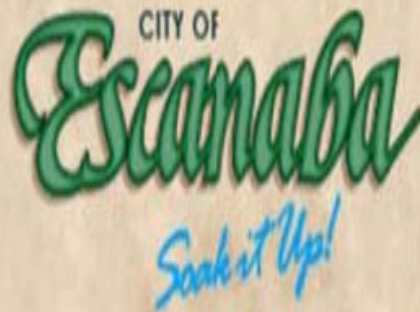


City of Escanaba,
Michigan



Fiscal Year
Ended
June 30, 2017

Financial
Statements and
Single Audit Act
Compliance

CITY OF ESCANABA, MICHIGAN

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CITY OF ESCANABA, MICHIGAN

List of Elected and Appointed Officials

Elected Officials

| | |
|----------------|-------------------|
| Mayor | Marc Tall |
| Mayor Pro Tem | Ronald Beauchamp |
| Council Member | Patricia Baribeau |
| Council Member | Ralph Blasier |
| Council Member | Michael Sattem |

Appointed Officials

| | |
|----------------------------------------|------------------|
| City Manager | James O'Toole |
| Clerk | Robert Richards |
| Treasurer | Robert Valentine |
| Planning Director/Zoning Administrator | James O'Toole |
| Director of Public Safety | Robert LaMarche |
| Director of DPW | Bill Farrell |
| Electric Superintendent | Mike Furmanski |
| Assessor | Vacant |
| WWTP/WTP Superintendent | Jeff Lampi |
| Harbormaster | Larry Gravatt |
| Recreation Director | Kim Peterson |
| Library Director | Carolyn Stacey |
| Controller | Melissa Becotte |
| Attorney | Ralph Peterson |

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INDEPENDENT AUDITORS' REPORT

December 22, 2017

City Council
City of Escanaba, Michigan
Escanaba, Michigan**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Escanaba, Michigan* (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Escanaba Housing Commission (the "Commission") discretely presented component unit, which is a major component unit, and therefore its own opinion 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 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 from 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund and the E.D.A. Revolving Loan special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements 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 our report dated December 22, 2017, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Rehmann Lobson LLC". The signature is written in black ink and is centered on the page.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF ESCANABA, MICHIGAN

Management's Discussion and Analysis

These financial statements are the responsibility of the City of Escanaba, Michigan's (the "City") management. We offer readers this narrative overview and analysis for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

| | |
|-----------------------------------------------|---------------|
| · Total net position | \$ 55,733,780 |
| · Change in total net position | 1,068,603 |
| · Fund balances, governmental funds | 12,657,742 |
| · Change in fund balances, governmental funds | (1,111,205) |
| · Unassigned fund balance, general fund | 3,667,323 |
| · Change in fund balance, general fund | 334,269 |
| · Bonded debt outstanding | 5,425,000 |
| · Change in bonded debt | (485,000) |

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The *statement of net position* presents information on all of the City's assets, liabilities, and deferred outflows/inflows, with the residual reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways, streets and public works, sanitation, community services, recreation and culture, community and economic development and other functions. The business-type activities of the City include electric, sewage disposal, water distribution and marina operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate component unit - the Escanaba Housing Commission - for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

CITY OF ESCANABA, MICHIGAN

Management's Discussion and Analysis

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long term impact of the government's near term financing decisions. Following both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances are reconciliations to facilitate this comparison between *governmental funds* and *governmental activities*.

Information for each of the City's individual major governmental funds and the aggregate nonmajor governmental funds are presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The general fund and the E.D.A Revolving Loan fund are considered to be the City's major governmental funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund and special revenue funds. A budgetary comparison statement has been provided herein to demonstrate its compliance with those budgets.

Proprietary funds. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, sewage disposal, water distribution and marina operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its public building financing, motor vehicle and equipment usage, office equipment, self-insured general liability and property coverage, self-insured worker's compensation and self-insured unemployment compensation. In the government-wide financial statements, internal service fund activity is included with the governmental activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, sewage disposal, water distribution and marina operations, each of which are considered to be major funds of the City.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information includes this management's discussion and analysis, MERS Agent Multiple-Employer Defined Benefit Pension Plan, and the Public Safety Officer Retirement System.

CITY OF ESCANABA, MICHIGAN

Management's Discussion and Analysis

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows by approximately \$55,734,000 as of June 30, 2017.

| | Net Position | | | | | |
|----------------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Assets | | | | | | |
| Current and other assets | \$ 15,298,946 | \$ 16,757,883 | \$ 20,778,346 | \$ 22,212,002 | \$ 36,077,292 | \$ 38,969,885 |
| Capital assets, net | 24,399,318 | 21,977,036 | 26,594,455 | 25,545,507 | 50,993,773 | 47,522,543 |
| | <u>39,698,264</u> | <u>38,734,919</u> | <u>47,372,801</u> | <u>47,757,509</u> | <u>87,071,065</u> | <u>86,492,428</u> |
| Deferred outflows of resources | 1,843,446 | 3,729,654 | 406,779 | 968,222 | 2,250,225 | 4,697,876 |
| Liabilities | | | | | | |
| Long-term liabilities | 732,942 | 697,527 | 5,614,219 | 6,144,395 | 6,347,161 | 6,841,922 |
| Other liabilities | 18,578,454 | 20,276,381 | 6,104,901 | 6,448,654 | 24,683,355 | 26,725,035 |
| | <u>19,311,396</u> | <u>20,973,908</u> | <u>11,719,120</u> | <u>12,593,049</u> | <u>31,030,516</u> | <u>33,566,957</u> |
| Deferred inflows of resources | 2,557,737 | 2,943,527 | (743) | 14,643 | 2,556,994 | 2,958,170 |
| Net position | | | | | | |
| Net investment in capital assets | 24,399,318 | 21,977,036 | 21,169,455 | 19,635,507 | 45,568,773 | 41,612,543 |
| Restricted | 6,359,327 | 7,461,389 | 1,408,767 | 1,438,231 | 7,768,094 | 8,899,620 |
| Unrestricted (deficit) | (11,086,068) | (10,891,287) | 13,482,981 | 15,044,301 | 2,396,913 | 4,153,014 |
| Total net position | <u>\$ 19,672,577</u> | <u>\$ 18,547,138</u> | <u>\$ 36,061,203</u> | <u>\$ 36,118,039</u> | <u>\$ 55,733,780</u> | <u>\$ 54,665,177</u> |

The largest portion of the City's net position (82 percent) reflects its investment in capital assets (e.g., land, construction in progress, infrastructure, buildings, equipment, and vehicles); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

An additional portion of the City's net position (14 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (4 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

CITY OF ESCANABA, MICHIGAN

Management's Discussion and Analysis

The following condensed financial information was derived from the government-wide statement of activities and reflects how the City's net position changed during the fiscal year:

| | Change in Net position | | | | | |
|------------------------------------------|-------------------------|-------------------|--------------------------|-------------------|-------------------|-------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Program revenues | | | | | | |
| Charges for services | \$ 1,580,183 | \$ 1,321,456 | \$ 17,284,186 | \$ 17,583,349 | \$ 18,864,369 | \$ 18,904,805 |
| Operating grants | 1,920,181 | 533,289 | 60,988 | 2,066,272 | 1,981,169 | 2,599,561 |
| Capital grants | 350,437 | 274,925 | - | - | 350,437 | 274,925 |
| General revenues | | | | | | |
| Property taxes | 5,609,332 | 5,557,168 | - | - | 5,609,332 | 5,557,168 |
| State shared revenue | 1,351,986 | 1,296,901 | - | - | 1,351,986 | 1,296,901 |
| Unrestricted grants and contributions | 1,486,485 | 908,236 | - | - | 1,486,485 | 908,236 |
| Investment earnings (loss) | (26,250) | 640,576 | (75,937) | 610,161 | (102,187) | 1,250,737 |
| Total revenues | 12,272,354 | 10,532,551 | 17,269,237 | 20,259,782 | 29,541,591 | 30,792,333 |
| Expenses: | | | | | | |
| General government | 1,196,311 | 1,362,955 | - | - | 1,196,311 | 1,362,955 |
| Public safety | 4,861,310 | 5,161,234 | - | - | 4,861,310 | 5,161,234 |
| Highways, streets and public works | 2,486,686 | 2,297,903 | - | - | 2,486,686 | 2,297,903 |
| Sanitation | 693,815 | 683,189 | - | - | 693,815 | 683,189 |
| Community services | 21,126 | 21,193 | - | - | 21,126 | 21,193 |
| Recreation and culture | 1,719,483 | 1,783,608 | - | - | 1,719,483 | 1,783,608 |
| Community and economic development | 1,036,529 | 357,927 | - | - | 1,036,529 | 357,927 |
| Other functions | 4,826 | 3,000 | - | - | 4,826 | 3,000 |
| Interest | 29,648 | 33,254 | - | - | 29,648 | 33,254 |
| Electric utility | - | - | 12,489,233 | 13,512,844 | 12,489,233 | 13,512,844 |
| Waste water utility | - | - | 1,464,489 | 1,496,607 | 1,464,489 | 1,496,607 |
| Water utility | - | - | 2,231,561 | 2,078,417 | 2,231,561 | 2,078,417 |
| Marina | - | - | 237,971 | 259,024 | 237,971 | 259,024 |
| Total expenses | 12,049,734 | 11,704,263 | 16,423,254 | 17,346,892 | 28,472,988 | 29,051,155 |

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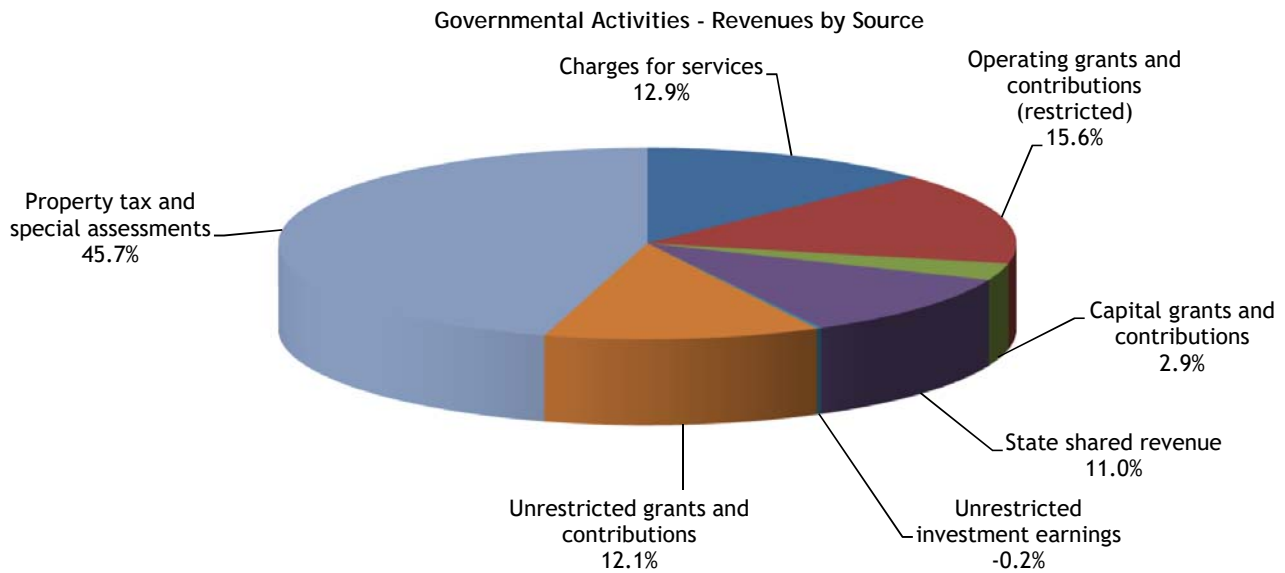
CITY OF ESCANABA, MICHIGAN

Management's Discussion and Analysis

| | Change in Net Position (concluded) | | | | | |
|--------------------------------------------|------------------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Change in net position, before transfers | \$ 222,620 | \$ (1,171,712) | \$ 845,983 | \$ 2,912,890 | \$ 1,068,603 | \$ 1,741,178 |
| Transfers | 902,819 | 470,524 | (902,819) | (470,524) | - | - |
| Change in net position before special item | 1,125,439 | (701,188) | (56,836) | 2,442,366 | 1,068,603 | 1,741,178 |
| Special item: | | | | | | |
| Repayment of grant funds | - | (1,160,474) | - | - | - | (1,160,474) |
| Change in net position | 1,125,439 | (1,861,662) | (56,836) | 2,442,366 | 1,068,603 | 580,704 |
| Net position: | | | | | | |
| Beginning of year | 18,547,138 | 20,408,800 | 36,118,039 | 33,675,673 | 54,665,177 | 54,084,473 |
| End of year | <u>\$ 19,672,577</u> | <u>\$ 18,547,138</u> | <u>\$ 36,061,203</u> | <u>\$ 36,118,039</u> | <u>\$ 55,733,780</u> | <u>\$ 54,665,177</u> |

Concluded

The following chart presents revenues of governmental activities for the fiscal year:

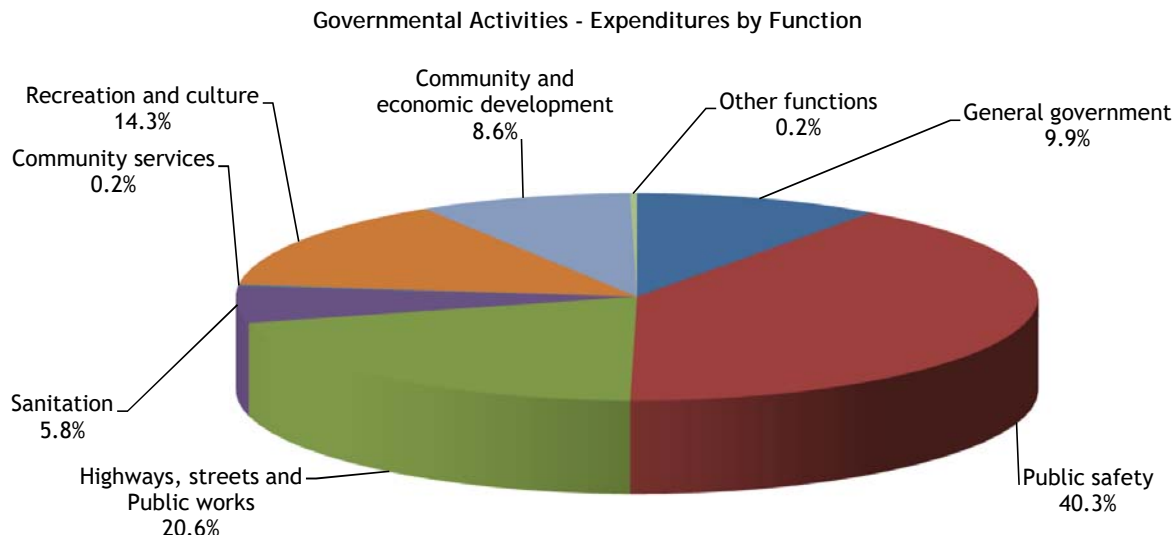


- Total governmental activities revenue increased by approximately \$1,740,000 or 16.5% compared to prior year. The increase is primarily due to grant funding related to the community development grant, charges for services, storm water and wastewater asset management grant, and gas and weight tax, which increased by approximately \$1,117,000, \$259,000, \$229,000, and \$150,000, respectively.

CITY OF ESCANABA, MICHIGAN

Management's Discussion and Analysis

The following chart presents expenses of the governmental activities for the fiscal year:



Total expenses for governmental activities increased approximately \$345,000 or 2.9% from the previous fiscal year. Significant fluctuations are described below:

- General government expenses decreased by approximately \$167,000 which was mainly attributable to the decrease in the City's miscellaneous receivable bad debt expense of approximately \$117,000. The remaining decrease was primarily attributable to a decrease in employee wages.
- Public safety expenses decreased by approximately \$300,000. In comparison to the prior year, this decrease was mainly attributable to a decrease in the Upper Peninsula Substance Enforcement Team ("UPSET") of approximately \$183,000. UPSET is a narcotics awareness program. The remaining decrease was primarily attributable to a decrease in employee wages.
- Highways, streets and public works expenses increased by approximately \$189,000. In comparison to the prior year, this increase was primarily attributable to the increase in projects related to the repair and maintenance of the City's streets. However, this increase was offset by the decrease of the net pension allocation.
- In comparison to the prior year recreation and culture expenses decreased by approximately \$64,000, this decrease was primarily attributable to the decrease in both employee wages and the net pension allocation.
- In comparison to the prior year, community and economic expenses increased by approximately \$679,000. This increase in expenses was primarily attributable to the community development block grants for the improvement of the City's FAÇADE.

CITY OF ESCANABA, MICHIGAN

Management's Discussion and Analysis

Business-type Activities. Net position of the business-type activities decreased by approximately \$57,000 during the fiscal year as a result of operations. The change in net position in comparison to the prior year decreased by approximately \$2,499,000. This decrease was primarily attributable to a decrease in total revenues of approximately \$2,990,000; from charges from services, operating grants, and a loss in investment earnings, in the amount of approximately \$299,000, \$2,005,000, and \$686,000, respectively. In comparison to the prior year the City experienced a decrease in charges for services primarily attributable to the Escanaba Ore Dock shutting down during fiscal year 2017. The decrease in operating grants was mainly attributable to the lighting strike at the Power Plant Substation which occurred in 2014. This caused significant damage to the substation and power outages throughout the City. After putting together all the costs associated with the repairs and losses, the City was able to get an insurance settlement in 2016. Electric operating expenses decreased by approximately \$1,024,000, which was mainly attributable to the decrease in utility expenses for the repairs and losses related to the Power Plant Substation. The remaining amount was from a decrease in Power Plant insurance and a decline in coal.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$12,658,000, a decrease of approximately \$1,111,000 from prior year. This decrease was primarily attributable to the Downtown Development Authority's reconstruction of the marketplace.

General Fund Budgetary Highlights

Generally, as additional information became known during the fiscal year, budget amendments were made as deemed necessary. A statement showing the City's original and final budget amounts, compared with actual amounts is provided in the basic financial statements.

In comparison of the final budget to actual results, total expenditures were under budget by approximately \$266,000. The decrease in expenditures were primarily due to the City anticipating an increase in both health care costs and employee wage rates, however this increase did not occur.

The following were the differences between the original and final budget:

- Revenues from taxes were initially estimated at \$4,994,500 rather than the \$5,284,500 final budgeted amount, an increase of \$290,000, which was primarily attributable to the State of Michigan distributing extra funding to municipalities for the small taxpayer personal property tax reimbursements.
- Other revenues were initially estimated at \$155,700 rather than the \$307,700 final budgeted amount, an increase of \$152,000. Increase was primarily attributable to the contribution received from Wells Township for the purchase of a fire truck and an increase in Risk Avoidance Program grant funding, in the amount of \$130,000 and \$22,000, respectively.
- Public Safety expenditures were initially estimated at \$4,466,088 rather than \$4,826,088 final budgeted amount, an increase of \$360,000, which was mainly attributable to the acquisition of a fire truck.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements business-type activities, but in more detail.

CITY OF ESCANABA, MICHIGAN

Management's Discussion and Analysis

Unrestricted net position of the enterprise funds at the end of the year amounted to approximately \$13,483,000 and the net investment in capital assets was approximately \$21,169,000. In addition enterprise funds reported restricted net position of approximately \$1,409,000 related to Electric Utility Fund surcharges revenues collected that are required to be used for energy optimization and renewable energy purposes. The changes in enterprise fund net positions were as follows:

- Electric utility activities increased the City's net position by approximately \$41,000, from general operations. This was due to a decrease in the amount of repairs and losses from the Power Plant Substation.
- Waste water utility activities decreased the City's net position by approximately \$86,000. This was due to expenses exceeding revenues by approximately \$41,000. As well as, a decrease in investment earnings and transfer out to the general fund, in the amount of approximately \$22,000 and \$21,000, respectively.
- Water utility activities decreased the City's net position minimally (approximately \$100).
- Marina activities negatively impacted the City's net position by approximately \$12,000 primarily due to a decrease in charges for services.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2017 amounted to approximately \$50,994,000 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, transmission and distribution systems, machinery and equipment, vehicles, and infrastructure including park facilities, roads, highways, and bridges.

Major capital asset events during the current fiscal year included the following:

- Acquisition of a fire truck
- Street construction projects
- Marketplace construction
- Construction of a sewer line mapping system
- Ongoing utility meter replacement
- Electric pole replacement and distribution system upgrades

| | Capital Assets (Net of Depreciation, Where Applicable) | | | | | |
|--------------------------------------|--------------------------------------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Land | \$ 1,332,769 | \$ 1,324,569 | \$ 56,953 | \$ 56,953 | \$ 1,389,722 | \$ 1,381,522 |
| Construction in progress | 2,587,458 | - | 2,512,965 | 1,465,385 | 5,100,423 | 1,465,385 |
| Land improvements | 3,437,503 | 3,608,463 | 732,558 | 768,925 | 4,170,061 | 4,377,388 |
| Infrastructure | 9,816,911 | 10,403,394 | - | - | 9,816,911 | 10,403,394 |
| Buildings and improvements | 4,719,074 | 4,955,174 | 11,876,620 | 12,250,242 | 16,595,694 | 17,205,416 |
| Transmission and distribution system | - | - | 11,075,858 | 10,679,365 | 11,075,858 | 10,679,365 |
| Machinery, vehicles and equipment | 2,312,198 | 1,477,338 | 339,501 | 324,637 | 2,651,699 | 1,801,975 |
| Parking lot | 193,405 | 208,098 | - | - | 193,405 | 208,098 |
| Total capital assets, net | \$ 24,399,318 | \$ 21,977,036 | \$ 26,594,455 | \$ 25,545,507 | \$ 50,993,773 | \$ 47,522,543 |

Additional information on the City's capital assets can be found in the notes to the financial statements.

CITY OF ESCANABA, MICHIGAN

Management's Discussion and Analysis

Long-term debt. At the end of the current fiscal year, the City had bonds related to various construction projects at the Water plant with a balance of \$5,305,000 and a bond for a project at the Wastewater plant with a balance of \$120,000.

| | General Obligations and Other Long Term Debt | | | | | |
|----------------------------------------------|----------------------------------------------|-------------------|--------------------------|---------------------|---------------------|---------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Waste water utility fund revenue bonds | \$ - | \$ - | \$ 120,000 | \$ 180,000 | \$ 120,000 | \$ 180,000 |
| Water utility fund revenue bonds | - | - | 2,900,000 | 3,185,000 | 2,900,000 | 3,185,000 |
| Water utility fund capital improvement bonds | - | - | 2,405,000 | 2,545,000 | 2,405,000 | 2,545,000 |
| Compensated absences | 732,942 | 697,527 | 189,219 | 234,395 | 922,161 | 931,922 |
| Total | \$ 732,942 | \$ 697,527 | \$ 5,614,219 | \$ 6,144,395 | \$ 6,347,161 | \$ 6,841,922 |

Additional information on the City's long-term debt can be found in the notes to the financial statement.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2017-18 fiscal year:

- The unemployment rate for Michigan is currently 3.9% and the national average rate is 4.4%.
- The local, state and national economies continue to slowly improve. The City's taxable values continue to rise slowly but still have not reached the values prior to the recession. New construction projects within the City have started to increase.
- The tax collection rate for the year was 95.2% of billed taxes. The County tax revolving fund reimburses the City for delinquent real property taxes in April each year following the March settlement.
- For the 2016 tax year, the operating millage of 14.03 mills remained the same as the 2015 tax year to enable the same level of service to taxpayers provided by the General Fund. The City Band millage remained at .13 mills. The Library millage remained at .84 mills. The Public Safety Pension millage remained at 2.0 mills. Overall, the 2016 tax rates remained the same as 2015.
- The City anticipates sewer rates to increase by 8.99% to cover additional operational costs as well as maintenance costs. Major upgrades to the Wastewater plant will be needed soon. We hope to be able to pay for some or all of the those upgrades without the use of loans or bonds.
- The City anticipates water rates to increase by 8.4% to cover additional operational costs. The City needs to prepare for upcoming system upgrades. We plan to continue to increase the fund balance in an effort to reduce the need for future bonding.
- The electric rates did not increase during the 2017 fiscal year. In fiscal year 2018, the City anticipates meter charges to increase by 30.7% to cover additional operational costs and costs associated with purchasing power. This increase equates to \$2.57-\$3.23 per month for a residential customer.
- Wage rates increased 2.0% for all Teamster employees per their labor contracts with the City. The City's non-union employees also received a 2.0% rate increase effective July 1, 2017.

CITY OF ESCANABA, MICHIGAN

Management's Discussion and Analysis

- The City offers its full-time employees hired prior to 7/1/2005 a defined benefit retirement pension through the Municipal Employees' Retirement System of Michigan (MERS). Based on the latest annual actuarial valuation report from MERS dated December 31, 2016, the City's plan is 54.9% funded, up from the 53% reported for the previous year. Full-time and part-time employees hired 7/1/2005 or later are provided with a MERS defined contribution plan. The City contributes a mandatory 4% of wages and will match the employee up to an additional 3%.
- Public Safety officers hired prior to 7/1/14 participate in the Act 345 pension. Based on the latest annual actuarial valuation report date June 30, 2016, the plan is 83.5%, up from the 80.3% reported the previous year. Public Safety officers hired 7/1/14 or later are provided with a defined contribution plan through ICMA. The City contributes a mandatory 10% of wages and the employee contributes a mandatory 6% of wages with the option to contribute as much as they like.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Controller, 410 Ludington Street, P.O. Box 948, Escanaba, MI 49829 or by calling (906) 786-0605.

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF ESCANABA, MICHIGAN

Statement of Net Position

June 30, 2017

| | Primary Government | | | Component Unit |
|------------------------------------------|-------------------------|--------------------------|----------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Assets | | | | |
| Cash and investments | \$ 12,384,423 | \$ 16,938,409 | \$ 29,322,832 | \$ 744,271 |
| Receivables, net | 2,510,234 | 2,683,876 | 5,194,110 | 1,589 |
| Internal balances | (758,682) | 758,682 | - | - |
| Inventory | 150,244 | 382,354 | 532,598 | - |
| Other assets | 1,012,727 | 15,025 | 1,027,752 | 35,876 |
| Capital assets not being depreciated | 3,920,227 | 2,569,918 | 6,490,145 | 380,172 |
| Capital assets being depreciated, net | 20,479,091 | 24,024,537 | 44,503,628 | 1,626,341 |
| Total assets | 39,698,264 | 47,372,801 | 87,071,065 | 2,788,249 |
| Deferred outflows of resources | | | | |
| Deferred pension amounts | 1,843,446 | 406,779 | 2,250,225 | - |
| Liabilities | | | | |
| Accounts payable and accrued liabilities | 1,225,567 | 1,512,702 | 2,738,269 | 130,343 |
| Unearned revenue | 138,186 | 3,857 | 142,043 | 18,508 |
| Long-term liabilities: | | | | |
| Due within one year | 166,520 | 530,041 | 696,561 | 8,330 |
| Due in more than one year | 566,422 | 5,084,178 | 5,650,600 | 1,044 |
| Net pension liability | 17,214,701 | 4,588,342 | 21,803,043 | - |
| Total liabilities | 19,311,396 | 11,719,120 | 31,030,516 | 158,225 |
| Deferred inflows of resources | | | | |
| Deferred pension amounts | 2,557,737 | (743) | 2,556,994 | - |
| Net position | | | | |
| Investment in capital assets | 24,399,318 | 21,169,455 | 45,568,773 | 2,006,513 |
| Restricted for: | | | | |
| Economic development | 1,952,520 | - | 1,952,520 | - |
| UPSET expenditures/building | 19,393 | - | 19,393 | - |
| Brownfield | 26,137 | - | 26,137 | - |
| Capital improvements | 60,932 | - | 60,932 | - |
| Highways, streets, and public works | 3,205,711 | - | 3,205,711 | - |
| Electric utility surcharge uses | - | 1,408,767 | 1,408,767 | - |
| Gas permanent fund (nonexpendable) | 1,094,634 | - | 1,094,634 | - |
| Unrestricted (deficit) | (11,086,068) | 13,482,981 | 2,396,913 | 623,511 |
| Total net position | \$ 19,672,577 | \$ 36,061,203 | \$ 55,733,780 | \$ 2,630,024 |

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

CITY OF ESCANABA, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2017

| Functions / Programs | Expenses | Program Revenues | | | Net Revenue (Expense) |
|---------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|-----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary government | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 1,196,311 | \$ 230,679 | \$ 286,010 | \$ - | \$ (679,622) |
| Public safety | 4,861,310 | 811,799 | - | - | (4,049,511) |
| Highways, streets and public works | 2,486,686 | 57,020 | 377,560 | - | (2,052,106) |
| Sanitation | 693,815 | 220,430 | - | - | (473,385) |
| Community services | 21,126 | - | - | - | (21,126) |
| Recreation and culture | 1,719,483 | 250,961 | 30,043 | - | (1,438,479) |
| Community and economic development | 1,036,529 | 9,294 | 1,226,568 | 350,437 | 549,770 |
| Other functions | 4,826 | - | - | - | (4,826) |
| Interest on long-term debt | 29,648 | - | - | - | (29,648) |
| Total governmental activities | 12,049,734 | 1,580,183 | 1,920,181 | 350,437 | (8,198,933) |
| Business-type activities: | | | | | |
| Electric utility | 12,489,233 | 13,461,274 | - | - | 972,041 |
| Waste water utility | 1,464,489 | 1,421,733 | - | - | (42,756) |
| Water utility | 2,231,561 | 2,175,841 | 60,988 | - | 5,268 |
| Marina | 237,971 | 225,338 | - | - | (12,633) |
| Total business-type activities | 16,423,254 | 17,284,186 | 60,988 | - | 921,920 |
| Total primary government | \$ 28,472,988 | \$ 18,864,369 | \$ 1,981,169 | \$ 350,437 | \$ (7,277,013) |
| Component unit | | | | | |
| Escanaba Housing Commission | \$ 1,066,451 | \$ 541,125 | \$ 223,000 | \$ 297,799 | \$ (4,527) |

Continued...

CITY OF ESCANABA, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2017

| | Primary Government | | | Component Unit |
|---------------------------------------|-------------------------|--------------------------|----------------|----------------|
| | Governmental Activities | Business-type Activities | Total | |
| Change in net position | | | | |
| Net (expense) revenues | \$ (8,198,933) | \$ 921,920 | \$ (7,277,013) | \$ (4,527) |
| General revenues: | | | | |
| Property taxes | 5,609,332 | - | 5,609,332 | - |
| State shared revenues | 1,351,986 | - | 1,351,986 | - |
| Unrestricted grants and contributions | 1,486,485 | - | 1,486,485 | 129,347 |
| Investment earnings (loss) | (26,250) | (75,937) | (102,187) | 9,765 |
| Transfers - internal activities | 902,819 | (902,819) | - | - |
| Total general revenues and transfers | 9,324,372 | (978,756) | 8,345,616 | 139,112 |
| Change in net position | 1,125,439 | (56,836) | 1,068,603 | 134,585 |
| Net position, beginning of year | 18,547,138 | 36,118,039 | 54,665,177 | 2,495,439 |
| Net position, end of year | \$ 19,672,577 | \$ 36,061,203 | \$ 55,733,780 | \$ 2,630,024 |

Concluded

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

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FUND FINANCIAL STATEMENTS

CITY OF ESCANABA, MICHIGAN

Balance Sheet
 Governmental Funds
 June 30, 2017

| | General Fund | E. D. A. Revolving Fund | Downtown Development Authority | UDAG/DIAL Grant |
|--------------------------------------------|---------------------|-------------------------|--------------------------------|---------------------|
| Assets | | | | |
| Cash and investments | \$ 3,935,816 | \$ 372,778 | \$ 1,885 | \$ 1,281,911 |
| Accounts receivable, net | 136,312 | - | - | - |
| Loans receivable | - | - | - | 624,522 |
| Accrued interest receivable | 117,190 | 10,960 | 7,829 | 36,444 |
| Other receivables | 22,793 | - | - | - |
| Other assets | 204,877 | - | - | - |
| Due from other funds | 268,835 | - | - | - |
| Due from other governmental units | 274,221 | - | 487,300 | - |
| Inventory | 150,244 | - | - | - |
| Advances to other funds | 175,043 | - | - | 457,380 |
| Total assets | \$ 5,285,331 | \$ 383,738 | \$ 497,014 | \$ 2,400,257 |
| Liabilities | | | | |
| Accounts payable | \$ 238,798 | \$ 40 | \$ 247,128 | \$ 40 |
| Accrued liabilities | 303,716 | - | - | - |
| Due to other governmental units | 2,762 | - | - | - |
| Due to other funds | 20,529 | - | 132,751 | - |
| Unearned revenue | 112,039 | - | 82 | - |
| Advance from other funds | 130,000 | - | 457,380 | 875,000 |
| Total liabilities | 807,844 | 40 | 837,341 | 875,040 |
| Fund balances | | | | |
| Nonspendable | 530,164 | - | - | - |
| Restricted | - | 383,698 | - | 1,525,217 |
| Committed | - | - | - | - |
| Assigned | 280,000 | - | - | - |
| Unassigned | 3,667,323 | - | (340,327) | - |
| Total fund balances | 4,477,487 | 383,698 | (340,327) | 1,525,217 |
| Total liabilities and fund balances | \$ 5,285,331 | \$ 383,738 | \$ 497,014 | \$ 2,400,257 |

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



| Nonmajor Governmental Funds | Total Governmental Funds |
|-----------------------------------|--------------------------------|
| \$ 4,980,163 | \$ 10,572,553 |
| 33,492 | 169,804 |
| 30,211 | 654,733 |
| 139,549 | 311,972 |
| - | 22,793 |
| 10,203 | 215,080 |
| 134,716 | 403,551 |
| 524,289 | 1,285,810 |
| - | 150,244 |
| 1,121,318 | 1,753,741 |
| <u>\$ 6,973,941</u> | <u>\$ 15,540,281</u> |
| | |
| \$ 200,885 | \$ 686,891 |
| - | 303,716 |
| 120 | 2,882 |
| 137,154 | 290,434 |
| 24,115 | 136,236 |
| - | 1,462,380 |
| <u>362,274</u> | <u>2,882,539</u> |
| | |
| 1,104,837 | 1,635,001 |
| 3,355,778 | 5,264,693 |
| 2,151,052 | 2,151,052 |
| - | 280,000 |
| - | 3,326,996 |
| <u>6,611,667</u> | <u>12,657,742</u> |
| | |
| <u>\$ 6,973,941</u> | <u>\$ 15,540,281</u> |

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CITY OF ESCANABA, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
June 30, 2017

| | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| Fund balances - total governmental funds | \$ 12,657,742 |
| Amounts reported for <i>governmental activities</i> in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds. | |
| Capital assets not being depreciated | 3,920,227 |
| Capital assets being depreciated, net | 20,479,091 |
| Capital assets accounted for in internal service funds, net | (4,932,313) |
| Internal service funds are used by management to charge the costs of certain employee benefits, building rental costs and equipment usage to individual funds. The assets and liabilities of internal service funds are included in governmental activities. | |
| Net position of governmental activities accounted for in internal service funds | 6,180,606 |
| Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds. | |
| Net pension liability | (17,214,701) |
| Deferred inflows related to the net pension liability | (2,557,737) |
| Deferred outflows related to the net pension liability | 1,843,446 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | |
| Compensated absences | (732,942) |
| Compensated absences accounted for in internal service funds | 29,158 |
| Net position of governmental activities | <u>\$ 19,672,577</u> |

CITY OF ESCANABA, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2017

| | General Fund | E.D.A. Revolving Loan Fund | Downtown Development Authority | UDAG/DIAL Grant |
|---------------------------------------|---------------------|----------------------------|--------------------------------|---------------------|
| Revenues | | | | |
| Taxes | \$ 5,257,729 | \$ - | \$ 298,142 | \$ - |
| Intergovernmental | 1,495,063 | - | 487,300 | - |
| Charges for services | 201,951 | - | - | - |
| Fines and fees | 175,810 | - | - | - |
| Investment earnings (loss) | (12,511) | (136) | (3,380) | 21,314 |
| Other revenues | 145,133 | - | 67,233 | - |
| Total revenues | 7,263,175 | (136) | 849,295 | 21,314 |
| Expenditures | | | | |
| Current: | | | | |
| General government | 779,720 | 1,420 | - | - |
| Public safety | 4,767,963 | - | - | - |
| Highway, streets & public works | 503,255 | - | - | - |
| Sanitation | 691,649 | - | - | - |
| Community services | 21,126 | - | - | - |
| Recreation and culture | 775,576 | - | - | - |
| Community and economic development | 7,677 | - | 1,311,042 | 1,420 |
| Other functions | 4,826 | - | - | - |
| Total expenditures | 7,551,792 | 1,420 | 1,311,042 | 1,420 |
| Revenues under expenditures | (288,617) | (1,556) | (461,747) | 19,894 |
| Other financing sources (uses) | | | | |
| Transfers in | 1,206,345 | - | - | - |
| Transfers out | (583,459) | - | (70,338) | (875,000) |
| Total other financing sources | 622,886 | - | (70,338) | (875,000) |
| Net change in fund balances | 334,269 | (1,556) | (532,085) | (855,106) |
| Fund balances, beginning of year | 4,143,218 | 385,254 | 191,758 | 2,380,323 |
| Fund balances, end of year | \$ 4,477,487 | \$ 383,698 | \$ (340,327) | \$ 1,525,217 |

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

| Nonmajor Governmental Funds | Total Governmental Funds |
|-----------------------------------|--------------------------------|
| \$ 53,461 | \$ 5,609,332 |
| 2,336,835 | 4,319,198 |
| 1,053,833 | 1,255,784 |
| 267,248 | 443,058 |
| (40,898) | (35,611) |
| 58,409 | 270,775 |
| <u>3,728,888</u> | <u>11,862,536</u> |
| - | 781,140 |
| 827,603 | 5,595,566 |
| 2,317,220 | 2,820,475 |
| 2,166 | 693,815 |
| - | 21,126 |
| 571,690 | 1,347,266 |
| 1,174,207 | 2,494,346 |
| - | 4,826 |
| <u>4,892,886</u> | <u>13,758,560</u> |
| <u>(1,163,998)</u> | <u>(1,896,024)</u> |
| 1,441,399 | 2,647,744 |
| (334,128) | (1,862,925) |
| <u>1,107,271</u> | <u>784,819</u> |
| (56,727) | (1,111,205) |
| <u>6,668,394</u> | <u>13,768,947</u> |
| <u>\$ 6,611,667</u> | <u>\$ 12,657,742</u> |

CITY OF ESCANABA, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2017

Net change in fund balances - total governmental funds \$ (1,111,205)

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 are allocated over their estimated useful lives and reported as depreciation expense.

| | |
|-----------------------|-----------|
| Capital outlay | 3,328,310 |
| Federal contributions | 277,639 |
| Depreciation expense | (906,986) |

Internal service funds are used by management to charge the costs of certain equipment maintenance to individual funds. The net increase (decrease) in the net position of the internal service funds is reported with governmental activities.

| | |
|----------------------------------------------------------------------|----------|
| Net operating income reported in governmental internal service funds | 92,052 |
| Nonoperating expense reported in governmental internal service funds | (20,287) |
| Transfers in reported in governmental internal service funds | 109,800 |

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

| | |
|---------------------------------------------------------|-----------|
| Change in net pension liabilities and related deferrals | (612,544) |
| Change in accrual of compensated absences | (31,340) |

Change in net position of governmental activities \$ 1,125,439

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

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CITY OF ESCANABA, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual - General Fund
 For the Year Ended June 30, 2017

| | Original Budget | Final Budget | Actual | Actual Over (Under) Final Budget |
|--------------------------------------------------|------------------|------------------|------------------|----------------------------------|
| Revenues | | | | |
| Taxes | \$ 4,994,500 | \$ 5,284,500 | \$ 5,257,729 | \$ (26,771) |
| Intergovernmental | 1,409,000 | 1,409,000 | 1,495,063 | 86,063 |
| Charges for services | 311,750 | 311,750 | 201,951 | (109,799) |
| Other revenues | 155,700 | 307,700 | 308,432 | 732 |
| Total revenues | 6,870,950 | 7,312,950 | 7,263,175 | (49,775) |
| Expenditures | | | | |
| Current: | | | | |
| General government: | | | | |
| City Council | 30,020 | 30,020 | 27,574 | (2,446) |
| City Manager | 201,179 | 75,433 | 69,871 | (5,562) |
| Elections | 21,498 | 17,819 | 18,902 | 1,083 |
| City Controller | 276,649 | 110,660 | 105,053 | (5,607) |
| Auditors | 13,150 | 6,575 | 6,575 | - |
| Assessors | 259,561 | 259,561 | 216,783 | (42,778) |
| Attorneys | 51,500 | 27,750 | 25,917 | (1,833) |
| City Clerk | 142,134 | 144,634 | 138,920 | (5,714) |
| Human Resources | 120,524 | 80,941 | 77,157 | (3,784) |
| Board of Review | 2,550 | 2,550 | 2,339 | (211) |
| City Treasurer | 256,367 | 25,637 | 24,768 | (869) |
| Billing | 334,913 | 35,491 | 34,609 | (882) |
| City Hall and Grounds | 81,252 | 81,252 | 81,252 | - |
| Less: overhead to utilities | (963,474) | (50,000) | (50,000) | - |
| Total general government | 827,823 | 848,323 | 779,720 | (68,603) |
| Public safety | | | | |
| Public Safety | 4,364,838 | 4,724,838 | 4,677,727 | (47,111) |
| Community Preservation | 75,250 | 75,250 | 70,786 | (4,464) |
| Crossing Guards | 26,000 | 26,000 | 19,450 | (6,550) |
| Total public safety | 4,466,088 | 4,826,088 | 4,767,963 | (58,125) |
| Highway, streets & public works | | | | |
| Care of Trees & Shrubs | 89,756 | 89,756 | 85,873 | (3,883) |
| Sidewalks | 12,000 | 7,000 | 4,851 | (2,149) |
| Engineer | 254,657 | 259,657 | 243,826 | (15,831) |
| Street Lighting | 162,500 | 162,500 | 160,647 | (1,853) |
| Cross walks | - | 5,000 | 6,244 | 1,244 |
| Alley Paving | 7,110 | 7,110 | 1,814 | (5,296) |
| Total highway, streets & public works | 526,023 | 531,023 | 503,255 | (27,768) |

Continued...

CITY OF ESCANABA, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual - General Fund
 For the Year Ended June 30, 2017

| | Original Budget | Final Budget | Actual | Actual Over (Under) Final Budget |
|------------------------------------|------------------|------------------|------------------|----------------------------------|
| Expenditures (Continued) | | | | |
| Sanitation | | | | |
| Solid Waste Collection | \$ 424,056 | \$ 420,778 | \$ 406,813 | \$ (13,965) |
| Composting | 62,672 | 62,672 | 46,939 | (15,733) |
| Snowplowing for garbage collection | 19,191 | 19,191 | 15,928 | (3,263) |
| Sanitary Landfill | 222,000 | 225,278 | 221,969 | (3,309) |
| Total sanitation | <u>727,919</u> | <u>727,919</u> | <u>691,649</u> | <u>(36,270)</u> |
| Community services | | | | |
| Community Promotional | 5,773 | 5,773 | 4,978 | (795) |
| Community Services | 16,148 | 16,148 | 16,148 | - |
| Total community services | <u>21,921</u> | <u>21,921</u> | <u>21,126</u> | <u>(795)</u> |
| Recreation and culture | | | | |
| Civic center | 63,904 | 63,904 | 57,940 | (5,964) |
| Celebration Flags | 2,471 | 3,971 | 2,420 | (1,551) |
| Fourth of July | 18,852 | 19,752 | 19,705 | (47) |
| Recreation Admin | 461,484 | 461,484 | 418,344 | (43,140) |
| Parks | 201,306 | 226,306 | 209,207 | (17,099) |
| Band | 40,670 | 40,670 | 37,732 | (2,938) |
| Historical Museum | 250 | 350 | 323 | (27) |
| Tourism Promotion | 11,300 | 19,600 | 20,269 | 669 |
| Boat launches | 12,979 | 12,979 | 9,636 | (3,343) |
| Total recreation and culture | <u>813,216</u> | <u>849,016</u> | <u>775,576</u> | <u>(73,440)</u> |
| Community and economic development | | | | |
| Planning Commission | 7,500 | 8,500 | 7,677 | (823) |
| Other functions | | | | |
| Insurance & Bonds | 3,000 | 4,850 | 4,826 | (24) |
| Total Expenditures | <u>7,393,490</u> | <u>7,817,640</u> | <u>7,551,792</u> | <u>(265,848)</u> |
| Revenues over (under) expenditures | <u>(522,540)</u> | <u>(504,690)</u> | <u>(288,617)</u> | <u>216,073</u> |

Continued...

CITY OF ESCANABA, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual - General Fund
 For the Year Ended June 30, 2017

| | Original Budget | Final Budget | Actual | Actual Over (Under) Final Budget |
|--------------------------------------|-----------------|--------------|--------------|----------------------------------|
| Other financing sources (uses) | | | | |
| Transfers in | \$ 1,090,490 | \$ 1,206,990 | \$ 1,206,345 | \$ (645) |
| Transfers out | (567,000) | (567,000) | (583,459) | 16,459 |
| Total other financing sources (uses) | 523,490 | 639,990 | 622,886 | 17,104 |
| Net change in fund balance | 950 | 135,300 | 334,269 | 233,177 |
| Fund balance, beginning of year | 4,143,218 | 4,143,218 | 4,143,218 | - |
| Fund balance, end of year | \$ 4,144,168 | \$ 4,278,518 | \$ 4,477,487 | \$ 233,177 |

Concluded

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

CITY OF ESCANABA, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual - E.D.A. Revolving Loan Fund
 For the Year Ended June 30, 2017

| | Adopted Budget | Actual | Actual Over (Under) Final Budget |
|---------------------------------|-------------------|-------------------|----------------------------------------|
| Revenues | | | |
| Investment earnings (loss) | \$ 3,250 | \$ (136) | \$ (3,386) |
| Expenditures | | | |
| Administrative costs | 1,500 | 1,420 | (80) |
| Net change in fund balance | 1,750 | (1,556) | (3,306) |
| Fund balance, beginning of year | 385,254 | 385,254 | - |
| Fund balance, end of year | <u>\$ 387,004</u> | <u>\$ 383,698</u> | <u>\$ (3,306)</u> |

CITY OF ESCANABA, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Downtown Development Authority For the Year Ended June 30, 2017

| | Original Budget | Final Budget | Actual | Actual Over (Under) Final Budget |
|----------------------------------------|--------------------|---------------------|---------------------|----------------------------------------|
| Revenues | | | | |
| Taxes | \$ 260,000 | \$ 260,000 | \$ 298,142 | \$ 38,142 |
| Intergovernmental | 20,000 | 511,300 | 487,300 | (24,000) |
| Investment earnings (loss) | 5,500 | 5,500 | (3,380) | (8,880) |
| Other revenues | 2,000 | 2,750 | 67,233 | 64,483 |
| Total revenues | <u>287,500</u> | <u>779,550</u> | <u>849,295</u> | <u>69,745</u> |
| Expenditures | | | | |
| Operating expenditures | <u>289,920</u> | <u>1,277,670</u> | <u>1,311,042</u> | <u>33,372</u> |
| Revenues over expenditures | (2,420) | (498,120) | (461,747) | 36,373 |
| Other financing sources (uses) | | | | |
| Transfers out | <u>(165,000)</u> | <u>(165,000)</u> | <u>(70,338)</u> | <u>(94,662)</u> |
| Net change in fund balance | (167,420) | (663,120) | (532,085) | 131,035 |
| Fund balance, beginning of year | <u>191,758</u> | <u>191,758</u> | <u>191,758</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 24,338</u> | <u>\$ (471,362)</u> | <u>\$ (340,327)</u> | <u>\$ 131,035</u> |

CITY OF ESCANABA, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual - UDAG/DIAL Grant
 For the Year Ended June 30, 2017

| | Original Budget | Final Budget | Actual | Actual Over (Under) Final Budget |
|----------------------------------------|---------------------|---------------------|---------------------|----------------------------------|
| Revenues | | | | |
| Investment earnings (loss) | \$ 40,000 | \$ 40,000 | \$ 21,314 | \$ (18,686) |
| Special assessments | 1,100,000 | - | - | - |
| Total revenues | <u>1,140,000</u> | <u>40,000</u> | <u>21,314</u> | <u>(18,686)</u> |
| Expenditures | | | | |
| Administrative costs | 1,500 | 1,500 | 1,420 | (80) |
| Revenues over expenditures | 1,138,500 | 38,500 | 19,894 | (18,606) |
| Other financing sources (uses) | | | | |
| Transfers out | (1,100,000) | (875,000) | (875,000) | - |
| Net change in fund balance | 38,500 | (836,500) | (855,106) | (18,606) |
| Fund balance, beginning of year | <u>2,380,323</u> | <u>2,380,323</u> | <u>2,380,323</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 2,418,823</u> | <u>\$ 1,543,823</u> | <u>\$ 1,525,217</u> | <u>\$ (18,606)</u> |

CITY OF ESCANABA, MICHIGAN

Statement of Net Position

Proprietary Funds

June 30, 2017

| | Business-type Activities - Enterprise Funds | | |
|----------------------------------------------|------------------------------------------------|--------------------------------|--------------------------|
| | Electric Utility Fund | Waste Water Utility Fund | Water Utility Fund |
| Assets | | | |
| Current assets: | | | |
| Cash and investments | \$ 13,049,222 | \$ 2,815,776 | \$ 911,636 |
| Receivables, net | 1,703,408 | 212,145 | 328,504 |
| Accrued interest receivable | 329,769 | 71,058 | 19,723 |
| Due from other government | 3,664 | - | - |
| Other assets | 14,264 | 380 | 381 |
| Inventory | 245,638 | 6,435 | 118,082 |
| Total current assets | <u>15,345,965</u> | <u>3,105,794</u> | <u>1,378,326</u> |
| Noncurrent assets: | | | |
| Advance to other funds | 1,005,000 | - | - |
| Capital assets not being depreciated | 2,562,445 | 1,873 | 5,600 |
| Capital assets being depreciated, net | 4,793,238 | 5,598,095 | 12,257,692 |
| Total noncurrent assets | <u>8,360,683</u> | <u>5,599,968</u> | <u>12,263,292</u> |
| Total assets | <u>23,706,648</u> | <u>8,705,762</u> | <u>13,641,618</u> |
| Deferred outflows of resources | | | |
| Deferred pension amounts | <u>155,001</u> | <u>116,598</u> | <u>134,600</u> |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable and accrued payroll | 1,349,043 | 26,974 | 90,347 |
| Due to other funds | - | - | - |
| Accrued interest | - | 675 | 39,769 |
| Current portion of compensated absences | 18,052 | 13,183 | 3,806 |
| Current portion of bonds payable | - | 60,000 | 435,000 |
| Unearned revenue | - | - | 1,300 |
| Total current liabilities | <u>1,367,095</u> | <u>100,832</u> | <u>570,222</u> |
| Noncurrent liabilities: | | | |
| Advance from other funds | - | - | - |
| Compensated absences, net of current portion | 77,758 | 40,974 | 35,446 |
| Bonds payable, net of current portion | - | 60,000 | 4,870,000 |
| Net pension liability | 1,748,372 | 1,315,188 | 1,518,256 |
| Total noncurrent liabilities | <u>1,826,130</u> | <u>1,416,162</u> | <u>6,423,702</u> |
| Total liabilities | <u>3,193,225</u> | <u>1,516,994</u> | <u>6,993,924</u> |
| Net position | | | |
| Net investment in capital assets | 7,355,683 | 5,479,968 | 6,958,292 |
| Restricted: | | | |
| Electric utility surcharge uses | 1,408,767 | - | - |
| Unrestricted (deficit) | <u>11,904,257</u> | <u>1,825,611</u> | <u>(175,752)</u> |
| Total net position | <u>\$ 20,668,707</u> | <u>\$ 7,305,579</u> | <u>\$ 6,782,540</u> |

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

| Business-type Activities - Enterprise Funds | | Governmental Activities |
|------------------------------------------------|----------------------|------------------------------|
| Marina Fund | Total | Internal Service Funds |
| \$ 161,775 | \$ 16,938,409 | \$ 1,811,870 |
| 13,633 | 2,257,690 | 20,054 |
| 1,972 | 422,522 | 45,068 |
| - | 3,664 | - |
| - | 15,025 | 797,647 |
| 12,199 | 382,354 | - |
| <u>189,579</u> | <u>20,019,664</u> | <u>2,674,639</u> |
| - | 1,005,000 | - |
| - | 2,569,918 | 625,731 |
| 1,375,512 | 24,024,537 | 4,306,582 |
| <u>1,375,512</u> | <u>27,599,455</u> | <u>4,932,313</u> |
| 1,565,091 | 47,619,119 | 7,606,952 |
| 580 | 406,779 | - |
| 5,894 | 1,472,258 | 232,078 |
| - | - | 113,117 |
| - | 40,444 | - |
| - | 35,041 | 8,020 |
| - | 495,000 | - |
| 2,557 | 3,857 | 1,950 |
| <u>8,451</u> | <u>2,046,600</u> | <u>355,165</u> |
| 246,318 | 246,318 | 1,050,043 |
| - | 154,178 | 21,138 |
| - | 4,930,000 | - |
| 6,526 | 4,588,342 | - |
| <u>252,844</u> | <u>9,918,838</u> | <u>1,071,181</u> |
| 261,295 | 11,965,438 | 1,426,346 |
| 1,375,512 | 21,169,455 | 4,932,313 |
| - | 1,408,767 | - |
| (71,135) | 13,482,981 | 1,248,293 |
| <u>\$ 1,304,377</u> | <u>\$ 36,061,203</u> | <u>\$ 6,180,606</u> |

CITY OF ESCANABA, MICHIGAN

Statement of Revenues, Expenses and Change in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2017

| | Business-type Activities - Enterprise Funds | | |
|--------------------------------------|------------------------------------------------|--------------------------------|--------------------------|
| | Electric Utility Fund | Waste Water Utility Fund | Water Utility Fund |
| Operating revenues | | | |
| Charges for services | \$ 13,359,241 | \$ 1,414,872 | \$ 2,160,241 |
| Provisions for self-insurance | - | - | - |
| Other revenue | 102,033 | 6,861 | 15,600 |
| Total operating revenues | 13,461,274 | 1,421,733 | 2,175,841 |
| Operating expenses | | | |
| Production | 9,688,783 | - | - |
| Personnel services | 276,525 | 382,558 | 542,478 |
| Overhead | 1,202,940 | 382,825 | 358,224 |
| Fuel | - | 214 | 412 |
| Contracted services | 217,877 | 122,693 | 343,821 |
| Insurance | 228,943 | 81,626 | 88,991 |
| Bank charges | 30,691 | - | - |
| Dues & training | 74,597 | 5,103 | 8,755 |
| Sales & promotion | 293,405 | 769 | 3,209 |
| Repairs & maintenance | 36,086 | 110,010 | 56,858 |
| Claims | - | - | - |
| Equipment rental | 9,290 | 40,147 | 32,930 |
| Depreciation | 406,479 | 253,877 | 395,927 |
| Supplies | 12,682 | 77,835 | 188,261 |
| Other | 8,835 | 4,723 | 447 |
| Total operating expenses | 12,487,133 | 1,462,380 | 2,020,313 |
| Operating income (loss) | 974,141 | (40,647) | 155,528 |
| Nonoperating revenues (expenses) | | | |
| Intergovernmental | - | - | 60,988 |
| Inventory obsolescence | (2,100) | - | - |
| Investment earnings (loss) | (48,751) | (22,397) | (5,132) |
| Interest expense | - | (2,109) | (211,248) |
| Total nonoperating (expenses) | (50,851) | (24,506) | (155,392) |
| Income (loss) before transfers | 923,290 | (65,153) | 136 |
| Transfers in | - | - | - |
| Transfers out | (882,290) | (20,529) | - |
| Change in net position | 41,000 | (85,682) | 136 |
| Net position, beginning of year | 20,627,707 | 7,391,261 | 6,782,404 |
| Net position, end of year | \$ 20,668,707 | \$ 7,305,579 | \$ 6,782,540 |

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

| Business-type Activities - Enterprise Funds | | Governmental Activities |
|------------------------------------------------|----------------------|------------------------------|
| Marina Fund | Total | Internal Service Funds |
| \$ 223,897 | \$ 17,158,251 | \$ 1,085,208 |
| - | - | 2,258,698 |
| 1,441 | 125,935 | 78,247 |
| <u>225,338</u> | <u>17,284,186</u> | <u>3,422,153</u> |
| - | 9,688,783 | - |
| 54,031 | 1,255,592 | 221,672 |
| 15,136 | 1,959,125 | 154,657 |
| 56,357 | 56,983 | 107,112 |
| 26,000 | 710,391 | 96,603 |
| 5,652 | 405,212 | 128,877 |
| - | 30,691 | 1,538 |
| - | 88,455 | 1,522 |
| - | 297,383 | 341,492 |
| 2,963 | 205,917 | 1,884,649 |
| - | - | 2,218 |
| 3,393 | 85,760 | 347,646 |
| 58,526 | 1,114,809 | 36,054 |
| 2,022 | 280,800 | 6,061 |
| 6,082 | 20,087 | - |
| <u>230,162</u> | <u>16,199,988</u> | <u>3,330,101</u> |
| <u>(4,824)</u> | <u>1,084,198</u> | <u>92,052</u> |
| - | 60,988 | - |
| - | (2,100) | - |
| 343 | (75,937) | 9,361 |
| <u>(7,809)</u> | <u>(221,166)</u> | <u>(29,648)</u> |
| <u>(7,466)</u> | <u>(238,215)</u> | <u>(20,287)</u> |
| (12,290) | 845,983 | 71,765 |
| - | - | 149,000 |
| - | (902,819) | (39,200) |
| <u>(12,290)</u> | <u>(56,836)</u> | <u>181,565</u> |
| <u>1,316,667</u> | <u>36,118,039</u> | <u>5,999,041</u> |
| <u>\$ 1,304,377</u> | <u>\$ 36,061,203</u> | <u>\$ 6,180,606</u> |

CITY OF ESCANABA, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2017

| | Business-type Activities - Enterprise Funds | | |
|-------------------------------------------------------------------------|------------------------------------------------|--------------------------------|--------------------------|
| | Electric Utility Fund | Waste Water Utility Fund | Water Utility Fund |
| Cash flows from operating activities | | | |
| Cash received from customers | \$ 13,630,050 | \$ 1,423,694 | \$ 2,194,287 |
| Cash received from interfund services | - | - | - |
| Cash payments to employees | (238,513) | (317,258) | (642,458) |
| Cash payments to suppliers for goods and services | (11,855,461) | (1,019,268) | (687,390) |
| Net cash provided by operating activities | <u>1,536,076</u> | <u>87,168</u> | <u>864,439</u> |
| Cash flows from noncapital financing activities | | | |
| Intergovernmental receipts | - | - | 60,988 |
| Repayment on advance from other funds | - | - | - |
| Advance to other funds | (5,000) | - | - |
| Transfers in | - | - | - |
| Transfers out | (882,290) | (20,529) | - |
| Net cash provided by (used in) noncapital financing activities | <u>(887,290)</u> | <u>(20,529)</u> | <u>60,988</u> |
| Cash flows from capital and related financing activities | | | |
| Proceeds from insurance | 2,003,270 | - | - |
| Purchase of capital assets | (1,853,118) | (116,762) | (193,877) |
| Principal payments | - | (60,000) | (425,000) |
| Interest payments | - | (3,375) | (214,620) |
| Net cash provided by (used in) capital and related financing activities | <u>150,152</u> | <u>(180,137)</u> | <u>(833,497)</u> |
| Cash flows from investing activities | | | |
| Loss on investment | (172,952) | (44,319) | (12,215) |
| Net increase (decrease) in cash and cash equivalents | <u>625,986</u> | <u>(157,817)</u> | <u>79,715</u> |
| Cash and cash equivalents, beginning of year | <u>12,423,236</u> | <u>2,973,593</u> | <u>831,921</u> |
| Cash and cash equivalents, end of year | <u>\$ 13,049,222</u> | <u>\$ 2,815,776</u> | <u>\$ 911,636</u> |

| Business-type Activities - Enterprise Funds | | Governmental Activities |
|------------------------------------------------|----------------------|------------------------------|
| Marina | Total | Internal Service Funds |
| \$ 221,865 | \$ 17,469,896 | \$ - |
| - | - | 3,421,914 |
| (14,464) | (1,212,693) | (30,837) |
| <u>(154,538)</u> | <u>(13,716,657)</u> | <u>(3,271,265)</u> |
| 52,863 | 2,540,546 | 119,812 |
| - | 60,988 | - |
| (13,996) | (13,996) | - |
| - | (5,000) | - |
| - | - | 149,000 |
| - | (902,819) | (39,200) |
| <u>(13,996)</u> | <u>(860,827)</u> | <u>109,800</u> |
| - | 2,003,270 | - |
| - | (2,163,757) | (70,965) |
| - | (485,000) | (139,620) |
| <u>(7,809)</u> | <u>(225,804)</u> | <u>(29,648)</u> |
| <u>(7,809)</u> | <u>(871,291)</u> | <u>(240,233)</u> |
| <u>(445)</u> | <u>(229,931)</u> | <u>(6,100)</u> |
| 30,613 | 578,497 | (16,721) |
| <u>131,162</u> | <u>16,359,912</u> | <u>1,828,591</u> |
| <u>\$ 161,775</u> | <u>\$ 16,938,409</u> | <u>\$ 1,811,870</u> |

Continued...

CITY OF ESCANABA, MICHIGAN

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2017

| | Business-type Activities - Enterprise Funds | | |
|------------------------------------------------------------------------------------------------------|------------------------------------------------|--------------------------------|--------------------------|
| | Electric Utility Fund | Waste Water Utility Fund | Water Utility Fund |
| Reconciliation of operating income (loss) to net cash provided by operating activities | | | |
| Operating income (loss) | \$ 974,141 | \$ (40,647) | \$ 155,528 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | |
| Depreciation expense | 406,479 | 253,877 | 395,927 |
| Change in operating assets and liabilities that provided (used) cash: | | | |
| Receivables, net | 172,440 | 1,961 | 18,446 |
| Due from other governments | (3,664) | - | - |
| Other assets | (3,717) | (275) | (276) |
| Inventory | 510 | (1,623) | 982 |
| Accounts payable and accrued payroll | (9,755) | (191,692) | 83,914 |
| Compensated absences | 18,777 | (26,795) | (37,158) |
| Unearned revenue | - | - | - |
| Internal balances | - | - | - |
| Change in net pension liability and deferred amounts | (19,135) | 92,362 | 247,076 |
| Net cash provided by operating activities | \$ 1,536,076 | \$ 87,168 | \$ 864,439 |

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



| Business-type Activities - Enterprise Funds | | Governmental Activities |
|------------------------------------------------|-------|------------------------------|
| Marina | Total | Internal Service Funds |

\$ (4,824) \$ 1,084,198 \$ 92,052

58,526 1,114,809 347,646

(3,897) 188,950 (239)

- (3,664) -

- (4,268) (372,390)

(1,114) (1,245) -

3,076 (114,457) 317

- (45,176) 4,075

424 424 -

- - 48,351

672 320,975 -

\$ 52,863 \$ 2,540,546 \$ 119,812

Concluded

CITY OF ESCANABA, MICHIGAN

Statement of Fiduciary Net Position
 Fiduciary Funds
 June 30, 2017

| | Fiduciary Funds | | |
|-----------------------------|----------------------------|----------------------|------------------|
| | Private Purpose Trust Fund | Pension Trust Fund | Agency Fund |
| Assets | | | |
| Cash and cash equivalents | \$ 108,742 | \$ 53,179 | \$ 10,707 |
| Investments: | | | |
| Mutual funds | - | 28,554,996 | - |
| Treasury securities | 42,725 | - | - |
| Federal agency securities | 104,200 | - | - |
| Accrued interest receivable | 6,488 | - | - |
| Total assets | <u>262,155</u> | <u>28,608,175</u> | <u>10,707</u> |
| Liabilities | | | |
| Due to others | 46 | - | <u>\$ 10,707</u> |
| Net position | | | |
| Restricted for: | | | |
| Bezold Trust | 262,109 | - | |
| Retiree pension benefits | - | 28,608,175 | |
| Total net position | <u>\$ 262,109</u> | <u>\$ 28,608,175</u> | |

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

CITY OF ESCANABA, MICHIGAN

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
 For the year ended June 30, 2017

| | Fiduciary Funds | |
|----------------------------------|----------------------------|----------------------|
| | Private Purpose Trust Fund | Pension Trust Fund |
| Additions | | |
| Investment income: | | |
| Investment earnings (loss) | \$ (1,916) | \$ 2,798,891 |
| Contributions: | | |
| Employer | - | 1,134,353 |
| Plan members | - | 102,635 |
| Total contributions | - | 1,236,988 |
| Total additions | (1,916) | 4,035,879 |
| Deductions | | |
| General and administrative | 2,753 | 26,691 |
| Benefit payments | - | 1,781,664 |
| Total deductions | 2,753 | 1,808,355 |
| Change in net position | (4,669) | 2,227,524 |
| Net position, beginning of year | 266,778 | 26,380,651 |
| Net position, end of year | \$ 262,109 | \$ 28,608,175 |

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The *City of Escanaba, Michigan* (the "City") was incorporated in 1883. In 1921, the City adopted a new city charter and a council-manager form of government. The City is directed by a four-member City Council and a Mayor elected by the community at large. This legislative body appoints a City Manager to administer the affairs of the City. The City provides the following services: general government (planning & zoning, public improvement and general administrative services), public safety (police and fire), public works (highways and streets, brush pick-up, sanitation), municipal marina (slip accommodations, gasoline and diesel fuel sales), recreation-culture, public library, downtown development authority and water service.

The accounting and reporting policies of the City conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). Following is a summary of the significant policies:

Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The financial data of the component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Blended Component Units

A blended component unit is a legally separate entity from the City but is so intertwined with the City that it is, in substance, the same as the City. It is reported as part of the City and its financial data is combined with data of the appropriate funds. The City has two blended component units, the Downtown Development Authority and the Escanaba Building Authority, both with a fiscal June 30 year-end. These component units provide services primarily to benefit the City. The blended component units are described as follows:

The Brownfield Redevelopment Authority Fund promotes improvement activities intended to encourage the reuse of industrial and commercial property by offering economic incentives for redevelopment of abandoned or obsolete properties to functional uses. The governing board is appointed by the City.

The Downtown Development Authority (the "DDA") accounts for activities related to developing and maintaining the Downtown Development Authority District. Management are appointed by the City.

The Escanaba Building Authority (the "EBA") was established to account for the financing of the Public Works Complex and the financing and maintenance of the City hall/Library Complex. The governing board is appointed by the City.

Discretely Presented Component Units

Discretely presented component units are entities that are legally separate from the City but for which the City is financially accountable, or their relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The discretely presented component unit, with a September 30, 2016 fiscal year end, is as follows:

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

Escanaba Housing Commission - The Escanaba Housing Commission ("Commission") is responsible for providing low rent public housing to individuals that present a need for financial assistance. The Commission manages 175 units, which include all of the activities relevant to its operations. The members of the Commission's governing board are appointed by the City of Escanaba and therefore the Commission is reported as a discretely presented component unit. The City also has the ability to significantly influence the operations of the Commission.

Component Unit Financial Statements

Complete financial statements for the Commission component unit may be obtained from the entity's administrative office at Escanaba Housing Commission, 110 South 5th Street, Escanaba, MI 49829.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or within one year for reimbursement-based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and as such have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund and only major governmental fund. It accounts for all the financial resources of the government, except those accounted for and reported in another fund.

The *E.D.A Revolving Loan Fund* accounts for activities related to a U.S. Department of Commerce, Economic Development Administration grant to assist the City to revitalize and expand infrastructure and provide support for the creation and retention of jobs in the area.

The *Downtown Development Authority Fund* accounts for activities related to developing and maintaining the Downtown Development Authority District.

The *UDAG/DIAL Grant Fund* accounts for funds granted to the City by U.S. Department of Housing and Urban Development. Funds must be used for economic development activities.

The City reports the following major proprietary funds:

The *Electric Utility Fund* accounts for the activities of the City's electrical utility system.

The *Waste Water Utility Fund* accounts for the activities of the City's sewage disposal and treatment system.

The *Water Utility Fund* accounts for the activities of the City's water distribution and treatment system.

The *Marina Fund* accounts for the activities of the City's marina.

Additionally, the City reports the following fund types:

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted, committed or assigned to expenditure for specified purposes other than debt service or capital projects.

The *Permanent Fund* accounts for the assets that are restricted in the City's Gas Retirement Fund. The principal portion of these funds must stay intact, but the interest earnings must be used to provide for capital improvements only.

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

Internal Service Funds include the Escanaba Building Authority, Motor Vehicle and Equipment, Office Equipment, Risk Retention, Worker's Compensation and Unemployment Compensation which account for goods and services provided to other departments, agencies or funds of the City, on a cost reimbursement basis. In the government-wide financial statements, internal service fund activity is included with the governmental activities.

Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the City holds for others in an agency capacity (such as taxes collected for other governments).

Private Purpose and Pension Trust Funds are used to account for assets held by the City in a trustee capacity for individuals, private organizations, other governments.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water, sewage disposal, and electric utility, cost of building rent and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating revenues* and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric utility, waste water utility, water utility and marina enterprise funds and of the City's internal service funds are charges to customers or other funds for goods and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized on an accrual basis, in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Restricted net position includes assets that are subject to restrictions beyond the City's control. The restrictions may be externally imposed or imposed by law. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

Deposits and Investments

The City's cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

Receivables and Payables

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

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “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 business-type activities are reported in the government-wide financial statements as “internal balances.”

Amounts due from other governments include amounts due from the State for state shared revenue, gas and weight tax and from grantors for specific programs and capital projects. Program grants and capital grants for capital assets are recorded as receivables and revenues at the time reimbursable project costs are incurred. Revenues received in advance of project costs being incurred are reported as “unearned”.

Inventories

Inventories are valued at the lower of cost or market using the weighted average method. Inventories of governmental funds are recorded as an expenditures at the time the individual items are consumed.

Other Assets

Other assets includes a self-insurance deposit of approximately \$636,000 held by the Michigan Municipal Risk Management Authority to provide funding for potential future insurance claims. The remaining balance includes certain payments to vendors that reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition cost at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

Capital assets of the primary government and component unit are depreciated using the straight-line method over the following estimated useful lives:

| | Years |
|---------------------------------------|---------|
| Land improvements | 30 - 50 |
| Infrastructure | 20 - 50 |
| Buildings and improvements | 20 - 50 |
| Parking lots | 20 - 30 |
| Transmission and distribution systems | 5 - 20 |
| Other machinery and equipment | 5 - 10 |
| Vehicles and equipment | 3 - 25 |

The City reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its fair value. If it is determined that an impairment loss has occurred, the asset is written down to its net realizable value and a current charge to income is recognized.

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension plans.

Compensated Absences

The City's policies regarding vacation and sick time allow employees to accumulate earned but unused vacation and sick time. The governmental funds do not report a liability for these compensated absences as they are not payable from current available financial resources. The liability for governmental activity compensated absences is recorded as long-term debt in government-wide financial statements. Proprietary funds report the liability as incurred. Amounts payable within one year are reported as the current portion of compensated absences and the remainder is reported as noncurrent.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Bond premiums and discounts, if any, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

Deferred Inflows of Resources

In addition to liabilities, the statements of net position or balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until a future period. The governmental funds may also report unavailable revenues, which arises only under modified accrual basis of accounting, from certain long-term receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City reports deferred inflows related to its pension plan for the difference between expected and actual experience.

Fund Balances

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of City Council (the City's highest level of decision-making authority). A formal resolution of the City Council is required to establish, modify, or rescind a fund balance commitment. The City reports assigned fund balance for amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has delegated the authority to assign fund balance to the City Treasurer or his designee (City Controller). Unassigned fund balance is the residual classification for the General Fund. The City does not require the general fund to maintain a minimum unassigned fund balance.

When the City incurs an expenditure for purposes for which various fund balance classifications can be used, it is the City's procedure to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements. Internal service funds are used to record charges for services to all City funds as operating revenue. All City funds record these payments to the internal service funds as operating expenditures/expenses.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates. Significant estimates are listed below:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- The assumptions used in the actuarial valuations of the pension plan are based on historical trends and industry standards.

2. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year-end.

The City Charter requires submission of the budget to the City Council no later than two months prior to the beginning of the next fiscal year (April 30). Publicized public hearings are held on the budgets from January through April encouraging public input. The City Charter and state law also require that an appropriations ordinance be adopted based on the approved budgets not later than one month prior to the ensuing fiscal year (June 30).

The budget document presents information by fund, function, activity, department, and line items. The legal level of budgetary control adopted by City Council is the activity level, which is the level at which expenditures may not legally exceed appropriations. The City Manager may make transfers of appropriations between departments within any funds; however, any supplemental appropriations that amend the total expenditures of any fund require City Council resolution.

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

3. ACCOUNTABILITY AND BUDGETARY COMPLIANCE

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2017, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

| | Total Appropriations | Amount of Expenditures | Budget Variance |
|------------------------------------|-------------------------|---------------------------|--------------------|
| General fund | | | |
| General government: | | | |
| Elections | \$ 17,819 | \$ 18,902 | \$ 1,083 |
| Highway, streets & public works: | | | |
| Cross walks | 5,000 | 6,244 | 1,244 |
| Recreation and culture: | | | |
| Tourism Promotion | 19,600 | 20,269 | 669 |
| Transfers out | 567,000 | 583,459 | 16,459 |
| Downtown Development Authority | | | |
| Operating expenditures | 1,277,670 | 1,311,042 | 33,372 |

The above budgeted amounts are presented at the activity level for the General Fund and at the fund level for the Downtown Development Authority fund.

4. DEFICIT FUND EQUITY

Deficit Fund Balance / Net Position

Governmental activities reported a deficit in unrestricted net position of \$11,086,068 at June 30, 2017. The Downtown Development Authority, a major governmental fund and blended component unit, reported a deficit unrestricted fund net position of \$340,327. The Water Utility and Marina enterprise funds reported a deficit unrestricted fund net position of \$175,752 and \$71,135, respectively. The Escanaba Building Authority internal service fund reported a deficit of \$556,420.

5. CASH AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of June 30, 2017:

| | Primary Government | Component Unit | Total |
|-------------------------------------|-----------------------|-------------------|----------------------|
| Statement of Net Position | | | |
| Cash and investments | \$ 29,322,832 | \$ 744,271 | \$ 30,067,103 |
| Statement of Fiduciary Net Position | | | |
| Cash and investments: | | | |
| Cash and cash equivalents | 172,628 | - | 172,628 |
| Investments | 28,701,921 | - | 28,701,921 |
| Total | <u>\$ 58,197,381</u> | <u>\$ 744,271</u> | <u>\$ 58,941,652</u> |

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

| | |
|---------------------------------------------|------------------------------------|
| Deposits and investments | |
| Bank deposits: | |
| Checking / savings accounts | \$ 553,053 |
| Certificates of deposit/ money market funds | 13,122,675 |
| Investment in securities and mutual funds: | |
| Pooled investments | 45,261,639 |
| Cash on hand | <u>4,285</u> |
| Total | <u><u>\$ 58,941,652</u></u> |

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end, \$10,884,606 of the City's bank balance of \$11,138,199 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The City's investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk - Investments. As of June 30, 2017, the City's pooled investments consisted entirely of United States Government backed securities and equity/mutual funds totaling \$17,492,693 and \$27,768,946, respectively.

For an investment, custodial credit 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 that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings, where applicable, are summarized as follows:

| | Amount |
|--------------|------------------------------------|
| Not Rated | \$ 27,768,946 |
| S&P AA+ | <u>17,492,693</u> |
| Total | <u><u>\$ 45,261,639</u></u> |

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates for investments held at year-end are summarized as follows:

| | Amount |
|-----------------------|-----------------------------|
| No maturity | \$ 27,768,946 |
| Due within 1-5 years | 5,619,550 |
| Due within 6-10 years | 10,142,850 |
| More than 10 years | <u>1,730,293</u> |
| Total | <u>\$ 45,261,639</u> |

Fair Value. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of year end, the City's investments in governmental securities were considered level 2 investments and the remaining investments were all considered to be level 1.

The City is authorized by statute to invest surplus funds in the following:

- a. Bonds, securities, and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the highest graded classification by Standard & Poor's or by Moody's.
- d. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- e. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The City Council is authorized to designate depositories for City funds, and to determine that the funds are invested in accordance with State of Michigan authority.

The City's deposits are in accordance with statutory authority.

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

6. RECEIVABLES

Receivables are comprised of the following as of June 30, 2017:

| | Governmental Activities | Business-type Activities | Component Unit |
|--------------------------------------------|----------------------------|-----------------------------|-------------------|
| Accounts receivable | \$ 310,019 | \$ 2,286,890 | \$ 1,589 |
| Taxes - special assessments | 3,809 | - | - |
| Interest receivable | 357,040 | 422,522 | - |
| Loans receivable expected to be collected: | | | |
| Within one year | 21,519 | - | - |
| More than one year | 633,214 | - | - |
| Other receivables | 18,984 | - | - |
| Due from other governmental units | 1,285,810 | 3,664 | - |
| Allowance for doubtful accounts | (120,161) | (29,200) | - |
| | <u>\$ 2,510,234</u> | <u>\$ 2,683,876</u> | <u>\$ 1,589</u> |

7. CAPITAL ASSETS

Primary Government

Capital assets activity for the primary government for the year ended June 30, 2017, was as follows:

| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
|---------------------------------------|----------------------|------------------|----------------|-----------|-------------------|
| Governmental activities | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | \$ 1,324,569 | \$ 8,200 | \$ - | \$ - | \$ 1,332,769 |
| Construction in progress | - | 2,587,458 | - | - | 2,587,458 |
| | <u>1,324,569</u> | <u>2,595,658</u> | <u>-</u> | <u>-</u> | <u>3,920,227</u> |
| Capital assets being depreciated: | | | | | |
| Land improvements | 6,087,349 | - | - | - | 6,087,349 |
| Infrastructure | 19,219,305 | - | - | - | 19,219,305 |
| Buildings and improvements | 9,918,216 | - | - | - | 9,918,216 |
| Vehicles and equipment | 8,799,489 | 1,081,256 | (6,482) | - | 9,874,263 |
| Parking lots | 439,709 | - | - | - | 439,709 |
| | <u>44,464,068</u> | <u>1,081,256</u> | <u>(6,482)</u> | <u>-</u> | <u>45,538,842</u> |

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
|------------------------------------------------|----------------------|---------------------|-----------------|------------------|----------------------|
| Less accumulated depreciation for: | | | | | |
| Land improvements | \$ (2,478,886) | (170,960) | \$ - | \$ - | \$ (2,649,846) |
| Infrastructure | (8,815,911) | (586,483) | - | - | (9,402,394) |
| Buildings and improvements | (4,963,042) | (236,100) | - | - | (5,199,142) |
| Vehicles and equipment | (7,322,151) | (246,396) | 6,482 | - | (7,562,065) |
| Parking lots | (231,611) | (14,693) | - | - | (246,304) |
| | <u>(23,811,601)</u> | <u>(1,254,632)</u> | <u>6,482</u> | <u>-</u> | <u>(25,059,751)</u> |
| Total capital assets being depreciated, net | <u>20,652,467</u> | <u>(173,376)</u> | <u>-</u> | <u>-</u> | <u>20,479,091</u> |
| Governmental activities capital assets, net | <u>\$ 21,977,036</u> | <u>\$ (165,176)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 24,399,318</u> |
| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
| Business-type activities | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | \$ 56,953 | \$ - | \$ - | \$ - | \$ 56,953 |
| Construction in progress | 1,465,385 | 1,654,275 | - | (606,695) | 2,512,965 |
| | <u>1,522,338</u> | <u>1,654,275</u> | <u>-</u> | <u>(606,695)</u> | <u>2,569,918</u> |
| Capital assets being depreciated: | | | | | |
| Land improvements | 1,830,326 | - | - | - | 1,830,326 |
| Buildings and improvements | 22,487,717 | 110,412 | - | - | 22,598,129 |
| Transmission and distribution systems | 24,430,210 | 316,372 | (51,579) | 606,695 | 25,301,698 |
| Other machinery and equipment | 1,628,874 | 82,698 | (2,338) | - | 1,709,234 |
| | <u>50,377,127</u> | <u>509,482</u> | <u>(53,917)</u> | <u>606,695</u> | <u>51,439,387</u> |

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
|-------------------------------------------------|----------------------|---------------------|---------------|----------------|----------------------|
| Less accumulated depreciation for: | | | | | |
| Land improvements | \$ (1,061,401) | \$ (36,367) | \$ - | \$ - | \$ (1,097,768) |
| Buildings and improvements | (10,237,475) | (484,034) | - | - | (10,721,509) |
| Transmission and distribution systems | (13,750,845) | (526,574) | 51,579 | - | (14,225,840) |
| Other machinery and equipment | (1,304,237) | (67,834) | 2,338 | - | (1,369,733) |
| | <u>(26,353,958)</u> | <u>(1,114,809)</u> | <u>53,917</u> | <u>-</u> | <u>(27,414,850)</u> |
| Total capital assets being depreciated, net | <u>24,023,169</u> | <u>(605,327)</u> | <u>-</u> | <u>606,695</u> | <u>24,024,537</u> |
| Business-type activities capital assets, net | <u>\$ 25,545,507</u> | <u>\$ 1,048,948</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 26,594,455</u> |

Depreciation expense for the year ended June 30, 2017 was charged to functions/programs of the primary government as follows:

| | Amount |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| Depreciation of governmental activities by function | |
| Public safety | \$ 61,083 |
| Highway, streets & public works | 630,148 |
| Community services | 14,037 |
| Recreation and culture | 201,718 |
| Capital assets held by the governmental activity internal service funds are charged to the various functions based on their usage of the assets | <u>347,646</u> |
| | <u>\$ 1,254,632</u> |
| Depreciation of business-type activities by function | |
| Electric utility | \$ 406,479 |
| Waste water utility | 253,877 |
| Water utility | 395,927 |
| Marina | <u>58,526</u> |
| | <u>\$ 1,114,809</u> |

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

Discretely presented component unit

Capital assets activity for the Escanaba Housing Commission ("Commission") component unit for the year ended September 30, 2016, was as follows:

| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
|---------------------------------------------|---------------------|------------------|--------------|-------------------|---------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 380,172 | \$ - | \$ - | \$ - | \$ 380,172 |
| Construction in progress | 1,075 | - | - | (1,075) | - |
| | <u>381,247</u> | <u>-</u> | <u>-</u> | <u>(1,075)</u> | <u>380,172</u> |
| Capital assets being depreciated: | | | | | |
| Buildings and improvements | 7,856,418 | 339,895 | - | - | 8,196,313 |
| Machinery and equipment | 294,209 | 10,408 | (956) | - | 303,661 |
| | <u>8,150,627</u> | <u>350,303</u> | <u>(956)</u> | <u>-</u> | <u>8,499,974</u> |
| Less accumulated depreciation | <u>(6,608,817)</u> | <u>(265,772)</u> | <u>956</u> | <u>-</u> | <u>(6,873,633)</u> |
| Total capital assets being depreciated, net | <u>1,541,810</u> | <u>84,531</u> | <u>-</u> | <u>-</u> | <u>1,626,341</u> |
| Component unit capital assets, net | <u>\$ 1,923,057</u> | <u>\$ 84,531</u> | <u>\$ -</u> | <u>\$ (1,075)</u> | <u>\$ 2,006,513</u> |

Depreciation expense for the component unit, included in the statement of activities, was \$265,772 for fiscal 2017.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following as of June 30, 2017:

| | Governmental Activities | Business-type Activities | Component Unit |
|---------------------------------|-------------------------|--------------------------|-------------------|
| Accounts payable | \$ 918,969 | \$ 1,472,258 | \$ 130,343 |
| Accrued payroll | 303,716 | - | - |
| Due to other governmental units | 2,882 | - | - |
| Accrued interest | - | 40,444 | - |
| | <u>\$ 1,225,567</u> | <u>\$ 1,512,702</u> | <u>\$ 130,343</u> |

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

9. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2017, was as follows:

Due to and from other funds

| | Due From Other Funds | Due to Other Funds |
|--------------------------------|-------------------------|-----------------------|
| General fund | \$ 268,835 | \$ 20,529 |
| Downtown development authority | - | 132,751 |
| Nonmajor governmental funds | 134,716 | 137,154 |
| Internal service funds | - | 113,117 |
| | <u>\$ 403,551</u> | <u>\$ 403,551</u> |

The above balances generally resulted from a time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Advances to and from other funds

| | Advance to Other Funds | Advance From Other Funds |
|-----------------------------|---------------------------|-----------------------------|
| General fund | \$ 175,043 | \$ 130,000 |
| UDAG/DIAL grant | - | 875,000 |
| Nonmajor governmental funds | 1,121,318 | - |
| Electric utility fund | 1,005,000 | - |
| Marina fund | - | 246,318 |
| Internal service funds | - | 1,050,043 |
| | <u>\$ 2,301,361</u> | <u>\$ 2,301,361</u> |

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

For the year ended June 30, 2017, interfund transfers consisted of the following:

| | Transfers In | Transfers Out |
|--------------------------------|---------------------|---------------------|
| General fund | \$ 1,206,345 | \$ 583,459 |
| Downtown development authority | - | 70,338 |
| UDAG/DIAL grant | - | 875,000 |
| Nonmajor governmental funds | 1,441,399 | 334,128 |
| Electric utility fund | - | 882,290 |
| Waste water utility fund | - | 20,529 |
| Internal service funds | 149,000 | 39,200 |
| Governmental activities | 8,200 | - |
| | <u>\$ 2,804,944</u> | <u>\$ 2,804,944</u> |

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

10. LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2017, was as follows:

| | Beginning Balance | Additions | (Reductions) | Ending Balance | Due in One Year |
|---------------------------------------|-------------------|------------|----------------|----------------|-----------------|
| Primary Government | | | | | |
| Governmental activities: | | | | | |
| Compensated absences | \$ 697,527 | \$ 500,867 | \$ (465,452) | \$ 732,942 | \$ 166,520 |
| Business-type activities: | | | | | |
| Compensated absences | 234,395 | 120,628 | (165,804) | 189,219 | 35,041 |
| Revenue and capital improvement bonds | 5,910,000 | - | (485,000) | 5,425,000 | 495,000 |
| Total business-type activities | 6,144,395 | 120,628 | (650,804) | 5,614,219 | 530,041 |
| Total primary government | \$ 6,841,922 | \$ 621,495 | \$ (1,116,256) | \$ 6,347,161 | \$ 696,561 |

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

Revenue and capital improvement bonds are direct obligations and pledge the full faith and credit of the City. Revenue and capital improvement bonds currently outstanding at June 30, 2017 are as follows:

| Purpose | Matures | Interest Rates | Amount |
|------------------------------------------------|--------------|----------------|---------------------|
| Business-type activities | | | |
| 1998 Waste water utility - revenue bonds | October 2018 | 2.25% | \$ 120,000 |
| 2002 Water utility - revenue bonds | October 2023 | 2.25% | 1,120,000 |
| 2009 Water utility - revenue bonds | October 2027 | 2.13% | 1,780,000 |
| 2010 Water utility - capital improvement bonds | May 2031 | 3.30% | <u>2,405,000</u> |
| | | | <u>\$ 5,425,000</u> |

Annual debt service requirements to maturity for the revenue and capital improvement bonds are as follows:

| Year Ending June 30, | Business-Type Activities | |
|-------------------------|--------------------------|-------------------|
| | Principal | Interest |
| 2018 | \$ 495,000 | \$ 141,376 |
| 2019 | 505,000 | 129,677 |
| 2020 | 455,000 | 118,096 |
| 2021 | 470,000 | 106,628 |
| 2022 | 480,000 | 94,614 |
| 2023-2027 | 2,040,000 | 299,677 |
| 2028-2031 | <u>980,000</u> | <u>73,583</u> |
| | <u>\$ 5,425,000</u> | <u>\$ 963,651</u> |

11. RISK MANAGEMENT

The City maintains self insurance programs for worker's compensation and unemployment compensation that are reported as internal service funds. All fund types are charged premiums at rebates determined using established insurance rates and other factors which, in management's opinion, warrant consideration.

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, for which the City participates as a member in the Michigan Municipal Risk Management Authority. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and auto liability, motor vehicle physical damage, and property. Settled claims have not exceeded the amount of insurance coverage in any of the past four fiscal years.

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

12. PROPERTY TAXES

The City's property taxes are levied no later than each June 1 and become an enforceable lien on July 10, payable by September 15. The tax levies are based on the taxable valuation of property located in the City as of the preceding December 31. Property taxes are payable without penalty and interest through September 15; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Delta County. Collections of community college, school, and county taxes and remittances are accounted for in the Tax Collection Agency Fund. City property tax revenues are recognized in the fiscal year for which the taxes are levied to the extent that they result in current receivables (i.e., are collected within 60 days after fiscal year-end).

The City is permitted by charter and state law to levy taxes up to \$20 per \$1,000 of assessed valuation for general operations other than the payment of principal and interest on long-term debt. The tax rate to finance general governmental services other than the payment of principal and interest on long-term debt for the year ended June 30, 2017 was \$17 per \$1,000 of taxable value.

13. DEFINED BENEFIT PENSION PLAN

Agent Multiple-Employer Plan (MERS)

General Information About the Plan

Plan Description. The City participates in the Municipal Employees' Retirement System (MERS) of Michigan, a defined benefit pension plan providing certain retirement, disability and death benefits to plan members and beneficiaries. 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. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided. Pension benefits vary by division/bargaining unit and are calculated as final average compensation (based on a 3 year period) and multipliers ranging from 2.0% to 2.5%. Participants are considered to be fully vested in the plan after 10 years. Normal retirement age is 60 with early retirement at age 55 with 25 years of service or any age with 25 years or service.

Employees Covered by Benefit Terms. As of December 31, 2016, plan membership consisted of the following:

| | |
|------------------------------------------------------------------|-------------------|
| Inactive employees or beneficiaries currently receiving benefits | 118 |
| Inactive employees entitled to but not yet receiving benefits | 11 |
| Active employees | <u>42</u> |
| Total membership | <u><u>171</u></u> |

Contributions. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees. During the fiscal year, employer contributions were 18.86% of annual payroll for the open division. Closed divisions had monthly employer contributions ranging from \$161 to \$44,681. There were no member contributions in fiscal 2017. Five of the six divisions are closed to new entrants.

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

All defined benefit divisions are now closed to new hires. New hires are now being covered with a defined contribution retirement plan.

Net Pension Liability. The City's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|----------------------------------------------------------|
| Inflation | 2.50% |
| Salary increases | 3.75% in the long-term |
| Investment rate of return | 7.75%, net of investment expense and including inflation |

Although no specific price inflation assumptions are needed for the valuation, the 2.50% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

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

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study performed for 2009-2013.

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

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return | Expected Money-Weighted Rate of Return |
|--------------------------------------|-------------------|----------------------------------------|----------------------------------------|
| Global equity | 57.50% | 5.02% | 2.89% |
| Global fixed income | 20.00% | 2.18% | 0.44% |
| Real assets | 12.50% | 4.23% | 0.53% |
| Diversifying strategies | 10.00% | 6.56% | 0.64% |
| | <u>100.00%</u> | | |
| Inflation | | | 3.25% |
| Administrative expenses netted above | | | <u>0.25%</u> |
| Investment rate of return | | | <u>8.00%</u> |

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2016 was 8.00% (down from 8.25% in 2015). The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

The components of the change in the net pension liability are summarized as follows:

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
|---------------------------------------------------------------|--------------------------------|------------------------------------|------------------------------------|
| Balances at December 31, 2015 | \$ 34,998,795 | \$ 18,559,506 | \$ 16,439,289 |
| Changes for the year: | | | |
| Service cost | 208,945 | - | 208,945 |
| Interest | 2,718,469 | - | 2,718,469 |
| Change in benefits | 136,245 | - | 136,245 |
| Differences between expected and actual experience | (5,233) | - | (5,233) |
| Employer contributions | - | 1,328,965 | (1,328,965) |
| Net investment income | - | 2,075,153 | (2,075,153) |
| Benefit payments, including refunds of employee contributions | (2,244,879) | (2,244,879) | - |
| Administrative expense | - | (40,989) | 40,989 |
| Net changes | 813,547 | 1,118,250 | (304,703) |
| Balances at December 31, 2016 | \$ 35,812,342 | \$ 19,677,756 | \$ 16,134,586 |

The General Fund and certain special revenue funds have typically been used to liquidate the MERS net pension liability in the governmental funds.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the City, calculated using the discount rate of 8.00%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.00%) or 1% higher (9.00%) than the current rate:

| | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
|-----------------------|------------------------|-------------------------------------|------------------------|
| Net pension liability | \$ 19,842,196 | \$ 16,134,586 | \$ 12,975,742 |

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

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

For the year ended June 30, 2017, the City recognized pension expense of \$2,857,261. The City reported deferred outflows of resources and deferred inflows of resources related to the MERS pension plan from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources | Net Deferred Outflows (Inflows) of Resources |
|----------------------------------------------------------------------------------|--------------------------------|-------------------------------|----------------------------------------------|
| Net difference between projected and actual earnings on pension plan investments | \$ 765,425 | \$ - | \$ 765,425 |
| Difference between expected and actual experience | - | 2,616 | (2,616) |
| | <u>765,425</u> | <u>2,616</u> | <u>762,809</u> |
| Contributions subsequent to the measurement date | 664,981 | - | 664,981 |
| Total | <u>\$ 1,430,406</u> | <u>\$ 2,616</u> | <u>\$ 1,427,790</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, 2018. Other amounts reported as pension-related deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

| Year Ended June 30, | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---------------------|--------------------------------|-------------------------------|
| 2018 | \$ 320,580 | \$ 2,616 |
| 2019 | 320,582 | - |
| 2020 | 249,997 | - |
| 2021 | <u>(125,734)</u> | <u>-</u> |
| Total | <u>\$ 765,425</u> | <u>\$ 2,616</u> |

Payable to the Pension Plan. At June 30, 2017, the City reported a payable to the Plan of \$110,798 for outstanding contributions to the pension plan required for the year ended June 30, 2017.

Defined Contribution Plan

The defined contribution plan requires the City to contribute four percent of the employee's qualified wages, with an additional matching contribution of up to three percent based on the employee's contribution. The employee vests in the City portion of the contributions after one year of service. For this fiscal year the City contributed \$151,688 to the plan and the employees contributed \$64,136.

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

Public Safety Pension Plan

Plan Description. The City of Escanaba (the "City") Public Safety Officer Retirement System - Defined Benefit Plan (the "Plan") is a single employer public employee retirement system established and administered by the City to provide pension benefits exclusively for all of its public safety officers. The Plan is accounted for as a pension trust fund.

The Public Safety Pension Fund provides retirement benefits as well as death and disability benefits. Employees who retire at any age with 25 or more years of service or age 60 regardless of service are entitled to an annual retirement benefit, payable for life, in an amount equal to 3.0% (2.5% for members hired on or after July 1, 2011) of their three-year average final compensation (AFC) multiplied by their first 25 years of service, for a maximum benefit of 75% of final average compensation. A deferred retirement is earned by an employee who terminates before retirement age and has 10 or more years of service. The plan provides for a minimum retiree pension amount of \$500 per month. This minimum is also applicable to surviving spouses. The annual retirement benefit payable to a qualifying retiree is increased by 1.0% (1.5% for those retirees and beneficiaries retiring after July 1, 2002) per year, compounded annually.

As of June 30, 2014 the defined benefit plan is closed. Employees who are hired as of July 1, 2014 or later are now being covered with a defined contribution retirement plan.

Summary of Significant Accounting Policies. The financial statements of the Plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contribution has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Administration of the Plan is funded through the Plan's investment earnings.

Method Used to Value Investments. Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments for which market quotations are not readily available are valued at their fair values as determined by the custodian under the direction of the Plan Board of Trustees, with the assistance of a valuation service.

Employees Covered by Benefit Terms. At June 30, 2017, plan membership consisted of the following:

| | |
|------------------------------|------------------|
| Retiree and beneficiaries | |
| currently receiving benefits | 53 |
| Terminated vested members | 3 |
| Active plan members | <u>24</u> |
| Total membership | <u><u>80</u></u> |

Contributions. Covered employees are required to contribute 5.0% of their compensation to the plan if the City's contribution rate is below 6.83%. If the City's contribution rate rises above 6.83%, then members are required to contribute 6.0% to the plan. If an employee leaves covered employment or dies before 10 years of credited service, accumulated employee contributions plus related investment earnings are refunded to the employee or designated beneficiary. City contributions are actuarially determined and based on the individual entry-age method. During the fiscal year ended June 30, 2017, the City contributed \$1,134,353 or 66.4% as a percentage of covered payroll.

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

Investment Policy. The plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Trustees. The investment policy has been formulated based on consideration of a wide range of policies and describes the prudent investment process that the Board deems appropriate. The Plan's asset allocation policy is as follows:

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return | Expected Money-Weighted Rate of Return |
|----------------------|-------------------|----------------------------------------|----------------------------------------|
| US Large Cap | 22.61% | 7.61% | 1.72% |
| US Mid Cap | 19.57% | 9.69% | 1.90% |
| US Small Cap | 11.47% | 9.77% | 1.12% |
| Global Equity ex US | 4.97% | 7.82% | 0.39% |
| Aggregate Bonds | 13.77% | 0.24% | 0.03% |
| Short US Credit | 12.80% | 1.03% | 0.13% |
| US High Yield | 9.44% | 3.17% | 0.30% |
| REIT | 5.37% | 5.04% | 0.27% |
| | 100.00% | | |
| Inflation | | | 3.00% |
| Risk adjustments | | | -1.36% |
| Total rate of return | | | 7.50% |

Rate of Return. For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 10.7%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Plan is limited to investments in commercial paper of the top two ratings issued by nationally recognized rating organizations. All of the Plan's assets are invested in mutual funds, which are not rated.

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a policy for custodial credit risk. The Plan's investment accounts are in mutual fund investment pools, which is evidenced by shares in the pool, not by securities that physically exist or are in book-entry form.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. The Plan's investment policy prohibits any one security exceeding five percent of an overall fund. Additionally, no one industry can represent more than twenty percent of an individual fund.

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Plan's investment are in mutual fund investment pools which are not subject to interest rate risk disclosure.

Fair Value Measurements. The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of year end, all of the Plan's investments are in mutual funds which are all considered to be Level 1.

Net Pension Liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 and rolled forward to June 30, 2017.

Actuarial Assumptions. The following actuarial assumptions, applied to all periods included in the measurement:

| | |
|-------------------------------|-------------------------------------|
| Actuarial cost method | Entry-age |
| Amortization method | Level Dollar, Closed |
| Remaining amortization period | 19 years |
| Asset valuation method | Market value of assets |
| Inflation | 3.25% wage inflation |
| Salary increases | 3.45% to 7.25%, including inflation |
| Investment rate of return | 7.5% |

Mortality for non-disabled members and surviving beneficiaries is based on the RP-2014 Employee and Healthy Annuitant Mortality Tables rolled back to 2006 and projected with Mortality Improvement Scale MP-2015. For disabled participants, mortality is based on the RP-2014 Disabled Retiree Mortality Table rolled back to 2006 and projected with Mortality Improvement Scale MP-2015. (Effective June 30, 2015).

Summary of Changes from the June 30, 2015 Valuation. The actuarial assumptions are the same selected for the June 30, 2015 valuation, except for a change in the assumptions for members utilizing military and Act 88 reciprocal service in the future. The prior assumptions included a load of 0.2% to the active liability to account for future purchases of military service, and there was no assumption for members electing to use the Act 88 service. Based on survey data the System provided in 2017 on the likely, but unofficial, amount of military or Act 88 service each of the current active members has available to use, and the assumed likelihood they will use it, the valuation for this June 30, 2016 explicitly calculates the impact of the service on each of those members. The new assumption is on a per member basis and better anticipates the size and commencement of the retirement benefits, so they can be better funded before retirement. The new assumption increased the Total Pension Liability as of June 30, 2017 by \$602,882, and will increase the service cost next year by an estimated \$26,000.

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

Changes in the Net Pension Liability. The components of the changes in the net pension liability at June 30, 2017, are summarized as follows:

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
|---------------------------------------------------------------|--------------------------------|------------------------------------|------------------------------------|
| Balances at June 30, 2016 | \$ 32,857,362 | \$ 26,380,651 | \$ 6,476,711 |
| Changes for the year: | | | |
| Service cost | 514,868 | - | 514,868 |
| Interest | 2,436,107 | - | 2,436,107 |
| Differences between expected and actual experience | (352,923) | - | (352,923) |
| Changes in assumptions | 602,882 | | 602,882 |
| Employer contributions | - | 1,134,353 | (1,134,353) |
| Employee contributions | - | 102,635 | (102,635) |
| Net investment income | - | 2,798,891 | (2,798,891) |
| Benefit payments, including refunds of employee contributions | (1,781,664) | (1,781,664) | - |
| Administrative expense | - | (26,691) | 26,691 |
| Net changes | 1,419,270 | 2,227,524 | (808,254) |
| Balances at June 30, 2017 | \$ 34,276,632 | \$ 28,608,175 | \$ 5,668,457 |

Discount Rate. A Single Discount Rate of 7.5% was used to measure the total pension liability. The projection of cash flows used to determine this Single Discount Rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. 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.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the City's net pension liability, calculated using a Single Discount Rate of 7.50%, as well as what the City's net pension liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|-----------------------|------------------------|-------------------------------------|------------------------|
| Net pension liability | \$ 10,512,513 | \$ 5,668,457 | \$ 1,994,802 |

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

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

For the year ended June 30, 2017, the City recognized pension expense of \$543,602. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources | Net Deferred Outflows (Inflows) of Resources |
|----------------------------------------------------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------------------------|
| Difference between expected and actual experience | \$ - | \$ 563,136 | \$ (563,136) |
| Net difference between projected and actual earnings on pension plan investments | 334,608 | - | 334,608 |
| Changes in assumptions | 485,211 | 1,991,242 | (1,506,031) |
| Total | \$ 819,819 | \$ 2,554,378 | \$ (1,734,559) |

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

| Year Ended June 30, | Deferred Outflows of Resources | Deferred Inflows of Resources |
|------------------------|--------------------------------------|-------------------------------------|
| 2018 | \$ 630,585 | \$ 2,513,777 |
| 2019 | 284,090 | 40,601 |
| 2020 | 73,498 | - |
| 2021 | (168,354) | - |
| Total | \$ 819,819 | \$ 2,554,378 |

CITY OF ESCANABA, MICHIGAN

Notes to the Financial Statements

14. COMMITMENTS

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and contracts. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the City.

The City is involved in certain tax tribunal disputes wherein taxpayers have petitioned the courts to reduce the amount of property taxes that have been paid to the City and to receive reimbursement from the City. No liability has been recorded related to these disputes as the outcome and amount of any potential liability can not readily be determined.

At June 30, 2017 the City had entered into two separate agreements related to the construction of the City of Escanaba Marketplace and North 26th street. The total cost of these commitments is approximately \$2,082,000, with approximately \$185,000 remaining uncompleted at the end of fiscal 2017.

15. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2017, was as follows:

| | Governmental Activities | Business-type Activities | Component Unit |
|---------------------------------------|----------------------------|-----------------------------|---------------------|
| Capital assets: | | | |
| Capital assets, not being depreciated | \$ 3,920,227 | \$ 2,569,918 | \$ 380,172 |
| Capital assets being depreciated, net | 20,479,091 | 24,024,537 | 1,626,341 |
| | <u>24,399,318</u> | <u>26,594,455</u> | <u>2,006,513</u> |
| Less long-term liabilities: | | | |
| Due within one year | - | 4,930,000 | - |
| Due in more than one year | - | 495,000 | - |
| | <u>-</u> | <u>5,425,000</u> | <u>-</u> |
| Net investment in capital assets | <u>\$ 24,399,318</u> | <u>\$ 21,169,455</u> | <u>\$ 2,006,513</u> |

CITY OF ESCANABA, MICHIGAN

Notes to Financial Statements

16. FUND BALANCES - GOVERNMENTAL FUNDS

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies fund balances based primarily on the extent to which it is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

| | General Fund | E.D.A. Revolving Fund | Downtown Development Authority | UDAG/DIAL Grant | Nonmajor Governmental Funds | Total Governmental Funds |
|------------------------------------------------|---------------------|-----------------------|--------------------------------|---------------------|-----------------------------|--------------------------|
| Nonspendable: | | | | | | |
| Gas permanent fund | \$ - | \$ - | \$ - | \$ - | \$ 1,094,634 | \$ 1,094,634 |
| Other assets | 204,877 | - | - | - | 10,203 | 215,080 |
| Inventory | 150,244 | - | - | - | - | 150,244 |
| Advance to other funds | 175,043 | - | - | - | - | 175,043 |
| Total nonspendable | 530,164 | - | - | - | 1,104,837 | 1,635,001 |
| Restricted: | | | | | | |
| Economic development (UDAG/DIAL Grant) | - | - | - | 1,525,217 | 43,605 | 1,568,822 |
| Revolving loans | - | 383,698 | - | - | - | 383,698 |
| UPSET expenditures/building | - | - | - | - | 19,393 | 19,393 |
| Brownfield | - | - | - | - | 26,137 | 26,137 |
| Capital improvements | - | - | - | - | 60,932 | 60,932 |
| Highways, streets, and public works | - | - | - | - | 3,205,711 | 3,205,711 |
| Total restricted | - | 383,698 | - | 1,525,217 | 3,355,778 | 5,264,693 |
| Committed: | | | | | | |
| Highways, streets and public works | - | - | - | - | 56 | 56 |
| Recreation and culture | - | - | - | - | 217,100 | 217,100 |
| Economic development | - | - | - | - | 1,933,896 | 1,933,896 |
| Total committed | - | - | - | - | 2,151,052 | 2,151,052 |
| Assigned - pension costs | 280,000 | - | - | - | - | 280,000 |
| Unassigned (deficit) | 3,667,323 | - | (340,327) | - | - | 3,326,996 |
| Total fund balances, governmental funds | \$ 4,477,487 | \$ 383,698 | \$ (340,327) | \$ 1,525,217 | \$ 6,611,667 | \$12,657,742 |



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ESCANABA, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Changes in City's Net Pension Liability and Related Ratios

| | Fiscal Year Ended June 30, | | |
|-------------------------------------------------------------------------------|----------------------------|----------------------|----------------------|
| | 2017 | 2016 | 2015 |
| Total pension liability | | | |
| Service cost | \$ 208,945 | \$ 233,003 | \$ 256,475 |
| Interest | 2,718,469 | 2,604,321 | 2,543,881 |
| Changes in benefit terms | 136,245 | - | - |
| Differences between expected and actual experience | (5,233) | (100,016) | - |
| Changes of assumptions | - | 1,862,283 | - |
| Benefit payments, including refunds of employee contributions | (2,244,879) | (2,103,652) | (2,008,357) |
| Other | - | - | (1) |
| Net change in total pension liability | <u>813,547</u> | <u>2,495,939</u> | <u>791,998</u> |
| Total pension liability, beginning of year | <u>34,998,795</u> | <u>32,502,856</u> | <u>31,710,858</u> |
| Total pension liability, end of year | <u>35,812,342</u> | <u>34,998,795</u> | <u>32,502,856</u> |
| Plan fiduciary net position | | | |
| Employer contributions | 1,328,965 | 1,293,868 | 1,194,312 |
| Net investment income | 2,075,153 | (288,545) | 1,208,114 |
| Benefit payments, including refunds of employee contributions | (2,244,879) | (2,103,652) | (2,008,357) |
| Administrative expense | (40,989) | (42,547) | (44,231) |
| Net change in plan fiduciary net position | <u>1,118,250</u> | <u>(1,140,876)</u> | <u>349,838</u> |
| Plan fiduciary net position, beginning of year | <u>18,559,506</u> | <u>19,700,382</u> | <u>19,350,544</u> |
| Plan fiduciary net position, end of year | <u>19,677,756</u> | <u>18,559,506</u> | <u>19,700,382</u> |
| City's net pension liability | <u>\$ 16,134,586</u> | <u>\$ 16,439,289</u> | <u>\$ 12,802,474</u> |
| Plan fiduciary net position as a percentage of total pension liability | 54.9% | 53.0% | 60.6% |
| Covered payroll | <u>\$ 2,074,943</u> | <u>\$ 2,342,307</u> | <u>\$ 2,580,370</u> |
| City's net pension liability as a percentage of covered payroll | 777.6% | 701.8% | 496.1% |

Notes:

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF ESCANABA, MICHIGAN

Required Supplementary Information
MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of the Net Pension Liability

| Fiscal Year Ended June 30, | Total Pension Liability | Plan Net Position | Net Pension Liability | Plan Net Position as Percentage of Total Pension Liability | Covered Payroll | Net Pension Liability as Percentage of Covered Payroll |
|----------------------------|-------------------------|-------------------|-----------------------|------------------------------------------------------------|-----------------|--------------------------------------------------------|
| 2015 | \$ 32,502,856 | \$ 19,700,382 | \$ 12,802,474 | 60.6% | \$ 2,580,370 | 496.15% |
| 2016 | 34,998,795 | 18,559,506 | 16,439,289 | 53.0% | 2,342,307 | 701.84% |
| 2017 | 35,812,342 | 19,677,756 | 16,134,586 | 54.9% | 2,074,943 | 777.59% |

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF ESCANABA, MICHIGAN

Required Supplementary Information
MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Contributions

| Fiscal Year Ending June 30, | Actuarially Determined Contribution | Contributions in Relation to the Actuarially Determined Contribution | Contribution Deficiency (Excess) | Covered Payroll | Contributions as Percentage of Covered Payroll |
|-----------------------------|-------------------------------------|----------------------------------------------------------------------|----------------------------------|-----------------|------------------------------------------------|
| 2015 | \$ 1,248,924 | \$ 1,248,924 | \$ - | \$ 2,580,370 | 48.4% |
| 2016 | 1,323,000 | 1,323,000 | - | 2,401,701 | 55.1% |
| 2017 | 1,332,991 | 1,332,991 | - | 2,265,300 | 58.8% |

Note: GASB 68 was implemented in fiscal year 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated as of December 31, which is 18 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Actuarial cost method | Entry-age normal |
| Amortization method | Level percent of payroll, open |
| Remaining amortization period | 24 years |
| Asset valuation method | Open; 10-year smooth market |
| Inflation | 3.0% to 4.0% |
| Salary increases | 4.75% in the long-term (2.0% and 3.0% for calendar years 2015 and 2016, respectively) |
| Investment rate of return | 8.00%, net of investment and administrative expenses including inflation |
| Retirement age | Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement rates were first used for the December 31, 2009 actuarial valuations. The Early Retirement rates were first used for the December 31, 2011 actuarial valuations. |
| Mortality | 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members. |

CITY OF ESCANABA PUBLIC SAFETY OFFICER RETIREMENT SYSTEM

Required Supplementary Information

City of Escanaba Public Safety Officer Retirement System Defined Benefit Plan

Schedule of Changes in the City's Net Pension Liability and Related Ratios

| | Fiscal Year Ended June 30, | | | |
|-------------------------------------------------------------------------------|----------------------------|---------------------|----------------------|---------------------|
| | 2017 | 2016 | 2015 | 2014 |
| Total pension liability | | | | |
| Service cost | \$ 514,868 | \$ 597,406 | \$ 727,549 | \$ 708,122 |
| Interest | 2,436,107 | 2,347,872 | 2,270,399 | 2,171,492 |
| Differences between expected and actual experience | (352,923) | (1,120,348) | (321,158) | - |
| Changes of assumptions | 602,882 | (6,227,926) | 5,861,409 | - |
| Benefit payments, including refunds of employee contributions | (1,781,664) | (1,590,935) | (1,538,201) | (1,500,644) |
| Net change in total pension liability | 1,419,270 | (5,993,931) | 6,999,998 | 1,378,970 |
| Total pension liability, beginning of year | 32,857,362 | 38,851,293 | 31,851,295 | 30,472,325 |
| Total pension liability, end of year | 34,276,632 | 32,857,362 | 38,851,293 | 31,851,295 |
| Plan fiduciary net position | | | | |
| Employer contributions | 1,134,353 | 969,387 | 1,033,739 | 1,058,517 |
| Employee contributions | 102,635 | 149,195 | 124,797 | 123,571 |
| Net investment income | 2,798,891 | 550,663 | 1,126,473 | 3,747,259 |
| Benefit payments, including refunds of employee contributions | (1,781,664) | (1,590,935) | (1,538,201) | (1,500,644) |
| Administrative expense | (26,691) | (13,650) | (6,835) | (12,702) |
| Net change in plan fiduciary net position | 2,227,524 | 64,660 | 739,973 | 3,416,001 |
| Plan fiduciary net position, beginning of year | 26,380,651 | 26,315,991 | 25,576,018 | 22,160,017 |
| Plan fiduciary net position, end of year | 28,608,175 | 26,380,651 | 26,315,991 | 25,576,018 |
| City's net pension liability | \$ 5,668,457 | \$ 6,476,711 | \$ 12,535,302 | \$ 6,275,277 |
| Plan fiduciary net position as a percentage of total pension liability | 83.5% | 80.3% | 67.7% | 80.3% |
| Covered payroll | \$ 1,708,313 | \$ 2,105,983 | \$ 2,055,865 | \$ 2,028,519 |
| City's net pension liability as a percentage of covered payroll | 331.8% | 307.5% | 609.7% | 309.4% |

Note: GASB 67 was implemented in fiscal year 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF ESCANABA PUBLIC SAFETY OFFICER RETIREMENT SYSTEM

Required Supplementary Information

City of Escanaba Public Safety Officer Retirement System Defined Benefit Plan

Schedule of the City's Net Pension Liability

| Fiscal Year Ended June 30, | Total Pension Liability | Plan Net Position | Net Pension Liability | Plan Net Position as Percentage of Total Pension Liability | Covered Payroll | Net Pension Liability as Percentage of Covered Payroll |
|----------------------------|-------------------------|-------------------|-----------------------|------------------------------------------------------------|-----------------|--------------------------------------------------------|
| 2014 | \$ 31,851,295 | \$ 25,576,018 | \$ 6,275,277 | 80.3% | \$ 2,028,519 | 309.4% |
| 2015 | 38,851,293 | 26,315,991 | 12,535,302 | 67.7% | 2,055,865 | 609.7% |
| 2016 | 32,857,362 | 26,380,651 | 6,476,711 | 80.3% | 2,105,983 | 307.5% |
| 2017 | 34,276,632 | 28,608,175 | 5,668,457 | 83.5% | 1,708,313 | 331.8% |

Note: GASB 67 was implemented in fiscal year 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF ESCANABA PUBLIC SAFETY OFFICER RETIREMENT SYSTEM

Required Supplementary Information

City of Escanaba Public Safety Officer Retirement System Defined Benefit Plan

Schedule of the City's Contributions

| Fiscal Year Ending June 30, | Actuarially Determined Contribution | Contributions in Relation to the Actuarially Determined Contribution | Contribution Deficiency (Excess) | Covered Payroll | Contributions as Percentage of Covered Payroll |
|-----------------------------|-------------------------------------|----------------------------------------------------------------------|----------------------------------|-----------------|------------------------------------------------|
| 2014 | \$ 1,058,517 | \$ 1,058,517 | \$ - | \$ 2,028,519 | 52.2% |
| 2015 | 1,033,739 | 1,033,739 | - | 2,055,865 | 50.3% |
| 2016 | 969,387 | 969,387 | - | 2,105,983 | 46.0% |
| 2017 | 1,134,353 | 1,134,353 | - | 1,708,313 | 66.4% |

Note: GASB 67 was implemented in fiscal year 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated as of June 30, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Actuarial cost method | Entry-age normal |
| Amortization method | Level Dollar, Closed |
| Remaining amortization period | 19 years |
| Asset valuation method | Market value of assets |
| Inflation | 3.25% |
| Salary increases | 3.45% to 7.25%, including inflation |
| Investment rate of return | 7.5% |
| Retirement age | Age-based table of rates that are specific to the type of eligibility condition. |
| Mortality | RP-2014 Employee and Healthy Annuitant Mortality Tables rolled back to 2006 and projected with Mortality Improvement Scale MP-2015. For disabled participants, mortality is based on the RP-2014 Disabled Retiree Mortality Table rolled back to 2006 and projected with Mortality Improvement Scale MP-2015. |

CITY OF ESCANABA PUBLIC SAFETY OFFICER RETIREMENT SYSTEM

Required Supplementary Information City of Escanaba Public Safety Officer Retirement System Defined Benefit Plan

Schedule of Investment Returns

| Fiscal Year Ending June 30, | Annual Return ⁽¹⁾ |
|-----------------------------------|---------------------------------|
| 2014 | 17.0% |
| 2015 | 4.4% |
| 2016 | 2.2% |
| 2017 | 10.7% |

⁽¹⁾ Annual money-weighted rate of return, net of investment expenses

Note: GASB 67 was implemented in fiscal year 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**COMBINING FUND
FINANCIAL STATEMENTS**

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CITY OF ESCANABA, MICHIGAN

Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2017

| | Special Revenue Funds | | | |
|--------------------------------------------|-----------------------|---------------------|---------------------|------------------|
| | Major Streets | Local Streets | Parking Maintenance | Brownfield |
| Assets | | | | |
| Cash and investments | \$ 1,847,650 | \$ 154,019 | \$ 56 | \$ 26,000 |
| Accounts receivable | - | - | - | - |
| Loans receivable | - | - | - | - |
| Accrued interest receivable | 45,438 | 15,594 | - | 522 |
| Other assets | - | - | - | - |
| Due from other funds | 76,995 | 37,192 | - | - |
| Due from other governmental units | 164,970 | 62,358 | - | - |
| Advance to other funds | - | 875,000 | - | - |
| Total assets | <u>\$ 2,135,053</u> | <u>\$ 1,144,163</u> | <u>\$ 56</u> | <u>\$ 26,522</u> |
| Liabilities | | | | |
| Accounts payable | \$ 3,805 | \$ 103,172 | \$ - | \$ 385 |
| Due to other governmental units | - | 120 | - | - |
| Due to other funds | - | - | - | - |
| Unearned revenue | - | - | - | - |
| Advance from other funds | - | - | - | - |
| Total liabilities | <u>3,805</u> | <u>103,292</u> | <u>-</u> | <u>385</u> |
| Fund balances | | | | |
| Nonspendable | - | - | - | - |
| Restricted: | | | | |
| Economic development | - | - | - | - |
| UPSET expenditures/building | - | - | - | - |
| Brownfield | - | - | - | 26,137 |
| Capital improvements | - | - | - | - |
| Highways, streets, and public works | 2,131,248 | 1,040,871 | - | - |
| Committed: | | | | |
| Highways, streets, and public works | - | - | 56 | - |
| Recreation and culture | - | - | - | - |
| Economic development | - | - | - | - |
| Unassigned (deficit) | - | - | - | - |
| Total fund balances | <u>2,131,248</u> | <u>1,040,871</u> | <u>56</u> | <u>26,137</u> |
| Total liabilities and fund balances | <u>\$ 2,135,053</u> | <u>\$ 1,144,163</u> | <u>\$ 56</u> | <u>\$ 26,522</u> |

Special Revenue Funds

| Drug Law Enforcement | Delta County Central Dispatch Authority | Library | Housing Rehabilitation | Grants | Farmers Home Grant | M.S.C. Revolving Loan |
|----------------------|-----------------------------------------|-------------------|------------------------|-------------------|--------------------|-----------------------|
| \$ 18,839 | \$ - | \$ 109,267 | \$ 247,894 | \$ 55,305 | \$ 45,742 | \$ 105,409 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | 30,211 |
| 554 | 198 | 4,224 | 6,063 | 512 | 1,175 | 2,559 |
| - | - | 203 | - | - | - | - |
| - | - | - | - | 20,529 | - | - |
| - | 88,420 | 119,811 | - | 88,730 | - | - |
| - | - | - | - | - | - | - |
| <u>\$ 19,393</u> | <u>\$ 88,618</u> | <u>\$ 233,505</u> | <u>\$ 253,957</u> | <u>\$ 165,076</u> | <u>\$ 46,917</u> | <u>\$ 138,179</u> |
| \$ - | \$ 83 | \$ 12,976 | \$ - | \$ 80,054 | \$ - | \$ - |
| - | - | - | - | - | - | - |
| - | 88,399 | - | - | 20,528 | - | - |
| - | - | 3,226 | - | 20,889 | - | - |
| - | - | - | - | - | - | - |
| - | 88,482 | 16,202 | - | 121,471 | - | - |
| - | - | 203 | - | - | - | - |
| - | - | - | - | 43,605 | - | - |
| 19,393 | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | 217,100 | - | - | - | - |
| - | 136 | - | 253,957 | - | 46,917 | 138,179 |
| - | - | - | - | - | - | - |
| <u>19,393</u> | <u>136</u> | <u>217,303</u> | <u>253,957</u> | <u>43,605</u> | <u>46,917</u> | <u>138,179</u> |
| <u>\$ 19,393</u> | <u>\$ 88,618</u> | <u>\$ 233,505</u> | <u>\$ 253,957</u> | <u>\$ 165,076</u> | <u>\$ 46,917</u> | <u>\$ 138,179</u> |

CITY OF ESCANABA, MICHIGAN

Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2017

| | Special Revenue Funds | | Permanent Fund | Total Nonmajor Governmental Funds |
|--------------------------------------------|-----------------------|-------------------|---------------------|-----------------------------------|
| | Land Development | Sanitary Landfill | Gas Retirement | |
| Assets | | | | |
| Cash and investments | \$ 1,243,352 | \$ - | \$ 1,126,630 | \$ 4,980,163 |
| Accounts receivable | - | 33,492 | - | 33,492 |
| Loans receivable | - | - | - | 30,211 |
| Accrued interest receivable | 32,315 | 1,459 | 28,936 | 139,549 |
| Other assets | 10,000 | - | - | 10,203 |
| Due from other funds | - | - | - | 134,716 |
| Due from other governmental units | - | - | - | 524,289 |
| Advance to other funds | 246,318 | - | - | 1,121,318 |
| Total assets | \$ 1,531,985 | \$ 34,951 | \$ 1,155,566 | \$ 6,973,941 |
| Liabilities | | | | |
| Accounts payable | \$ 350 | \$ 60 | \$ - | \$ 200,885 |
| Due to other governmental units | - | - | - | 120 |
| Due to other funds | 26,928 | 1,299 | - | 137,154 |
| Unearned revenue | - | - | - | 24,115 |
| Advance from other funds | - | - | - | - |
| Total liabilities | 27,278 | 1,359 | - | 362,274 |
| Fund balances | | | | |
| Nonspendable | 10,000 | - | 1,094,634 | 1,104,837 |
| Restricted: | | | | |
| Economic development | - | - | - | 43,605 |
| UPSET expenditures/building | - | - | - | 19,393 |
| Brownfield | - | - | - | 26,137 |
| Capital improvements | - | - | 60,932 | 60,932 |
| Highways, streets, and public works | - | 33,592 | - | 3,205,711 |
| Committed: | | | | |
| Highways, streets, and public works | - | - | - | 56 |
| Recreation and culture | - | - | - | 217,100 |
| Economic development | 1,494,707 | - | - | 1,933,896 |
| Unassigned (deficit) | - | - | - | - |
| Total fund balances | 1,504,707 | 33,592 | 1,155,566 | 6,611,667 |
| Total liabilities and fund balances | \$ 1,531,985 | \$ 34,951 | \$ 1,155,566 | \$ 6,973,941 |

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CITY OF ESCANABA, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Special Governmental Funds
 For the Year Ended June 30, 2017

| | Special Revenue Funds | | | |
|---------------------------------------------|-----------------------|---------------------|---------------------|------------------|
| | Major Streets | Local Streets | Parking Maintenance | Brownfield |
| Revenues | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ 52,419 |
| Intergovernmental | 907,030 | 322,361 | - | - |
| Charges for services | - | - | 21,604 | - |
| Fines and fees | - | - | - | - |
| Investment earnings (loss) | (13,076) | (13,725) | 5 | 63 |
| Other revenues | - | 208 | - | - |
| Total revenues | 893,954 | 308,844 | 21,609 | 52,482 |
| Expenditures | | | | |
| Current: | | | | |
| Public safety | - | - | - | - |
| Highway, streets & public works | 892,001 | 1,367,726 | 35,811 | - |
| Sanitation | - | - | - | - |
| Recreation and culture | - | - | - | - |
| Community and economic development | - | - | - | 41,752 |
| Total expenditures | 892,001 | 1,367,726 | 35,811 | 41,752 |
| Revenues over (under) expenditures | 1,953 | (1,058,882) | (14,202) | 10,730 |
| Other financing sources (uses) | | | | |
| Transfers in | 66,731 | 918,928 | 13,932 | - |
| Transfers out | - | - | - | - |
| Total other financing sources (uses) | 66,731 | 918,928 | 13,932 | - |
| Net change in fund balances | 68,684 | (139,954) | (270) | 10,730 |
| Fund balances, beginning of year | 2,062,564 | 1,180,825 | 326 | 15,407 |
| Fund balances, end of year | \$ 2,131,248 | \$ 1,040,871 | \$ 56 | \$ 26,137 |

Special Revenue Funds

| Drug Law Enforcement | Delta County Central Dispatch Authority | Library | Housing Rehabilitation | Grants | Farmers Home Grant | M.S.C. Revolving Loan |
|----------------------|-----------------------------------------|-------------------|------------------------|------------------|--------------------|-----------------------|
| \$ - | \$ - | \$ 1,042 | \$ - | \$ - | \$ - | \$ - |
| - | - | 17,552 | - | 1,089,892 | - | - |
| - | 811,799 | - | - | - | - | - |
| 16,287 | - | 250,961 | - | - | - | - |
| (39) | 33 | (1,126) | (1,507) | (1,364) | (336) | 595 |
| - | - | 12,491 | 9,294 | - | - | - |
| <u>16,248</u> | <u>811,832</u> | <u>280,920</u> | <u>7,787</u> | <u>1,088,528</u> | <u>(336)</u> | <u>595</u> |
| 15,771 | 811,832 | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | 571,690 | - | - | - | - |
| - | - | - | 487 | 1,131,893 | 75 | - |
| <u>15,771</u> | <u>811,832</u> | <u>571,690</u> | <u>487</u> | <u>1,131,893</u> | <u>75</u> | <u>-</u> |
| 477 | - | (290,770) | 7,300 | (43,365) | (411) | 595 |
| - | - | 400,000 | - | 41,808 | - | - |
| - | - | - | - | - | (750) | - |
| - | - | 400,000 | - | 41,808 | (750) | - |
| 477 | - | 109,230 | 7,300 | (1,557) | (1,161) | 595 |
| 18,916 | 136 | 108,073 | 246,657 | 45,162 | 48,078 | 137,584 |
| <u>\$ 19,393</u> | <u>\$ 136</u> | <u>\$ 217,303</u> | <u>\$ 253,957</u> | <u>\$ 43,605</u> | <u>\$ 46,917</u> | <u>\$ 138,179</u> |

CITY OF ESCANABA, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Special Governmental Funds For the Year Ended June 30, 2017

| | Special Revenue Funds | | Permanent Fund | Total |
|---------------------------------------------|-----------------------|-------------------|---------------------|---------------------|
| | Land Development | Sanitary Landfill | Gas Retirement | |
| Revenues | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ 53,461 |
| Intergovernmental | - | - | - | 2,336,835 |
| Charges for services | - | 220,430 | - | 1,053,833 |
| Fines and fees | - | - | - | 267,248 |
| Investment earnings (loss) | (1,508) | (299) | (8,614) | (40,898) |
| Other revenues | 36,416 | - | - | 58,409 |
| Total revenues | 34,908 | 220,131 | (8,614) | 3,728,888 |
| Expenditures | | | | |
| Current: | | | | |
| Public safety | - | - | - | 827,603 |
| Highway, streets & public works | 21,682 | - | - | 2,317,220 |
| Sanitation | - | 2,166 | - | 2,166 |
| Recreation and culture | - | - | - | 571,690 |
| Community and economic development | - | - | - | 1,174,207 |
| Total expenditures | 21,682 | 2,166 | - | 4,892,886 |
| Revenues over (under) expenditures | 13,226 | 217,965 | (8,614) | (1,163,998) |
| Other financing sources (uses) | | | | |
| Transfers in | - | - | - | 1,441,399 |
| Transfers out | (95,878) | (220,500) | (17,000) | (334,128) |
| Total other financing sources (uses) | (95,878) | (220,500) | (17,000) | 1,107,271 |
| Net change in fund balances | (82,652) | (2,535) | (25,614) | (56,727) |
| Fund balances, beginning of year | 1,587,359 | 36,127 | 1,181,180 | 6,668,394 |
| Fund balances, end of year | \$ 1,504,707 | \$ 33,592 | \$ 1,155,566 | \$ 6,611,667 |

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CITY OF ESCANABA, MICHIGAN

Combining Statement of Net Position
Internal Service Funds
June 30, 2017

| | Governmental Activities | | | |
|---------------------------------------|-----------------------------|---------------------|-------------------|-------------------|
| | Escanaba Building Authority | Motor Vehicle | Office Equipment | Risk Retention |
| Assets | | | | |
| Current assets: | | | | |
| Cash and investments | \$ 314,444 | \$ 514,623 | \$ 328,417 | \$ - |
| Receivables | - | 184 | 19,719 | - |
| Accrued interest receivable | 7,863 | 12,045 | 7,762 | 584 |
| Other assets | - | 1,922 | - | 746,200 |
| Total current assets | <u>322,307</u> | <u>528,774</u> | <u>355,898</u> | <u>746,784</u> |
| Noncurrent assets: | | | | |
| Capital assets not being depreciated | 625,731 | - | - | - |
| Capital assets being depreciated, net | 3,318,159 | 939,239 | 49,184 | - |
| Total noncurrent assets | <u>3,943,890</u> | <u>939,239</u> | <u>49,184</u> | <u>-</u> |
| Total assets | <u>4,266,197</u> | <u>1,468,013</u> | <u>405,082</u> | <u>746,784</u> |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 3,727 | 22,183 | 35 | 5,788 |
| Due to other funds | - | - | - | 113,117 |
| Compensated absences-current | - | 8,020 | - | - |
| Unearned revenue | - | 1,950 | - | - |
| Total current liabilities | <u>3,727</u> | <u>32,153</u> | <u>35</u> | <u>118,905</u> |
| Noncurrent liabilities: | | | | |
| Advances from other funds | 875,000 | 175,043 | - | - |
| Compensated absences-noncurrent | - | 21,138 | - | - |
| Total noncurrent liabilities | <u>875,000</u> | <u>196,181</u> | <u>-</u> | <u>-</u> |
| Total liabilities | <u>878,727</u> | <u>228,334</u> | <u>35</u> | <u>118,905</u> |
| Net position | | | | |
| Investment in capital assets | 3,943,890 | 939,239 | 49,184 | - |
| Unrestricted (deficit) | (556,420) | 300,440 | 355,863 | 627,879 |
| Total net position | <u>\$ 3,387,470</u> | <u>\$ 1,239,679</u> | <u>\$ 405,047</u> | <u>\$ 627,879</u> |



| Governmental Activities | | |
|-------------------------|---------------------------|---------------------|
| Workers Compensation | Unemployment Compensation | Total |
| \$ 355,476 | \$ 298,910 | \$ 1,811,870 |
| 151 | - | 20,054 |
| 9,229 | 7,585 | 45,068 |
| 49,525 | - | 797,647 |
| <u>414,381</u> | <u>306,495</u> | <u>2,674,639</u> |
| - | - | 625,731 |
| - | - | <u>4,306,582</u> |
| - | - | <u>4,932,313</u> |
| <u>414,381</u> | <u>306,495</u> | <u>7,606,952</u> |
| 195,277 | 5,068 | 232,078 |
| - | - | 113,117 |
| - | - | 8,020 |
| - | - | 1,950 |
| <u>195,277</u> | <u>5,068</u> | <u>355,165</u> |
| - | - | 1,050,043 |
| - | - | <u>21,138</u> |
| - | - | <u>1,071,181</u> |
| <u>195,277</u> | <u>5,068</u> | <u>1,426,346</u> |
| - | - | 4,932,313 |
| <u>219,104</u> | <u>301,427</u> | <u>1,248,293</u> |
| <u>\$ 219,104</u> | <u>\$ 301,427</u> | <u>\$ 6,180,606</u> |

CITY OF ESCANABA, MICHIGAN

Combining Statement of Revenues, Expenses and Changes in Fund Net Position

Internal Service Funds

For the Year Ended June 30, 2017

| | Governmental Activities | | | |
|-----------------------------------------------|-----------------------------|------------------|------------------|------------------|
| | Escanaba Building Authority | Motor Vehicle | Office Equipment | Risk Retention |
| Operating revenues | | | | |
| Charges for services | \$ 133,248 | \$ 937,344 | \$ 14,616 | \$ - |
| Provision for self insurance | - | - | - | 2,138,130 |
| Other revenue | - | - | 78,247 | - |
| Total operating revenues | 133,248 | 937,344 | 92,863 | 2,138,130 |
| Operating expenses | | | | |
| Personnel services | 6,118 | 205,788 | | - |
| Overhead | 49,963 | 104,694 | - | - |
| Fuel | - | 107,112 | - | - |
| Contracted services | 39,071 | 28,794 | 11,691 | 325 |
| Insurance | 6,650 | 72,069 | - | - |
| Dues & training | - | 1,333 | - | - |
| Sales & promotion | - | 1,522 | - | - |
| Repairs & maintenance | 30,386 | 300,812 | 10,294 | - |
| Claims | - | - | - | 1,884,649 |
| Equipment rental | - | 2,218 | - | - |
| Depreciation | 146,496 | 184,687 | 16,463 | - |
| Supplies | 6,245 | 10,246 | 910 | - |
| Other | 1,730 | 3,413 | - | 196 |
| Total operating expenses | 286,659 | 1,022,688 | 39,358 | 1,885,170 |
| Operating income (loss) | (153,411) | (85,344) | 53,505 | 252,960 |
| Nonoperating revenues | | | | |
| Investment earnings (loss) | (2,651) | (2,594) | (1,334) | 20,662 |
| Interest expense | (23,958) | (5,690) | - | - |
| Total nonoperating revenues (expenses) | (26,609) | (8,284) | (1,334) | 20,662 |
| Income (loss) before transfers | (180,020) | (93,628) | 52,171 | 273,622 |
| Transfers in | 149,000 | - | - | - |
| Transfers out | - | - | (39,200) | - |
| Change in net position | (31,020) | (93,628) | 12,971 | 273,622 |
| Net position, beginning of year | 3,418,490 | 1,333,307 | 392,076 | 354,257 |
| Net position, end of year | \$ 3,387,470 | \$ 1,239,679 | \$ 405,047 | \$ 627,879 |

| Governmental Activities | | |
|-------------------------|---------------------------|---------------------|
| Workers Compensation | Unemployment Compensation | Total |
| \$ - | \$ - | \$ 1,085,208 |
| 120,568 | - | 2,258,698 |
| - | - | 78,247 |
| <u>120,568</u> | <u>-</u> | <u>3,422,153</u> |
| 9,766 | - | 221,672 |
| - | - | 154,657 |
| - | - | 107,112 |
| 16,547 | 175 | 96,603 |
| 50,158 | - | 128,877 |
| 205 | - | 1,538 |
| - | - | 1,522 |
| - | - | 341,492 |
| - | - | 1,884,649 |
| - | - | 2,218 |
| - | - | 347,646 |
| 18,653 | - | 36,054 |
| - | 722 | 6,061 |
| <u>95,329</u> | <u>897</u> | <u>3,330,101</u> |
| <u>25,239</u> | <u>(897)</u> | <u>92,052</u> |
| (2,463) | (2,259) | 9,361 |
| - | - | (29,648) |
| <u>(2,463)</u> | <u>(2,259)</u> | <u>(20,287)</u> |
| 22,776 | (3,156) | 71,765 |
| - | - | 149,000 |
| - | - | (39,200) |
| <u>22,776</u> | <u>(3,156)</u> | <u>181,565</u> |
| <u>196,328</u> | <u>304,583</u> | <u>5,999,041</u> |
| <u>\$ 219,104</u> | <u>\$ 301,427</u> | <u>\$ 6,180,606</u> |

CITY OF ESCANABA, MICHIGAN

Combining Statement of Cash Flows
 Internal Service Funds
 For the Year Ended June 30, 2017

| | Governmental Activities | | | |
|----------------------------------------------------------------|-----------------------------|---------------|------------------|----------------|
| | Escanaba Building Authority | Motor Vehicle | Office Equipment | Risk Retention |
| Cash flows from operating activities | | | | |
| Cash received from other funds or services | \$ 133,248 | \$ 937,365 | \$ 92,754 | \$ 2,138,130 |
| Cash payments to employees for services | (6,118) | (24,719) | - | - |
| Cash payments to suppliers for goods and services | (135,198) | (802,473) | (22,930) | (2,160,353) |
| Net cash provided by (used in) operating activities | (8,068) | 110,173 | 69,824 | (22,223) |
| Cash flows from noncapital financing activities | | | | |
| Transfers in | 149,000 | - | - | - |
| Transfers out | - | - | (39,200) | - |
| Net cash provided by (used in) noncapital financing activities | 149,000 | - | (39,200) | - |
| Cash flows from capital and related financing activities | | | | |
| Purchase of capital assets | - | (70,965) | - | - |
| Principal payments | (125,000) | (14,620) | - | - |
| Interest payments | (23,958) | (5,690) | - | - |
| Net cash used in capital and related financing activities | (148,958) | (91,275) | - | - |
| Cash flows from investing activities | | | | |
| Investment earnings (loss) | (5,166) | (7,070) | (4,625) | 21,042 |
| Net increase (decrease) in cash and cash equivalents | (13,192) | 11,828 | 25,999 | (1,181) |
| Cash and investments, beginning of year | 327,636 | 502,795 | 302,418 | 1,181 |
| Cash and investments, end of year | \$ 314,444 | \$ 514,623 | \$ 328,417 | \$ - |



| Governmental Activities | | |
|-------------------------|---------------------------|---------------------|
| Workers Compensation | Unemployment Compensation | Total |
| \$ 120,417 | \$ - | \$ 3,421,914 |
| - | - | (30,837) |
| <u>(142,244)</u> | <u>(8,067)</u> | <u>(3,271,265)</u> |
| <u>(21,827)</u> | <u>(8,067)</u> | <u>119,812</u> |
| - | - | 149,000 |
| <u>-</u> | <u>-</u> | <u>(39,200)</u> |
| - | - | 109,800 |
| <u>-</u> | <u>-</u> | <u>(70,965)</u> |
| <u>-</u> | <u>-</u> | <u>(139,620)</u> |
| <u>-</u> | <u>-</u> | <u>(29,648)</u> |
| <u>-</u> | <u>-</u> | <u>(240,233)</u> |
| <u>(5,567)</u> | <u>(4,714)</u> | <u>(6,100)</u> |
| (27,394) | (12,781) | (16,721) |
| <u>382,870</u> | <u>311,691</u> | <u>1,828,591</u> |
| <u>\$ 355,476</u> | <u>\$ 298,910</u> | <u>\$ 1,811,870</u> |

Continued...

CITY OF ESCANABA, MICHIGAN

Combining Statement of Cash Flows
 Internal Service Funds
 For the Year Ended June 30, 2017

| | Governmental Activities | | | |
|---------------------------------------------------------------------------------------------------------|-----------------------------|-------------------|------------------|--------------------|
| | Escanaba Building Authority | Motor Vehicle | Office Equipment | Risk Retention |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities | | | | |
| Operating income (loss) | \$ (153,411) | \$ (85,344) | \$ 53,505 | \$ 252,960 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities | | | | |
| Depreciation | 146,496 | 184,687 | 16,463 | - |
| Changes in operating assets and liabilities that provided (used) cash: | | | | |
| Receivables, net | - | 21 | (109) | - |
| Other assets | - | 210 | - | (323,075) |
| Accounts payable and accrued payroll | (1,153) | 6,524 | (35) | (459) |
| Compensated absences | - | 4,075 | - | - |
| Due to other funds | - | - | - | 48,351 |
| Net cash provided by (used in) operating activities | <u>\$ (8,068)</u> | <u>\$ 110,173</u> | <u>\$ 69,824</u> | <u>\$ (22,223)</u> |



| Governmental Activities | | |
|-------------------------|---------------------------|-------------------|
| Workers Compensation | Unemployment Compensation | Total |
| \$ 25,239 | \$ (897) | \$ 92,052 |
| - | - | 347,646 |
| (151) | - | (239) |
| (49,525) | - | (372,390) |
| 2,610 | (7,170) | 317 |
| - | - | 4,075 |
| - | - | 48,351 |
| <u>\$ (21,827)</u> | <u>\$ (8,067)</u> | <u>\$ 119,812</u> |

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Independent Auditors' Report on the Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance

December 22, 2017

City Council
City of Escanaba
Escanaba, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Escanaba, Michigan (the "City") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 22, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



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CITY OF ESCANABA, MICHIGAN

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

| Federal Agency / Program Title | CFDA Number | Passed Through | Pass-through / Grantor Number | Total Subawards | Federal Expenditures |
|---------------------------------------------------------------|-------------|----------------|-------------------------------|-----------------|----------------------|
| U.S. Department of Housing and Urban Development | | | | | |
| Community Development Block Grant - Façade | 14.228 | MEDC | MSC 215022-CDF | \$ - | \$ 560,403 |
| Community Development Block Grant - Marketplace | 14.228 | MEDC | MSC 215023-FMK | - | 487,300 |
| Total U.S. Department of Housing and Urban Development | | | | <u>-</u> | <u>1,047,703</u> |
| U.S. Department of Justice | | | | | |
| Upper Peninsula Safe Trails Task Force | 16.U01 | FBI | 198-DE-C100655 | - | 7,092 |
| Edward Byrne Memorial Justice Assistance | 16.738 | MSP | JAG-70768-UPSET-2017 | - | 19,978 |
| Total U.S. Department of Justice | | | | <u>-</u> | <u>27,070</u> |
| U.S. Department of Transportation | | | | | |
| Delta County Underage Drinking Enforcement | 20.616 | MSP | AL-17-24 | 259 | 2,556 |
| Delta County Traffic Enforcement | 20.616 | MSP | PT-16-41 | 3,370 | 12,580 |
| Delta County Traffic Safety Enforcement | 20.616 | MSP | PT-17-17 | 3,019 | 7,336 |
| Total U.S. Department of Transportation | | | | <u>6,648</u> | <u>22,472</u> |
| Total Expenditures of Federal Awards | | | | <u>\$ 6,648</u> | <u>\$ 1,097,245</u> |

See notes to schedule of expenditures of federal awards.

CITY OF ESCANABA, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Escanaba, Michigan (the "City") under programs of the federal government for the year ended June 30, 2017. 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 the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City. The City's reporting entity is defined in Note 1 of the financial statements. The City's financial statements include the operations of the Escanaba Housing Commission, a discretely presented component unit, which received federal awards that are not included in the Schedule for the year ended June 30, 2017, as this entity was separately audited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the City's financial statements. 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. Pass-through entity identifying numbers are presented where available.

For purposes of charging indirect costs to federal awards, the City has not elected to use the 10 percent *de minimis* cost rate as permitted by §200.414 of the Uniform Guidance.

3. MISSING CFDA NUMBER

One federal agency did not supply a CFDA number to the City. This is identified on the Schedule with the U.S. Department's two digit code followed by 'U01'.

4. FEDERAL REVENUE RECONCILIATION

The following is a reconciliation of the expenditures reported on the Schedule to the Intergovernmental revenue as reported in the financial statements:

| | Amount |
|--------------------------------------------------------------------------------------------------------------|---------------------|
| Intergovernmental revenues reported in the statement of revenues, expenditures and changes in fund balances: | |
| Governmental funds | \$ 4,319,198 |
| Proprietary funds | 60,988 |
| Less non-federal sources | <u>(3,282,941)</u> |
| Total federal expenditures as reported on the schedule of expenditures of federal awards | <u>\$ 1,097,245</u> |

5. OTHER FEDERAL REVENUE

The City is an indirect beneficiary of federal funds that are expended directly by the Michigan Department of Transportation. These expenditures (which totaled \$277,639 for the year ended June 30, 2017) are included in the single audit for the State of Michigan.

CITY OF ESCANABA, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

6. PASS-THROUGH AGENCIES

The City receives certain federal grants as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

| Pass-through Agency Abbreviation | Pass-through Agency Name |
|----------------------------------|-------------------------------------------|
| FBI | Federal Bureau of Investigation |
| MEDC | Michigan Economic Development Corporation |
| MSP | Michigan State Police |



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**Independent Auditors' 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***

December 22, 2017

City Council
City of Escanaba
Escanaba, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Escanaba, Michigan* (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 22, 2017. Our report includes a reference to other auditors who audited the financial statements of the Escanaba Housing Commission discretely presented component unit, as described in our report on the City'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 the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as items 2017-001 and -002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Escanaba’s Response to Findings

The City’s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 City’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Independent Auditors' Report on Compliance for Each Major Federal Program
and Internal Control over Compliance Required by the Uniform Guidance

December 22, 2017

City Council
City of Escanaba
Escanaba, Michigan

Report on Compliance for Each Major Federal Program

We have audited the compliance of the *City of Escanaba, Michigan* (the "City") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2017. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operations of the Escanaba Housing Commission (a discretely presented component unit), which received \$520,799 in federal awards during its fiscal year which is not included in the City's schedule of expenditures of federal awards for the year ended June 30, 2017. Our audit, described below, did not include the operations of the Escanaba Housing Commission, because it arranged for a separate audit.

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 program.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program 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 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 the major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on the Community Development Block Grant

As described in item 2017-003 in the accompanying schedule of findings and questioned costs, the City did not comply with the reporting requirement applicable to its Community Development Block Grant program. Compliance with this requirement is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Qualified Opinion on the Community Development Block Grant

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its program for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed another instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-004. Our opinion on the major federal program is not modified with respect to this matter.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City'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 preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-003 that we consider to be a material weakness.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

Purpose of this Report

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

Rehmann Loborn LLC

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CITY OF ESCANABA, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? yes x none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? yes x none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

X yes no

Identification of major programs and type of auditors' report issued on compliance for each major program:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> | <u>Type of Report</u> |
|--------------------|-------------------------------------------|-----------------------|
| 14.228 | Community Development Block Grant | Qualified |

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

yes X no

CITY OF ESCANABA, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS

2017-001 - Material Audit Adjustments (repeat)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. During our audit, we identified and proposed material adjustments (which were approved and posted by management) to adjust the City's accounting records.

Cause. Certain balance sheet accounts were not properly reconciled, accounts receivable balances were noncollectable and management had not performed recent reviews for collectability.

Effect. As a result of this condition, the City's financial information was initially misstated by amounts that were deemed to be quantitatively material to nearly every opinion unit, and numerous account balances were not adjusted timely throughout the year. Correcting entries were subsequently posted by management to the City's records and the appropriate balances are presented in the audited financial statements.

Recommendation. Management has already taken appropriate corrective action by posting correcting journal entries. However, we recommend that the City ensure that accounts are reconciled and reviewed.

View of Responsible Officials. The City reviews all accounts on a monthly basis for accuracy. Every attempt is made to ensure all transactions are reported properly. The City will continue to review all accounts to the best of their ability to ensure that all accounts are reconciled at year end. In addition, the City will review outstanding receivables for collectability and record an adequate allowance for receivables that are doubtful of being collected. The City will also continue to actively communicate with its external auditors and other authorities related to accounting standards to ensure that the City's financial statements are prepared in accordance with the appropriate accounting standards.

CITY OF ESCANABA, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS

2017-002 - Preparation of GAAP-Basis Financial Statements and preparation of Schedule of Expenditures of Federal Awards (repeat)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Under the Uniform Guidance management is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP) and a schedule of expenditures of Federal awards (SEFA) for the period covered by the auditee's financial statements. The preparation of these reports requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting in the form of financial statements and the SEFA, including the related footnotes and other disclosures (i.e., external financial reporting).

Condition. As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the SEFA, financial statements and footnotes as part of its external financial reporting process. Accordingly, the City has placed reliance on its external auditors, who cannot by definition be considered a part of the City's' internal controls.

Cause. This condition was caused by the City's decision that it is more cost effective to have its external auditors prepare the annual financial statements than to incur the time and expense of obtaining the necessary training and expertise required by the City to perform this task internally.

Effect. As a result of this condition, the City lacks internal controls over the preparation of financial statements and the schedule of expenditures of Federal awards in accordance with GAAP.

Recommendation. The City's decision to rely, in part, on its auditors, for the preparation of external financial statements is allowable provided that it is disclosed as part of the report on internal control and compliance in accordance with *Government Auditing Standards*. The City should establish internal controls over the preparation of the SEFA to be in compliance with Uniform Guidance.

View of Responsible Officials. The City has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City to outsource this task to its external auditors and to carefully review the proposed journal entries, draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation. The City will work to establish internal controls over the preparation of the City's SEFA.

CITY OF ESCANABA, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2017-003 - Reporting

Finding Type. Material Noncompliance/Material Weakness in Internal Control over Compliance (Reporting).

Programs. Community Development Block Grant, Marketplace Program; U.S. Department of Housing and Urban Development CFDA Number 14.228; Award No: MSC 215023-FMK and MSC 215022-CDF.

Criteria. Recipients of federal awards are required to submit timely and accurate reports to the awarding agency in accordance with federal compliance requirements and/or pass-through agency agreements.

Condition. The City failed to file the required progress reports during the 2017 fiscal year. As required by the grant agreement between the Michigan Economic Development Corporation and the City of Escanaba, progress reports are due by October 15, 2016, and each subsequent six month period until the project is completed.

Cause. Miscommunication within City management led to the failure of report submissions. Management charged with oversight of the program were unaware of compliance requirements necessary to administer the program.

Effect. As a result of this condition, the funding is being withheld from the City until the appropriate corrections have been made.

Questioned Costs. None

Recommendation. It is our recommendation that the City select appropriate personnel to administer management oversight for grant programs and ensure that such personnel have the necessary skills, knowledge and experience to adequately ensure compliance with the grant requirements.

View of Responsible Officials. The City believes that it has taken adequate corrective action by hiring a third party administrator with twenty plus years experience with this particular grant.

CITY OF ESCANABA, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2017-004 - Written Policies Required by the Uniform Grant Guidance

Finding Type. Immaterial Noncompliance.

Programs. Community Development Block Grant, Marketplace Program; U.S. Department of Housing and Urban Development CFDA Number 14.228; Award No: MSC 215023-FMK and MSC 215022-CDF.

Criteria. The Uniform Grant Guidance requires a non-federal entity that has expended federal awards for a grant awarded on or after December 26, 2014 to have written policies pertaining but not limited to: 1) Payments (draws of federal funds and how to minimize the time lapsing between the receipt of federal funds and the disbursement to contractors/employees/subrecipients) (§200.302(6)); and 2) Allowability of costs charged to federal programs (§200.302(7)).

Condition. Although the City has processes in place to address these areas, there are no formal written policies covering payments and allowability of costs as required by the Uniform Guidance.

Cause. This condition appears to be the result of a time lag in identifying the requirement and developing a plan for compliance.

Effect. As a result of this condition, the City did not fully comply with the Uniform Grant Guidance applicable to the above noted grants.

Questioned Costs. None

Recommendation. It is our recommendation that the City establish written policies to address payments and allowability of costs charged to federal programs.

View of Responsible Officials. Written policies will be developed to cover the following: (1) Payments (draws of federal funds and how to minimize the time elapsing between the receipt of federal funds and disbursement to contractors /employees/subcontractors). (2) Allowability of costs charged to federal programs.



CITY OF ESCANABA, MICHIGAN

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2017

2016-001 - Material Audit Adjustments

Certain balance sheet accounts were not properly reconciled, accounts receivable balances were noncollectable and management had not performed recent reviews for collectability and prior period adjustments related to accounting errors in previous periods were required. This matter is repeated as finding 2017-001.

2016-002 - Preparation of GAAP-Basis Financial Statements

As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the City has placed reliance on its external auditors, who cannot by definition be considered a part of the City's internal controls. This matter is repeated as finding 2017-002.

2016-003 - EDA Revolving Loan Fund Award Termination

The City administered grant funds from the Economic Development Administration (EDA) used to provide economic assistance through a revolving loan fund (RLF). 13 CFR section 307a requires that the RLF must have at least 75% of its capital base loaned or committed at any given time. As of June 30, 2016, all outstanding loans were in default and, consequently, written off with the approval of the grantor. The remaining RLF funds were not being used to fund loans consistent with the grant requirements and the City's Plan. As the City no longer receives this federal award, this finding is considered resolved.



December 22, 2017

City of Escanaba
Single Audit - Corrective Action Plan
For the Year Ended June 30, 2017

Certain matters were brought to our attention as a result of the audit process. These are described at length in the Schedule of Findings and Questioned Costs. We evaluated each of these matters as described below, and have described our planned action as a result.

FINDING 2017-001 - Material Audit Adjustments (repeat)

FINDING 2017-002 - Preparation of GAAP-Basis Financial Statements and preparation of Schedule of Expenditures of Federal Awards (repeat)

Planned Corrective Action. We have evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP and the preparation of the SEFA, and determined that it is in our best interest to outsource this task to our external auditors. We have carefully reviewed the proposed journal entries (including those for the government-wide presentation), draft financial statements and footnotes prior to approving them and accepting responsibility for their content and presentation.

Responsible Party. City Controller.

Date of Planned Corrective Action. The audit-identified adjustments have already been posted to the City's records. No further corrective action has been recommended by the auditors.

Management Assessment. We concur with the audit assessment regarding this matter.

FINDING 2017-003 - Reporting

Planned Corrective Action. The City believes that it has taken adequate corrective action by hiring a third-party administrator with twenty plus years' experience with this particular grant.

Responsible Party. Grant Administrator.

Date of Planned Corrective Action. May 2017.

Management Assessment. We concur with the audit assessment regarding this matter.

Mission Statement:



Enhancing the enjoyment and livability of our community by providing quality municipal services to our citizens.
The City of Escanaba is an equal opportunity employer and provider.

FINDING 2017-004 - Written Policies Required by the Uniform Grant Guidance

Planned Corrective Action. Written policies will be developed to cover the following:

- (1) Payments (draws of federal funds and how to minimize the time elapsing between the receipt of federal funds and disbursement to contractors / employees/subcontractors).
- (2) Allowability of costs charged to federal programs.

Responsible Party. City Controller and Grant Administrator.

Date of Planned Corrective Action. January 2018.

Management Assessment. We concur with the audit assessment regarding this matter.

CONTACT INFORMATION:

Any questions or comments regarding the above mentioned findings and Corrective Action Plan can be directed to the Controller of the City of Escanaba:

Melissa Becotte
City of Escanaba controller
Phone: 906.789.7300
mbecotte@escanaba.org