

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

**CITY OF IRONWOOD  
GOGEBIC COUNTY, MICHIGAN**

**June 30, 2019**

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**INDEPENDENT AUDITOR'S REPORT**

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

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 the City of Ironwood, Michigan as of and for the year ended June 30, 2019, 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, 2019, 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 83 through 90 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 Other Financial Information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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, based on our audit, the procedures performed as described above, and the report of the other auditors, the Other Financial Information and the Schedule of

Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated December 20, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City of Ironwood, Michigan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Ironwood, Michigan's internal control over financial reporting and compliance.

*Makela, Pollack & Ahonen, PLLC*

Certified Public Accountants

Ironwood, Michigan  
December 20, 2019

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2019

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### **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, 2019. 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 Management's Discussion and Analysis – for State and Local Governments* and is intended to provide the financial results for the fiscal year ended June 30, 2019.

### **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 expense 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.

During the year ended June 30, 2018, the City implemented GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This is in addition to GASB Statements No. 68, *Accounting and Financial Reporting for Pensions*, and No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date*, which the City implemented during the year ended June 30, 2015. These statements are significant to the Government-wide financial statements and require participants in defined benefit plans to record the net pension and other post-employment liabilities in the statement of net position, record the pension and health insurance expense as defined by GASB in the statement of activities and report additional note disclosures and required supplemental information. These changes do not result in any changes to the fund financial statements.

## **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, 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.

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, 2019</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
<b>ASSETS</b>			
Cash and investments	\$ 5,305,298	\$ 2,541,138	\$ 7,846,436
Receivables	604,272	461,629	1,065,901
Other current assets	173,508	232,979	406,487
Notes receivable, noncurrent	183,434		183,434
Other noncurrent assets		11,374	11,374
Capital assets, net of accumulated depreciation	10,362,504	31,561,165	41,923,669
Investment in Gogebic-Iron Wastewater Authority		2,629,516	2,629,516
Restricted cash		981,264	981,264
Net other postemployment asset	<u>247,365</u>	<u>33,935</u>	<u>281,300</u>
Total Assets	<u>\$ 16,876,381</u>	<u>\$ 38,453,000</u>	<u>\$ 55,329,381</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to pensions	\$ 881,290	\$ 186,940	\$ 1,068,230
Related to other postemployment benefits	<u>114,327</u>	<u>7,978</u>	<u>122,305</u>
Total Deferred Outflows of Resources	<u>\$ 995,617</u>	<u>\$ 194,918</u>	<u>\$ 1,190,535</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

Statement of Net Position (Continued)

	<u>June 30, 2019</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
<b>LIABILITIES</b>			
Accounts payable	\$ 321,028	\$ 281,007	\$ 602,035
Customer deposits		66,403	66,403
Other current liabilities		80,236	80,236
Current portion of long-term liabilities	328,454	394,663	723,117
Compensated absences	539,061	137,723	676,784
Bonds, notes and contracts payable	1,107,103	14,393,833	15,500,936
Net pension liability	<u>7,827,283</u>	<u>1,660,332</u>	<u>9,487,615</u>
Total Liabilities	<u>\$ 10,122,929</u>	<u>\$ 17,014,197</u>	<u>\$ 27,137,126</u>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Related to pensions	\$ 125,475	\$ 26,616	\$ 152,091
Related to other postemployment benefits	<u>93,927</u>	<u>55,383</u>	<u>149,310</u>
Total Deferred Inflows of Resources	<u>\$ 219,402</u>	<u>\$ 81,999</u>	<u>\$ 301,401</u>
<b>NET POSITION</b>			
Investment in capital assets, net of related debt	\$ 8,926,947	\$ 16,617,107	\$ 25,544,054
Restricted	1,254,953	1,015,199	2,270,152
Unrestricted	<u>(2,652,233)</u>	<u>3,919,416</u>	<u>1,267,183</u>
Total Net Position	<u>\$ 7,529,667</u>	<u>\$ 21,551,722</u>	<u>\$ 29,081,389</u>

The City's net position is \$29,081,389 at June 30, 2019. Capital assets, net of related debt, is \$25,544,054 at June 30, 2019. Capital assets, net of related debt, 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 \$1,267,183 as of June 30, 2019. This is the net accumulated results of the current and past years' operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

Statement of Net Position (Continued)

	<u>June 30, 2018</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
<b>ASSETS</b>			
Cash and investments	\$ 4,091,474	\$ 2,475,755	\$ 6,567,229
Receivables	716,178	777,358	1,493,536
Other current assets	246,584	215,694	462,278
Notes receivable, noncurrent	573,434		573,434
Other noncurrent assets		12,958	12,958
Capital assets, net of accumulated depreciation	10,711,235	31,234,061	41,945,296
Investment in Gogebic-Iron Wastewater Authority		2,629,516	2,629,516
Restricted cash		826,346	826,346
Net other postemployment asset	<u>154,249</u>		<u>154,249</u>
Total Assets	<u>\$ 16,493,154</u>	<u>\$ 38,171,688</u>	<u>\$ 54,664,842</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to pensions	<u>\$ 468,679</u>	<u>\$ 93,886</u>	<u>\$ 562,565</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

Statement of Net Position (Continued)

	<u>June 30, 2018</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
<b>LIABILITIES</b>			
Accounts payable	\$ 270,177	\$ 574,594	\$ 844,771
Customer deposits		67,426	67,426
Other current liabilities		75,790	75,790
Current portion of long-term liabilities	324,745	440,903	765,648
Compensated absences	520,442	151,366	671,808
Bonds, notes and contracts payable	1,435,525	14,311,082	15,746,607
Net pension liability	7,293,552	1,498,718	8,792,270
Net other postemployment benefit liability	<u>                    </u>	<u>43,651</u>	<u>43,651</u>
Total Liabilities	<u>\$ 9,844,441</u>	<u>\$ 17,163,530</u>	<u>\$ 27,007,971</u>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Unavailable Revenue	\$ 320,000		\$ 320,000
Related to pensions	169,817	\$ 34,018	203,835
Related to other postemployment benefits	<u>5,609</u>	<u>1,840</u>	<u>7,449</u>
Total Deferred Inflows of Resources	<u>\$ 495,426</u>	<u>\$ 35,858</u>	<u>\$ 531,284</u>
<b>NET POSITION</b>			
Investment in capital assets, net of related debt	\$ 8,950,965	\$ 16,046,175	\$ 24,997,140
Restricted	960,205	826,346	1,786,551
Unrestricted	<u>(3,289,204)</u>	<u>4,193,665</u>	<u>904,461</u>
Total Net Position	<u>\$ 6,621,966</u>	<u>\$ 21,066,186</u>	<u>\$ 27,688,152</u>

The City's net position is \$27,688,152 at June 30, 2018. Capital assets, net of related debt, are \$24,997,140 at June 30, 2018. Restricted net position is restricted for debt service, by donors and by grant spending requirements. The unrestricted net position is \$904,461 at June 30, 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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**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, 2019</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Revenues:			
Program Revenues:			
Charges for services	\$ 469,401	\$ 4,265,429	\$ 4,734,830
Operating grants	1,328,879	259,989	1,588,868
Capital grants	16,500	281,749	298,249
General Revenues:			
State grants	774,189		774,189
Property taxes	2,162,518	92,305	2,254,823
Other	<u>989,436</u>	<u>17,840</u>	<u>1,007,276</u>
Total Revenues	\$ 5,740,923	\$ 4,917,312	\$ 10,658,235
Program expenses:			
Governmental activities	\$ 4,833,222		\$ 4,833,222
Business-type activities	<u>                    </u>	<u>\$ 4,431,776</u>	<u>4,431,776</u>
Total Program Expenses	<u>\$ 4,833,222</u>	<u>\$ 4,431,776</u>	<u>\$ 9,264,998</u>
Increase in Net Position	<u>\$ 907,701</u>	<u>\$ 485,536</u>	<u>\$ 1,393,237</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

Statement of Activities (Continued)

	<u>Year ended June 30, 2018</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Revenues:			
Program Revenues:			
Charges for services	\$ 715,537	\$ 4,229,958	\$ 4,945,495
Operating grants	1,113,643	43,711	1,157,354
Capital grants	10,700	946,800	957,500
General Revenues:			
State grants	742,212		742,212
Property taxes	2,145,450	90,923	2,236,373
Other	<u>544,739</u>	<u>4,652</u>	<u>549,391</u>
Total Revenues	\$ 5,272,281	\$ 5,316,044	\$ 10,588,325
Program expenses:			
Governmental activities	\$ 4,832,169		\$ 4,832,169
Business-type activities	<u>                    </u>	<u>\$ 3,943,252</u>	<u>3,943,252</u>
Total Program Expenses	\$ 4,832,169	\$ 3,943,252	\$ 8,775,421
Increase in Net Position	<u>\$ 440,112</u>	<u>\$ 1,372,792</u>	<u>\$ 1,812,904</u>

The City had an overall increase in net position of \$1,393,237 and \$1,812,904 for the years ended June 30, 2019 and 2018, respectively.

The City's revenues totaled \$10,658,235 and \$10,588,325 for the years ended June 2019 and 2018, respectively.

The City's total cost to fund all governmental activities was \$4,833,222 and \$4,832,169, and business-type activities was \$4,431,776 and \$3,943,252, for the years ended June 30, 2019 and 2018, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**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>	<u>Fund Balance/ Net Position at July 1, 2018</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures/ Expenses and Other Financing Uses</u>	<u>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</u>	<u>Fund Balance/ Net Position at June 30, 2019</u>
General	\$ 2,663,226	\$ 3,489,872	\$ 2,999,586	\$ 490,286	\$ 3,153,512
Major Street	495,972	1,151,581	1,231,581	(80,000)	415,972
Local Street	69,514	536,731	536,731	0	69,514
Water Utility	9,413,315	2,440,862	2,310,112	130,750	9,544,065
Sewer Utility	10,992,968	2,281,299	1,936,745	344,554	11,337,522
Internal Service	<u>1,007,581</u>	<u>793,689</u>	<u>668,602</u>	<u>125,087</u>	<u>1,132,668</u>
	<u>\$ 24,642,576</u>	<u>\$ 10,694,034</u>	<u>\$ 9,683,357</u>	<u>\$ 1,010,677</u>	<u>\$ 25,653,253</u>

**Capital Assets**

At June 30, 2019, the City had \$41,923,669 invested in capital assets, net of depreciation. The City's net capital assets decreased during the past fiscal year by \$21,627. Additions totaling \$1,501,266 were offset by depreciation charges of \$1,522,893. The City's proprietary activities reported \$872,690 of construction costs during the year ended June 30, 2019.

**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, 2019. 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 \$16,900,837 of long-term liabilities at June 30, 2019. 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. \$723,117 will be payable within one year.

### **Future Considerations**

In the past year Waupaca Foundry opened a satellite manufacturing facility in the Ironwood Industrial Park. Waupaca Foundry is a well-established company from Waupaca, WI. They have hired approximately 60 employees from the area to manage and run the Ironwood facility.

The City of Ironwood has hired the consulting engineering firm of SEH, from Minneapolis, MN to prepare a preliminary engineering study for potential improvements to the municipal water pumping station, which also includes options and alternatives for iron and manganese removal systems. The preliminary engineering report will also include the submittal of a funding application to USDA Rural Development.

The City of Ironwood has received preliminary funding approval, of approximately \$1.5 million of Community Development Block Grant funding from the Michigan Economic Development Corporation, for the construction of the Downtown City Square project. The Downtown City Square project is a downtown impact project designed to improve economic development opportunities in Ironwood.

During the spring of 2019 the Pat O'Donnell Civic Center's roof was damaged by heavy snows. Subsequent to year-end, it was determined that the damage was more severe than initially anticipated. The full extent of the damage has not been determined as of the date of this report. The insurance company has constructed a temporary facility for the 2019/20 season and is working with their architect to prepare plans for the construction of a new facility. A new building is expected to be constructed to its original state during the summer of 2020 with all costs, except the \$1,000 deductible, being paid by the insurance company.

### **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	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,150,140	\$ 1,736,360	\$ 4,886,500	\$ 1,144,183
Investments	2,155,158	804,778	2,959,936	
Receivables (net, where applicable, of allowances for uncollectibles):				
Accounts	604,272	461,629	1,065,901	8,837
Notes, noncurrent	183,434		183,434	
Inventories	87,861	218,866	306,727	2,752
Internal balances	9,868		9,868	
Prepaid expenses	75,779	14,113	89,892	34,454
Capital assets, net of accumulated depreciation	10,362,504	31,561,165	41,923,669	1,778,254
Investment in Gogebic-Iron Wastewater Authority		2,629,516	2,629,516	
Bond discount, net of amortization		11,374	11,374	
Restricted cash		981,264	981,264	
Net other postemployment benefit asset	<u>247,365</u>	<u>33,935</u>	<u>281,300</u>	
<b>TOTAL ASSETS</b>	<u>\$ 16,876,381</u>	<u>\$ 38,453,000</u>	<u>\$ 55,329,381</u>	<u>\$ 2,968,480</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Related to pensions	\$ 881,290	\$ 186,940	\$ 1,068,230	\$ 84,684
Related to other postemployment benefits	<u>114,327</u>	<u>7,978</u>	<u>122,305</u>	
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 995,617</u>	<u>\$ 194,918</u>	<u>\$ 1,190,535</u>	<u>\$ 84,684</u>

## NET POSITION

## MICHIGAN

2019

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
<b>LIABILITIES</b>				
Accounts payable:				
Trade	\$ 321,028	\$ 125,445	\$ 446,473	\$ 108,310
Construction		155,562	155,562	
Interest payable		80,236	80,236	
Customer deposits		66,403	66,403	
Long-term liabilities:				
Compensated absences	539,061	137,723	676,784	15,774
Bonds and equipment contracts payable:				
Due within one year	328,454	394,663	723,117	
Due beyond one year	1,107,103	14,393,833	15,500,936	
Net pension liability	<u>7,827,283</u>	<u>1,660,332</u>	<u>9,487,615</u>	<u>697,040</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 10,122,929</u></b>	<b><u>\$ 17,014,197</u></b>	<b><u>\$ 27,137,126</u></b>	<b><u>\$ 821,124</u></b>
<b>DEFERRED INFLOW OF RESOURCES</b>				
Related to pensions	\$ 125,475	\$ 26,616	\$ 152,091	
Related to other postemployment benefits	<u>93,927</u>	<u>55,383</u>	<u>149,310</u>	
<b>TOTAL DEFERRED INFLOW OF RESOURCES</b>	<b><u>\$ 219,402</u></b>	<b><u>\$ 81,999</u></b>	<b><u>\$ 301,401</u></b>	
<b>NET POSITION</b>				
Net position:				
Invested in capital assets, net of related debt	\$ 8,926,947	\$ 16,617,107	\$ 25,544,054	\$ 1,778,254
Restricted	1,254,953	1,015,199	2,270,152	
Unrestricted	<u>(2,652,233)</u>	<u>3,919,416</u>	<u>1,267,183</u>	<u>453,786</u>
<b>TOTAL NET POSITION</b>	<b><u>\$ 7,529,667</u></b>	<b><u>\$ 21,551,722</u></b>	<b><u>\$ 29,081,389</u></b>	<b><u>\$ 2,232,040</u></b>

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	\$ 36,358			
General government	921,976	\$ 186,493		
Public safety	948,575	45,149		\$ 16,500
Public works	1,440,547	204,250	\$ 1,324,502	
Recreation and culture	211,715	33,509	4,377	
Health and welfare	395,232			
Other functions	74,855			
Interest on long-term debt	39,381			
Depreciation (unallocated)	<u>764,583</u>			
Total Governmental Activities	\$ 4,833,222	\$ 469,401	\$ 1,328,879	\$ 16,500
Business-type activities:				
Water Utility	\$ 2,310,112	\$ 2,171,378	\$ 259,989	
Sewer Utility	1,936,745	1,991,467		\$ 281,749
Civic Center	<u>184,919</u>	<u>102,584</u>		
Total Business-Type Activities	\$ 4,431,776	\$ 4,265,429	\$ 259,989	\$ 281,749
Total Primary Government	<u>\$ 9,264,998</u>	<u>\$ 4,734,830</u>	<u>\$ 1,588,868</u>	<u>\$ 298,249</u>
Component Unit	<u>\$ 876,907</u>	<u>\$ 467,956</u>	<u>\$ 285,357</u>	<u>\$ 96,753</u>
General revenues:				
Taxes				
Licenses and permits				
State grants				
Contributions from local units				
Fines and forfeits				
Interest and rents				
Other revenues				
Gain on disposal of equipment				
Total General Revenues				

Change in Net Position

Net position at July 1, 2018

Net position at June 30, 2019

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

OF ACTIVITIES

MICHIGAN

June 30, 2019

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (36,358)		\$ (36,358)	
(735,483)		(735,483)	
(886,926)		(886,926)	
88,205		88,205	
(173,829)		(173,829)	
(395,232)		(395,232)	
(74,855)		(74,855)	
(39,381)		(39,381)	
<u>(764,583)</u>		<u>(764,583)</u>	
\$ (3,018,442)	\$ 0	\$ (3,018,442)	
	121,255	\$ 121,255	
	336,471	336,471	
	<u>(82,335)</u>	<u>(82,335)</u>	
	<u>\$ 375,391</u>	<u>\$ 375,391</u>	
\$ (3,018,442)	\$ 375,391	\$ (2,643,051)	
			\$ (26,841)
\$ 2,162,518	\$ 92,305	\$ 2,254,823	
74,762		74,762	
774,189		774,189	
1,100		1,100	
38,555		38,555	
319,968	17,840	337,808	\$ 4,176
554,051		554,051	13,270
<u>1,000</u>		<u>1,000</u>	
<u>\$ 3,926,143</u>	<u>\$ 110,145</u>	<u>\$ 4,036,288</u>	<u>\$ 17,446</u>
\$ 907,701	\$ 485,536	\$ 1,393,237	\$ (9,395)
<u>6,621,966</u>	<u>21,066,186</u>	<u>27,688,152</u>	<u>2,241,435</u>
<u>\$ 7,529,667</u>	<u>\$ 21,551,722</u>	<u>\$ 29,081,389</u>	<u>\$ 2,232,040</u>

COMBINED BALANCE SHEET - GOVERNMENTAL FUNDS

CITY OF IRONWOOD, MICHIGAN

June 30, 2019

	General	Major Street Fund	Local Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,697,854	\$ 114	\$ 944	\$ 451,228	\$ 3,150,140
Investments	1,014,955			637,217	1,652,172
Receivables (net, where applicable, of allowances for uncollectibles):					
Accounts	407,246	111,371	41,577	44,078	604,272
Notes				183,434	183,434
Due from other funds	9,868	319,296	32,812	4,105	366,081
Inventories	90,700				90,700
Prepaid expenses	<u>39,522</u>	<u>22,134</u>	<u>6,828</u>	<u>1,617</u>	<u>70,101</u>
	<u>\$ 4,260,145</u>	<u>\$ 452,915</u>	<u>\$ 82,161</u>	<u>\$ 1,321,679</u>	<u>\$ 6,116,900</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND MUNICIPAL EQUITY</b>					
Accounts payable	\$ 229,089	\$ 36,943	\$ 12,647	\$ 20,949	\$ 299,628
Due other funds	<u>877,544</u>				<u>877,544</u>
	\$ 1,106,633	\$ 36,943	\$ 12,647	\$ 20,949	\$ 1,177,172
Municipal equity:					
Fund balance:					
Nonspendable	\$ 130,222	\$ 22,134	\$ 6,828	\$ 1,617	\$ 160,801
Restricted	57,765			1,197,188	1,254,953
Committed	820,700				820,700
Assigned	1,591,613	393,838	62,686	101,925	2,150,062
Unassigned	<u>553,212</u>				<u>553,212</u>
	<u>\$ 3,153,512</u>	<u>\$ 415,972</u>	<u>\$ 69,514</u>	<u>\$ 1,300,730</u>	<u>\$ 4,939,728</u>
	<u>\$ 4,260,145</u>	<u>\$ 452,915</u>	<u>\$ 82,161</u>	<u>\$ 1,321,679</u>	<u>\$ 6,116,900</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, 2019

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Fund balances - total governmental funds		\$ 4,939,728
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	\$ 21,180,892	
Less accumulated depreciation	<u>(11,498,094)</u>	9,682,798
Deferred outflow of resources:		
Related to pensions	830,549	
Related to other postemployment benefits	<u>111,945</u>	942,494
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds:		
Accumulated absences	\$ (445,578)	
Bonds and notes payable	<u>(1,387,412)</u>	(1,832,990)
Deferred inflow of resources:		
Related to pensions	(118,251)	
Related to other postemployment benefits	<u>(77,393)</u>	(195,644)
Net pension liability		(7,376,621)
Net other postemployment asset		237,234
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>1,132,668</u>
Net position of governmental activities		<u>\$ 7,529,667</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, 2019

	General	Major Street	Local Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes	\$ 1,875,098			\$ 287,420	\$ 2,162,518
Licenses and permits	74,762				74,762
State grants	774,189	\$ 1,003,180	\$ 295,389	4,377	2,077,135
Federal grants	42,433				42,433
Contributions from local units				1,100	1,100
Fines and forfeits				38,555	38,555
Charges for services	224,756			40,395	265,151
Interest and rents	303,500		591	15,877	319,968
Other revenues	<u>195,134</u>	<u>3,330</u>	<u>          </u>	<u>355,587</u>	<u>554,051</u>
Total Revenues	\$ 3,489,872	\$ 1,006,510	\$ 295,980	\$ 743,311	\$ 5,535,673
<b>Expenditures:</b>					
<b>Current:</b>					
Legislative	\$ 36,845				\$ 36,845
General government	842,983			\$ 90,098	933,081
Public safety	950,065			222	950,287
Public works	283,244	\$ 778,153	\$ 416,431		1,477,828
Recreation and culture	84,684			130,433	215,117
Health and welfare	316,879			83,646	400,525
Other functions	74,799			56	74,855
Capital outlay	84,493	434,451		15,045	533,989
Debt service	<u>          </u>	<u>18,977</u>	<u>120,300</u>	<u>175,452</u>	<u>314,729</u>
Total Expenditures	\$ 2,673,992	\$ 1,231,581	\$ 536,731	\$ 494,952	\$ 4,937,256



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

	General	Major Street	Local Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
Excess (Deficiency) of Revenues Over Expenditures	\$ 815,880	\$ (225,071)	\$ (240,751)	\$ 248,359	\$ 598,417
Other financing sources (uses) - Operating transfers in (out)	<u>(325,594)</u>	<u>145,071</u>	<u>240,751</u>	<u>39,772</u>	<u>100,000</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ 490,286	\$ (80,000)	\$ 0	\$ 288,131	\$ 698,417
Fund balance at July 1, 2018	<u>2,663,226</u>	<u>495,972</u>	<u>69,514</u>	<u>1,012,599</u>	<u>4,241,311</u>
FUND BALANCE AT JUNE 30, 2019	<u>\$ 3,153,512</u>	<u>\$ 415,972</u>	<u>\$ 69,514</u>	<u>\$ 1,300,730</u>	<u>\$ 4,939,728</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, 2019

Net change in fund balance - total governmental funds	\$	698,417
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	\$	533,989
Less current year depreciation	<u>(764,583)</u>	(230,594)
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.		
		276,805
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.		
		(17,690)
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 paid for pension related items was more than the amount earned.		
		55,676
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>125,087</u>
Change in net position of governmental funds	\$	<u>907,701</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, 2019

	Business-Type Activities Enterprise Funds				Governmental Activities Internal Service Fund
	Water Utility	Sewer Utility	Nonmajor Pat O'Donnell Civic Center	Total Enterprise Funds	
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 664,525	\$ 893,256	\$ 178,579	\$ 1,736,360	
Investments	301,792	502,986		804,778	\$ 502,986
Accounts receivable, less \$14,403 allowance for uncollectibles	242,071	217,922	1,636	461,629	
Due from other funds					521,331
Prepaid expenses	9,774	3,844	495	14,113	2,839
Inventories	<u>191,507</u>	<u>27,359</u>		<u>218,866</u>	
Total Current Assets	\$ 1,409,669	\$ 1,645,367	\$ 180,710	\$ 3,235,746	\$ 1,027,156
<b>Capital Assets:</b>					
Capital assets	\$ 21,055,691	\$ 14,654,001	\$ 1,698,417	\$ 37,408,109	\$ 3,686,935
Less allowances for depreciation	<u>(6,401,793)</u>	<u>(2,680,929)</u>	<u>(1,060,677)</u>	<u>(10,143,399)</u>	<u>(3,007,229)</u>
	\$ 14,653,898	\$ 11,973,072	\$ 637,740	\$ 27,264,710	\$ 679,706
Construction in progress	<u>2,658,776</u>	<u>1,637,679</u>		<u>4,296,455</u>	
Total Capital Assets	\$ 17,312,674	\$ 13,610,751	\$ 637,740	\$ 31,561,165	\$ 679,706
<b>Other Assets:</b>					
Investment in Gogebic-Iron Wastewater Authority		\$ 2,629,516		\$ 2,629,516	
Bond discount, net of amortization	\$ 11,374			11,374	
<b>Restricted cash:</b>					
Bond reserve accounts	485,389	254,469		739,858	
Bond redemption accounts	184,552	53,162	\$ 2,796	240,510	
Construction accounts	730	166		896	
Net other postemployment benefits asset	<u>18,669</u>	<u>15,266</u>		<u>33,935</u>	\$ 10,131
Total Other Assets	\$ 700,714	\$ 2,952,579	\$ 2,796	\$ 3,656,089	\$ 10,131
Total Assets	<u>\$ 19,423,057</u>	<u>\$ 18,208,697</u>	<u>\$ 821,246</u>	<u>\$ 38,453,000</u>	<u>\$ 1,716,993</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Related to pensions	\$ 145,920	\$ 39,311	\$ 1,709	\$ 186,940	\$ 50,741
Related to other postemployment benefits	<u>4,389</u>	<u>3,589</u>		<u>7,978</u>	<u>2,382</u>
Total Deferred Outflows of Resources	<u>\$ 150,309</u>	<u>\$ 42,900</u>	<u>\$ 1,709</u>	<u>\$ 194,918</u>	<u>\$ 53,123</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		
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts payable					
Trade	\$ 83,076	\$ 28,054	\$ 14,315	\$ 125,445	\$ 21,400
Construction	86,528	69,034		155,562	
Accrued interest	49,700	30,536		80,236	
Customer deposits	66,403			66,403	
Current maturities on long-term debt	<u>228,000</u>	<u>139,000</u>	<u>27,663</u>	<u>394,663</u>	<u>48,145</u>
Total Current Liabilities	\$ 513,707	\$ 266,624	\$ 41,978	\$ 822,309	\$ 69,545
Long-term debt:					
Compensated absences	\$ 72,928	\$ 64,795		\$ 137,723	\$ 93,483
Revenue bonds	8,323,414	6,342,000	\$ 123,082	14,788,496	
Equipment contracts payable					48,145
Less portion included in current liabilities	(228,000)	(139,000)	(27,663)	(394,663)	(48,145)
Net pension liability	<u>1,296,008</u>	<u>349,144</u>	<u>15,180</u>	<u>1,660,332</u>	<u>450,662</u>
Total Noncurrent Liabilities	\$ 9,464,350	\$ 6,616,939	\$ 110,599	\$ 16,191,888	\$ 544,145
Total Liabilities	<u>\$ 9,978,057</u>	<u>\$ 6,883,563</u>	<u>\$ 152,577</u>	<u>\$ 17,014,197</u>	<u>\$ 613,690</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Related to pensions	\$ 20,776	\$ 5,597	\$ 243	\$ 26,616	\$ 7,224
Related to other postemployment benefits	<u>30,468</u>	<u>24,915</u>		<u>55,383</u>	<u>16,534</u>
Total Deferred Inflows of Resources	<u>\$ 51,244</u>	<u>\$ 30,512</u>	<u>\$ 243</u>	<u>\$ 81,999</u>	<u>\$ 23,758</u>
<b>NET POSITION</b>					
Net Position:					
Invested in capital assets, net of related debt	\$ 8,902,732	\$ 7,199,717	\$ 514,658	\$ 16,617,107	\$ 631,561
Restricted	689,340	323,063	2,796	1,015,199	
Unrestricted	<u>(48,007)</u>	<u>3,814,742</u>	<u>152,681</u>	<u>3,919,416</u>	<u>501,107</u>
Total Net Position	<u>\$ 9,544,065</u>	<u>\$ 11,337,522</u>	<u>\$ 670,135</u>	<u>\$ 21,551,722</u>	<u>\$ 1,132,668</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, 2019

	Business-Type Activities Enterprise Funds			Total Enterprise Funds	Governmental Activities Internal Service Fund
	Water Utility	Sewer Utility	Nonmajor Pat O'Donnell Civic Center		
Operating revenues:					
Charges for services	\$ 2,160,503	\$ 1,991,467	\$ 101,914	\$ 4,253,884	\$ 787,503
Other	<u>10,875</u>		<u>670</u>	<u>11,545</u>	<u>2,200</u>
	\$ 2,171,378	\$ 1,991,467	\$ 102,584	\$ 4,265,429	\$ 789,703
Operating expenses:					
Personnel services	\$ 529,147	\$ 404,092	\$ 56,001	\$ 989,240	\$ 164,237
Purchases of services	1,183,919	1,155,082	58,127	2,397,128	128,068
Materials and supplies	118,782	27,659	23,535	169,976	137,708
Provision for depreciation and amortization	<u>352,912</u>	<u>226,089</u>	<u>43,762</u>	<u>622,763</u>	<u>137,132</u>
	\$ 2,184,760	\$ 1,812,922	\$ 181,425	\$ 4,179,107	\$ 567,145
Operating Income (Loss)	\$ (13,382)	\$ 178,545	\$ (78,841)	\$ 86,322	\$ 222,558
Nonoperating revenues (expenses):					
Interest earned	\$ 9,495	\$ 8,083	\$ 262	\$ 17,840	\$ 2,986
Transfer to General Fund					(100,000)
Property taxes			92,305	92,305	
Debt service interest	(125,352)	(123,823)	(3,494)	(252,669)	(1,457)
State grants	255,851			255,851	
Federal grants	4,138	281,749		285,887	
Gain on sale of assets					<u>1,000</u>
	\$ 144,132	\$ 166,009	\$ 89,073	\$ 399,214	\$ (97,471)
Change in Net Position	\$ 130,750	\$ 344,554	\$ 10,232	\$ 485,536	\$ 125,087
Net position at July 1, 2018	<u>9,413,315</u>	<u>10,992,968</u>	<u>659,903</u>	<u>21,066,186</u>	<u>1,007,581</u>
NET POSITION AT JUNE 30, 2019	<u>\$ 9,544,065</u>	<u>\$ 11,337,522</u>	<u>\$ 670,135</u>	<u>\$ 21,551,722</u>	<u>\$ 1,132,668</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, 2019

	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	\$ 2,351,544	\$ 2,127,216	\$ 101,728	\$ 4,580,488	\$ 789,703
Cash paid to employees and suppliers for goods and services	(1,922,991)	(1,512,103)	(136,369)	(3,571,463)	(404,478)
Internal activity - net payment from other funds					282,135
Net Cash Provided by (Used in) Operating Activities	\$ 428,553	\$ 615,113	\$ (34,641)	\$ 1,009,025	\$ 667,360
Cash flows from noncapital and related financing activities:					
Cash received from property tax levies			\$ 92,305	92,305	
Transfer to General Fund					\$ (100,000)
			\$ 92,305	\$ 92,305	\$ (100,000)
Cash flows from capital and related financing activities:					
Acquisition and construction of property and equipment	\$ (717,995)	\$ (486,585)	\$ (24,313)	\$ (1,228,893)	\$ (18,995)
Principal paid on long-term debt	(277,000)	(137,000)	(26,903)	(440,903)	(47,908)
Interest paid on long-term debt	(119,709)	(124,671)	(3,845)	(248,225)	(1,457)
Proceeds from the sale of assets					1,000
Proceeds from borrowing	477,414			477,414	
Grants received	259,989	281,749		541,738	
Net Cash (Used in) Capital and Related Financing Activities	\$ (377,301)	\$ (466,507)	\$ (55,061)	\$ (898,869)	\$ (67,360)
Cash flows from investing activities:					
Interest earned	\$ 9,495	\$ 8,083	\$ 262	\$ 17,840	\$ 2,986
Purchases of investments	(301,792)	(502,986)		(804,778)	(502,986)
Net Cash Provided by (Used in) Investing Activities	\$ (292,297)	\$ (494,903)	\$ 262	\$ (786,938)	\$ (500,000)
Net Increase (Decrease) in Cash	\$ (241,045)	\$ (346,297)	\$ 2,865	\$ (602,317)	\$ 0
Cash and cash equivalents at July 1, 2018	1,576,241	1,547,350	178,510	3,302,101	0
CASH AND CASH EQUIVALENTS AT JUNE 30, 2019	\$ 1,335,196	\$ 1,201,053	\$ 181,375	\$ 2,699,784	\$ 0

COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)

	Business-Type Activities Enterprise Funds				Governmental Activities Internal Service Fund
	Water Utility	Sewer Utility	Nonmajor Pat O'Donnell Civic Center	Total Enterprise Funds	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ (13,382)	\$ 178,545	\$ (78,841)	\$ 86,322	\$ 222,558
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	\$ 352,912	\$ 226,089	\$ 43,762	\$ 622,763	\$ 137,132
Related to pensions and other postemployment benefits	(26,121)	65,065	(9,807)	29,137	13,329
(Increase) decrease in current assets:					
Accounts receivable	180,166	135,749	(186)	315,729	
Due from other funds					282,135
Prepaid expense	(2,197)	1,694	(87)	(590)	(207)
Inventories	(17,678)	983		(16,695)	
Increase (decrease) in liabilities:					
Trade accounts payable	(34,605)	9,773	10,579	(14,253)	9,955
Salaries payable	(36)	1,375	(61)	1,278	1,529
Customer deposits	(1,023)			(1,023)	
Compensated absences	(9,483)	(4,160)		(13,643)	929
Total adjustments	\$ 441,935	\$ 436,568	\$ 44,200	\$ 922,703	\$ 444,802
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 428,553	\$ 615,113	\$ (34,641)	\$ 1,009,025	\$ 667,360

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, 2019

	Pension Trust Funds	Retiree Healthcare Fund	Agency Fund	Total
<b>ASSETS</b>				
Cash	\$ 139,073		\$ 9,510	\$ 148,583
Investments		\$ 1,705,757		1,705,757
Delinquent property taxes receivable	7,266	3,357		10,623
Accounts receivable		41		41
Prepaid expense		8,566		8,566
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Assets	<u>\$ 146,339</u>	<u>\$ 1,717,721</u>	<u>\$ 9,510</u>	<u>\$ 1,873,570</u>
<b>LIABILITIES</b>				
Liabilities:				
Accounts payable	\$ 165	\$ 19		\$ 184
Due to General Fund		358	\$ 9,510	9,868
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
	<u>\$ 165</u>	<u>\$ 377</u>	<u>\$ 9,510</u>	<u>\$ 9,868</u>
<b>NET POSITION</b>				
Net position held in trust for:				
Pension benefits	\$ 146,174			\$ 146,174
Post-employment health care benefits		\$ 1,717,344		1,717,344
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Net Position	<u>\$ 146,174</u>	<u>\$ 1,717,344</u>	<u>\$ 0</u>	<u>\$ 1,863,518</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, 2019

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Additions:			
Property taxes		\$	543,333
Contributions			488,822
Miscellaneous			<u>40</u>
	Total Additions	\$	1,032,195
Deductions:			
Administrative expense	\$	318	
Transfer to Municipal Employees' Retirement System	<u>892,012</u>		<u>892,330</u>
	Net Increase	\$	139,865
Net position held in trust at July 1, 2018			<u>6,309</u>
	NET POSITION HELD IN TRUST AT JUNE 30, 2019	\$	<u>146,174</u>

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - RETIREE HEALTHCARE FUND

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2019

Additions:

Contributions:

Property taxes	\$	60,789
Employee contributions		8,790
Employer contributions		<u>109,097</u>

Total Contributions \$ 178,676

Investment income -

Net increase in fair value of investments		<u>45,715</u>
-------------------------------------------	--	---------------

Total Additions \$ 224,391

Deductions:

Administrative expense	\$	6,279
Post-retirement healthcare benefits		<u>177,209</u>
		<u>183,488</u>

Net Increase \$ 40,903

Net position held in trust for post-employment healthcare  
benefits at July 1, 2018

1,676,441

NET POSITION HELD IN TRUST FOR  
POST-EMPLOYMENT HEALTHCARE  
BENEFITS AT JUNE 30, 2019

\$ 1,717,344

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, 2019

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#### 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 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.

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.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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.

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

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.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Basis of Presentation (Continued)

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)

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### 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)

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### 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 net 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 and other postemployment related items which are expensed in the plan year in which it applies.

In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to 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 and other postemployment actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment liability and the actual results. The amounts are amortized over a period determined by the actuary. The City also has unavailable revenue that applies to future periods.



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Pension and Other Postemployment Plans

For purposes of measuring the Net Pension and Other Postemployment Liability, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefits expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and the City of Ironwood Retiree Health Care Plan and additions to/deductions from each plan's fiduciary net position have been determined on the same basis as they are reported by the plans. 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.

#### 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 \$50,000 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.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Capital Assets and Depreciation (Continued)

The expense is recorded in the Government-wide Statement of Activities and included as a direct expense of an identifiable function if the asset's 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, 2019.

#### 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 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.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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 is considered unrestricted.

#### 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)

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### 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, 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 regular monthly 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)

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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, 2019.

The Governmental activities and the Water Utilities Fund reported unrestricted deficits in net position of \$2,652,233 and \$48,007, respectively, at June 30, 2019.

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, 2019, 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, Sewer Utility and Pat O’Donnell Civic Center 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, 2019:

	<u>June 30, 2019</u>	
	<u>Required</u>	<u>Reserve</u>
	<u>Reserve</u>	<u>Balance</u>
2013 Capital Improvement Bonds -		
Bond Redemption Account	\$ 0	\$ 2,796
2010 Water Supply System Revenue Bonds:		
Bond Redemption Account	62,084	100,912
Bond Reserve Account	104,893	110,447
Repairs, Replacements and Improvement Account	0	100,042
2010 Sewage Disposal System Revenue Bonds:		
Bond Redemption Account	26,859	41,798
Bond Reserve Account	87,271	92,002
Repairs, Replacements and Improvement Account	0	17,167
2014 Water Supply System Revenue Bonds:		
Bond Reserve Account	105,800	105,800
Repairs, Replacements and Improvement Account	0	150,500
2014 Sewage Disposal System Revenue Bonds:		
Bond Reserve Account	102,300	102,300
Repairs, Replacements and Improvement Account	0	40,000
2017 Water Supply System Revenue Bonds:		
Construction	0	730
Bond Redemption Account	46,480	83,640
Bond Reserve Account	18,600	18,600
2017 Sewage Disposal System Revenue Bonds:		
Construction	0	166
Bond Redemption Account	7,682	11,364
Bond Reserve Account	3,000	3,000
	<u>\$ 564,969</u>	<u>\$ 981,264</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### 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, 2019, totaled \$6,065,143 all of which was 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 and in the opinion of the City, are subject to minimal risk.

All deposits at June 30, 2019, 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.

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 Michigan CLASS and MERS Total Market Portfolio are subject to minimal concentration of credit risk.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C – CASH AND INVESTMENT INFORMATION (CONTINUED)

At June 30, 2019, 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 Days to Maturity (2)</u>
Primary Government - Michigan CLASS	\$ 2,959,936	\$ 2,959,936	AAAm	N/A	44
Fiduciary Funds:					
Retiree Healthcare Fund - MERS Total Market Portfolio	<u>1,705,757</u>	<u>1,705,757</u>	N/A	N/A	N/A
Total Investments	<u>\$ 4,665,693</u>	<u>\$ 4,665,693</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, 2019:

PRIMARY GOVERNMENT

General:

Delinquent taxes	\$	31,419	
Federal Government		16,500	
State of Michigan		137,007	
Other		<u>228,876</u>	
	\$	413,802	
Less allowances for uncollectibles		<u>(6,556)</u>	\$ 407,246

Major Street -

State of Michigan			111,371
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Local Street -

State of Michigan			41,577
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Nonmajor Governmental Funds:

Customer accounts and local units of government	\$	38,930	
Delinquent taxes		<u>5,148</u>	44,078

Enterprise:

Customer accounts	\$	316,432	
Federal Government		159,600	
Less allowances for uncollectibles		<u>(14,403)</u>	461,629

Fiduciary:

Delinquent taxes	\$	10,623	
Other		<u>41</u>	<u>10,664</u>

Total Primary Government \$ 1,076,565

COMPONENT UNIT - Customer accounts 8,837

Total \$ 1,085,402

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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NOTE E – NOTES RECEIVABLE

Special Revenue Funds

Notes receivable included in assets of the Special Revenue Fund consisted of the following at June 30, 2019:

Economic Development Fund -

Six notes receivable from individuals, corporations and limited liability companies, at varying interest rates from 5% to 7%, and collateralized by security interests in real and personal property and by personal guarantees.

\$183,434

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS

Changes in primary governmental and component unit capital assets are summarized below:

	Balance at July 1, <u>2018</u>	<u>Additions</u>	<u>Disposals</u>	Balance at June 30, <u>2019</u>
<b>PRIMARY GOVERNMENT</b>				
<u>Governmental Activities</u>				
Land and land improvements	\$ 278,062			\$ 278,062
Buildings and improvements	10,365,696			10,365,696
Machinery and equipment	503,851			503,851
Office equipment and furniture	353,901			353,901
Vehicles	781,237	\$ 32,544		813,781
Library books	372,079	15,045	\$ 21,169	365,955
Infrastructure	<u>7,984,863</u>	<u>462,834</u>	<u>          </u>	<u>8,447,697</u>
	\$ 20,639,689	\$ 510,423	\$ 21,169	\$ 21,128,943
Less accumulated depreciation	(10,754,680)	(764,583)	(21,169)	(11,498,094)
Construction in progress	<u>28,383</u>	<u>51,949</u>	<u>28,383</u>	<u>51,949</u>
Net	\$ 9,913,392	\$ (202,211)	\$ 28,383	\$ 9,682,798
<u>Internal Service Fund</u>				
Rental equipment	\$ 3,670,790	\$ 18,995	\$ 2,850	\$ 3,686,935
Less accumulated depreciation	<u>(2,872,947)</u>	<u>(137,132)</u>	<u>(2,850)</u>	<u>(3,007,229)</u>
Net	\$ <u>797,843</u>	\$ <u>(118,137)</u>	\$ <u>0</u>	\$ <u>679,706</u>
Total Governmental Activities	\$ 10,711,235	\$ (320,348)	\$ 28,383	\$ 10,362,504

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS (CONTINUED)

	Balance at July 1, <u>2018</u>	<u>Additions</u>	<u>Disposals</u>	Balance at June 30, <u>2019</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>21,016,990</u>			<u>21,016,990</u>
	\$ 21,055,691	\$ 0	\$ 0	\$ 21,055,691
Less accumulated depreciation	(6,050,465)	(351,328)		(6,401,793)
Construction in progress	<u>2,074,536</u>	<u>584,240</u>		<u>2,658,776</u>
Net	\$ 17,079,762	\$ 232,912	\$ 0	\$ 17,312,674
Sewer Utility Fund:				
Land and land rights	\$ 7,600			\$ 7,600
Sewage transmission	<u>14,595,122</u>	<u>51,279</u>		<u>14,646,401</u>
	\$ 14,602,722	\$ 51,279	\$ 0	\$ 14,654,001
Less accumulated depreciation	(2,454,840)	(226,088)		(2,680,928)
Construction in progress	<u>1,349,228</u>	<u>288,450</u>		<u>1,637,678</u>
Net	\$ 13,497,110	\$ 113,641	\$ 0	\$ 13,610,751
<u>Nonmajor Fund</u>				
Pat O'Donnell Civic Center Operations Fund:				
Civic Center building and equipment	\$ 1,674,104	\$ 24,313		\$ 1,698,417
Less accumulated depreciation	<u>(1,016,915)</u>	<u>(43,762)</u>		<u>(1,060,677)</u>
Net	\$ 657,189	\$ (19,449)		\$ 637,740
Total Proprietary Funds Activities	\$ 31,234,061	\$ 327,104	\$ 0	\$ 31,561,165
Total Primary Government	\$ 41,945,296	\$ 6,756	\$ 28,383	\$ 41,923,669
<u>COMPONENT UNIT</u>				
Housing Commission:				
Land	\$ 422,048			\$ 422,048
Building and improvements	8,450,802	\$ 131,018		8,581,820
Equipment	<u>145,173</u>	<u>7,583</u>	\$ 2,095	<u>150,661</u>
	\$ 9,018,023	\$ 138,601	\$ 2,095	\$ 9,154,529
Less accumulated depreciation	<u>(7,178,763)</u>	<u>(199,607)</u>	<u>(2,095)</u>	<u>(7,376,275)</u>
Total Component Unit	\$ 1,839,260	\$ (61,006)	\$ 0	\$ 1,778,254
	<u>\$ 43,784,556</u>	<u>\$ (54,250)</u>	<u>\$ 28,383</u>	<u>\$ 43,701,923</u>

Land and construction in progress are the only capital assets that are 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 - Water and Sewer Utility Funds

The City's Phase 4 construction project that is currently in progress is shared between the Water Utility and Sewer Utility Funds. The project started during the year ended June 30, 2016, and had costs accumulated as of June 30, 2019, of \$2,658,776 in the Water Utility Fund and \$1,637,679 in the Sewer Utility Fund. The estimated cost of this project is \$4,386,000 and will be financed by loans and grants from Rural Development. \$2,959,414 of loan funds and \$1,203,149 of grant funds have been received as of June 30, 2019. The Phase 4 project is expected to be completed by June 30, 2020.

NOTE G – LONG-TERM DEBT

A summary of changes in long-term debt follows:

	Balance at July 1, <u>2018</u>	<u>Increase</u>	<u>Decrease</u>	Balance at June 30, <u>2019</u>	Amount Due Within <u>One Year</u>
<b>PRIMARY GOVERNMENT</b>					
<u>Governmental Activities</u>					
Direct borrowing and direct placements:					
Capital Improvement Street Bonds	\$ 455,000		\$ 110,000	\$ 345,000	\$ 110,000
Capital Improvement Bonds	1,120,000		150,000	970,000	153,000
Department of Transportation Loan	<u>89,217</u>		<u>16,805</u>	<u>72,412</u>	<u>17,309</u>
Total direct borrowing and direct placements	\$ 1,664,217		\$ 276,805	\$ 1,387,412	\$ 280,309
Compensated absences	<u>427,888</u>	<u>\$ 17,690</u>		<u>445,578</u>	
Total Governmental Activities	\$ 2,092,105	\$ 17,690	\$ 276,805	\$ 1,832,990	\$ 280,309
<u>Proprietary Activities</u>					
Direct borrowing and direct placements:					
Revenue and Refunding Bonds	\$ 14,602,000	\$ 477,414	\$ 414,000	\$ 14,665,414	\$ 367,000
Capital Improvement Bonds	<u>149,985</u>		<u>26,903</u>	<u>123,082</u>	<u>27,663</u>
Total direct borrowing and direct placements	\$ 14,751,985	\$ 477,414	\$ 440,903	\$ 14,788,496	\$ 394,663
Compensated absences	<u>151,366</u>		<u>13,643</u>	<u>137,723</u>	
Total Proprietary Activities	\$ 14,903,351	\$ 477,414	\$ 454,546	\$ 14,926,219	\$ 394,663
<u>Internal Service Fund</u>					
Direct borrowing and direct placements -					
Equipment contracts payable	\$ 96,053		\$ 47,908	\$ 48,145	\$ 48,145
Compensated absences	<u>92,554</u>	<u>\$ 929</u>		<u>93,483</u>	
Total Internal Service Fund	\$ 188,607	\$ 929	\$ 47,908	\$ 141,628	\$ 48,145
TOTAL PRIMARY GOVERNMENT	\$ 17,184,063	\$ 496,033	\$ 779,259	\$ 16,900,837	\$ 723,117
COMPONENT UNIT -					
Compensated absences	<u>14,718</u>	<u>1,056</u>		<u>15,774</u>	
	<u>\$ 17,198,781</u>	<u>\$ 497,089</u>	<u>\$ 779,259</u>	<u>\$ 16,916,611</u>	<u>\$ 723,117</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G – LONG-TERM DEBT (CONTINUED)

The Capital Improvement Street and Department of Transportation Bonds are being paid through the Major and Local Street Funds with monies transferred from the General Fund. The Capital Improvement Bonds recorded in the governmental activities are paid by the Debt Service Fund with funds coming from a property tax levy. The revenue and refunding bonds and Capital Improvement bonds recorded in the proprietary activities are paid by users of the Water, Sewer and Pat O’Donnell Civic Center 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 aggregate amounts of long-term debt principal and interest maturities (excluding accumulated compensated absences) for the five years ending June 30, 2024, and in five-year increments thereafter until maturity are:

	<u>Direct Borrowing and Direct Placements</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 723,117	\$ 328,062	\$ 1,051,179
2021	693,270	313,388	1,006,658
2022	640,612	296,749	937,361
2023	531,989	283,712	815,701
2024	500,651	271,840	772,491
2025-2029	1,903,000	1,224,776	3,127,776
2030-2034	1,912,000	1,043,854	2,955,854
2035-2039	2,114,000	845,902	2,959,902
2040-2044	2,341,000	626,623	2,967,623
2045-2049	2,525,000	383,596	2,908,596
2050-2054	2,094,000	146,871	2,240,871
2055-2058	<u>245,414</u>	<u>13,349</u>	<u>258,763</u>
	<u>\$ 16,224,053</u>	<u>\$ 5,778,722</u>	<u>\$ 22,002,775</u>

Compensated Absences

The City has reported a \$445,578, \$137,723 and \$93,483 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, 2019. The City has reported a \$15,774 liability for compensated absences in its Component Unit at June 30, 2019.

The City reports the compensated 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 compensated absences in the fund-based financial statements.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE G – LONG-TERM DEBT (CONTINUED)

#### Compensated Absences (Continued)

Following is a summary of employment policies related to compensated 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 is earned at 1 and 1/12 days per month, with 800 hours maximum accumulation. 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 compensated absences liability are the related social security and retirement costs.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE H – BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE

#### 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 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, 2019 totals \$345,000, with \$110,000 maturing during the year ending June 30, 2020. Annual principal and interest maturities are included in Note G.

#### 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 rates varying from .75% to 3%. 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, 2019 totals \$970,000, with \$153,000 maturing during the year ending June 30, 2020. 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%. Principal payments are due each July 2 through the year ending June 30, 2023. If the City is in default of payments, MDOT will withhold Michigan Transportation Funds due City to cover unpaid loan payments. The outstanding amount payable on the loan at June 30, 2019 totaled \$72,412, with \$17,309 maturing during the year ending June 30, 2020. Annual principal and interest maturities are included in Note G.



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### 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 were payable solely from revenues generated by the Water Utility Fund and were paid off during the year ended June 30, 2019. The City was accounting for these bonds in the Water Utility Fund.

#### 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%. Principal payments are due each July 1 through the year ending June 30, 2021. The outstanding amount payable on the bonds at June 30, 2019 totals \$107,000, with \$52,000 maturing during the year ending June 30, 2020. 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, 2019 totals \$1,055,000, with \$21,000 maturing during the year ending June 30, 2020. 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%. Principal payments are due each November 1 through the year ending June 30, 2054. The outstanding amount payable on the bonds at June 30, 2019 totals \$1,289,000, with \$26,000 maturing during the year ending June 30, 2020. Annual principal and interest maturities are included in Note G.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### 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. 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%. Principal payments are due each November 1 through the year ending June 30, 2054. The outstanding amount payable on the bonds at June 30, 2019 totals \$1,275,000, with \$26,000 maturing during the year ending June 30, 2020. 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 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 a rate of 2%. Principal payments are due each November 1 through the year ending June 30, 2049. The outstanding amount on the bonds at June 30, 2019 totals \$2,108,000, with \$54,000 maturing during the year June 30, 2020. Annual principal and interest maturities are included in Note G.

#### Water Supply System Revenue Bond, Series 2017

On July 11, 2017, the City issued \$2,701,000 of Water Supply System Revenue Bonds, Series 2017 to finance improvements to its water supply system. 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 a rate of 1.625%. Principal payments are due each November 1 through the year ending June 30, 2058. The outstanding amount on the bonds at June 30, 2019 totals \$2,489,414, with \$49,000 maturing during the year June 30, 2020. There is a remaining amount of \$163,586 available for the City to borrow from these bonds. Annual principal and interest maturities are included in Note G based on the full amount of the bond issue.

#### 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%. Principal payments are due each July 1 through the year ending June 30, 2021. The outstanding amount payable on the bonds at June 30, 2019 totals \$27,000, with \$13,000 maturing during the year June 30, 2020. Annual principal and interest maturities are included in Note G.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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, 2019 totals \$815,000, with \$16,000 maturing during the year ending June 30, 2020. Annual principal and interest maturities are included in Note G.

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, 2019 totals \$1,565,000, with \$31,000 maturing during the year ending June 30, 2020. 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. 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%. Principal payments are due each November 1 through the year ending June 30, 2054. The outstanding amount payable on the bonds at June 30, 2019 totals \$1,542,000, with \$31,000 maturing during the year ending June 30, 2020. 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% and principal payments are due November 1 through the year ending June 30, 2054. The outstanding amount payable on the bonds at June 30, 2019 totals \$1,979,000, with \$40,000 maturing during the year ending June 30, 2020. 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 2017

On July 11, 2017, the City issued \$422,000 of Sewage Disposal System Revenue Bonds, Series 2017 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 1.625% and principal payments are due November 1 through the year ending June 30, 2058. The outstanding amount payable on the bonds at June 30, 2019 totals \$414,000, with \$8,000 maturing during the year ending June 30, 2020. Annual principal and interest maturities are included in Note G.

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 are funded from the United States of America Department of Agriculture Rural Development and payable solely from revenues generated by the Water Supply and Sewage Disposal Systems. If the City is in default the United States of America Department of Agriculture Rural Development has legal recourse to appoint a receiver to administer the System on its behalf. Interest on the bonds is due each six months and principal payments are due annually. The final bond payment is due in the year 2058. 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, 2019</u>	<u>Maturing Within One Year</u>	<u>Interest Rate</u>
<b>Water Supply System Revenue and Refunding Bonds:</b>			
Series 2010B	\$ 107,000	\$ 52,000	4.00%
Series 2010C	1,055,000	21,000	2.375%
Series 2014A	1,289,000	26,000	2.00%
Series 2014B	1,275,000	26,000	2.00%
Series 2014C	2,108,000	54,000	2.00%
Series 2017	<u>2,489,414</u>	<u>49,000</u>	1.625%
	\$ 8,323,414	\$ 228,000	
<b>Sewage Disposal System Revenue and Refunding Bonds:</b>			
Series 2010B	\$ 27,000	\$ 13,000	4.00%
Series 2010C	815,000	16,000	2.375%
Series 2014A	1,565,000	31,000	2.00%
Series 2014B	1,542,000	31,000	2.00%
Series 2014C	1,979,000	40,000	2.00%
Series 2017	<u>414,000</u>	<u>8,000</u>	1.625%
	<u>\$ 6,342,000</u>	<u>\$ 139,000</u>	
	<u>\$ 14,665,414</u>	<u>\$ 367,000</u>	

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### 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, 2020. The obligations are collateralized by security interests in equipment. The City has pledged its limited tax full faith and credit for the prompt payment of the obligations. The outstanding amount payable on the equipment contracts at June 30, 2019 totals \$48,145, all maturing during the year ending June 30, 2020. 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 Pat O'Donnell 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 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, 2019 totals \$123,082, with \$27,663 maturing during the year ending June 30, 2020. Annual principal and interest maturities are included in Note G.

### NOTE I – OPERATING LEASES

The City paid \$11,796 during the year ended June 30, 2019, for equipment rented under operating leases. There are no significant minimum future lease obligations under the terms of these leases. The City also rents equipment on a short-term basis as needed throughout the year.

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, 2019, costs incurred totaled \$113,953 and revenues from charging the administrative fee were \$89,462. 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 \$9,868 reported in assets of the primary governmental activities at June 30, 2019 consist of balances due to the General Fund from the Trust and Agency Fund and Retiree Health Care Fund.

The amounts of interfund receivables and payables at June 30, 2019, were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Fund</u>	<u>Interfund Payables</u>
General	\$ 9,510	Trust and Agency	\$ 9,510
General	358	Retiree Health Care	358
Major Street	319,296	General	319,296
Local Street	32,812	General	32,812
Internal Service	521,331	General	521,331
Cemetery Trust	3,362	General	3,362
2015 Debt Service	<u>743</u>	General	<u>743</u>
	<u>\$ 887,412</u>		<u>\$ 887,412</u>

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, 2019, were made from the General Fund to the Cemetery Fund in the amount of \$40,972, to the Major Street Fund in the amount of \$143,871 and to the Local Street Fund in the amount of \$240,751. The Downtown Ironwood Development Authority transferred \$1,200 to the Major Street Fund and the Internal Service Fund transferred \$100,000 to the General Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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, 2019:

<u>Fund</u>	<u>Purpose</u>	<u>Amount of Restriction</u>
Primary Government		
Governmental Activities:		
General Fund	By donors and grants	\$ 57,765
Library Fund	By donors and grants	146,953
Economic Development Fund	Economic development	183,613
Housing Development Fund	Housing development	320,000
Cemetery Trust Fund	Perpetual care	500,000
1995 Debt Service Fund	Debt service	5,927
2015 Debt Service Fund	Debt service	<u>40,695</u>
		\$ 1,254,953
Business-type Activities:		
Water Utility	Bond reserve, redemption and construction	\$ 670,671
Sewer Utility	Bond reserve, redemption and construction	307,797
Civic Center	Bond redemption	2,796
Water Utility	Net other postemployment benefits	18,669
Sewer Utility	Net other postemployment benefits	<u>15,266</u>
		<u>\$ 1,015,199</u>
		<u>\$ 2,270,152</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		
Major Funds:		
General Fund	Nonspendable for inventory and prepaid expenses	\$ 130,222
	Restricted by donors	57,765
	Committed for future project and budgeting purposes	820,700
	Assigned by management for projects	<u>1,591,613</u>
		\$ 2,600,300
Major Street Fund	Nonspendable for prepaid expenses	\$ 22,134
	Assigned	393,838
Local Street Fund	Nonspendable for prepaid expenses	6,828
	Assigned	<u>62,686</u>
		\$ 485,486
Nonmajor Funds:		
	Restricted:	
Library Fund	By donors and grants	\$ 146,953
Economic Development Fund	Long-term portion of notes receivable	183,613
Housing Development Fund	By grants	320,000
Cemetery Trust Fund	Future care	500,000
1995 Debt Service Fund	Debt service	5,927
2015 Debt Service Fund	Debt service	<u>40,695</u>
		\$ 1,197,188
Various	Nonspendable for prepaid expenses	1,617
Library Fund	Assigned	71,901
Downtown Ironwood Development Authority	Assigned	17,004
Cemetery Trust Fund	Assigned	9,488
Volunteer Fire Department Fund	Assigned	<u>3,532</u>
		<u>\$ 1,300,730</u>
Total		<u>\$ 4,386,516</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, 2019, was as follows:

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Pat O'Donnell Civic Center Operations</u>
Tax revenues	\$ 0	\$ 0	\$ 92,305
Current capital contributions	0	0	0
Land, buildings and equipment:			
Additions	584,240	339,729	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 the 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, 2019, 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, 2018, 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</u>		Totals
	<u>Authority</u>	<u>Board</u>	(Memorandum Only)
Total assets	\$ <u>8,567,035</u>	\$ <u>76,371</u>	\$ <u>8,643,406</u>
Deferred outflows of resources	\$ <u>237,800</u>		\$ <u>237,800</u>
Total liabilities	\$ <u>3,497,285</u>	\$ <u>76,371</u>	\$ <u>3,573,656</u>
Deferred inflow of resources	\$ <u>98,901</u>		\$ <u>98,901</u>
Net position	\$ <u>5,208,649</u>	\$ <u>0</u>	\$ <u>5,208,649</u>
Operating revenues	\$ 1,504,261	\$ 981,096	\$ 2,485,357
Operating expenses	<u>1,922,441</u>	<u>981,199</u>	<u>2,903,640</u>
	\$ (418,180)	\$ (103)	\$ (418,283)
Net decrease in the fair value of investments	(23,273)		(23,273)
Interest charges, net of investment earnings	<u>(81,288)</u>	<u>103</u>	<u>(81,185)</u>
Change in Net Position	\$ (522,741)	\$ 0	\$ (522,741)
Net Position at July 1, 2017	<u>5,731,390</u>	<u>0</u>	<u>5,731,390</u>
NET POSITION AT JUNE 30, 2018	<u>\$ 5,208,649</u>	<u>\$ 0</u>	<u>\$ 5,208,649</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE P – SUMMARY OF 2018 TAX LEVY

Details of the City’s 2018 property tax levy (excluding industrial facilities tax) are as follows:

City:	
General Fund	\$ 1,790,729
Civic Center	93,252
Library Fund	90,060
Public Safety Retirement System Fund	606,225
Debt Service Fund	186,522
Downtown Ironwood Development Authority	11,985
	Total City Taxes \$ 2,778,773
School	1,297,278
County	1,382,757
State Education Tax	555,994
	Total Levy <u>\$ 6,014,802</u>

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
	<u>\$ 29.6658</u>

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](http://www.mersofmich.com).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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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 the highest compensation in 3 to 5 years of consecutive service. Member contributions range from 4.77% to 5.0%.

Employees Covered by Benefit Terms

At the December 31, 2018 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	81
Inactive employees entitled to but not yet receiving benefits	10
Active employees	<u>37</u>
	<u>128</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 for the year ended June 30, 2019, was \$945,371, based on annual payroll.

Net Pension Liability

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	55.50%	3.41%
Global Fixed Income	18.50	0.23
Real Assets	13.50	0.97
Diversifying Strategies	12.50	0.63

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE Q – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Discount Rate

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

Calculating Net Pension Liability - Primary Government

Changes in Net Pension Liability	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2018	\$ 18,529,022	\$ 9,736,752	\$ 8,792,270
Changes for the year:			
Service Cost	\$ 220,744		\$ 220,744
Interest on Total Pension Liability	1,436,392		1,436,392
Changes in Benefits	0		0
Difference between expected and actual experience	(304,183)		(304,183)
Changes in assumptions	0		0
Employer Contributions		\$ 945,371	(945,371)
Employee Contributions		92,776	(92,776)
Net Investment Income		(373,857)	373,857
Benefit payments, including employee refunds	(1,368,984)	(1,368,984)	0
Administrative expense		(18,709)	18,709
Other changes	(23,425)	(11,398)	(12,027)
	<u>\$ (39,456)</u>	<u>\$ (734,801)</u>	<u>\$ 695,345</u>
Balances at December 31, 2018	<u>\$ 18,489,566</u>	<u>\$ 9,001,951</u>	<u>\$ 9,487,615</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)	\$ 20,429,998	\$ 18,489,566	\$ 16,824,835
Fiduciary Net Position (b)	<u>9,001,951</u>	<u>9,001,951</u>	<u>9,001,951</u>
Net Pension Liability (a) - (b)	<u>\$ 11,428,047</u>	<u>\$ 9,487,615</u>	<u>\$ 7,822,884</u>

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

For the year ended June 30, 2019 the employer recognized pension expense of \$137,937. The employer reported deferred outflows and inflows of resources related to pension from the following sources.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences in experience	\$ 0	\$ (152,091)
Differences in assumptions	0	0
Excess Investment Returns	682,869	0
Contributions subsequent to the measurement date*	<u>385,361</u>	<u>0</u>
Primary Government Total	<u>\$ 1,068,230</u>	<u>\$ (152,091)</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, 2019.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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NOTE Q – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Expense and Deferred Outflows/Inflows 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:

<u>Year ended June 30,</u>	
2020	\$ 91,734
2021	76,119
2022	135,162
2023	<u>227,763</u>
	<u>\$ 530,778</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 is presented in the Commission's June 30, 2019 audited financial statements.

NOTE R – POST-EMPLOYMENT HEALTH BENEFITS

Plan Administration

The City Commission administers the City of Ironwood Retiree Health Care Plan (RHCP), an employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all permanent full-time general and public safety employees of the City.

RHCP funds are invested entirely with MERS and invested in the Total Market Portfolio.

Benefits Provided

Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the plan. The City Code grants authority to establish and amend the benefit terms to the City Commission.

In addition to the pension benefits described in Note Q, the City provides post-employment health care benefits through the RHCP in accordance with a resolution adopted by the City Commission, to all employees who retire from the City, up to age 65.



NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R – POST-EMPLOYMENT HEALTH BENEFITS (CONTINUED)

Benefits Provided (Continued)

- 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 for 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 for post-employment health care benefits.

Plan Membership

At June 30, 2019, RHCP membership consisted of the following:

	General Employee System	Public Safety Employee System
Inactive plan members or beneficiaries currently receiving benefit payments	8	8
Inactive plan members entitled to but not yet receiving benefit payments	0	0
Active plan members	<u>8</u>	<u>4</u>
	<u>16</u>	<u>12</u>

Contributions

The City Code grants the authority to establish and amend the contribution requirements of the City and plan members to the City Commission. The Commission establishes rates based on an actuarially determined rate. For the year ended June 30, 2019, the City's average contribution rate was 19.65% of covered-employee payroll. Plan members are required to contribute to the plan at varying rates based on date of retirement.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE R – POST-EMPLOYMENT HEALTH BENEFITS (CONTINUED)

#### Net OPEB Liability of the City

The City's Net OPEB Liability (Asset) was measured as of June 30, 2019, and the total OPEB liability used to calculate the Net OPEB Liability was determined by an annual actuarial valuation as of that date.

#### Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary increases	3.75%, average, including inflation
Investment rate of return	7.0%, net of OPEB plan investment expense including inflation
Healthcare cost trend rates	16.0% for 2019, decreasing 0.25% per year after

Mortality rates were based on the Pub-2010 Public Retirement Plans Mortality Tables Report issued by the Society of Actuaries in January 2019 for Healthy and Disabled Participants, as appropriate.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2018 to June 30, 2019.

#### Investments

##### Investment Policy

There is currently no formal investment policy in place with respect to assets set aside for the (RHCP) referenced above. Assets are held in the MERS Retirement Health Funding Vehicle and invested in the MERS Total Market Portfolio. In general, the investment objective is to provide current income and capital appreciation while minimizing volatility of the capital markets. MERS manages the asset allocation and monitors the underlying investment managers of the MERS Total Market Portfolio.

The long term expected real rate of return is typically chosen by the plan sponsor with guidance from their investment managers and reflects their view of the long-term rate of return on assets expected to be earned based on current trust allocations. The expected returns have been taken from the Long-Term Capital Market Assumptions, 21<sup>st</sup> Annual Edition, published by J.P. Morgan Asset Management.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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NOTE R – POST-EMPLOYMENT HEALTH BENEFITS (CONTINUED)

Investment Policy (Continued)

<u>MERS Total Market Portfolio Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Return</u>	<u>Real Rate of Return</u>
U.S. Cash	1.50%	2.00%	0.03%
U.S. Stocks	22.50%	8.03%	1.81%
International Stocks	12.50%	9.00%	1.13%
Emerging Market Stocks	15.50%	11.45%	1.77%
Private Equity	5.00%	9.86%	0.49%
Global Bond	17.00%	2.21%	0.38%
Global Real Assets	13.50%	7.22%	0.97%
Diversifying Strategies	<u>12.50%</u>	3.70%	<u>0.46%</u>
	<u>100.00%</u>		<u>7.04%</u>

Rate of Return

For the year ended June 30, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 2.73%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R – POST-EMPLOYMENT HEALTH BENEFITS (CONTINUED)

Calculating Net OPEB Liability - Primary Government

Changes in Net OPEB Liability	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB (Asset) Liability (a) - (b)
Balances at July 1, 2018	\$ 1,565,843	\$ 1,676,441	\$ (110,598)
Changes for the year:			
Service Cost	\$ 25,767		\$ 25,767
Interest on Total OPEB Liability	104,585		104,585
Changes in Benefits	0		0
Difference between expected and actual experience	(174,278)		(174,278)
Changes in assumptions	82,546		82,546
Employer Contributions		\$ 169,886	(169,886)
Employee Contributions		8,790	(8,790)
Net Investment Income		45,715	(45,715)
Benefit payments, including employee refunds	(168,419)	(177,209)	8,790
Administrative expense	<u>0</u>	<u>(6,279)</u>	<u>6,279</u>
Net changes	<u>\$ (129,799)</u>	<u>\$ 40,903</u>	<u>\$ (170,702)</u>
Balances at June 30, 2019	<u>\$ 1,436,044</u>	<u>\$ 1,717,344</u>	<u>\$ (281,300)</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R – POST-EMPLOYMENT HEALTH BENEFITS (CONTINUED)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is a one percentage point lower (6.0 %) or a one percentage point higher (8.0 %) than the current discount rate

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Net OPEB liability (asset)	\$ (185,943)	\$ (281,300)	\$ (369,046)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are a one percentage point lower (15% decreasing to 11%) or a one percentage point higher (17% decreasing to 13%) than the current healthcare cost trend rates:

	1% Decrease (15.0% decreasing to 11.0%)	Healthcare Cost Trend Rates (16.0% decreasing to 12.0%)	1% Increase (17.0% decreasing to 13.0%)
Net OPEB liability (asset)	\$ (376,000)	\$ (281,300)	\$ (176,719)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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NOTE R – POST-EMPLOYMENT HEALTH BENEFITS (CONTINUED)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2019 the City recognized other postemployment benefits expense of \$26,063. The City reported deferred outflows and inflows of resources related to OPEB from the following sources.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences in experience	\$ 0	\$ (149,310)
Differences in assumptions	70,720	0
Excess Investment Returns	<u>51,585</u>	<u>0</u>
Primary Government Total	<u>\$ 122,305</u>	<u>\$ (149,310)</u>

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

<u>Year ended June 30,</u>	
2020	\$ (711)
2021	(711)
2022	(712)
2023	1,151
2024	(13,142)
2025 and after	<u>(12,880)</u>
	<u>\$ (27,005)</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### 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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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NOTE T – RISK MANAGEMENT (CONTINUED)

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.

NOTE U – SUBSEQUENT EVENTS

During the spring of 2019 the Pat O'Donnell Civic Center's roof was damaged by heavy snows. Subsequent to year end it was determined that the damage was more severe than originally assessed. The extent of the damage has not been fully determined as of the date of this report. The insurance company is currently working with the engineers to determine how much of the building can be used and what type of reconstruction will be required. The building is expected to be reconstructed to its original state during the summer of 2020 with all costs, except for the \$1,000 deductible, being paid by the insurance carrier.

NOTE V – TAX ABATEMENTS

The City is required to disclose significant tax abatements as required by GASB Statement No. 77. The City receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions, Brownfield Redevelopment Agreements, and Payments in Lieu of Taxes (PILOT) granted by the City. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield Redevelopment Agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties; PILOT programs apply to multiple unit housing for citizens of low income and the elderly. The property taxes abated for all funds by the City under these programs for the year ended June 30, 2019, are as follows:

<u>Type</u>	<u>Taxes Abated</u>
Industrial Facilities Tax	\$ 7,892
Brownfield Redevelopment Agreements	30,184
PILOT	<u>116,273</u>
	<u>\$ 154,349</u>



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE W – UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 84, *Fiduciary Activities*, was issued in January 2017 and will be effective for the City's 2020 fiscal year. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Cities with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

GASB Statement No. 87, *Leases*, was issued in June 2017 and will be effective for the City's 2021 fiscal year. The objective of this Statement is to increase the usefulness of government financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about government leasing activities.

REQUIRED  
SUPPLEMENTAL  
INFORMATION

BUDGETARY COMPARISON SCHEDULE -

CITY OF

Year ended

	General Fund		
	Original Budget	Final Budget	Actual
<b>Revenues:</b>			
Taxes	\$ 1,852,000	\$ 1,852,000	\$ 1,875,098
Licenses and permits	72,000	73,200	74,762
State grants	766,000	800,200	774,189
Federal grants		16,500	42,433
Charges for services	180,600	238,400	224,756
Interest and rents	175,400	210,400	303,500
Other revenues	<u>13,500</u>	<u>186,300</u>	<u>195,134</u>
Total Revenues	\$ 3,059,500	\$ 3,377,000	\$ 3,489,872
<b>Expenditures:</b>			
Current expenditures:			
Legislative	\$ 43,000	\$ 43,000	\$ 36,845
General government	866,200	896,900	842,983
Public safety	1,004,400	1,003,500	950,065
Public works	212,300	296,300	283,244
Recreation and culture	122,300	122,300	84,684
Health and welfare	543,100	415,300	316,879
Other functions	90,000	85,500	74,799
Capital outlay	59,000	90,000	84,493
Debt service			
Total Expenditures	\$ <u>2,940,300</u>	\$ <u>2,952,800</u>	\$ <u>2,673,992</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 119,200	\$ 424,200	\$ 815,880
Other financing sources (uses) -			
Operating transfers in (out)	<u>(783,900)</u>	<u>(653,500)</u>	<u>(325,594)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ (664,700)	\$ (229,300)	\$ 490,286
Fund balance at July 1, 2018	<u>2,663,226</u>	<u>2,663,226</u>	<u>2,663,226</u>
FUND BALANCE AT JUNE 30, 2019	\$ <u>1,998,526</u>	\$ <u>2,433,926</u>	\$ <u>3,153,512</u>

MAJOR GOVERNMENTAL FUNDS

IRONWOOD, MICHIGAN

June 30, 2019

<u>Major Street Fund</u>			<u>Local Street Fund</u>		
<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
\$ 1,194,800	\$ 1,010,800	\$ 1,003,180	\$ 270,000	\$ 270,000	\$ 295,389
					591
		<u>3,330</u>			
\$ 1,194,800	\$ 1,010,800	\$ 1,006,510	\$ 270,000	\$ 270,000	\$ 295,980
\$ 1,460,900	\$ 903,100	\$ 778,153	\$ 726,000	\$ 459,200	\$ 416,431
	458,200	434,451			
<u>19,000</u>	<u>19,000</u>	<u>18,977</u>	<u>118,000</u>	<u>123,000</u>	<u>120,300</u>
\$ 1,479,900	\$ 1,380,300	\$ 1,231,581	\$ 844,000	\$ 582,200	\$ 536,731
\$ (285,100)	\$ (369,500)	\$ (225,071)	\$ (574,000)	\$ (312,200)	\$ (240,751)
<u>175,100</u>	<u>289,500</u>	<u>145,071</u>	<u>557,000</u>	<u>312,200</u>	<u>240,751</u>
\$ (110,000)	\$ (80,000)	\$ (80,000)	\$ (17,000)	\$ 0	\$ 0
<u>495,972</u>	<u>495,972</u>	<u>495,972</u>	<u>69,514</u>	<u>69,514</u>	<u>69,514</u>
\$ 385,972	\$ 415,972	\$ 415,972	\$ 52,514	\$ 69,514	\$ 69,514

## STATEMENT OF CHANGES IN EMPLOYER'S

CITY OF

Year ended

	<u>Year ended December 31,</u>	
	2018	2017
Total Pension Liability:		
Service Cost	\$ 220,744	\$ 223,619
Interest	1,436,392	1,430,107
Changes of Benefit Terms	0	0
Difference between expected and actual experience	(304,183)	(191,347)
Changes of assumptions	0	0
Benefit payments including employee refunds	(1,368,984)	(1,389,406)
Other	<u>(23,425)</u>	<u>(13,011)</u>
Net Change in Total Pension Liability	\$ (39,456)	\$ 59,962
Total Pension Liability, beginning	<u>18,529,022</u>	<u>18,469,060</u>
Total Pension Liability, ending	\$ 18,489,566	\$ 18,529,022
Plan Fiduciary Net Position:		
Contributions-employer	\$ 945,371	\$ 1,017,678
Contributions-employee	92,776	93,313
Net Investment income	(373,857)	1,161,288
Benefit payments including employee refunds	(1,368,984)	(1,389,406)
Administrative expense	(18,709)	(18,375)
Other	<u>(11,398)</u>	<u>(4,716)</u>
Net Change in Plan Fiduciary Net Position	\$ (734,801)	\$ 859,782
Plan Fiduciary Net Position, beginning	<u>9,736,752</u>	<u>8,876,970</u>
Plan Fiduciary Net Position, ending	\$ 9,001,951	\$ 9,736,752
Employer Net Pension Liability	<u>\$ 9,487,615</u>	<u>\$ 8,792,270</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	<u>49%</u>	<u>53%</u>
Covered Employee Payroll (from GASB 68 actuarial page)	<u>\$ 1,846,860</u>	<u>\$ 1,937,933</u>
Employer's Net Pension Liability as a percentage of covered employee payroll	<u>514%</u>	<u>454%</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 City employees based on actuarial recommendations.

NET PENSION LIABILITY AND RELATED RATIOS

IRONWOOD, MICHIGAN

June 30, 2019

Year ended December 31,		
2016	2015	2014
\$ 226,536	\$ 223,802	\$ 228,696
1,392,433	1,366,510	1,342,647
0	0	0
215,801	(154,152)	0
0	735,924	0
(1,295,770)	(1,276,131)	(1,283,165)
<u>(55,814)</u>	<u>0</u>	<u>0</u>
\$ 483,186	\$ 895,953	\$ 288,178
<u>17,985,874</u>	<u>17,089,921</u>	<u>16,801,743</u>
\$ 18,469,060	\$ 17,985,874	\$ 17,089,921
\$ 980,646	\$ 592,282	\$ 582,606
96,511	122,989	90,683
941,559	(127,762)	554,792
(1,295,770)	(1,276,131)	(1,283,165)
(18,580)	(18,972)	(20,229)
<u>(25,193)</u>	<u>0</u>	<u>0</u>
\$ 679,173	\$ (707,594)	\$ (75,313)
<u>8,197,797</u>	<u>8,905,391</u>	<u>8,980,704</u>
\$ 8,876,970	\$ 8,197,797	\$ 8,905,391
<u>\$ 9,592,090</u>	<u>\$ 9,788,077</u>	<u>\$ 8,184,530</u>
<u>48%</u>	<u>46%</u>	<u>52%</u>
<u>\$ 1,846,860</u>	<u>\$ 1,847,807</u>	<u>\$ 1,818,251</u>
<u>519%</u>	<u>530%</u>	<u>450%</u>

SCHEDULE OF EMPLOYER

CITY OF

Year ended

	Year ended June 30,	
	2019	2018
Actuarial Determined Contributions	\$ 945,371	\$ 869,610
Contributions in relation to the actuarially determined contribution	<u>945,371</u>	<u>1,017,678</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ (148,068)</u>
Covered Employee Payroll	<u>\$ 1,923,368</u>	<u>\$ 1,937,933</u>
Contributions as a percentage of covered employee payroll	<u>49%</u>	<u>45%</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, the City presents information for those years for which information is available.

REQUIRED PENSION CONTRIBUTIONS

IRONWOOD, MICHIGAN

June 30, 2019

<u>Year ended June 30,</u>		
<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 702,114	\$ 592,282	\$ 582,606
<u>980,646</u>	<u>942,282</u>	<u>582,606</u>
<u>\$ (278,532)</u>	<u>\$ (350,000)</u>	<u>\$ 0</u>
<u>\$ 1,846,860</u>	<u>\$ 1,847,807</u>	<u>\$ 1,818,251</u>
<u>38%</u>	<u>32%</u>	<u>32%</u>



SCHEDULE OF CHANGES IN THE EMPLOYER'S NET OTHER POST-EMPLOYMENT  
BENEFITS LIABILITY AND RELATED RATIOS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2019

	Year ended June 30,		
	2019	2018	2017
<b>Total OPEB Liability:</b>			
Service cost	\$ 25,767	\$ 24,835	\$ 37,557
Interest	104,585	107,262	128,176
Changes of benefit terms	0	0	0
Differences between expected and actual experience	(174,278)	0	(312,335)
Changes of assumptions	82,546	0	0
Benefit payments	<u>(168,419)</u>	<u>(197,141)</u>	<u>(171,439)</u>
Net Change in Total OPEB Liability	\$ (129,799)	\$ (65,044)	\$ (318,041)
Total OPEB Liability, beginning	<u>1,565,843</u>	<u>1,630,887</u>	<u>1,948,928</u>
Total OPEB Liability, ending	<u>\$ 1,436,044</u>	<u>\$ 1,565,843</u>	<u>\$ 1,630,887</u>
<b>Plan Fiduciary Net Position:</b>			
Contributions - employer	\$ 169,886	\$ 158,994	\$ 167,355
Contributions - employee	8,790		
Net investment income	45,715	119,332	133,661
Benefit payments	(177,209)	(197,141)	(171,439)
Administrative expenses	<u>(6,279)</u>	<u>(8,088)</u>	<u>(4,723)</u>
Net Change in Plan Fiduciary Net Position	\$ 40,903	\$ 73,097	\$ 124,854
Plan Fiduciary Net Position, beginning	<u>1,676,441</u>	<u>1,603,344</u>	<u>1,478,490</u>
Plan Fiduciary Net Position, ending	<u>\$ 1,717,344</u>	<u>\$ 1,676,441</u>	<u>\$ 1,603,344</u>
City's Net OPEB (assets) liability	<u>\$ (281,300)</u>	<u>\$ (110,598)</u>	<u>\$ 27,543</u>
Plan fiduciary net position as a percentage of the total OPEB (asset) liability	<u>119.59%</u>	<u>107.06%</u>	<u>98.31%</u>
Covered employee payroll	<u>\$ 909,425</u>	<u>\$ 827,965</u>	<u>\$ 844,023</u>
City's net OPEB (asset) liability as a percentage of covered employee payroll	<u>(30.93%)</u>	<u>(13.36%)</u>	<u>3.26%</u>

Notes to Schedule:

This schedule is presented to illustrate the requirements to show information for the last 10 fiscal years. However, until a full 10-year trend is compiled the City presents information for those years for which information is available.

Benefit Changes: There were no changes of benefit terms

Changes of Assumptions: Mortality rates were based on the Pub-2010 Public Retirement Plans Mortality Tables Report issued by the Society of Actuaries in January 2019 for Healthy and Disabled Participants, as appropriate.

SCHEDULE OF EMPLOYER REQUIRED OTHER POST-EMPLOYMENT  
BENEFITS CONTRIBUTIONS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2019

	Year ended June 30,		
	2019	2018	2017
Actuarially determined contribution	\$ 68,889	\$ 66,399	\$ 68,898
Contributions in relation to the actuarially determined contribution	<u>169,886</u>	<u>126,902</u>	<u>167,355</u>
Contribution deficiency (excess)	<u>\$ (100,997)</u>	<u>\$ (60,503)</u>	<u>\$ (98,457)</u>
Covered employee payroll	<u>\$ 909,425</u>	<u>\$ 827,965</u>	<u>\$ 844,023</u>
Contributions as a percentage of covered employee payroll	<u>18.68%</u>	<u>15.33%</u>	<u>19.83%</u>

Actuarially determined contribution rates are calculated as of June 30, 2019.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll
Amortization period	25 years
Asset valuation method	10 year smoothed market
Inflation	2.25%
Healthcare cost trend rates	16.0% initial, decreasing 0.25% per year to an ultimate rate of 12.0%
Salary increases	3.75% average, including inflation
Investment rate of return	7.0% net of OPEB plan investment expense, including inflation
Retirement age	In the 2019 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the Pub-2010 Public Retirement Plans Mortality Table issued by the Society of Actuaries in January 2019 for Healthy and Disabled Participants, as appropriate.

This schedule is presented to illustrate the City's required OPEB contributions 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, the City presents information for those years for which information is available.

OTHER  
FINANCIAL  
INFORMATION

BALANCE SHEET - GENERAL FUND

CITY OF IRONWOOD, MICHIGAN

June 30, 2019

ASSETS

Cash		\$	2,697,854
Investments			1,014,955
Receivables:			
Delinquent taxes	\$	31,419	
State of Michigan		137,007	
Federal Government		16,500	
Due from Housing Commission		22,972	
Other		<u>205,904</u>	
	\$	413,802	
Less allowances for uncollectible accounts		<u>(6,556)</u>	407,246
Due from other funds			9,868
Inventory			90,700
Prepaid expenses			<u>39,522</u>
			<u>\$ 4,260,145</u>

LIABILITIES AND FUND BALANCE

Liabilities:			
Accounts payable		\$	229,089
Due other funds			<u>877,544</u>
	Total Liabilities	\$	1,106,633
Fund balance:			
Nonspendable	\$	130,222	
Restricted		57,765	
Committed		820,700	
Assigned		1,591,613	
Unassigned		<u>553,212</u>	<u>3,153,512</u>
			<u>\$ 4,260,145</u>

STATEMENT OF REVENUES - ESTIMATED AND ACTUAL - GENERAL FUND

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2019

	Estimated Revenue	Actual Revenue	Variance Favorable (Unfavorable)
<b>Taxes:</b>			
Property taxes		\$ 1,778,504	
Property tax administrative fees		89,462	
Payment in lieu of taxes		<u>7,132</u>	
	\$ 1,852,000	\$ 1,875,098	\$ 23,098
City licenses and permits	73,200	74,762	1,562
<b>State grants:</b>			
Liquor licenses		\$ 6,475	
Sales tax		754,940	
Other grants		<u>12,774</u>	
	800,200	\$ 774,189	(26,011)
Federal grants	16,500	42,433	25,933
<b>Charges for services - departmental fees and services:</b>			
Public safety		\$ 45,149	
Tourist park		30,074	
Administration services		121,257	
Blight		14,322	
Sale of supplies and services		<u>13,954</u>	
	238,400	\$ 224,756	(13,644)
<b>Interest and rents:</b>			
Interest earned		\$ 138,858	
<b>Rentals and leases:</b>			
Memorial building rentals		75,417	
Garage rentals		80,400	
Other		<u>8,825</u>	
	210,400	\$ 303,500	93,100

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

	Estimated Revenue	Actual Revenue	Variance Favorable (Unfavorable)
Other revenues:			
Refunds and rebates		\$ 51,121	
Donations		61,449	
Miscellaneous		<u>82,564</u>	
	<u>186,300</u>	\$ <u>195,134</u>	<u>8,834</u>
Total Revenues	\$ 3,377,000	\$ 3,489,872	\$ 112,872
Other financing sources - operating transfers in - Internal Service Fund		<u>100,000</u>	<u>100,000</u>
<b>TOTAL REVENUES AND OTHER FINANCING SOURCES</b>	<b><u>\$ 3,377,000</u></b>	<b><u>\$ 3,589,872</u></b>	<b><u>\$ 212,872</u></b>

STATEMENT OF APPROPRIATIONS AND EXPENDITURES - GENERAL FUND

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2019

	Appropriations	Expenditures	Variance Favorable (Unfavorable)
Legislative - City commission	\$ 43,000	\$ 36,845	\$ 6,155
General government:			
City manager		\$ 113,647	
Elections		6,653	
Financial administration		176,954	
City treasurer		34,095	
City assessor		78,883	
Computer department		60,975	
City clerk		152,824	
Board of review		976	
Building Inspection		52,155	
City hall and grounds		<u>165,821</u>	
	896,900	\$ 842,983	53,917
Public safety:			
Public safety department		\$ 946,335	
Volunteer fire department		<u>3,730</u>	
	1,003,500	\$ 950,065	53,435
Public works:			
Street lighting		\$ 80,906	
Sanitation		<u>202,338</u>	
	296,300	\$ 283,244	13,056
Recreation and culture -			
Parks and recreation	122,300	84,684	37,616
Health and welfare:			
Community development		\$ 173,678	
Code enforcement and blight		<u>143,201</u>	
	415,300	\$ 316,879	98,421

STATEMENT OF APPROPRIATIONS AND EXPENDITURES - GENERAL FUND (CONTINUED)

	Appropriations	Expenditures	Variance Favorable (Unfavorable)
Other functions:			
Insurance and bonds		\$ 64,579	
Labor relations		1,951	
Programs		<u>8,269</u>	
	85,500	\$ 74,799	10,701
Capital outlay:			
Recreation and Culture		\$ 51,949	
Public Safety		<u>32,544</u>	
	<u>90,000</u>	\$ <u>84,493</u>	<u>5,507</u>
Total Expenditures	\$ 2,952,800	\$ 2,673,992	\$ 278,808
Other financing uses - operating transfers out:			
Local Street Fund		\$ 240,751	
Major Street		143,871	
Cemetery Fund		<u>40,972</u>	
Total Other Financing Uses	<u>653,500</u>	\$ <u>425,594</u>	<u>227,906</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ <u>3,606,300</u>	\$ <u>3,099,586</u>	\$ <u>506,714</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
<b>ASSETS</b>				
Cash and cash equivalents	\$ 65,606	\$ 19,251	\$ 179	\$ 320,000
Investments	123,526			
Receivables:				
Accounts	38,830	100		
Delinquent property taxes	1,580	349		
Due from other funds				
Prepaid expenses	1,093	12		
Notes receivable			183,434	
	<u>\$ 230,635</u>	<u>\$ 19,712</u>	<u>\$ 183,613</u>	<u>\$ 320,000</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>				
Liabilities -				
Accounts payable	\$ 10,688	\$ 2,696		
Fund balance:				
Nonspendable	\$ 1,093	\$ 12		
Restricted	146,953		\$ 183,613	\$ 320,000
Assigned	<u>71,901</u>	<u>17,004</u>		
	<u>\$ 219,947</u>	<u>\$ 17,016</u>	<u>\$ 183,613</u>	<u>\$ 320,000</u>
	<u>\$ 230,635</u>	<u>\$ 19,712</u>	<u>\$ 183,613</u>	<u>\$ 320,000</u>

NONMAJOR GOVERNMENTAL FUNDS

IRONWOOD, MICHIGAN

2019

<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>		Totals
Cemetery Trust Fund	Volunteer Fire Department Fund	1995 Debt Service Fund	2015 Debt Service Fund	
\$ 513,691	\$ 3,532	\$ 4,338	\$ 38,322	\$ 451,228
				637,217
				38,930
		1,589	1,630	5,148
3,362			743	4,105
512				1,617
				<u>183,434</u>
<u>\$ 517,565</u>	<u>\$ 3,532</u>	<u>\$ 5,927</u>	<u>\$ 40,695</u>	<u>\$ 1,321,679</u>
\$ 7,565				\$ 20,949
\$ 512				\$ 1,617
500,000		\$ 5,927	\$ 40,695	1,197,188
<u>9,488</u>	<u>\$ 3,532</u>			<u>101,925</u>
<u>\$ 510,000</u>	<u>\$ 3,532</u>	<u>\$ 5,927</u>	<u>\$ 40,695</u>	<u>\$ 1,300,730</u>
<u>\$ 517,565</u>	<u>\$ 3,532</u>	<u>\$ 5,927</u>	<u>\$ 40,695</u>	<u>\$ 1,321,679</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
<b>Revenues:</b>				
Taxes	\$ 89,504	\$ 12,051		
State grants	4,377			
Contributions from local units	1,100			
Fines and forfeits	38,555			
Charges for services	3,435			
Interest and investment earnings	1,551		\$ 179	
Other revenues	<u>29,640</u>	<u>5,865</u>		<u>\$ 320,000</u>
<b>Total Revenues</b>	<b>\$ 168,162</b>	<b>\$ 17,916</b>	<b>\$ 179</b>	<b>\$ 320,000</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government				
Public safety				
Recreation and culture	\$ 130,433			
Health and welfare		\$ 13,633	\$ 70,013	
Other - Administrative and general	<u>130,433</u>	<u>13,633</u>	<u>70,013</u>	
Capital outlay	15,045			
Debt service:				
Principal				
Interest and fees				
<b>Total Expenditures</b>	<b>\$ 145,478</b>	<b>\$ 13,633</b>	<b>\$ 70,013</b>	
Excess (Deficiency) of Revenues Over Expenditures	\$ 22,684	\$ 4,283	\$ (69,834)	\$ 320,000
<b>Other financing sources (uses):</b>				
Operating transfers in (out)		(1,200)		
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ 22,684	\$ 3,083	\$ (69,834)	\$ 320,000
Fund balance at July 1, 2018	<u>197,263</u>	<u>13,933</u>	<u>253,447</u>	<u>0</u>
<b>FUND BALANCE AT JUNE 30, 2019</b>	<b><u>\$ 219,947</u></b>	<b><u>\$ 17,016</u></b>	<b><u>\$ 183,613</u></b>	<b><u>\$ 320,000</u></b>

CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS

IRONWOOD, MICHIGAN

June 30, 2019

<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>		Totals
Cemetery Trust Fund	Volunteer Fire Department Fund	1995 Debt Service Fund	2015 Debt Service Fund	
		\$ 131	\$ 185,734	\$ 287,420
				4,377
				1,100
				38,555
\$ 36,960				40,395
12,166		\$ 80	1,901	15,877
<u>          </u>	<u>\$ 82</u>	<u>          </u>	<u>          </u>	<u>355,587</u>
\$ 49,126	\$ 82	\$ 211	\$ 187,635	\$ 743,311
\$ 90,098				\$ 90,098
	\$ 222			222
				130,433
				83,646
			\$ 56	56
\$ 90,098	\$ 222		\$ 56	\$ 304,455
				15,045
			150,000	150,000
			25,452	25,452
\$ 90,098	\$ 222		\$ 175,508	\$ 494,952
\$ (40,972)	\$ (140)	\$ 211	\$ 12,127	\$ 248,359
<u>40,972</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>39,772</u>
\$ 0	\$ (140)	\$ 211	\$ 12,127	\$ 288,131
<u>510,000</u>	<u>3,672</u>	<u>5,716</u>	<u>28,568</u>	<u>1,012,599</u>
<u>\$ 510,000</u>	<u>\$ 3,532</u>	<u>\$ 5,927</u>	<u>\$ 40,695</u>	<u>\$ 1,300,730</u>

COMBINING STATEMENT OF PLAN NET POSITION - PENSION TRUST FUNDS

CITY OF IRONWOOD, MICHIGAN

June 30, 2019

	Retirement System Fund	Public Safety Retirement System Fund	Totals
ASSETS			
Cash		\$ 139,073	\$ 139,073
Delinquent property taxes receivable		7,266	7,266
	<u>\$ 0</u>	<u>\$ 146,339</u>	<u>\$ 146,339</u>
LIABILITIES			
Accounts payable		\$ 165	\$ 165
NET POSITION			
Net position held in trust for pension benefits	<u>\$ 0</u>	<u>\$ 146,174</u>	<u>\$ 146,174</u>

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

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2019

	Retirement System Fund	Public Safety Retirement System Fund	Totals
<b>Additions:</b>			
<b>Contributions:</b>			
Property taxes		\$ 543,333	\$ 543,333
Employer contributions	\$ 488,822		488,822
Miscellaneous		40	40
<b>Total Contributions</b>	<b>\$ 488,822</b>	<b>\$ 543,373</b>	<b>\$ 1,032,195</b>
<b>Deductions:</b>			
Administrative expense		\$ 318	\$ 318
Transfer to Municipal Employee's Retirement System	\$ 488,822	403,190	892,012
<b>Total Deductions</b>	<b>\$ 488,822</b>	<b>\$ 403,508</b>	<b>\$ 892,330</b>
<b>Net Increase</b>	<b>\$ 0</b>	<b>\$ 139,865</b>	<b>\$ 139,865</b>
Net position held in trust at July 1, 2018		6,309	6,309
<b>NET POSITION HELD IN TRUST AT JUNE 30, 2019</b>	<b>\$ 0</b>	<b>\$ 146,174</b>	<b>\$ 146,174</b>

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

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2019

	Balance at July 1, 2018	Additions	Deductions	Balance at June 30, 2019
<b>ASSETS</b>				
Cash	<u>\$ 5,246</u>	<u>\$ 5,491,490</u>	<u>\$ 5,487,226</u>	<u>\$ 9,510</u>
<b>LIABILITIES</b>				
Due Ironwood Area Schools		\$ 1,158,776	\$ 1,158,776	
Due Gogebic County		1,267,719	1,267,719	
Due State of Michigan		503,734	503,734	
Due other funds	\$ 5,246	2,547,316	2,543,052	\$ 9,510
Due other units		<u>13,945</u>	<u>13,945</u>	
	<u>\$ 5,246</u>	<u>\$ 5,491,490</u>	<u>\$ 5,487,226</u>	<u>\$ 9,510</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2019

Federal Grantor/ Pass-through Grantor/ Program Title	Federal Catalog of Domestic Assistance Number	Federal Expenditures
<b>PRIMARY GOVERNMENT</b>		
<u>U.S. Department of Agriculture</u>		
Water and Waste Program:		
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 759,163
Rural Housing Service:		
Community Facilities Loans and Grants	10.766	<u>16,500</u>
Total U.S. Department of Agriculture		\$ 775,663
<u>Environmental Protection Agency</u>		
Capitalization Grants for Safe Drinking Water Revolving Fund	66.468	\$ 4,138
<u>U.S. Department of Homeland Security</u>		
Disaster Grants - Public Assistance	97.036	<u>25,933</u>
Total Primary Government Expenditures of Federal Funds		\$ 805,734
<b>COMPONENT UNIT</b>		
<u>U.S. Department of Housing and Urban Development</u>		
Public and Indian Housing	14.850a	\$ 285,357
Public Housing Capital Fund	14.872	<u>96,753</u>
Total Component Unit Expenditures of Federal Funds		\$ <u>382,110</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<b>\$ <u>1,187,844</u></b>

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, 2019

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, 2019. 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, 2019, for a total of \$14,665,414.
5. Of the federal expenditures presented in the schedule, City of Ironwood, Michigan, provided no federal awards to subrecipients.
6. The major federal assistance program is listed in the Schedule of Findings and Questioned Costs. City of Ironwood, Michigan does not qualify as a low risk auditee in accordance with the Uniform Guidance. Major programs, which must exceed 40% 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. Expenditures in this schedule are in agreement with the amounts reported in the financial statements. Following is a schedule reconciling the expenditures per the schedule of expenditures to the financial statements:

Federal expenditures	\$ 805,734
Loan proceeds spent on capital items	<u>(477,414)</u>
Federal grant revenue per financial statements	<u>\$ 328,320</u>
Recap of Federal grant revenue per financial statements:	
General Fund	\$ 42,433
Water Utility Fund	4,138
Sewer Utility Fund	<u>281,749</u>
	<u>\$ 328,320</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, 2019, 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 20, 2019. 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 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, Pollock & Ahonen, PLLC*

Certified Public Accountants

Ironwood, Michigan  
December 20, 2019

**MAKELA, POLLACK & AHONEN, P.L.L.C.**  
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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, 2019. 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 each major federal program. 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 each of its major federal programs for the year ended June 30, 2019.

### **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 20, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2019

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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 federal programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  Yes  No

Identification of major federal program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities

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)

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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, 2019

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B. FINDINGS – FINANCIAL STATEMENTS AUDIT

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

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

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