	651
<u>\$ 517,159</u>	<u>\$ 7,122</u>	<u>\$ 0</u>	<u>\$ 6,301</u>	<u>\$ 15,303</u>	<u>\$ 1,333,360</u>
<u>\$ 7,159</u>	<u>\$ 502</u>				<u>\$ 21,781</u>
					<u>\$ 320,000</u>
\$ 500,000			\$ 6,301	\$ 15,303	\$ 950,886
<u>10,000</u>	<u>\$ 6,620</u>				<u>40,693</u>
<u>\$ 510,000</u>	<u>\$ 6,620</u>		<u>\$ 6,301</u>	<u>\$ 15,303</u>	<u>\$ 991,579</u>
<u>\$ 517,159</u>	<u>\$ 7,122</u>	<u>\$ 0</u>	<u>\$ 6,301</u>	<u>\$ 15,303</u>	<u>\$ 1,333,360</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND

CITY OF

Year ended

	Special Revenue Funds			
	Library Fund	Downtown Ironwood Development Authority	Economic Development Fund	Housing Development Fund
Revenues:				
Taxes	\$ 85,991	\$ 12,062		
State grants	4,642			
Federal grants				
Contributions from local units	900			
Fines and forfeits	37,986			
Charges for services	7,553			
Interest and investment earnings	102		\$ 1,122	
Other revenues	<u>32,547</u>	<u>3,005</u>		
Total Revenues	\$ 169,721	\$ 15,067	\$ 1,122	
Expenditures:				
Current:				
General government				
Public safety				
Recreation and culture	\$ 169,792			
Health and welfare		\$ 10,366	\$ 211,800	
Other - Administrative and general				
	<u>\$ 169,792</u>	<u>\$ 10,366</u>	<u>\$ 211,800</u>	
Capital outlay	26,535			
Debt service:				
Principal				
Interest and fees				
Total Expenditures	<u>\$ 196,327</u>	<u>\$ 10,366</u>	<u>\$ 211,800</u>	
Excess (Deficiency) of Revenues Over Expenditures	\$ (26,606)	\$ 4,701	\$ (210,678)	
Other financing sources:				
Operating transfers in (out)		<u>(3,000)</u>		
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures	\$ (26,606)	\$ 1,701	\$ (210,678)	\$ 0
Fund balance at July 1, 2015	<u>179,006</u>	<u>9,731</u>	<u>500,201</u>	<u>0</u>
FUND BALANCE AT JUNE 30, 2016	<u>\$ 152,400</u>	<u>\$ 11,432</u>	<u>\$ 289,523</u>	<u>\$ 0</u>

CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS

IRONWOOD, MICHIGAN

June 30, 2016

Cemetery Trust Fund	Special Revenue Funds		Debt Service Funds		Totals
	Volunteer Fire Department Fund	Community Development Block Grant Fund	1995 Debt Service Fund	2015 Debt Service Fund	
			\$ 318	\$ 176,094	\$ 274,465
					4,642
		\$ 84,059			84,059
					900
					37,986
\$ 49,470					57,023
807			9	23	2,063
	\$ 1,698	11,210			48,460
\$ 50,277	\$ 1,698	\$ 95,269	\$ 327	\$ 176,117	\$ 509,598
\$ 91,662					\$ 91,662
	\$ 13,170				13,170
					169,792
		\$ 74,585			296,751
		20,684	\$ 434		21,118
\$ 91,662	\$ 13,170	\$ 95,269	\$ 434	\$ 0	\$ 592,493
					26,535
				142,000	142,000
				18,814	18,814
\$ 91,662	\$ 13,170	\$ 95,269	\$ 434	\$ 160,814	\$ 779,842
\$ (41,385)	\$ (11,472)	\$ 0	\$ (107)	\$ 15,303	\$ (270,244)
41,385					38,385
\$ 0	\$ (11,472)	\$ 0	\$ (107)	\$ 15,303	\$ (231,859)
510,000	18,092	0	6,408	0	1,223,438
\$ 510,000	\$ 6,620	\$ 0	\$ 6,301	\$ 15,303	\$ 991,579

COMBINING STATEMENT OF PLAN NET POSITION - PENSION TRUST FUNDS

CITY OF IRONWOOD, MICHIGAN

June 30, 2016

	Retirement System Fund	Public Safety Retirement System Fund	Totals
ASSETS			
Cash	\$ 29,218	\$ 132,913	\$ 162,131
Delinquent property taxes receivable	<u> </u>	<u> 5,365</u>	<u> 5,365</u>
	<u>\$ 29,218</u>	<u>\$ 138,278</u>	<u>\$ 167,496</u>
NET POSITION			
Net position held in trust for pension benefits	<u>\$ 29,218</u>	<u>\$ 138,278</u>	<u>\$ 167,496</u>

COMBINING STATEMENT OF CHANGES IN PLAN NET POSITION - PENSION TRUST FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2016

	Retirement System Fund	Public Safety Retirement System Fund	Totals
Additions:			
Contributions:			
General property taxes		\$ 351,736	\$ 351,736
Employer contributions	\$ 390,036		390,036
Total Contributions	\$ 390,036	\$ 351,736	\$ 741,772
Investment income - interest	61	152	213
Total Additions	\$ 390,097	\$ 351,888	\$ 741,985
Deductions:			
Administrative expense	\$ 600	\$ 760	\$ 1,360
Transfer to Municipal Employee's Retirement System	540,036	531,884	1,071,920
Total Deductions	\$ 540,636	\$ 532,644	\$ 1,073,280
Net Change	\$ (150,539)	\$ (180,756)	\$ (331,295)
Net position held in trust for pension benefits at July 1, 2015	179,757	319,034	498,791
NET POSITION HELD IN TRUST FOR PENSION BENEFITS AT JUNE 30, 2016	\$ 29,218	\$ 138,278	\$ 167,496

STATEMENT OF CHANGES IN PLAN NET POSITION - RETIREE HEALTHCARE FUND

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2016

Additions:

Contributions:

General property taxes	\$	223,000
State grants		1,087
Employer contributions		<u>95,782</u>

Total Contributions \$ 319,869

Investment income:

Net appreciation in fair value of investments	\$	6,763
Contributions		<u>8,226</u>

Investment Income \$ 14,989

Total Additions \$ 334,858

Deductions:

Post-retirement healthcare benefits	\$	175,480
Administrative expense		<u>12,219</u>
		<u>187,699</u>

Net Change \$ 147,159

Net position held in trust for post-employment
healthcare benefits at July 1, 2015

1,331,331

NET POSITION HELD IN TRUST FOR
POST-EMPLOYMENT HEALTHCARE
BENEFITS AT JUNE 30, 2016

\$ 1,478,490

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
TRUST AND AGENCY FUND - CURRENT TAX COLLECTION FUND

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2016

	Balance at July 1, 2015	Additions	Deductions	Balance at June 30, 2016
ASSETS				
Cash	<u>\$ 2,343</u>	<u>\$ 5,149,768</u>	<u>\$ 5,149,488</u>	<u>\$ 2,623</u>
LIABILITIES				
Due Ironwood Area Schools		\$ 1,059,478	\$ 1,059,478	
Due Gogebic County		1,180,076	1,180,076	
Due State of Michigan		479,457	479,457	
Due other funds	\$ 2,343	2,427,820	2,427,540	\$ 2,623
Due other units		<u>2,937</u>	<u>2,937</u>	
	<u>\$ 2,343</u>	<u>\$ 5,149,768</u>	<u>\$ 5,149,488</u>	<u>\$ 2,623</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2016

Federal Grantor/ Pass-through Grantor/ Program Title	Federal Catalog of Domestic Assistance Number	Federal Expenditures
PRIMARY GOVERNMENT		
<u>U.S. Department of Agriculture</u>		
Water and Waste Program:		
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 2,937,200
 <u>U.S. Department of Housing and Urban Development</u>		
Passed through Michigan State Housing Development Authority - Community Development Block Grant: *		
MSC-2013-0072-HO	14.228	\$ 84,059
MSC 214040-UN	14.228	<u>531,297</u>
Total U.S. Department of Housing and Urban Development		\$ 615,356
 <u>U.S. Department of Interior</u>		
Passed through State of Michigan Land and Water Conservation Fund -		
26-01730	15.916	4,200
 <u>U.S. Department of Transportation</u>		
Highway Planning and Construction (Note 7) - *		
Passed through Michigan Department of Transportation - Safe Routes to School - SRS 1527		
	20.205	<u>433,940</u>
Total Primary Government Expenditures of Federal Funds		\$ 3,990,696
 COMPONENT UNIT		
<u>U.S. Department of Housing and Urban Development</u>		
Public and Indian Housing - MI 018-00000116D	14.850a	\$ 283,488
Public Housing Capital Fund	14.872	<u>75,348</u>
Total Component Unit Expenditures of Federal Funds		<u>\$ 358,836</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$ 4,349,532</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2016

1. Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of City of Ironwood, Michigan under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of City of Ironwood, Michigan, it is not intended to and does not present the financial position or changes in net position of City of Ironwood, Michigan.
2. Expenditures reported in the Schedule are presented on the modified accrual basis of accounting for the Governmental Funds and the accrual basis of accounting for the Proprietary Funds. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
3. City of Ironwood, Michigan has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.
4. City of Ironwood, Michigan, had ten loans outstanding with U.S. Department of Agriculture at June 30, 2016, for a total of \$12,599,000.
5. Of the federal expenditures presented in the schedule, City of Ironwood, Michigan, provided no federal awards to subrecipients.
6. The major federal assistance programs are denoted by an * on the Schedule and are listed in the Schedule of Findings and Questioned Costs. City of Ironwood, Michigan qualifies as a low risk auditee in accordance with the Uniform Guidance. Major programs, which must exceed 20% of the total federal awards expended, were selected using a risk-based approach based on auditors' risk assessments. All other federal programs are considered non-major programs.
7. This contract is administered by the Michigan Department of Transportation and will be included in their Schedule of Expenditures of Federal Awards.
8. Expenditures in this Schedule are in agreement with the amounts reported in the primary government financial statements. Following is a schedule reconciling the expenditures per the schedule of expenditures to the financial statements:

Federal expenditures	\$ 3,990,696
Loan proceeds spent on capital items	<u>(2,716,000)</u>
Federal grant revenue per financial statements	<u>\$ 1,274,696</u>
Recap of Federal grant revenue per financial statements:	
General Fund	\$ 4,200
Sewer Utility Fund	221,200
Water Utility Fund	531,297
Major Street Fund	433,940
Community Development Block Grant Fund	<u>84,059</u>
	<u>\$ 1,274,696</u>

STATEMENT OF APPLICATION OF BLOCK GRANT FUNDS - GRANT NO. MSC-2013-0072-HO

CITY OF IRONWOOD, MICHIGAN

For the Grant Period from June 1, 2014 through May 31, 2016

	Authorized Costs	Actual Costs	Under (Over)
<u>Activity</u>			
Housing Rehabilitation Grants	\$ 100,000	\$ 97,123	\$ 2,877
Administration	<u>21,900</u>	<u>25,684</u>	<u>(3,784)</u>
	\$ 121,900	\$ 122,807	\$ (907)
<u>Other Funds/Sources</u>			
Housing Rehabilitation - Homeowner contributions	<u>25,000</u>	<u>12,249</u>	<u>12,751</u>
	<u>\$ 146,900</u>	<u>\$ 135,056</u>	<u>\$ 11,844</u>

SUPPLEMENTAL
REPORTS

MAKELA, POLLACK & AHONEN, P.L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS
301 N. SUFFOLK STREET
IRONWOOD, MICHIGAN 49938-2027

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

To the Mayor and Members of the Commission
City of Ironwood, Michigan
Ironwood, Michigan

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 unit, each major fund, and the aggregate remaining fund information of City of Ironwood, Michigan, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Ironwood, Michigan's basic financial statements and have issued our report thereon dated December 27, 2016. Our report includes a reference to other auditors who audited the financial statements of the Ironwood Housing commission, as described in our report on the City of Ironwood's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Ironwood, Michigan's primary government basic 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 City of Ironwood, Michigan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Makela, Pollack & Ahonen, PLLC

Certified Public Accountants

Ironwood, Michigan
December 27, 2016

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

To the Mayor and Members of the Commission
City of Ironwood, Michigan
Ironwood, Michigan

Report on Compliance for Each Major Federal Program

We have audited City of Ironwood, Michigan's, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Ironwood, Michigan's major federal programs for the year ended June 30, 2016. City of Ironwood, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, City of Ironwood, Michigan, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

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

Makela, Pollock & Ahonen, PLLC

Certified Public Accountants

Ironwood, Michigan
December 27, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2016

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Type of auditor's report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 200.51(a) of the Uniform Guidance? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants
20.205	Highway Planning and Construction

Dollar threshold used to distinguish Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

B. FINANCIAL STATEMENT FINDINGS

There were no significant deficiencies disclosed during the financial statement audit.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

There were no findings or questioned costs related to the major federal award programs.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2016

SIGNIFICANT DEFICIENCIES

(2015-001) Bank Reconciliations

Current status: The City has determined the proper procedures for preparing the bank reconciliations using the new accounting software and is preparing the reconciliations in a timely manner.

FINDINGS AND QUESTIONED COSTS

There were no findings or questioned costs related to the major federal award programs.