

# **City of Lincoln Park, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2013**

# City of Lincoln Park, Michigan

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## Independent Auditor's Report

To the Mayor and City Council  
City of Lincoln Park, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lincoln Park, Michigan (the "City") as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the City of Lincoln Park, Michigan's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lincoln Park, Michigan as of June 30, 2013 and the respective changes in its financial position and, where applicable, cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Mayor and City Council  
City of Lincoln Park, Michigan

**Emphasis of Matter**

As discussed in Note 18 to the basic financial statements, the City recorded a prior period adjustment to recognize grant revenue and accounts receivable in the Downtown Development Authority that was earned in the prior year. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the budgetary comparison schedules, as identified 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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

The other supplemental 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013 on our consideration of the City of Lincoln Park, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lincoln Park, Michigan's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

# **City of Lincoln Park, Michigan**

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## **Management's Discussion and Analysis**

Our discussion and analysis of the City of Lincoln Park, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2013. Please review it conjunction with the City's financial statements.

### **Reviewing the Annual Report**

The annual report covers multiple financial statements. The statement of net position and the statement of activities supply data about the activities of the City as a whole and provide information regarding the City's finances. For governmental activities, these statements provide long-term and short-term information about the City's overall status. Financial reporting is similar to that found in the private sector with its basis in full accrual accounting. Fund financial statements show City operations in more detail than government-wide statements, as they provide information about the City's most important funds.

### **Financial Highlights**

Due to this year's operations, the City's net position is as follows: net position in the governmental activities was \$24.5 million and net position of business-type activities was \$29.4 million.

- The current year's expense total was \$33.5 million as compared to the \$26.3 million generated in fees and charges, grants, general revenue, and taxes for governmental programs. In the previous year, expenses were \$34.7 million as compared to the \$27.5 million generated in tax and other revenue for governmental activities.
- For business-type activities, City revenue was \$9.6 million. Expenses were \$9.9 million. In the previous year, revenue was \$9.6 million and expenditures were \$10.5 million.
- The annual cost of all City programs was \$43.4 million. The previous year's cost was \$45.2 million.

### **The City as a Whole Analysis**

The statement of net position and the statement of activities provide facts about the City as a whole. The statements can help determine if the City's financial condition has improved or deteriorated as a result of the year's activities. All assets and liabilities are included in the statements using the accrual basis of accounting. The accrual method is comparable to the accounting used by most private sector corporations. All current year revenue and expenses are included; it does not matter when cash is paid or received.

These statements give an account of the City's net position and any changes in those assets. However, to truly judge the condition of the City, some nonfinancial factors such as diversification of the taxpayer base or the condition of the City's infrastructure must be considered in addition to the financial information provided in this report.

# City of Lincoln Park, Michigan

## Management's Discussion and Analysis (Continued)

The statement of net position and the statement of activities divide the City into two types of activities:

1. **Governmental Activities** - The City's basic services are accounted for in this section, including the police, fire, public works, recreational and cultural departments, community and economic development, and general administration. Property taxes, state revenue sharing, franchise fees, and state and federal grants finance the majority of these activities.
2. **Business-type Activities** - These activities are reported in the fund financial statements and generally report services for which the City charges customers a fee. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization, such as water utilities. The City provides water to residents, which the City purchases from the Detroit water system. The City provides sewage treatment through a County-operated sewage treatment plant.

### Detailing the Most Important Funds

The fund financial statements provide detailed information about the most important funds of the City. Certain funds are mandated by state law and by bond agreements. Other funds are established to manage money, meet legal requirements, or for certain taxes or grant funding.

- **Governmental Funds** - Basic services are reported in governmental funds. Governmental fund financial statements detail how money flows into and out of the funds and report the balances left at year end that are on hand for disbursement. Governmental funds are reported using an accounting method called modified accrual accounting. This method measures cash and financial assets that can easily be converted to cash. The governmental fund accountability focuses on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the next term.

Budgetary comparison statements are included in the basic financial statements for the General Fund and Major Special Revenue Fund (the Community Development Block Grant Fund). These statements and schedules demonstrate compliance within the City-adopted and final revised budget.

- **Proprietary Funds** - Proprietary funds are those which the City charges for services it provides, both to City units and outside customers. Proprietary funds are reported in the statement of net position and the statement of revenue, expenses, and changes in net position. The City's enterprise funds, a component of proprietary funds, are the same as the business-type activities it reports in the government-wide statements, but they give more detailed information such as cash flow.

# City of Lincoln Park, Michigan

## Management's Discussion and Analysis (Continued)

### City Serving as Trustee

Due to trust arrangements, the City is often accountable for assets that can only be used for trust beneficiaries. All of these trustee proceedings are detailed in separate statements of fiduciary net position and changes in fiduciary net position. Because the City cannot use these assets to finance its operations, these activities are not included in other financial statements. However, the City must be certain the assets detailed in these funds are used for their intended purposes.

### Notes to Financial Statements

The notes provide additional information that is necessary for a full understanding of the data provided in the accompanying financial statements.

### Other Information

In addition to the financial statements and notes, this report contains supplemental information and details of the accompanying financial statements.

**Table I - Net Position** (in thousands)

|                                  | Governmental Activities |                    | Business-type Activities |                    | Total Primary Government |                    |
|----------------------------------|-------------------------|--------------------|--------------------------|--------------------|--------------------------|--------------------|
|                                  | 2013                    | 2012               | 2013                     | 2012               | 2013                     | 2012               |
| <b>Assets</b>                    |                         |                    |                          |                    |                          |                    |
| Current and other assets         | \$ 8,936.1              | \$ 15,271.0        | \$ 9,704.2               | \$ 10,534.7        | \$ 18,640.3              | \$ 25,805.7        |
| Noncurrent assets                | 35,353.0                | 37,238.7           | 36,282.4                 | 35,821.9           | 71,635.4                 | 73,060.6           |
| Total assets                     | 44,289.1                | 52,509.7           | 45,986.6                 | 46,356.6           | 90,275.7                 | 98,866.3           |
| <b>Liabilities</b>               |                         |                    |                          |                    |                          |                    |
| Current liabilities              | 4,910.9                 | 9,163.0            | 1,129.9                  | 2,841.6            | 6,040.8                  | 12,004.6           |
| Long-term liabilities            | 14,900.1                | 11,683.2           | 15,439.0                 | 13,774.2           | 30,339.1                 | 25,457.4           |
| Total liabilities                | 19,811.0                | 20,846.2           | 16,568.9                 | 16,615.8           | 36,379.9                 | 37,462.0           |
| <b>Net Position</b>              |                         |                    |                          |                    |                          |                    |
| Net investment in capital assets | 32,745.9                | 34,677.4           | 22,865.7                 | 21,871.8           | 55,611.6                 | 56,549.2           |
| Restricted                       | 3,845.9                 | 3,821.9            | 2,741.6                  | 4,356.3            | 6,587.5                  | 8,178.2            |
| Unrestricted                     | (12,113.6)              | (6,835.8)          | 3,810.4                  | 3,512.7            | (8,303.2)                | (3,323.1)          |
| Total net position               | <b>\$ 24,478.2</b>      | <b>\$ 31,663.5</b> | <b>\$ 29,417.7</b>       | <b>\$ 29,740.8</b> | <b>\$ 53,895.9</b>       | <b>\$ 61,404.3</b> |

### City as a Whole

The City's combined net position from the previous year was \$61.4 million as compared to \$53.9 million this year. Net position and expenses from governmental and business-type activities must be reviewed separately. Table I focuses on the net position and Table 2 focuses on changes in the net position of the City's governmental and business-type activities.

# City of Lincoln Park, Michigan

## Management's Discussion and Analysis (Continued)

The City's net position for governmental activities was \$24.5 million this year as compared to \$31.7 million last year. Unrestricted net position was (\$6.8) million last year as compared to (\$12.1) million this year. Unrestricted net position represents financial resources that can be used to finance everyday operations without restrictions set by legislation, debt covenants, or other legal regulations. The negative unrestricted net position amount reflects that restricted position and net investments in capital assets exceeded total net position in the current year.

The net position of the City's business-type activities was \$29.4 million this year as compared to \$29.7 million last year.

City revenue for the current year was \$35.9 million compared to \$37.1 million in the previous year. The total yearly cost of all programs and services was \$43.4 million as compared to \$45.2 million in the previous year.

**Table 2 - Change in Net Position** (in thousands)

|   | Governmental Activities |                     | Business-type Activities |                   | Total Primary Government |                     |
|---|-------------------------|---------------------|--------------------------|-------------------|--------------------------|---------------------|
|   | 2013                    | 2012                | 2013                     | 2012              | 2013                     | 2012                |
| <b>Revenue</b>                            |                         |                     |                          |                   |                          |                     |
| Program revenue - Restricted:             |                         |                     |                          |                   |                          |                     |
| Charges for services                      | \$ 3,743.6              | \$ 3,363.9          | \$ 7,877.4               | \$ 7,737.0        | \$ 11,621.0              | \$ 11,100.9         |
| Operating and capital grants              | 4,419.5                 | 4,827.0             | 329.0                    | 400.0             | 4,748.5                  | 5,227.0             |
| General revenue:                          |                         |                     |                          |                   |                          |                     |
| Property taxes                            | 12,322.0                | 13,841.6            | 1,359.3                  | 1,408.3           | 13,681.3                 | 15,249.9            |
| Interest and investment income            | 0.7                     | 1.1                 | 3.2                      | 5.3               | 3.9                      | 6.4                 |
| Other general revenue including transfers | 5,825.2                 | 5,515.2             | -                        | -                 | 5,825.2                  | 5,515.2             |
| Total revenue                             | 26,311.0                | 27,548.8            | 9,568.9                  | 9,550.6           | 35,879.9                 | 37,099.4            |
| <b>Expenditures</b>                       |                         |                     |                          |                   |                          |                     |
| Program expenditures:                     |                         |                     |                          |                   |                          |                     |
| General government                        | 6,308.8                 | 9,124.9             | -                        | -                 | 6,308.8                  | 9,124.9             |
| District Court                            | 1,046.6                 | 1,460.4             | -                        | -                 | 1,046.6                  | 1,460.4             |
| Public safety                             | 16,390.8                | 13,737.4            | -                        | -                 | 16,390.8                 | 13,737.4            |
| Public works                              | 7,476.0                 | 7,853.5             | -                        | -                 | 7,476.0                  | 7,853.5             |
| Culture and recreation                    | 1,202.5                 | 758.7               | -                        | -                 | 1,202.5                  | 758.7               |
| Community development                     | 716.6                   | 1,692.7             | -                        | -                 | 716.6                    | 1,692.7             |
| Interest on long-term debt                | 355.1                   | 116.1               | -                        | -                 | 355.1                    | 116.1               |
| Business activities - Water and/or sewer  | -                       | -                   | 9,892.0                  | 10,465.8          | 9,892.0                  | 10,465.8            |
| Total expenditures                        | 33,496.4                | 34,743.7            | 9,892.0                  | 10,465.8          | 43,388.4                 | 45,209.5            |
| <b>Decrease in Net Position</b>           | <b>\$ (7,185.4)</b>     | <b>\$ (7,194.9)</b> | <b>\$ (323.1)</b>        | <b>\$ (915.2)</b> | <b>\$ (7,508.5)</b>      | <b>\$ (8,110.1)</b> |

### Governmental Activities

This year's governmental activities revenue was \$26.3 million as compared to \$27.5 million last year. The year's governmental activities cost was \$33.5 million as compared to \$34.7 million in the previous year. Improvements in the service vehicle fleet were limited to replacement of existing units only.

# City of Lincoln Park, Michigan

## Management's Discussion and Analysis (Continued)

### Business-type Activities

This year's business-type activities revenue (see Table 2) was \$9.6 million in both the current year and prior year. This year's expenses were \$9.9 million as compared to \$10.5 million in the previous year.

### General Fund Budgetary Statements

The City will continue to look for revenue sources and expenditure reductions to reduce the deficit. The taxpayers renewed a three-year public safety millage, but revenue recognized by this millage has been reduced drastically coupled with the Headlee Override failure and Wayne County foreclosure chargebacks. Taxable value has declined significantly since fiscal year 2010. As a result, tax revenue has decreased from \$15.5 million in 2010 to \$11 million for the year ended June 30, 2013. Tax revenue is expected to decline again for the 2014 fiscal year.

Fiscal year 2012/2013 resulted in a deficit situation in the General Fund for the first time. The City used all reserves that were available but was still unable to avoid a deficit. During the fiscal year, several items were addressed to reduce the deficit. The City approached the Downtown Development Authority (DDA) to help the City by taking on additional expenditures that apply to the DDA areas. The DDA agreed to fund the Lincoln Park Historical Museum at a savings of \$17,000 to the General Fund. In addition, the DDA agreed to give the City back its annual tax capture of approximately \$240,000. The capture agreement was for fiscal year 2012/2013 only.

In 2006, the City entered into an agreement with Honeywell to help with energy efficiency and replace old and non-functional equipment in various City buildings. At that time, the City issued debt for approximately \$3.5 million to fund the project. The annual cost of the debt service was \$329,000. Since that time, as previously discussed, the City has lost significant amounts of tax revenue and state revenue sharing, putting a financial burden on the City to make these debt payments. The City did not make all required payments in FY 2012/2013 and did not budget further payments in the FY 2013/2014 budget. The debt was held by SunTrust and they filed a federal lawsuit against the City in an attempt to collect on the debt. Since the time of the lawsuit, negotiations with the City's legal counsel and theirs continued and a settlement has been reached. The City will make two payments to SunTrust in FY 2013/2014 and the balance will be put on the 2014 and 2015 summer tax bills. The debt will be considered paid in full at that time at a reduced cost.

Another key item that has affected the General Fund is the large amount of employee accrued leave payoffs during the fiscal year. Several employees either resigned or retired from the City and were due accrued leave banks at the date of termination. Several of these employees were municipal employees who purchased years of service as allowed by their collective bargaining agreements and the Municipal Employees' Retirement System (MERS). Both of these items were unforeseen at the time of budget preparation and caused significant expenditures in the General Fund.

# City of Lincoln Park, Michigan

## Management's Discussion and Analysis (Continued)

In developing the budget and annual operations plan, numerous sources are used for the purpose of estimating community needs and priorities in conjunction with estimating revenue capacity.

The City approaches the development of the budget by complying with the Uniform Budgeting and Accounting Act of the State of Michigan. The budget is based on the same modified accrual method of accounting that is applied in the annual audited financial statements. In accordance with state law, the budget is amended at least once at mid-year and at the conclusion of the fiscal year or as often as experience indicates that material deviations from the adopted plan are occurring. Internally, the director of finance initiates the process and, in connection with the city manager, establishes an annual budget preparation calendar. Internal meetings with key staff were held to determine a course of action that addresses structural limitations and declining tax base. These activities result in submission of a recommended budget to the mayor and City Council by April 1 of the calendar year as required by charter.

Amendments to the budget are initiated by administration based upon experience or revised estimates and submitted to the mayor and City Council for adoption. All budgets are approved at the department level. The mayor and City Council adopt the budget resolution and have assigned activity and line-item amendatory change authority to the finance director and city manager.

The budget has been developed using the best available information concerning financial trends and community conditions. Additionally, two public meetings and two mayor and City Council work sessions were held seeking public input prior to budget adoption.

### City Funds

At year end, the City reported a total governmental fund balance of \$3.5 million as compared to \$5.9 million in the previous year. Of the other significant funds, the Water and Sewer Fund is the largest. In order for the City to update the rates to meet its inflationary expenditures, rates were raised approximately 11 percent. A more aggressive collection of water/sewer funds is still in place and has reduced delinquencies by 50 percent to date from previous collections.

### Capital Assets

**Table 3 - Capital Assets at Year End** (net of depreciation, in thousands)

|                            | Governmental Activities |                   | Business-type Activities |                   | Total             |                   |
|----------------------------|-------------------------|-------------------|--------------------------|-------------------|-------------------|-------------------|
|                            | 2013                    | 2012              | 2013                     | 2012              | 2013              | 2012              |
| Land                       | \$ 9,614.7              | \$ 9,614.7        | \$ 16.5                  | \$ 16.5           | \$ 9,631.2        | \$ 9,631.2        |
| Construction in progress   | -                       | 1,095.9           | 350.3                    | -                 | 350.3             | 1,095.9           |
| Equipment                  | 2,823.6                 | 3,195.7           | 4,385.2                  | 4,514.5           | 7,208.8           | 7,710.2           |
| Buildings and improvements | 780.5                   | 853.4             | 200.0                    | 215.1             | 980.5             | 1,068.5           |
| Infrastructure             | 20,178.1                | 21,295.2          | 31,330.4                 | 31,075.8          | 51,508.5          | 52,371.0          |
| Vehicles                   | 1,956.1                 | 1,183.8           | -                        | -                 | 1,956.1           | 1,183.8           |
| <b>Total</b>               | <b>\$ 35,353.0</b>      | <b>\$37,238.7</b> | <b>\$36,282.4</b>        | <b>\$35,821.9</b> | <b>\$71,635.4</b> | <b>\$73,060.6</b> |

# City of Lincoln Park, Michigan

## Management's Discussion and Analysis (Continued)

At the close of the year, the City had invested \$71.6 million in capital assets such as land, buildings and improvements, and equipment or infrastructure (see Table 3). A total of \$73.1 million was invested in similar assets last year.

### Debt Management

**Table 4 - Outstanding Debt at Year End** (in thousands)

|   | Governmental Activities |                   | Business-type Activities |                   | Total             |                   |
|---|-------------------------|-------------------|--------------------------|-------------------|-------------------|-------------------|
|   | 2013                    | 2012              | 2013                     | 2012              | 2013              | 2012              |
| General obligation bonds (backed by the City) | \$ -                    | \$ -              | \$ 13,607.0              | \$ 14,142.3       | \$ 13,607.0       | \$ 14,142.3       |
| Other bonds or outstanding obligations        | 4,661.1                 | 4,376.4           | 112.6                    | 165.2             | 4,773.7           | 4,541.6           |
| Total   | <b>\$ 4,661.1</b>       | <b>\$ 4,376.4</b> | <b>\$13,719.6</b>        | <b>\$14,307.5</b> | <b>\$18,380.7</b> | <b>\$18,683.9</b> |

At the close of the year, the City had \$18.3 million in outstanding bonds and notes, as compared to the previous year of \$18.7. The City incurred \$1.2 million of debt in the business-type activities and \$232,000 in the governmental activities.

### Economic Issues/Upcoming Yearly Budgets

Hard economic times in Michigan continue, with high unemployment rates persisting; difficult economic conditions will persist into the foreseeable future. The City's expenses continue to grow, whereon significant cost burdens such as employee and retiree healthcare costs continue to escalate. The City is currently under financial review by the State of Michigan under PA 436 and a large factor that has contributed to this review are the legacy costs and the City's poorly funded pension systems.

Expenditures continue to exceed revenue and as a result, staff reductions will continue to cause decreased service hours to the public. City hall began closing on Fridays in July 2013 to allow for staff to focus on projects and work without interruptions due to the significant staff reductions throughout city hall. No full-time employees have been replaced in city hall, DPS, the police department, or the fire department.

The City used the remaining \$2 million of fund balance in the current fiscal year despite the public safety voter-approved millages. The City may have to look at an additional PA 345 millage for survival as efforts continue to minimize costs. However, significant fixed costs for retirement contributions, retiree health care, and debt payments use up nearly 40 percent of General Fund annual revenue. As a result, only 60 percent of General Fund revenue is available to cover the cost of current operations and this number will continue to shrink.

# City of Lincoln Park, Michigan

## Management's Discussion and Analysis (Continued)

The City government is working with other organizations to articulate this basic fact to the leaders at the state level of government in an attempt to accomplish reform. A complete overhaul of the state's tax structure is needed in order to compete for new investments in the region to facilitate job growth. City services, such as police and fire protection, road maintenance, parks and recreation, and garbage pickup, will require a different delivery model. The City continues to do what it can in light of the financial environment that will require significant restructuring in order to continue to exist. Synopses of these efforts include:

1. Implement staffing efficiencies to keep our level of employees affordable. The City has had to accept reduced staffing levels and will continue to adjust service means and methods around a reduced workforce.
2. The City continues to seek reductions in employee-related costs through the collective bargaining process to achieve meaningful and necessary cost reductions in order to maintain the viability of local government. The department heads were given a concessionary contract in February 2013 and the City has reached an agreement with the firefighters union as well as the Governmental Employees Labor Council (GELC) groups. We continue to seek concessionary contracts from the other groups throughout the City and this is vital in the City's ability to balance its budget in future years.
3. The City is seeking new and improved ways to administer and provide the required pension and healthcare obligations to employees. One example is successfully negotiating a shift to the Municipal Employees' Retirement System (MERS) pension system, which would generate superior investment returns, reduce administrative costs, and improve the financial health of the City's government.
4. The City implemented a transfer of the rubbish fee from the tax bills to the water bills. Over the years with the steeply declining taxable values, the Sanitation Fund was not able to cover the cost of the rubbish collection. A new contract was awarded in July 2013, which significantly reduced the costs of this service. Along with the fee being transferred to the water bills, the FY 2012/2013 deficit in this fund will be eliminated in future years.

### **Contact Information**

This report has been created to give our citizens, taxpayers, investors, and creditors a summary of City finances and to show how its revenue is used. If you have any questions regarding this report, or if you need additional financial information, please contact:

Mr. Joe Merucci, City Manager  
Ms. Lisa Griggs, Director of Finance  
1355 Southfield Road  
Lincoln Park, Michigan 48146  
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# City of Lincoln Park, Michigan

## Statement of Net Position June 30, 2013

|   | Primary Government         |                             |               | Component<br>Units |
|---|----------------------------|-----------------------------|---------------|--------------------|
|   | Governmental<br>Activities | Business-type<br>Activities | Total         |                    |
| <b>Assets</b>                                     |                            |                             |               |                    |
| Cash and cash equivalents (Note 3)                | \$ 6,563,916               | \$ -                        | \$ 6,563,916  | \$ 1,705,696       |
| Receivables:                                      |                            |                             |               |                    |
| Receivables from sales to customers on<br>account | 147,932                    | 2,866,095                   | 3,014,027     | -                  |
| Loans receivable                                  | 2,326,706                  | -                           | 2,326,706     | 13,959             |
| Other receivables                                 | 133,644                    | -                           | 133,644       | -                  |
| Due from other governmental units                 | 2,044,740                  | (23,179)                    | 2,021,561     | -                  |
| Special assessments receivable                    | 14,082                     | -                           | 14,082        | -                  |
| Due from component units                          | 1,167                      | -                           | 1,167         | -                  |
| Due from primary government                       | -                          | -                           | -             | 116,689            |
| Internal balances                                 | (2,358,028)                | 2,358,028                   | -             | -                  |
| Restricted assets (Note 9)                        | -                          | 2,931,869                   | 2,931,869     | -                  |
| Investment in joint ventures (Note 16)            | -                          | 1,571,369                   | 1,571,369     | -                  |
| Land and homes held for resale                    | 62,000                     | -                           | 62,000        | -                  |
| Capital assets - Net (Note 5):                    |                            |                             |               |                    |
| Assets not subject to depreciation                | 9,614,700                  | 366,815                     | 9,981,515     | 263,493            |
| Assets subject to depreciation                    | 25,738,276                 | 35,915,597                  | 61,653,873    | 929,557            |
| Total assets                                      | 44,289,135                 | 45,986,594                  | 90,275,729    | 3,029,394          |
| <b>Liabilities</b>                                |                            |                             |               |                    |
| Accounts payable                                  | 955,478                    | 985,727                     | 1,941,205     | 34,160             |
| Due to other governmental units                   | -                          | -                           | -             | 121,032            |
| Due to component units                            | 116,689                    | -                           | 116,689       | -                  |
| Due to primary government                         | -                          | -                           | -             | 1,167              |
| Accrued liabilities and other                     | 762,615                    | 61,453                      | 824,068       | -                  |
| Deferred revenue (Note 4)                         | 2,441,495                  | -                           | 2,441,495     | 13,959             |
| Reserve for tax refunds and delinquencies         | 634,589                    | 82,739                      | 717,328       | -                  |
| Noncurrent liabilities:                           |                            |                             |               |                    |
| Due within one year:                              |                            |                             |               |                    |
| Compensated absences                              | 485,364                    | 28,156                      | 513,520       | -                  |
| Current portion of long-term debt                 | 298,969                    | 1,090,068                   | 1,389,037     | -                  |
| Due in more than one year:                        |                            |                             |               |                    |
| Compensated absences                              | 1,456,091                  | 84,469                      | 1,540,560     | -                  |
| Net OPEB obligation                               | 10,351,593                 | 1,719,351                   | 12,070,944    | -                  |
| Long-term debt                                    | 2,308,071                  | 12,516,920                  | 14,824,991    | -                  |
| Total liabilities                                 | 19,810,954                 | 16,568,883                  | 36,379,837    | 170,318            |
| <b>Net Position</b>                               |                            |                             |               |                    |
| Net investment in capital assets                  | 32,745,936                 | 22,865,683                  | 55,611,619    | 1,193,050          |
| Restricted for:                                   |                            |                             |               |                    |
| Streets and highways                              | 2,808,717                  | -                           | 2,808,717     | -                  |
| Debt service                                      | -                          | 1,741,610                   | 1,741,610     | -                  |
| CDBG  | 108,843                    | -                           | 108,843       | -                  |
| Drug forfeiture                                   | 511,567                    | -                           | 511,567       | -                  |
| Cable   | 416,681                    | -                           | 416,681       | -                  |
| Sewer replacement                                 | -                          | 1,000,000                   | 1,000,000     | -                  |
| Unrestricted                                      | (12,113,563)               | 3,810,418                   | (8,303,145)   | 1,666,026          |
| Total net position                                | \$ 24,478,181              | \$ 29,417,711               | \$ 53,895,892 | \$ 2,859,076       |

The Notes to Financial Statements are an  
Integral Part of this Statement.

# City of Lincoln Park, Michigan

| Functions/Programs                 | Expenses             | Program Revenues     |                                    |                                  |
|------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|
|                                    |                      | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government:                |                      |                      |                                    |                                  |
| Governmental activities:           |                      |                      |                                    |                                  |
| General government                 | \$ 6,308,831         | \$ 766,675           | \$ 73,694                          | \$ -                             |
| District court                     | 1,046,663            | 1,733,601            | -                                  | -                                |
| Public safety                      | 16,390,849           | 13,202               | 260,642                            | 675,000                          |
| Public works                       | 7,475,985            | 1,105,814            | 2,261,799                          | 172,150                          |
| Community and economic development | 1,202,526            | -                    | 976,205                            | -                                |
| Recreation and culture             | 716,660              | 124,301              | -                                  | -                                |
| Interest on long-term debt         | 354,873              | -                    | -                                  | -                                |
| Total governmental activities      | 33,496,387           | 3,743,593            | 3,572,340                          | 847,150                          |
| Business-type activities           | 9,891,958            | 7,877,434            | -                                  | 328,957                          |
| Total primary government           | <u>\$ 43,388,345</u> | <u>\$ 11,621,027</u> | <u>\$ 3,572,340</u>                | <u>\$ 1,176,107</u>              |
| Component units:                   |                      |                      |                                    |                                  |
| Downtown Development Authority     | \$ 709,076           | \$ -                 | \$ -                               | \$ -                             |
| Economic Development Corporation   | 12,345               | 35,850               | -                                  | -                                |
| Brownfield Development Corporation | 29,414               | -                    | -                                  | -                                |
| Total component units              | <u>\$ 750,835</u>    | <u>\$ 35,850</u>     | <u>\$ -</u>                        | <u>\$ -</u>                      |

General revenues:

Property taxes  
 State-shared revenue  
 Investment income  
 Cable franchise fees  
 Other miscellaneous income  
 Gain on sale of fixed assets

Total general revenues

**Change in Net Position**

**Net Position** - Beginning of year (as restated) (Note 18)

**Net Position** - End of year

**Statement of Activities  
Year Ended June 30, 2013**

| Net (Expense) Revenue and Changes in Net Position |                             |                      |                     |
|---|-----------------------------|----------------------|---------------------|
| Primary Government                                |                             |                      |                     |
| Governmental<br>Activities                        | Business-type<br>Activities | Total                | Component<br>Units  |
| \$ (5,468,462)                                    | \$ -                        | \$ (5,468,462)       | \$ -                |
| 686,938   | -                           | 686,938              | -                   |
| (15,442,005)                                      | -                           | (15,442,005)         | -                   |
| (3,936,222)                                       | -                           | (3,936,222)          | -                   |
| (226,321)   | -                           | (226,321)            | -                   |
| (592,359)   | -                           | (592,359)            | -                   |
| (354,873)   | -                           | (354,873)            | -                   |
| (25,333,304)                                      | -                           | (25,333,304)         | -                   |
| -   | (1,685,567)                 | (1,685,567)          | -                   |
| (25,333,304)                                      | (1,685,567)                 | (27,018,871)         | -                   |
| -   | -                           | -                    | (709,076)           |
| -   | -                           | -                    | 23,505              |
| -   | -                           | -                    | (29,414)            |
| -   | -                           | -                    | (714,985)           |
| 12,321,939  | 1,359,250                   | 13,681,189           | 391,762             |
| 4,277,117   | -                           | 4,277,117            | -                   |
| 725   | 3,222                       | 3,947                | 2,888               |
| 645,391   | -                           | 645,391              | -                   |
| 902,506   | -                           | 902,506              | 2,553               |
| 250   | -                           | 250                  | -                   |
| 18,147,928  | 1,362,472                   | 19,510,400           | 397,203             |
| (7,185,376)                                       | (323,095)                   | (7,508,471)          | (317,782)           |
| 31,663,557  | 29,740,806                  | 61,404,363           | 3,176,858           |
| <b>\$ 24,478,181</b>                              | <b>\$ 29,417,711</b>        | <b>\$ 53,895,892</b> | <b>\$ 2,859,076</b> |

# City of Lincoln Park, Michigan

## Governmental Funds Balance Sheet June 30, 2013

|   | General Fund        | CDBG Fund           | Nonmajor<br>Funds   | Total                |
|---|---------------------|---------------------|---------------------|----------------------|
| <b>Assets</b>                                     |                     |                     |                     |                      |
| Cash and cash equivalents                         | \$ 1,620,886        | \$ 894,172          | \$ 3,504,645        | \$ 6,019,703         |
| Receivables:                                      |                     |                     |                     |                      |
| Special assessments receivable                    | -                   | -                   | 14,082              | 14,082               |
| Receivables from sales to customers on<br>account | -                   | -                   | 147,932             | 147,932              |
| Loans receivable                                  | -                   | 2,326,706           | -                   | 2,326,706            |
| Other receivables                                 | 133,644             | -                   | -                   | 133,644              |
| Due from other governmental units                 | 1,588,213           | 61                  | 456,466             | 2,044,740            |
| Due from component units                          | 167                 | -                   | 1,000               | 1,167                |
| Due from other funds                              | 955,449             | -                   | 84,056              | 1,039,505            |
| Land and homes held for resale                    | -                   | 62,000              | -                   | 62,000               |
| Total assets                                      | <b>\$ 4,298,359</b> | <b>\$ 3,282,939</b> | <b>\$ 4,208,181</b> | <b>\$ 11,789,479</b> |
| <b>Liabilities</b>                                |                     |                     |                     |                      |
| Accounts payable                                  | \$ 474,816          | \$ 11,250           | \$ 433,467          | \$ 919,533           |
| Due to component units                            | 116,689             | -                   | -                   | 116,689              |
| Due to other funds                                | 8,891               | 720,813             | 183,458             | 913,162              |
| Advances from other funds                         | 2,500,000           | -                   | -                   | 2,500,000            |
| Accrued liabilities and other                     | 721,383             | 538                 | 10,079              | 732,000              |
| Deferred revenue                                  | -                   | 2,441,495           | 14,082              | 2,455,577            |
| Reserve for tax refunds and delinquencies         | 566,383             | -                   | 68,206              | 634,589              |
| Total liabilities                                 | 4,388,162           | 3,174,096           | 709,292             | 8,271,550            |
| <b>Fund Balances (Deficit)</b>                    |                     |                     |                     |                      |
| Restricted:                                       |                     |                     |                     |                      |
| Roads   | 1,623               | -                   | 2,807,094           | 2,808,717            |
| Drug forfeiture                                   | -                   | -                   | 511,567             | 511,567              |
| CDBG  | -                   | 108,843             | -                   | 108,843              |
| Cable   | -                   | -                   | 416,681             | 416,681              |
| Unassigned (Note 2)                               | (91,426)            | -                   | (236,453)           | (327,879)            |
| Total fund balances (deficit)                     | (89,803)            | 108,843             | 3,498,889           | 3,517,929            |
| Total liabilities and fund balances<br>(deficit)  | <b>\$ 4,298,359</b> | <b>\$ 3,282,939</b> | <b>\$ 4,208,181</b> | <b>\$ 11,789,479</b> |

# City of Lincoln Park, Michigan

## Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2013

|   |                      |
|---|----------------------|
| <b>Fund Balance Reported in Governmental Funds</b>  | \$ 3,517,929         |
| Amounts reported for governmental activities in the statement of net position are different because:                                      |                      |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds                              | 33,340,235           |
| Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures | 14,082               |
| Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds                        | (2,397,616)          |
| Accrued interest payable is recorded as a liability in the governmental activities  | (26,048)             |
| Compensated absences are included as a liability in the governmental activities   | (1,941,455)          |
| Net other postemployment benefits are not due and payable in the current period and are not reported in the funds                         | (10,351,593)         |
| Internal service funds are included as part of governmental activities  | 2,322,647            |
| <b>Net Position of Governmental Activities</b>  | <b>\$ 24,478,181</b> |

# City of Lincoln Park, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2013

|   | General Fund       | CDBG Fund         | Nonmajor<br>Funds   | Total               |
|---|--------------------|-------------------|---------------------|---------------------|
| <b>Revenue</b>  |                    |                   |                     |                     |
| Property taxes  | \$ 11,091,326      | \$ -              | \$ 1,230,613        | \$ 12,321,939       |
| Licenses and permits                                  | 1,006,637          | -                 | -                   | 1,006,637           |
| Federal grants  | -                  | 976,205           | -                   | 976,205             |
| State-shared revenue and grants                       | 4,300,623          | -                 | 2,506,300           | 6,806,923           |
| Charges for services                                  | -                  | -                 | 365,390             | 365,390             |
| Fines and forfeitures                                 | 1,737,883          | -                 | -                   | 1,737,883           |
| Investment income                                     | 434                | -                 | 291                 | 725                 |
| Rental income   | 35,308             | -                 | -                   | 35,308              |
| Other revenue:  |                    |                   |                     |                     |
| Special assessments                                   | 98,609             | -                 | -                   | 98,609              |
| Cable franchise fees                                  | -                  | -                 | 107,565             | 107,565             |
| Other miscellaneous income                            | 2,131,202          | -                 | 191,558             | 2,322,760           |
| Total revenue   | <u>20,402,022</u>  | <u>976,205</u>    | <u>4,401,717</u>    | <u>25,779,944</u>   |
| <b>Expenditures - Current</b>                         |                    |                   |                     |                     |
| General government                                    | 5,730,658          | -                 | -                   | 5,730,658           |
| District Court  | 1,046,663          | -                 | -                   | 1,046,663           |
| Public safety   | 14,501,973         | -                 | 187,658             | 14,689,631          |
| Public works  | 684,901            | -                 | 4,238,726           | 4,923,627           |
| Community and economic development                    | 34,070             | 1,165,352         | -                   | 1,199,422           |
| Recreation and culture                                | 705,975            | -                 | -                   | 705,975             |
| Total expenditures                                    | <u>22,704,240</u>  | <u>1,165,352</u>  | <u>4,426,384</u>    | <u>28,295,976</u>   |
| <b>Excess of Expenditures Over Revenue</b>            | (2,302,218)        | (189,147)         | (24,667)            | (2,516,032)         |
| <b>Other Financing Sources (Uses)</b>                 |                    |                   |                     |                     |
| Transfers in  | 166,666            | -                 | 664,670             | 831,336             |
| Transfers out   | -                  | -                 | (664,670)           | (664,670)           |
| Total other financing sources                         | <u>166,666</u>     | <u>-</u>          | <u>-</u>            | <u>166,666</u>      |
| <b>Net Change in Fund Balances</b>                    | (2,135,552)        | (189,147)         | (24,667)            | (2,349,366)         |
| <b>Fund Balances - Beginning of year</b>              | <u>2,045,749</u>   | <u>297,990</u>    | <u>3,523,556</u>    | <u>5,867,295</u>    |
| <b>Fund Balances (Deficit) - End of year (Note 2)</b> | <u>\$ (89,803)</u> | <u>\$ 108,843</u> | <u>\$ 3,498,889</u> | <u>\$ 3,517,929</u> |

# City of Lincoln Park, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2013**

|   |                       |
|---|-----------------------|
| <b>Net Change in Fund Balances - Total Governmental Funds</b>   | \$ (2,349,366)        |
| 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, these costs are allocated over their estimated useful lives as depreciation:                  |                       |
| Capital outlay  | 722,028               |
| Depreciation expense  | (3,364,129)           |
| Repayment of capital lease is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)  | 163,692               |
| Interest expense is recorded in the funds when due; it is recorded in the statement of activities when incurred   | 1,377                 |
| Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities   | (126,389)             |
| Increase in net other postemployment benefits reported in the statement of activities does not require current financial resources and therefore is not reported in the fund statements until due | (2,371,700)           |
| Internal service funds are included as part of governmental activities  | 139,111               |
| <b>Change in Net Position of Governmental Activities</b>  | <b>\$ (7,185,376)</b> |

# City of Lincoln Park, Michigan

## Proprietary Funds Statement of Net Position June 30, 2013

|  | Enterprise Funds     | Governmental             |
|--|----------------------|--------------------------|
|  | Water and Sewer      | Activities               |
|  | Fund                 | Internal Service<br>Fund |
| <b>Assets</b>                          |                      |                          |
| Current assets:                        |                      |                          |
| Cash and cash equivalents              | \$ -                 | \$ 544,213               |
| Receivables                            | 2,842,916            | -                        |
| Due from other funds                   | 44,204               | 15,629                   |
| Total current assets                   | 2,887,120            | 559,842                  |
| Noncurrent assets:                     |                      |                          |
| Restricted assets (Note 9)             | 2,931,869            | -                        |
| Advances to other funds (Note 6)       | 2,500,000            | -                        |
| Investment in joint ventures (Note 16) | 1,571,369            | -                        |
| Capital assets (Note 5):               |                      |                          |
| Assets not subject to depreciation     | 366,815              | -                        |
| Assets subject to depreciation         | 35,915,597           | 2,012,741                |
| Total noncurrent assets                | 43,285,650           | 2,012,741                |
| Total assets                           | 46,172,770           | 2,572,583                |
| <b>Liabilities</b>                     |                      |                          |
| Current liabilities:                   |                      |                          |
| Accounts payable                       | 985,727              | 35,945                   |
| Due to other funds                     | 186,176              | -                        |
| Accrued liabilities and other          | 61,453               | 4,567                    |
| Reserve for delinquent taxes           | 82,739               | -                        |
| Compensated absences                   | 28,156               | -                        |
| Current portion of long-term debt      | 1,090,068            | 15,052                   |
| Total current liabilities              | 2,434,319            | 55,564                   |
| Noncurrent liabilities:                |                      |                          |
| Compensated absences                   | 84,469               | -                        |
| Net OPEB obligation (Note 14)          | 1,719,351            | -                        |
| Long-term debt (Note 8)                | 12,516,920           | 194,372                  |
| Total noncurrent liabilities           | 14,320,740           | 194,372                  |
| Total liabilities                      | 16,755,059           | 249,936                  |
| <b>Net Position</b>                    |                      |                          |
| Net investment in capital assets       | 22,865,683           | 1,803,317                |
| Restricted:                            |                      |                          |
| Debt service                           | 1,741,610            | -                        |
| Sewer replacement                      | 1,000,000            | -                        |
| Unrestricted                           | 3,810,418            | 519,330                  |
| Total net position                     | <b>\$ 29,417,711</b> | <b>\$ 2,322,647</b>      |

# City of Lincoln Park, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2013

|   | Enterprise Funds        | Governmental<br>Activities |
|---|-------------------------|----------------------------|
|   | Water and Sewer<br>Fund | Internal Service<br>Fund   |
| <b>Operating Revenue</b>                      |                         |                            |
| Sale of water                                 | \$ 2,713,093            | \$ -                       |
| Sewage disposal charges                       | 3,659,827               | -                          |
| System maintenance charge                     | 1,195,137               | -                          |
| Other   | 309,377                 | -                          |
| Charges to other funds                        | -                       | 669,199                    |
| Total operating revenue                       | 7,877,434               | 669,199                    |
| <b>Operating Expenses</b>                     |                         |                            |
| Cost of water                                 | 2,201,897               | -                          |
| Cost of sewage treatment                      | 1,665,375               | -                          |
| Operation and maintenance                     | 739,623                 | 499,345                    |
| Billing and administrative costs              | 2,347,749               | 183,169                    |
| Other   | 1,190,364               | -                          |
| Depreciation                                  | 1,326,218               | 355,974                    |
| Total operating expenses                      | 9,471,226               | 1,038,488                  |
| <b>Operating Loss</b>                         | (1,593,792)             | (369,289)                  |
| <b>Nonoperating Revenue (Expenses)</b>        |                         |                            |
| Property tax revenue                          | 1,359,250               | -                          |
| Investment income                             | 3,222                   | 66                         |
| Interest expense                              | (420,732)               | -                          |
| Total nonoperating revenue                    | 941,740                 | 66                         |
| <b>Loss - Before contributions</b>            | (652,052)               | (369,223)                  |
| <b>Capital Contributions - Capital grants</b> | 328,957                 | 675,000                    |
| <b>Transfer Out</b>                           | -                       | (166,666)                  |
| <b>Change in Net Position</b>                 | (323,095)               | 139,111                    |
| <b>Net Position - Beginning of year</b>       | 29,740,806              | 2,183,536                  |
| <b>Net Position - End of year</b>             | \$ 29,417,711           | \$ 2,322,647               |

# City of Lincoln Park, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2013

|  | Enterprise Fund         | Governmental<br>Activities |
|--|-------------------------|----------------------------|
|  | Water and Sewer<br>Fund | Internal Service<br>Fund   |
| <b>Cash Flows from Operating Activities</b>                                    |                         |                            |
| Receipts from customers  | \$ 8,027,021            | \$ -                       |
| Receipts from interfund services and reimbursements                            | -                       | 666,742                    |
| Payments to suppliers  | (5,313,839)             | (551,393)                  |
| Payments to employees  | (2,374,671)             | (174,970)                  |
| Internal activity - Payments to other funds                                    | 109,268                 | -                          |
| Other receipts   | 230,928                 | -                          |
|  | 678,707                 | (59,621)                   |
| Net cash provided by (used in) operating activities                            |                         |                            |
| <b>Cash Flows from Noncapital Financing Activities</b>                         |                         |                            |
| Transfers to other funds   | -                       | (166,666)                  |
| Loans made to other funds  | (2,500,000)             | -                          |
|  | (2,500,000)             | (166,666)                  |
| Net cash used in noncapital financing activities                               |                         |                            |
| <b>Cash Flows from Capital and Related Financing Activities</b>                |                         |                            |
| Receipt of capital grants  | 328,957                 | 675,000                    |
| Payment to County Debt Service Fund  | (742,623)               | -                          |
| Collection of property taxes   | 1,377,719               | -                          |
| Purchase of capital assets   | (572,280)               | (902,925)                  |
| Principal and interest paid on capital debt                                    | (1,295,732)             | -                          |
|  | (903,959)               | (227,925)                  |
| Net cash used in capital and related financing activities                      |                         |                            |
| <b>Cash Flows from Investing Activities</b> - Interest received on investments | 3,222                   | 66                         |
| <b>Net Decrease in Cash and Cash Equivalents</b>                               | (2,722,030)             | (454,146)                  |
| <b>Cash and Cash Equivalents</b> - Beginning of year                           | 4,537,539               | 998,359                    |
| <b>Cash and Cash Equivalents</b> - End of year                                 | <b>\$ 1,815,509</b>     | <b>\$ 544,213</b>          |
| <b>Balance Sheet Classification of Cash and Cash Equivalents</b>               |                         |                            |
| Cash and investments   | \$ -                    | \$ 544,213                 |
| Restricted assets (Note 9)   | 1,815,509               | -                          |
|  | <b>\$ 1,815,509</b>     | <b>\$ 544,213</b>          |
| Total cash and cash equivalents  |                         |                            |
| <b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>  |                         |                            |
| Operating loss   | \$ (1,593,792)          | \$ (369,289)               |
| Adjustments to reconcile operating loss to net cash from operating activities: |                         |                            |
| Depreciation and amortization  | 1,326,218               | 355,974                    |
| Changes in assets and liabilities:   |                         |                            |
| Receivables  | 333,921                 | -                          |
| Due to other funds   | -                       | (2,457)                    |
| Prepaid and other assets   | 30,883                  | -                          |
| Accounts payable   | 45,652                  | (42,122)                   |
| Due from other funds   | 109,268                 | -                          |
| Accrued and other liabilities  | 426,557                 | (1,727)                    |
|  | 678,707                 | (59,621)                   |
| Net cash provided by (used in) operating activities                            | <b>\$ 678,707</b>       | <b>\$ (59,621)</b>         |
| <b>Noncash Transactions</b> - Vactor truck lease                               | <b>\$ -</b>             | <b>\$ 209,424</b>          |

# City of Lincoln Park, Michigan

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## Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2013

**Noncash Investing, Capital, and Financing Activities** - During the year ended June 30, 2013, the following activities occurred with the assets held at Wayne County on behalf of the City that were not reflected in the statement of cash flows:

|                                |    |                  |
|--------------------------------|----|------------------|
| Assets on hand - July 1, 2012  | \$ | 2,731,094        |
| Interest earned on investments |    | 2,753            |
| Property tax - Judgment levy   |    | 742,623          |
| Decrease in working capital    |    | (28,545)         |
| Issuance of long-term debt     |    | 1,214,453        |
| Purchase of capital assets     |    | (1,214,453)      |
| Principal paid                 |    | (677,475)        |
| Interest paid                  |    | (156,864)        |
|                                |    | <hr/>            |
| Assets on hand - June 30, 2013 | \$ | <u>2,613,586</u> |

# City of Lincoln Park, Michigan

## Fiduciary Funds Statement of Fiduciary Net Position June 30, 2013

|   | Police and<br>Fire<br>Retirement<br>Trust Fund | Agency Funds      |
|---|--|-------------------|
| <b>Assets</b>                                 |  |                   |
| Cash and cash equivalents                     | \$ 4,007,846                                   | \$ 367,538        |
| Investments:                                  |  |                   |
| Stocks  | 8,337,422                                      | -                 |
| Mutual funds - Fixed income                   | 6,006,213                                      | -                 |
| Receivables:                                  |  |                   |
| Accrued interest receivable                   | 17,517   | -                 |
| Due from other governmental units             | -  | 71,198            |
| Total assets                                  | <u>18,368,998</u>                              | <u>\$ 438,736</u> |
| <b>Liabilities</b>                            |  |                   |
| Accounts payable                              | 10,491   | \$ 3,858          |
| Due to other governmental units               | -  | 281,902           |
| Refundable deposits, bonds, etc.              | -  | 57,194            |
| Accrued liabilities and other                 | -  | 95,782            |
| Total liabilities                             | <u>10,491</u>                                  | <u>\$ 438,736</u> |
| <b>Net Position Held in Trust for Pension</b> | <u>\$ 18,358,507</u>                           |                   |

# City of Lincoln Park, Michigan

## Fiduciary Funds Statement of Changes in Fiduciary Net Position - Police and Fire Retirement Trust Fund Year Ended June 30, 2013

|   | Police and<br>Fire<br>Retirement<br>Trust Fund |
|---|--|
| <b>Additions</b>  |  |
| Investment income (loss):   |  |
| Interest and dividends  | \$ 454,926                                     |
| Net increase in fair value of investments                         | 1,315,235                                      |
| Investment-related expenses                                       | <u>(121,399)</u>                               |
| Net investment income   | 1,648,762                                      |
| Contributions:  |  |
| Employer  | 3,186,996                                      |
| Employee  | <u>429,357</u>                                 |
| Total contributions   | <u>3,616,353</u>                               |
| Total additions   | 5,265,115                                      |
| <b>Deductions</b>   |  |
| Benefit payments  | 4,721,065                                      |
| Refunds of contributions  | 1,341,805                                      |
| Administrative expenses   | <u>302,729</u>                                 |
| Total deductions  | <u>6,365,599</u>                               |
| <b>Net Decrease in Net Position Held in Trust</b>                 | (1,100,484)                                    |
| <b>Net Position Held in Trust for Pension - Beginning of year</b> | <u>19,458,991</u>                              |
| <b>Net Position Held in Trust for Pension - End of year</b>       | <u><b>\$ 18,358,507</b></u>                    |

# City of Lincoln Park, Michigan

## Component Units Statement of Net Position June 30, 2013

|                                    | Downtown<br>Development<br>Authority | Economic<br>Development<br>Corporation | Brownfield<br>Development<br>Corporation | Total               |
|------------------------------------|--------------------------------------|--|--|---------------------|
| <b>Assets</b>                      |                                      |  |  |                     |
| Cash and cash equivalents          | \$ 1,407,184                         | \$ 298,512                             | \$ -                                     | \$ 1,705,696        |
| Receivables - Loans receivable     | -                                    | 13,959                                 | -  | 13,959              |
| Due from primary government        | 116,689                              | -                                      | -  | 116,689             |
| Capital assets:                    |                                      |  |  |                     |
| Assets not subject to depreciation | 263,493                              | -                                      | -  | 263,493             |
| Assets subject to depreciation     | 929,557                              | -                                      | -  | 929,557             |
| Total assets                       | 2,716,923                            | 312,471                                | -  | 3,029,394           |
| <b>Liabilities</b>                 |                                      |  |  |                     |
| Accounts payable                   | 32,974                               | 1,186                                  | -  | 34,160              |
| Due to other governmental units    | 121,032                              | -                                      | -  | 121,032             |
| Due to primary government          | 1,000                                | 167                                    | -  | 1,167               |
| Deferred revenue                   | -                                    | 13,959                                 | -  | 13,959              |
| Total liabilities                  | 155,006                              | 15,312                                 | -  | 170,318             |
| <b>Net Position</b>                |                                      |  |  |                     |
| Net investment in capital assets   | 1,193,050                            | -                                      | -  | 1,193,050           |
| Unrestricted                       | 1,368,867                            | 297,159                                | -  | 1,666,026           |
| Total net position                 | <u>\$ 2,561,917</u>                  | <u>\$ 297,159</u>                      | <u>\$ -</u>                              | <u>\$ 2,859,076</u> |

# City of Lincoln Park, Michigan

| Functions/Programs                 | Expenses          | Program Revenues     |                                    |                                  |
|------------------------------------|-------------------|----------------------|------------------------------------|----------------------------------|
|                                    |                   | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Downtown Development Authority:    |                   |                      |                                    |                                  |
| General government                 | \$ 335,314        | \$ -                 | \$ -                               | \$ -                             |
| Community and economic development | 373,762           | -                    | -                                  | -                                |
| Total governmental activities      | 709,076           | -                    | -                                  | -                                |
| Economic Development Corporation   | 12,345            | 35,850               | -                                  | -                                |
| Brownfield Development Corporation | 29,414            | -                    | -                                  | -                                |
| Total component units              | <b>\$ 750,835</b> | <b>\$ 35,850</b>     | <b>\$ -</b>                        | <b>\$ -</b>                      |

General revenues:

Property taxes

Investment income

Other miscellaneous income

Total general revenues

**Change in Net Position**

**Net Position** - Beginning of year (as restated) (Note 18)

**Net Position** - End of year

**Component Units  
Statement of Activities  
Year Ended June 30, 2013**

| Net (Expense) Revenue and Changes in Net Position |  |  |                            |
|---|--|--|----------------------------|
| Downtown<br>Development<br>Authority              | Economic<br>Development<br>Corporation | Brownfield<br>Development<br>Corporation | Total                      |
| \$ (335,314)                                      | \$ -                                   | \$ -                                     | \$ (335,314)               |
| <u>(373,762)</u>                                  | <u>-</u>                               | <u>-</u>                                 | <u>(373,762)</u>           |
| (709,076)   | -                                      | -  | (709,076)                  |
| -   | 23,505                                 | -  | 23,505                     |
| <u>-</u>  | <u>-</u>                               | <u>(29,414)</u>                          | <u>(29,414)</u>            |
| (709,076)   | 23,505                                 | (29,414)                                 | (714,985)                  |
| 362,348   | -                                      | 29,414                                   | 391,762                    |
| 2,304   | 584                                    | -  | 2,888                      |
| 2,553   | -                                      | -  | 2,553                      |
| <u>367,205</u>                                    | <u>584</u>                             | <u>29,414</u>                            | <u>397,203</u>             |
| (341,871)   | 24,089                                 | -  | (317,782)                  |
| <u>2,903,788</u>                                  | <u>273,070</u>                         | <u>-</u>                                 | <u>3,176,858</u>           |
| <b><u>\$ 2,561,917</u></b>                        | <b><u>\$ 297,159</u></b>               | <b><u>\$ -</u></b>                       | <b><u>\$ 2,859,076</u></b> |

# City of Lincoln Park, Michigan

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## Notes to Financial Statements June 30, 2013

### Note I - Nature of Business and Significant Accounting Policies

The accounting policies of the City of Lincoln Park, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Lincoln Park, Michigan:

#### **Reporting Entity**

The City of Lincoln Park, Michigan is governed by an elected six-member council and the mayor. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are part of the City's operations. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City (see discussion below for description).

#### **Blended Component Units**

- a. The Building Authority is a City-created and City-directed authority whose sole business activity is acquiring and leasing property to the City. The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.
- b. The City of Lincoln Park Police and Fire Retirement System has been blended into the City's financial statements. The system is governed by a five-member pension boards. The mayor and one City Council member sit on the board. Two members of the board are elected by the participants. In addition, the City Council appoints one City resident to the board. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operation of the retirement system.

#### **Discretely Presented Component Units**

- a. The Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The Authority's governing body, which consists of eight individuals, is appointed by the mayor. The appointment is subject to approval by the City Council. In addition, the Authority's budget is subject to approval by the City Council.

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

- b. The Economic Development Corporation (EDC) is reported in a separate column to emphasize that it is legally separate from the City. The EDC was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC's governing body, which consists of nine individuals, is selected by the City Council and the mayor.
- c. The Brownfield Development Area (the "Area") was created to facilitate the implementation of plans for the identification, treatment, and revitalization of an environmentally distressed area within the City designated as a Brownfield Development Area. The Area's governing body, which consists of nine individuals, is selected by the City Council and the mayor.

The component units above do not issue separate financial statements.

The City has excluded the Lincoln Park Housing Commission from this report because the City is not able to impose its will on the Lincoln Park Housing Commission.

### **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 units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on user fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units 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 revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (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 revenue are reported instead as general revenue.

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.

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

#### **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 funds, fiduciary funds, and component unit financial statements. Revenue is 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 revenue 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. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to first apply to restricted resources.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenue is recognized in the accounting period in which it becomes susceptible to accrual - that is, when it becomes both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and state-shared revenue. All other revenue items are considered to be available only when cash is received by the City.

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the City's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the City's policy to spend funds in this order: committed, assigned, and unassigned.

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Community Development Block Grant Fund** - The Community Development Block Grant Fund accounts for the resources of federal grant revenue, which is restricted for use in assisting the City with community development.

The City reports the following major proprietary fund:

**Water and Sewer Fund** - The Water and Sewer Fund is the City's only major proprietary fund. It accounts for the activities of the water distribution system and sewage collection system.

#### **Assets, Liabilities, and Net Position or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade receivables are shown as net of allowance for uncollectible amounts.

**Restricted Assets** - The restricted assets in the Water and Sewer Fund consist of cash and cash equivalents restricted to provide for the replacement of water and sewer assets. Also, monies received from a tax levy are restricted for the payment of outstanding Water and Sewer Fund debt. In addition, restricted assets result from the establishment of debt reserves related to county sewage disposal system bonds.

**Capital Assets** - Capital assets, which include land, property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City using different individual costs and estimated useful lives, depending on the different asset uses and classifications. Capital assets are defined by the City as assets with an initial individual cost of more than \$3,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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

|                                      |                |
|--------------------------------------|----------------|
| Roads and sidewalks                  | 25 years       |
| Water and sewer distribution systems | 20 to 75 years |
| Buildings and building improvements  | 10 to 45 years |
| Vehicles                             | 5 to 20 years  |
| Machinery and equipment              | 10 to 45 years |

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the 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 statement of net position. If applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs 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 are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Pension and Other Postemployment Benefit Costs** - The City offers both pension and retiree healthcare benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

**Fund Equity** - In the fund financial statements, governmental funds report the following components of fund balance:

- Nonspendable: Amounts that are not in spendable form or are legally or contractually required to be maintained intact

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the City Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the City Council.
- **Assigned:** Intent to spend resources on specific purposes expressed by the governing body or finance director, who is authorized by resolution approved by the governing body to make assignments
- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

**New Accounting Standard** - In the current year, the City implemented Governmental Accounting Standards Board Statement (GASB) No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB No. 63 incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concept Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provided a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

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

**Property Tax Revenue** - Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1. The taxes are due on February 28 before they are added to the county tax rolls. Taxpayers not paying one-third of the tax by August 20, one-third by October 15, and the balance by February 28 are subject to penalties. Property tax receivables are shown net of allowance for uncollectible amounts.

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

The 2012 taxable valuation of the City totaled \$583 million, on which ad valorem taxes levied consisted of 15.5209 mills for the City's operating purposes, 3.4591 mills for police and fire protection, .35000 mills for the library operations, 2.3278 mills for refuse, 1.3556 mills for Ecorse Creek debt, and 1.4682 mills for Downriver Sewage Disposal System debt. This resulted in approximately \$8.86 million for operating, \$1.97 million for police and fire protection, \$200,000 for library operations, \$1.33 million for rubbish, \$774,000 for Ecorse Creek, and \$838,000 for the Downriver Sewage Disposal System. The ad valorem taxes levied are recognized in the respective General, Special Revenue, and Water and Sewer Funds financial statements as tax revenue.

The Wayne County Treasurer (the "Treasurer") is required by the General Property Tax Law, as amended, to collect delinquent real property taxes levied by the City. Under the Act, the Treasurer pays the City in full for delinquent real property taxes owed according to the delinquent tax roll transferred to the Treasurer. Taxes eligible for payment include all delinquent taxes, except on personal property, due and payable to the City. The Treasurer is then responsible for the collection of the outstanding delinquent taxes. Delinquent property taxes not collected within two years after the sale to the County are charged back to the City. A liability for property tax chargebacks has been recorded throughout various funds in the amount of \$717,000.

**Land and Homes Held for Resale** - The City records an asset for land and home inventory acquired under the Department of Housing and Urban Development's Neighborhood Stabilization Program I and Dollar Home Program. The property is recorded at the lower of cost or market. The homes are sold to eligible individuals based on grant guidelines.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - The budget represents a complete financial plan for all activities of the City for the ensuing fiscal year. All estimated income and proposed expenditures are detailed and presented in a form prescribed by law.

The budget process begins with goals and objectives meetings in April with the City Council and administrative staff. These are public meetings. Based upon presentations by the City's staff and discussion between the mayor and the City Council, goals and objectives are prioritized by the City Council for the next fiscal year.

Each April, department heads receive workpapers to prepare their individual line-item budgets. Upon completion, the departmental budgets are returned to the controller in May. The finance director then analyzes these amounts. Further discussions occur with department heads and the budget is adjusted accordingly.

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

A proposed, balanced budget is then developed to support the direction and focus established for the community by the City Council. Specific issues are identified which are vital to continued quality services within the means available. This method of budgeting serves to improve the level of organizational accountability. City Council meetings, held in May, provide all interested citizens an open forum where they can be heard. Upon review and a subsequent public hearing, the City Council adopts the proposed budget by resolution.

The budget is scheduled for adoption at the first regular City Council meeting in June. The operating millage rate is established as part of the budget adoption resolution at that meeting.

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2013 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget comparison for the General Fund and Major Special Revenue Fund, as adopted by the City Council, is included as required supplemental information. Budget comparisons for other special revenue funds are available at City Hall.

**Fund Deficits** - The General Fund had a deficit at June 30, 2013 totaling (\$89,803). Management's plans to eliminate the deficit include taking steps to reduce costs and generate new revenue. Among other things, the City is renegotiating employee contracts and refraining from filling several vacant positions to reduce the City's employee compensation costs. In addition, the City is considering generating additional revenue from a new special assessment for street lighting.

The Sanitation Fund had a deficit at June 30, 2013 totaling (\$236,453). The deficit will be eliminated by future charges for services or a transfer from another fund at the City.

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Pension Trust Fund is also authorized by Michigan Public Act 347 of 2012 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated one bank for the deposit of its funds. The investment policy adopted by the City Council, in accordance with Public Act 196 of 1997, has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$11,560,718 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. At year end, the Downtown Development Authority had \$1,407,267 of bank deposits that were uninsured and uncollateralized. The Economic Development Corporation had \$298,385 of bank deposits that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# City of Lincoln Park, Michigan

## Notes to Financial Statements June 30, 2013

### Note 3 - Deposits and Investments (Continued)

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

| Investment                         | Fair Value          | Weighted<br>Average<br>Maturity<br>(Years) |
|------------------------------------|---------------------|--|
| Police and Fire Retirement System: |                     |  |
| Mutual funds - Fixed income        | \$ 4,345,020        | 4.0  |
| Mutual funds - Fixed income        | <u>1,661,193</u>    | 3.1  |
| Total                              | <u>\$ 6,006,213</u> |  |

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

| Fair Value   | Rating    | Rating<br>Organization |
|--------------|-----------|------------------------|
| \$ 6,006,213 | Not rated | Not rated              |

**Risk and Uncertainties** - The City invests in various securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

### Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. In addition, the City has made loans to homeowners and assessed liens for rehabilitation projects paid for with grant funds. Program income is recognized as the monies are received from HUD and loaned out again. At the end of the current fiscal year, the various components of deferred revenue are as follows:

# City of Lincoln Park, Michigan

## Notes to Financial Statements June 30, 2013

### Note 4 - Deferred Revenue (Continued)

|                                | <u>Unavailable</u> | <u>Unearned</u>     |
|--------------------------------|--------------------|---------------------|
| Special assessments            | \$ 14,082          | \$ -                |
| Program income                 | -                  | 57,212              |
| Rehabilitation liens and loans | -                  | 2,384,283           |
| Total                          | <u>\$ 14,082</u>   | <u>\$ 2,441,495</u> |

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

|   | <u>Balance<br/>July 1, 2012</u> | <u>Reclassifications</u> | <u>Additions</u>      | <u>Disposals</u> | <u>Balance<br/>June 30, 2013</u> |
|---|---------------------------------|--------------------------|-----------------------|------------------|----------------------------------|
| <b>Governmental Activities</b>                          |                                 |                          |                       |                  |                                  |
| Capital assets not being depreciated:                   |                                 |                          |                       |                  |                                  |
| Land  | \$ 9,614,700                    | \$ -                     | \$ -                  | \$ -             | \$ 9,614,700                     |
| Construction in progress                                | 1,095,857                       | (1,288,232)              | 192,375               | -                | -                                |
| Subtotal  | 10,710,557                      | (1,288,232)              | 192,375               | -                | 9,614,700                        |
| Capital assets being depreciated:                       |                                 |                          |                       |                  |                                  |
| Roads and sidewalks                                     | 98,508,785                      | 1,288,232                | 463,563               | -                | 100,260,580                      |
| Buildings and improvements                              | 6,229,403                       | -                        | -                     | -                | 6,229,403                        |
| Equipment   | 9,329,201                       | -                        | 66,090                | -                | 9,395,291                        |
| Subtotal  | 114,067,389                     | 1,288,232                | 529,653               | -                | 115,885,274                      |
| Accumulated depreciation:                               |                                 |                          |                       |                  |                                  |
| Roads and sidewalks                                     | 77,213,548                      | -                        | 2,868,957             | -                | 80,082,505                       |
| Buildings and improvements                              | 5,375,957                       | -                        | 72,977                | -                | 5,448,934                        |
| Equipment   | 6,206,105                       | -                        | 422,195               | -                | 6,628,300                        |
| Subtotal  | 88,795,610                      | -                        | 3,364,129             | -                | 92,159,739                       |
| Net capital assets being depreciated                    | 25,271,779                      | 1,288,232                | (2,834,476)           | -                | 23,725,535                       |
| Internal service fund capital assets being depreciated: |                                 |                          |                       |                  |                                  |
| Machinery and equipment                                 | 187,799                         | -                        | -                     | -                | 187,799                          |
| Vehicles  | 2,694,869                       | -                        | 1,112,349             | -                | 3,807,218                        |
| Subtotal  | 2,882,668                       | -                        | 1,112,349             | -                | 3,995,017                        |
| Accumulated depreciation:                               |                                 |                          |                       |                  |                                  |
| Machinery and equipment                                 | 115,121                         | -                        | 16,074                | -                | 131,195                          |
| Vehicles  | 1,511,181                       | -                        | 339,900               | -                | 1,851,081                        |
| Subtotal  | 1,626,302                       | -                        | 355,974               | -                | 1,982,276                        |
| Net internal service funds capital assets               | 1,256,366                       | -                        | 756,375               | -                | 2,012,741                        |
| Net governmental activity capital assets                | <u>\$ 37,238,702</u>            | <u>\$ -</u>              | <u>\$ (1,885,726)</u> | <u>\$ -</u>      | <u>\$ 35,352,976</u>             |

# City of Lincoln Park, Michigan

## Notes to Financial Statements June 30, 2013

### Note 5 - Capital Assets (Continued)

|  | Balance<br>July 1, 2012 | Reclassifications | Additions   | Disposals | Balance<br>June 30, 2013 |
|--|-------------------------|-------------------|-------------|-----------|--------------------------|
| <b>Business-type Activities</b>        |                         |                   |             |           |                          |
| Capital assets not being depreciated:  |                         |                   |             |           |                          |
| Land                                   | \$ 16,540               | \$ -              | \$ -        | \$ -      | \$ 16,540                |
| Construction in progress               | -                       | -                 | 350,275     | -         | 350,275                  |
| Subtotal                               | 16,540                  | -                 | 350,275     | -         | 366,815                  |
| Capital assets being depreciated:      |                         |                   |             |           |                          |
| Buildings and improvements             | 1,683,467               | -                 | -           | -         | 1,683,467                |
| Machinery and equipment                | 6,139,041               | -                 | 48,730      | -         | 6,187,771                |
| Water and sewer distribution systems   | 50,985,423              | -                 | 1,387,728   | -         | 52,373,151               |
| Subtotal                               | 58,807,931              | -                 | 1,436,458   | -         | 60,244,389               |
| Accumulated depreciation:              |                         |                   |             |           |                          |
| Buildings and improvements             | 1,468,325               | -                 | 15,056      | -         | 1,483,381                |
| Machinery and equipment                | 1,624,579               | -                 | 178,019     | -         | 1,802,598                |
| Water and sewer distribution systems   | 19,909,670              | -                 | 1,133,143   | -         | 21,042,813               |
| Subtotal                               | 23,002,574              | -                 | 1,326,218   | -         | 24,328,792               |
| Net capital assets being depreciated   | 35,805,357              | -                 | 110,240     | -         | 35,915,597               |
| Net capital assets                     | \$ 35,821,897           | \$ -              | \$ 460,515  | \$ -      | \$ 36,282,412            |
| <b>Component Units</b>                 |                         |                   |             |           |                          |
| Capital assets not being depreciated - |                         |                   |             |           |                          |
| Land                                   | \$ 263,493              | \$ -              | \$ -        | \$ -      | \$ 263,493               |
| Capital assets being depreciated:      |                         |                   |             |           |                          |
| Infrastructure                         | 732,524                 | -                 | 31,427      | -         | 763,951                  |
| Equipment                              | 281,830                 | -                 | -           | -         | 281,830                  |
| Vehicles                               | 25,134                  | -                 | -           | -         | 25,134                   |
| Subtotal                               | 1,039,488               | -                 | 31,427      | -         | 1,070,915                |
| Accumulated depreciation:              |                         |                   |             |           |                          |
| Infrastructure                         | 29,300                  | -                 | 30,558      | -         | 59,858                   |
| Equipment                              | 37,577                  | -                 | 18,789      | -         | 56,366                   |
| Vehicles                               | 20,108                  | -                 | 5,026       | -         | 25,134                   |
| Subtotal                               | 86,985                  | -                 | 54,373      | -         | 141,358                  |
| Net capital assets being depreciated   | 952,503                 | -                 | (22,946)    | -         | 929,557                  |
| Net capital assets                     | \$ 1,215,996            | \$ -              | \$ (22,946) | \$ -      | \$ 1,193,050             |

# City of Lincoln Park, Michigan

## Notes to Financial Statements June 30, 2013

### Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the City as follows:

Governmental activities:

|  |                     |
|--|---------------------|
| General government   | \$ 309,249          |
| Public safety  | 91,415              |
| Public works   | 2,893,551           |
| Economic development   | 69,914              |
| Internal service fund depreciation is charged to the various functions based on their usage of the asset | <u>355,974</u>      |
| Total governmental activities  | <u>\$ 3,720,103</u> |
| Business-type activities - Water and sewer   | <u>\$ 1,326,218</u> |
| Component unit activities - DDA  | <u>\$ 54,373</u>    |

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| Receivable Fund       | Payable Fund                           | Amount              |
|-----------------------|--|---------------------|
| General Fund          | Community Development Block Grant Fund | \$ 653,832          |
|                       | Water and Sewer Fund                   | 118,159             |
|                       | Sanitation Fund                        | <u>183,458</u>      |
|                       | Total General Fund                     | 955,449             |
| Water and Sewer Fund  | Community Development Block Grant Fund | 44,204              |
|                       | Nonmajor governmental funds            |                     |
|                       | Community Development Block Grant Fund | 7,148               |
|                       | Water and Sewer Fund                   | <u>76,908</u>       |
|                       | Total nonmajor governmental funds      | 84,056              |
| Internal service fund | Community Development Block Grant Fund | <u>15,629</u>       |
|                       | Total                                  | <u>\$ 1,099,338</u> |

# City of Lincoln Park, Michigan

## Notes to Financial Statements June 30, 2013

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

| Receivable Fund   | Payable Fund                     | Amount       |
|---|----------------------------------|--------------|
| <b>Advances from/to Other Funds</b>                       |                                  |              |
| Water and Sewer Fund                                      | General Fund                     | \$ 2,500,000 |
| Receivable Fund   | Payable Fund                     | Amount       |
| <b>Due to/from Primary Government and Component Units</b> |                                  |              |
| Downtown Development Authority                            | General Fund                     | \$ 116,689   |
| General Fund  | Economic Development Corporation | \$ 167       |
| Other governmental funds                                  | Downtown Development Corporation | 1,000        |
|   | Total due to primary government  | \$ 1,167     |

The interfund receivables balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made, except for the Downtown Development Authority (DDA) receivable from the General Fund. This relates to the refund owed to other governmental units for their portion of tax captures.

The long-term advance from the Water and Sewer Fund to the General Fund represents monies advanced to provide cash flow for normal operating expenditures. The advance is to be repaid, with interest of 0.5 percent, over 10 years.

The interfund transfer reported from the Major Streets Fund to the Local Streets Fund for \$664,670 was to pay for the Major Streets Fund's portion of street obligations. The interfund transfer reported from the Motor Pool Fund to the General Fund for \$166,666 represents a return of accumulated contributions to the General Fund.

# City of Lincoln Park, Michigan

## Notes to Financial Statements June 30, 2013

### Note 7 - Leases

**Capital Leases** - The City has entered into lease agreements as lessee for financing the purchase of heating and air conditioning units for various City-owned buildings. These lease agreements qualify as capital leases for accounting purposes and therefore have been recorded at the present value of the future minimum lease payments as of the inception date (see Note 8). Construction of the assets under capital lease totaled \$3,580,000. Accumulated depreciation as of June 30, 2013 on the leased assets is \$1,670,667.

During 2013, the City did not make a quarterly rental payment of \$82,263 that was due on April 1, 2013. The lessor filed a federal lawsuit against the City on October 1, 2013. The lessor demanded a return of equipment, which has a net book value of approximately \$1,909,000 as of June 30, 2013. The proceedings have not yet progressed to the point where a legal opinion can be reached as to the ultimate liability. At June 30, 2013, the City has recorded a liability in the General Fund for \$82,263.

The future minimum lease obligations for the years ending June 30, 2014 through June 30, 2022 and the net present value are as follows:

| Years Ending<br>June 30           | Amount              |
|-----------------------------------|---------------------|
| 2014                              | \$ 411,316          |
| 2015                              | 329,053             |
| 2016                              | 329,053             |
| 2017                              | 329,053             |
| 2018                              | 329,053             |
| 2019-2022                         | <u>1,233,950</u>    |
| Total minimum lease payments      | 2,961,478           |
| Less amount representing interest | <u>(563,862)</u>    |
| Present value                     | <u>\$ 2,397,616</u> |

# City of Lincoln Park, Michigan

## Notes to Financial Statements June 30, 2013

### Note 7 - Leases (Continued)

The City has entered into a lease agreement as lessee for financing the purchase of a vactor truck. The lease agreement qualifies as a capital lease for accounting purposes and therefore has been recorded at the present value of the future minimum lease payments as of the inception date (see Note 8). The cost of the truck totaled approximately \$353,000. Accumulated depreciation as of June 30, 2013 on the leased asset is \$50,500. The future minimum lease obligations for the years ending June 30, 2014 through June 30, 2018 and the net present value are as follows:

| Years Ending<br><u>June 30</u>    | <u>Amount</u>     |
|-----------------------------------|-------------------|
| 2014                              | \$ 22,445         |
| 2015                              | 22,444            |
| 2016                              | 22,444            |
| 2017                              | 22,444            |
| 2018                              | <u>151,106</u>    |
| Total minimum lease payments      | 240,883           |
| Less amount representing interest | <u>(31,459)</u>   |
| Present value                     | <u>\$ 209,424</u> |

### Note 8 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Capital lease obligations for the Honeywell agreement are recorded as amounts spent as long-term debt (see Note 7). County contractual agreements and installment purchase agreements are also general obligations of the City.

Long-term debt activity can be summarized as follows:

|                                      | Interest<br>Rate Ranges | Principal<br>Maturity<br>Ranges | Beginning<br>Balance | Additions         | Reductions        | Ending<br>Balance   | Due Within<br>One Year |
|--------------------------------------|-------------------------|---------------------------------|----------------------|-------------------|-------------------|---------------------|------------------------|
| <b>Governmental Activities</b>       |                         |                                 |                      |                   |                   |                     |                        |
| Other governmental obligations:      |                         |                                 |                      |                   |                   |                     |                        |
| Capital lease - Vactor truck         |                         |                                 |                      |                   |                   |                     |                        |
| Amount of issue - \$231,868          |                         | \$15,052-                       |                      |                   |                   |                     |                        |
| Maturing through 2018                | 3.46%                   | \$145,954                       | \$ -                 | \$ 231,868        | \$ 22,444         | \$ 209,424          | \$ 15,052              |
| Capital lease - Honeywell agreement: |                         |                                 |                      |                   |                   |                     |                        |
| Amount of issue - \$3,580,000        |                         | \$228,258-                      |                      |                   |                   |                     |                        |
| Maturing through 2022                | 4.00%                   | \$301,595                       | 2,561,308            | -                 | 163,692           | 2,397,616           | 283,917                |
| Employee compensated absences        |                         |                                 | 1,815,066            | 692,781           | 566,392           | 1,941,455           | 485,364                |
| Total governmental activities        |                         |                                 | <u>\$ 4,376,374</u>  | <u>\$ 924,649</u> | <u>\$ 752,528</u> | <u>\$ 4,548,495</u> | <u>\$ 784,333</u>      |

# City of Lincoln Park, Michigan

## Notes to Financial Statements June 30, 2013

### Note 8 - Long-term Debt (Continued)

|   | Interest<br>Rate Ranges | Principal<br>Maturity<br>Ranges | Beginning<br>Balance | Additions           | Reductions          | Ending<br>Balance   | Due Within<br>One Year |
|---|-------------------------|---------------------------------|----------------------|---------------------|---------------------|---------------------|------------------------|
| <b>Business-type Activities</b>             |                         |                                 |                      |                     |                     |                     |                        |
| General obligation debt (county contracts): |                         |                                 |                      |                     |                     |                     |                        |
| Ecorse Creek Pollution Bond - Phase III:    |                         |                                 |                      |                     |                     |                     |                        |
| Amount of issue - \$10,250,000              |                         |                                 |                      |                     |                     |                     |                        |
| Maturing through 2013                       | 5%                      |                                 | \$ 750,000           | \$ -                | \$ 750,000          | \$ -                | \$ -                   |
| Downriver Sewage Disposal Bonds:            |                         |                                 |                      |                     |                     |                     |                        |
| Amount of issue - \$12,344,844              |                         |                                 |                      |                     |                     |                     |                        |
| Maturing through various dates              | 2.0% - 5.7%             | \$81,270-<br>\$897,184          | 10,042,286           | 1,214,453           | 874,751             | 10,381,988          | 965,068                |
| Water and Sewer System Improvements Bonds:  |                         |                                 |                      |                     |                     |                     |                        |
| Amount of issue - \$3,445,000               |                         |                                 |                      |                     |                     |                     |                        |
| Maturing through 2030                       | 2.5% - 4.125%           | \$125,000-<br>\$275,000         | 3,350,000            | -                   | 125,000             | 3,225,000           | 125,000                |
| Total general obligation debt               |                         |                                 | 14,142,286           | 1,214,453           | 1,749,751           | 13,606,988          | 1,090,068              |
| Other long-term obligations -               |                         |                                 |                      |                     |                     |                     |                        |
| Employee compensated absences               |                         |                                 | 165,243              | -                   | 52,618              | 112,625             | 28,156                 |
| Total business-type activities              |                         |                                 | <u>\$14,307,529</u>  | <u>\$ 1,214,453</u> | <u>\$ 1,802,369</u> | <u>\$13,719,613</u> | <u>\$ 1,118,224</u>    |

Annual debt service requirements to maturity for the above debt obligations are as follows (excludes compensated absences):

| Years<br>Ending<br>June 30 | Governmental Activities |                   |                     | Business-type Activities |                     |                      |
|----------------------------|-------------------------|-------------------|---------------------|--------------------------|---------------------|----------------------|
|                            | Principal               | Interest          | Total               | Principal                | Interest            | Total                |
| 2014                       | \$ 298,969              | \$ 134,792        | \$ 433,761          | \$ 1,090,068             | \$ 344,425          | \$ 1,434,493         |
| 2015                       | 253,109                 | 98,389            | 351,498             | 1,089,532                | 314,223             | 1,403,755            |
| 2016                       | 263,303                 | 88,194            | 351,497             | 1,090,034                | 283,902             | 1,373,936            |
| 2017                       | 273,909                 | 77,589            | 351,498             | 1,060,364                | 254,514             | 1,314,878            |
| 2018                       | 413,604                 | 66,555            | 480,159             | 1,049,384                | 224,713             | 1,274,097            |
| 2019-2023                  | 1,104,146               | 129,805           | 1,233,951           | 3,480,161                | 793,497             | 4,273,658            |
| 2024-2028                  | -                       | -                 | -                   | 3,254,615                | 407,329             | 3,661,944            |
| 2029-2031                  | -                       | -                 | -                   | 1,492,830                | 50,202              | 1,543,032            |
| Total                      | <u>\$ 2,607,040</u>     | <u>\$ 595,324</u> | <u>\$ 3,202,364</u> | <u>\$ 13,606,988</u>     | <u>\$ 2,672,805</u> | <u>\$ 16,279,793</u> |

# City of Lincoln Park, Michigan

## Notes to Financial Statements June 30, 2013

### Note 9 - Restricted Assets

The restricted assets in the business-type activities consist of cash and cash equivalents restricted to provide for the replacement of enterprise fund assets. Also, monies received from a tax levy are restricted for the payment of outstanding enterprise fund debt. In addition, restricted assets result from the establishment of debt and operating reserves related to county sewage disposal system bonds. The restricted assets at June 30, 2013 consist of the following:

Cash and cash equivalents:

|   |                |
|---|----------------|
| Ecorse Creek replacement reserve                          | \$ 1,000,000   |
| Unremitted tax funds for Downriver Sewage Disposal System | 625,250        |
| Unspent water and sewer improvement bond proceeds         | <u>190,259</u> |
| Total cash and cash equivalents                           | 1,815,509      |

Wayne County sewage disposal system:

|  |                     |
|--|---------------------|
| Assets held at Wayne County for future debt payments | 1,042,217           |
| Unremitted tax funds related receivable              | <u>74,143</u>       |
| Total restricted assets                              | <u>\$ 2,931,869</u> |

The City has an obligation recorded for the Ecorse Creek pollution bonds (paid off in the current year) and the Downriver Sewage Disposal System (Series A and B and State Revolving Fund) bonds, which are to be paid from a combination of debt levy revenue and through sewer rates. Total tax collections received in the current year were \$1,551,462 compared to principal and interest payments of \$1,594,227 on related debt. The Ecorse Creek replacement reserve is required by the EPA.

### Note 10 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims and participates in the Michigan Municipal League risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The City is self-insured for a portion of its healthcare reimbursement for prescription drugs. All active employees and retirees are eligible.

### Note 11 - Police and Fire Retirement System - Defined Benefit Pension Plan

**Plan Description** - The Police and Fire Retirement System is a single-employer defined benefit pension plan that is administered by the City of Lincoln Park, Michigan. This plan covers all full-time police and fire employees of the City hired before December 1, 2004. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2012, the date of the most recent actuarial valuation, membership consisted of 140 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, 43 fully vested current active employees, and 33 nonvested current active employees. The plan does not issue a separate financial report.

**Funding Policy** - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The obligation to contribute to and maintain the system for these employees was established by City ordinance and negotiation with the police and fire employees' competitive bargaining units and requires a contribution from the employees of 8.18 percent of qualifying wages. The funding policy provides for periodic employer contributions at actuarially determined rates.

**Annual Pension Cost** - For the year ended June 30, 2013, the City's annual pension cost of \$3,186,996 for the plan was equal to the City's required and actual contribution. The pension cost for the three most recent years is as follows:

|                               | Fiscal Year Ended June 30 |              |              |
|-------------------------------|---------------------------|--------------|--------------|
|                               | 2013                      | 2012         | 2011         |
| Annual pension cost (APC)     | \$ 3,186,996              | \$ 3,086,121 | \$ 2,947,238 |
| Percentage of APC contributed | 100.0 %                   | 100.0 %      | 100.0 %      |
| Net pension obligation        | \$ -                      | \$ -         | \$ -         |

**Funding Status and Funding Progress** - As of June 30, 2012, the most recent actuarial valuation date, the plan was 35 percent funded. The actuarial accrued liability for benefits was \$60,923,590 and the actuarial value of assets was \$21,082,007, resulting in an unfunded actuarial accrued liability of \$39,841,583. The annual covered payroll was \$4,752,332 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 838 percent.

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

### **Note 11 - Police and Fire Retirement System - Defined Benefit Pension Plan (Continued)**

**Actuarial Methods and Assumptions** - The annual required contribution was determined as part of an actuarial valuation at June 30, 2012, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return and (b) projected salary increases of 4.0 to 7.8 percent per year. Both (a) and (b) include an inflation component of 4 percent. The plan assumes benefits will not increase after retirement with the following exceptions: fire members retiring after January 1, 1995 and police members retiring after September 6, 1996. These employees will receive an increase of \$300 (\$150 for beneficiaries) in annual benefits each year after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open period of 30 years. The unfunded actuarial liability for those individuals who retired under the early retirement window offered in 2004 is being amortized on a closed basis. The remaining amortization period is 12 years.

**Reserves** - As of June 30, 2013, the plan's legally required reserves have been fully funded as follows:

|                                      |              |
|--------------------------------------|--------------|
| Reserve for employees' contributions | \$ 4,641,383 |
| Reserve for retired benefit payments | 13,717,124   |

### **Note 12 - Municipal Employees' Retirement System - Defined Benefit Pension Plan**

**Municipal Employees' Retirement System Plan Description** - The City participates in the Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all general employees of the City hired before December 1, 2004. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2012, the date of the most recent actuarial valuation, membership consisted of 159 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 46 current active employees. MERS issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

### Note 12 - Municipal Employees' Retirement System - Defined Benefit Pension Plan (Continued)

**Funding Policy** - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 8.41 percent of qualifying wages.

**Annual Pension Cost** - For the year ended June 30, 2013, the City's annual pension cost of \$1,832,066 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at January 1, 2012, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return and (b) projected salary increases of 4.5 percent per year, (c) additional projected salary increases of 0 percent to 13 percent per year, attributable to seniority/merit. Both (a) and (b) include inflation at 1 percent for 2013, 1 percent for 2014, 2 percent for 2015, 3 percent for 2016, and 4.5 percent thereafter. The plan assumes that benefits will not increase after retirement, with the following exception: general municipal employees retiring after August 1, 1996 will receive an increase of \$300 in annual benefits each year after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 25 years.

#### Three-year Trend Information

|                               | Fiscal Year Ended June 30 |              |              |
|-------------------------------|---------------------------|--------------|--------------|
|                               | 2013                      | 2012         | 2011         |
| Annual pension cost (APC)     | \$ 1,832,066              | \$ 1,992,507 | \$ 2,112,131 |
| Percentage of APC contributed | 100.0 %                   | 100.0 %      | 100.0 %      |
| Net pension obligation        | \$ -                      | \$ -         | \$ -         |

# City of Lincoln Park, Michigan

## Notes to Financial Statements June 30, 2013

### Note 12 - Municipal Employees' Retirement System - Defined Benefit Pension Plan (Continued)

|  | Fiscal Year Ended June 30 |               |               |
|--|---------------------------|---------------|---------------|
|  | 2012                      | 2011          | 2010          |
| Actuarial value of assets                        | \$ 11,397,000             | \$ 13,445,000 | \$ 13,061,000 |
| Actuarial accrued liability (AAL)<br>(entry age) | \$ 40,670,000             | \$ 39,802,000 | \$ 38,170,000 |
| Unfunded AAL (UAAL)                              | \$ 29,273,000             | \$ 26,357,000 | \$ 25,109,000 |
| Funded ratio                                     | 28.0 %                    | 33.8 %        | 34.2 %        |
| Covered payroll                                  | \$ 2,234,000              | \$ 2,200,000  | \$ 2,299,000  |
| UAAL as a percentage of covered<br>payroll       | 1,310.3 %                 | 1,198.0 %     | 1,092.2 %     |

### Note 13 - Defined Contribution Pension Plan

The City established a defined contribution pension plan under Section 401(a) which was approved by the City Council during the year ended June 30, 2005 and covers all full-time employees (with the exception of elected officials and commission or board members) hired on or after December 1, 2004. The City participates in the Michigan Municipal Employees' Retirement System for all defined contribution plan participant members. The members had a choice of a defined contribution plan or a hybrid pension plan.

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Under the defined contribution plan, the City is required to contribute 7 percent of each member's annual earnings. In accordance with the requirements, the City expensed approximately \$33,000 during the current year. Employees are permitted, but not required, to make contributions up to the maximum allowed by state law. For the year ended June 30, 2013, employee contributions were \$3,045.

A hybrid pension plan is a combination of a modest fixed defined pension with a flexible defined contribution plan. It is a way to offer plan members a small, though stable, benefit that is sheltered from the volatility of current market investment earnings. The defined benefit for the City is determined by actuaries and has a fixed multiplier of 6.34 percent of each member's qualifying wages. The defined contribution for the City is 1 percent of qualifying wages. In accordance with the requirements, the City expensed approximately \$23,000 during the current year.

# City of Lincoln Park, Michigan

## Notes to Financial Statements June 30, 2013

### Note 14 - Other Postemployment Benefits

**Plan Description** - The City provides healthcare benefits to all employees covered by the Police and Fire Retirement System and the Municipal Employees' Retirement System upon retirement, in accordance with labor contracts. Currently, there are approximately 132 police and fire retirees and 143 general retirees that are eligible. In addition, there are 47 active municipal employees and 80 active police and fire employees that may be entitled to benefits upon retirement. The municipal employees' plan was closed at the conclusion of the early retirement window at December 31, 2004. The police and fire plan remains open.

These are single-employer defined benefit plans administered by the City of Lincoln Park, Michigan. The benefits are provided under collective bargaining agreements. The plans do not issue separate stand-alone financial statements. Administrative costs are paid by the plans through employer contributions.

**Funding Policy** - The labor contracts and City personnel policies as approved by City Council require no contributions from employees. Retiree healthcare costs are recognized when paid by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended June 30, 2013, the City made payments for postemployment health benefit premiums totaling approximately \$3,858,000, of which \$3,466,000 was paid from the governmental funds and \$392,000 was paid from the Water and Sewer Fund.

**Funding Progress** - For the year ended June 30, 2013, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2010. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

|  | <u>Municipal</u>    | <u>Police/Fire</u>  |
|--|---------------------|---------------------|
| Annual required contribution                       | \$ 3,396,013        | \$ 3,372,022        |
| Interest on prior year's net OPEB obligation       | 197,592             | 171,888             |
| Less adjustment for annual required contribution   | <u>(302,507)</u>    | <u>(143,240)</u>    |
| Annual OPEB cost                                   | 3,291,098           | 3,400,670           |
| Amounts contributed - Payments of current premiums | <u>(1,901,602)</u>  | <u>(1,956,239)</u>  |
| Increase in net OPEB obligation                    | 1,389,496           | 1,444,431           |
| OPEB obligation - Beginning of the year            | <u>4,939,808</u>    | <u>4,297,209</u>    |
| OPEB obligation - End of the year                  | <u>\$ 6,329,304</u> | <u>\$ 5,741,640</u> |

# City of Lincoln Park, Michigan

## Notes to Financial Statements June 30, 2013

### Note 14 - Other Postemployment Benefits (Continued)

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current and two preceding years of the municipal and police/fire plans were as follows:

#### Municipal Employees

| Fiscal Year Ended | Actuarial Valuation Date | Annual OPEB Costs | Percentage Contributed | Net OPEB Obligation |
|-------------------|--------------------------|-------------------|------------------------|---------------------|
| 6/30/11           | 6/30/10                  | \$ 3,377,950      | 66.0 %                 | \$ 3,795,659        |
| 6/30/12           | 6/30/10                  | 3,344,761         | 65.0                   | 4,939,808           |
| 6/30/13           | 6/30/10                  | 3,291,098         | 58.0                   | 6,329,305           |

#### Police and Fire Employees

| Fiscal Year Ended | Actuarial Valuation Date | Annual OPEB Costs | Percentage Contributed | Net OPEB Obligation |
|-------------------|--------------------------|-------------------|------------------------|---------------------|
| 6/30/11           | 6/30/10                  | \$ 3,132,944      | 69.0 %                 | \$ 3,273,073        |
| 6/30/12           | 6/30/10                  | 3,264,149         | 69.0                   | 4,297,209           |
| 6/30/13           | 6/30/10                  | 3,400,670         | 58.0                   | 5,741,640           |

The funding progress for the municipal and police/fire plans is as follows:

#### Municipal Employees

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (Percent) (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll |
|--------------------------|-------------------------------|---------------------------------------|---------------------------|------------------------------|---------------------|---|
| 6/30/08                  | \$ -                          | \$ 42,695,191                         | \$ 42,695,191             | - %                          | \$ 3,067,530        | 1,391.8 %                               |
| 6/30/10                  | -                             | 49,468,118                            | 49,468,118                | -                            | 2,262,191           | 2,186.7                                 |

#### Police and Fire Employees

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (Percent) (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll |
|--------------------------|-------------------------------|---------------------------------------|---------------------------|------------------------------|---------------------|---|
| 6/30/08                  | \$ -                          | \$ 50,471,469                         | \$ 50,471,469             | - %                          | \$ 4,733,544        | 1,066.3 %                               |
| 6/30/10                  | -                             | 55,952,092                            | 55,952,092                | -                            | 4,858,534           | 1,151.6                                 |

### **Note 14 - Other Postemployment Benefits (Continued)**

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plans and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plans (the plans as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2010 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 4 percent after nine years. Both rates included a 4 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis for public safety members and on a level dollar of projected payroll on a closed basis for municipal members. The remaining amortization period at June 30, 2010 for the Municipal Employees Plan and the Police and Fire Plan was 28 years and 30 years, respectively.

In addition, the City has established a Retirement Health Savings Plan with International City and County Management Association. Under the plan, the City contributes 2 percent of covered payroll for employees hired after December 1, 2004. In accordance with the requirements, the City expensed \$9,008 during the current year. Employees may also contribute to the plan.

# City of Lincoln Park, Michigan

## Notes to Financial Statements June 30, 2013

### Note 15 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

|                                      |                     |
|--------------------------------------|---------------------|
| Cumulative shortfall - June 30, 2012 | \$ (965,270)        |
| Building permit revenue              | 639,715             |
| Related direct expenditures          | <u>(436,487)</u>    |
| Cumulative shortfall - June 30, 2013 | <u>\$ (762,042)</u> |

### Note 16 - Joint Venture

The City, along with 12 other communities, jointly participates in the Downriver Sewage Disposal System. The City's share of capital assets and related debt is recorded in the Water and Sewer Fund as "investment in joint ventures" and was \$1,571,369 at June 30, 2013. During the year, the City paid \$920,622 for operations of the system and \$1,163,351 for debt service.

Complete financial statements for the Downriver Sewage Disposal System can be obtained from the County of Wayne's administrative offices at 415 Clifford, Detroit, MI 48826.

**Subsequent Event** - Subsequent to June 30, 2013, the Downriver Sewage Disposal System issued State Revolving Fund bonds for \$11,955,000, including interest. The City's share of the debt is approximately \$1,425,000.

### Note 17 - Contingent Liabilities

The City has been named as a defendant involving claims for damages of various amounts related to basement floodings and storm events that occurred during July and August 2011. The potential loss is estimated to be up to \$1.5 million. However, it is possible that the loss may be passed through to another third-party defendant. The City has filed a complaint against another local unit of government for events that the City believes ultimately caused the damages. The City has not recorded an estimate of any liability that may result from these matters at June 30, 2013.

# City of Lincoln Park, Michigan

## Notes to Financial Statements June 30, 2013

### Note 18 - Accounting and Reporting Change

The financial statements for the year ended June 30, 2012 have been restated in order to correct the fiscal year 2012 grant revenue in the Downtown Development Authority component unit.

|  | Component<br>Units  | Downtown<br>Development<br>Authority |
|--|---------------------|--------------------------------------|
| Net position - June 30, 2012 - As previously reported                | \$ 2,907,293        | \$ 2,634,223                         |
| Grant revenue that should have been recorded during fiscal year 2012 | <u>269,565</u>      | <u>269,565</u>                       |
| Fund balance - June 30, 2012 - As restated                           | <u>\$ 3,176,858</u> | <u>\$ 2,903,788</u>                  |

The effect on the change in net position of the prior year is as follows:

|   | Component<br>Units | Downtown<br>Development<br>Authority |
|---|--------------------|--------------------------------------|
| Change in net position - June 30, 2012 - As previously reported | \$ 467,529         | \$ 454,517                           |
| Grant revenue   | <u>269,565</u>     | <u>269,565</u>                       |
| Change in net position - June 30, 2012 - As restated            | <u>\$ 737,094</u>  | <u>\$ 724,082</u>                    |

### Note 19 - Upcoming Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. GASB Statement No. 65 will be implemented for the City's 2014 fiscal year.

### **Note 19 - Upcoming Accounting Pronouncements (Continued)**

In June 2012, GASB Statement No. 67, *Financial Reporting for Pension Plans*, was issued by the Governmental Accounting Standards Board. This new standard, which replaces the requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, establishes standards for financial reporting that outline the basic framework for separately issued pension plan financial reports and specifies the required approach to measuring the liability of employer(s) and certain nonemployer contributing entities, about which information is required to be disclosed. GASB Statement No. 67 is required to be adopted for years beginning after June 15, 2013. For the City of Lincoln Park, Michigan, this standard will be adopted for the year ending June 30, 2014.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending June 30, 2014.

## **Required Supplemental Information**

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# City of Lincoln Park, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2013

|                                 | Original Budget | Amended<br>Budget | Actual        | Variance with<br>Amended<br>Budget |
|---------------------------------|-----------------|-------------------|---------------|------------------------------------|
| <b>Revenue</b>                  |                 |                   |               |                                    |
| Property taxes                  | \$ 11,711,657   | \$ 10,827,950     | \$ 11,090,112 | \$ 262,162                         |
| Licenses and permits            | 811,137         | 972,171           | 1,006,637     | 34,466                             |
| State-shared revenue and grants | 4,225,448       | 4,332,946         | 4,300,623     | (32,323)                           |
| Fines and forfeitures           | 1,753,569       | 1,783,076         | 1,737,883     | (45,193)                           |
| Investment income               | 1,500           | 393               | 434           | 41                                 |
| Rental income                   | 34,500          | 35,308            | 35,308        | -                                  |
| Other revenue                   | 1,768,573       | 1,870,628         | 2,229,811     | 359,183                            |
| Total revenue                   | 20,306,384      | 19,822,472        | 20,400,808    | 578,336                            |
| <b>Expenditures - Current</b>   |                 |                   |               |                                    |
| General government:             |                 |                   |               |                                    |
| Mayor and City Council          | 73,939          | 67,762            | 67,762        | -                                  |
| City controller                 | 276,329         | 256,887           | 255,511       | 1,376                              |
| Treasury department             | 130,775         | 127,449           | 126,297       | 1,152                              |
| City assessor                   | 154,998         | 143,187           | 143,172       | 15                                 |
| Clerk                           | 192,070         | 174,785           | 171,712       | 3,073                              |
| Election commission             | 67,705          | 53,280            | 53,279        | 1                                  |
| Municipal building and grounds  | 790,529         | 816,003           | 954,057       | (138,054)                          |
| City attorney                   | 213,600         | 245,943           | 245,943       | -                                  |
| City manager                    | 233,287         | 205,691           | 205,813       | (122)                              |
| General government              | 3,134,806       | 3,127,327         | 3,507,112     | (379,785)                          |
| Total general government        | 5,268,038       | 5,218,314         | 5,730,658     | (512,344)                          |
| District court                  | 1,368,557       | 1,196,174         | 1,046,663     | 149,511                            |
| Public safety:                  |                 |                   |               |                                    |
| Police                          | 8,101,638       | 8,347,863         | 8,333,295     | 14,568                             |
| Fire                            | 5,723,989       | 5,739,391         | 5,732,191     | 7,200                              |
| Building department             | 428,513         | 440,912           | 436,487       | 4,425                              |
| Total public safety             | 14,254,140      | 14,528,166        | 14,501,973    | 26,193                             |
| Public works:                   |                 |                   |               |                                    |
| Planning commission             | 11,250          | 4,900             | 3,609         | 1,291                              |
| Street lighting                 | 682,885         | 645,075           | 645,075       | -                                  |
| Department of public services   | 30,027          | 36,217            | 36,217        | -                                  |
| Total public works              | 724,162         | 686,192           | 684,901       | 1,291                              |

# City of Lincoln Park, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2013

|  | Original Budget   | Amended<br>Budget   | Actual             | Variance with<br>Amended<br>Budget |
|--|-------------------|---------------------|--------------------|------------------------------------|
| <b>Expenditures - Current (Continued)</b>  |                   |                     |                    |                                    |
| Community and economic development:        |                   |                     |                    |                                    |
| Redevelopment and housing                  | \$ 803            | \$ -                | \$ -               | \$ -                               |
| Other community and economic development   | 14,932            | -                   | 34,070             | (34,070)                           |
| Total community and economic development   | 15,735            | -                   | 34,070             | (34,070)                           |
| Recreation and culture:                    |                   |                     |                    |                                    |
| Library                                    | 200,387           | 205,815             | 215,812            | (9,997)                            |
| Recreation and culture                     | 178,247           | 175,559             | 151,793            | 23,766                             |
| Social services                            | 171,555           | 171,555             | 96,320             | 75,235                             |
| Historical museum                          | 17,000            | 7,500               | 7,500              | -                                  |
| Community center                           | 76,350            | 121,619             | 121,119            | 500                                |
| Parks                                      | 99,430            | 114,387             | 113,431            | 956                                |
| Total recreation and culture               | 742,969           | 796,435             | 705,975            | 90,460                             |
| Total expenditures                         | 22,373,601        | 22,425,281          | 22,704,240         | (278,959)                          |
| <b>Excess of Expenditures Over Revenue</b> | (2,067,217)       | (2,602,809)         | (2,303,432)        | 299,377                            |
| <b>Other Financing Sources -</b>           |                   |                     |                    |                                    |
| Transfers in                               | 594,000           | 300,000             | 166,666            | (133,334)                          |
| <b>Net Change in Fund Balance</b>          | (1,473,217)       | (2,302,809)         | (2,136,766)        | 166,043                            |
| <b>Fund Balance - Beginning of year</b>    | 2,040,040         | 2,040,040           | 2,040,040          | -                                  |
| <b>Fund Balance - End of year</b>          | <u>\$ 566,823</u> | <u>\$ (262,769)</u> | <u>\$ (96,726)</u> | <u>\$ 166,043</u>                  |

# City of Lincoln Park, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Community Development Block Grant Fund Year Ended June 30, 2013

|  | <u>Original Budget</u>   | <u>Amended<br/>Budget</u> | <u>Actual</u>            | Variance with<br><u>Amended<br/>Budget</u> |
|--|--------------------------|---------------------------|--------------------------|--|
| <b>Revenue - Federal grants</b>  | \$ 647,817               | \$ 1,438,755              | \$ 976,205               | \$ (462,550)                               |
| <b>Expenditures - Current -<br/>Community and economic<br/>development</b> | <u>647,817</u>           | <u>1,438,755</u>          | <u>1,165,352</u>         | <u>273,403</u>                             |
| <b>Net Change in Fund Balance</b>  | -                        | -                         | (189,147)                | (189,147)                                  |
| <b>Fund Balance - Beginning of year</b>                                    | <u>297,990</u>           | <u>297,990</u>            | <u>297,990</u>           | <u>-</u>                                   |
| <b>Fund Balance - End of year</b>  | <u><b>\$ 297,990</b></u> | <u><b>\$ 297,990</b></u>  | <u><b>\$ 108,843</b></u> | <u><b>\$ (189,147)</b></u>                 |

# City of Lincoln Park, Michigan

## Required Supplemental Information Retirement Systems Schedule of Funding Progress and Employer Contributions Police and Fire Retirement System

The schedule of funding progress is as follows:

| Actuarial Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL)<br>(b) | Unfunded<br>AAL (UAAL)<br>(b-a) | Funded Ratio<br>(Percent)<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered<br>Payroll |
|-----------------------------|--|--|---------------------------------|------------------------------------|---------------------------|--|
| 6/30/07                     | \$ 31,170,000                          | \$ 57,948,000                                  | \$ 26,778,000                   | 53.8 %                             | \$ 4,455,000              | 601.1 %  |
| 6/30/08                     | 29,698,000                             | 58,931,000                                     | 29,233,000                      | 50.4                               | 4,734,000                 | 617.5  |
| 6/30/09                     | 24,777,000                             | 59,537,000                                     | 34,760,000                      | 41.6                               | 4,805,000                 | 723.4  |
| 6/30/10                     | 23,184,000                             | 59,930,000                                     | 36,746,000                      | 38.7                               | 4,865,000                 | 755.3  |
| 6/30/11                     | 22,108,000                             | 60,283,000                                     | 38,175,000                      | 36.7                               | 4,692,000                 | 813.6  |
| 6/30/12                     | 21,082,000                             | 60,924,000                                     | 39,842,000                      | 34.6                               | 4,752,000                 | 838.4  |

The schedule of employer contributions is as follows:

| Fiscal Year<br>Ended | Annual<br>Required<br>Contribution | Percentage<br>Contributed |
|----------------------|------------------------------------|---------------------------|
| 6/30/08              | \$ 2,172,141                       | 100.0 %                   |
| 6/30/09              | 2,354,705                          | 100.0                     |
| 6/30/10              | 2,569,039                          | 100.0                     |
| 6/30/11              | 2,947,238                          | 100.0                     |
| 6/30/12              | 3,086,121                          | 100.0                     |
| 6/30/13              | 3,186,996                          | 100.0                     |

The information presented above was determined as part of the actuarial valuations as of June 30, 2012. Additional information on assumptions used in the study is as follows:

|   |                        |
|---|------------------------|
| Actuarial cost method                                       | Entry age              |
| Amortization method   | Level percent, open    |
| Amortization period*  | 30 years               |
| Asset valuation method                                      | 5-year smoothed market |
| Actuarial assumptions:                                      |                        |
| Investment rate of return                                   | 8.0%                   |
| Projected salary increases**                                | 4.0%                   |
| **Includes inflation at                                     | 4.0%                   |
| Additional salary increases attributable to seniority/merit | 0.0% to 3.8%           |

\* 12-year remaining amortization period on a closed basis for those individuals who retired under the early retirement window offered in 2004.

Fire members retiring after January 1, 1995 and police members retiring after September 6, 1996 will receive an annual increase of \$300 in annual benefits each year after retirement.

# City of Lincoln Park, Michigan

## Note to Required Supplemental Information Year Ended June 30, 2013

### Note - Reconciliation of Budgeted Amounts to Basic Financial Statements

**Budgetary Information** - A reconciliation of the budgetary comparison schedule to the fund-based statement of changes in fund balances is as follows:

|                                 | <u>Total Revenue</u> | <u>Total Expenditures</u> | <u>Excess of Expenditures Over Revenue</u> |
|---------------------------------|----------------------|---------------------------|--|
| General Fund:                   |                      |                           |  |
| Amounts per operating statement | \$ 20,402,022        | \$ 22,704,240             | \$ (2,302,218)                             |
| Street Improvement Fund         | (1,214)              | -                         | (1,214)                                    |
| Amounts per budget statement    | <u>\$ 20,400,808</u> | <u>\$ 22,704,240</u>      | <u>\$ (2,303,432)</u>                      |
|                                 |                      |                           | <u>Total Fund Balance</u>                  |
| General Fund:                   |                      |                           |  |
| Amounts per operating statement |                      |                           | \$ (89,803)                                |
| Compensated Absences Fund       |                      |                           | (5,300)                                    |
| Street Improvement Fund         |                      |                           | (1,623)                                    |
| Amounts per budget statement    |                      |                           | <u>\$ (96,726)</u>                         |

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

|                                    | <u>Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
|------------------------------------|---------------------|---------------|-----------------|
| General Fund:                      |                     |               |                 |
| General government:                |                     |               |                 |
| Municipal building and grounds     | \$ 816,003          | \$ 954,057    | \$ (138,054)    |
| General government                 | 3,127,327           | 3,507,112     | (379,785)       |
| Community and economic development | -                   | 34,070        | (34,070)        |
| Recreation and culture - Library   | 205,815             | 215,812       | (9,997)         |

These unfavorable variances in the General Fund were caused by unanticipated expenditures that became necessary and write-offs of uncollectible receivables during the year.

## **Other Supplemental Information**

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# City of Lincoln Park, Michigan

|  | Special Revenue Funds |                   |                   |                    |                   |
|--|-----------------------|-------------------|-------------------|--------------------|-------------------|
|  | Major Streets         | Local Streets     | Sanitation        | Drug<br>Forfeiture | Cable Fund        |
|  | Fund                  | Fund              | Fund              | Fund               |                   |
| <b>Assets</b>                                  |                       |                   |                   |                    |                   |
| Cash and investments                           | \$ 2,211,881          | \$ 307,564        | \$ -              | \$ 562,479         | \$ 422,721        |
| Receivables:                                   |                       |                   |                   |                    |                   |
| Special assessments receivable                 | -                     | -                 | -                 | -                  | -                 |
| Receivables from sales to customers on account | -                     | -                 | 147,932           | -                  | -                 |
| Due from other governmental units              | 278,309               | 94,245            | 83,912            | -                  | -                 |
| Due from component units                       | 1,000                 | -                 | -                 | -                  | -                 |
| Due from other funds                           | -                     | 7,148             | 76,908            | -                  | -                 |
|  | <u>\$ 2,491,190</u>   | <u>\$ 408,957</u> | <u>\$ 308,752</u> | <u>\$ 562,479</u>  | <u>\$ 422,721</u> |
| Total assets                                   |                       |                   |                   |                    |                   |
| <b>Liabilities and Fund Balances (Deficit)</b> |                       |                   |                   |                    |                   |
| <b>Liabilities</b>                             |                       |                   |                   |                    |                   |
| Accounts payable                               | \$ 28,527             | \$ 54,447         | \$ 293,541        | \$ 50,912          | \$ 6,040          |
| Due to other funds                             | -                     | -                 | 183,458           | -                  | -                 |
| Accrued liabilities and other                  | 5,866                 | 4,213             | -                 | -                  | -                 |
| Deferred revenue                               | -                     | -                 | -                 | -                  | -                 |
| Reserve for delinquent taxes                   | -                     | -                 | 68,206            | -                  | -                 |
|  | <u>34,393</u>         | <u>58,660</u>     | <u>545,205</u>    | <u>50,912</u>      | <u>6,040</u>      |
| Total liabilities                              |                       |                   |                   |                    |                   |
| <b>Fund Balances (Deficit)</b>                 |                       |                   |                   |                    |                   |
| Restricted:                                    |                       |                   |                   |                    |                   |
| Roads  | 2,456,797             | 350,297           | -                 | -                  | -                 |
| Drug forfeiture                                | -                     | -                 | -                 | 511,567            | -                 |
| Cable  | -                     | -                 | -                 | -                  | 416,681           |
| Unassigned                                     | -                     | -                 | (236,453)         | -                  | -                 |
|  | <u>2,456,797</u>      | <u>350,297</u>    | <u>(236,453)</u>  | <u>511,567</u>     | <u>416,681</u>    |
| Total fund balances (deficit)                  |                       |                   |                   |                    |                   |
| Total liabilities and fund balances (deficit)  | <u>\$ 2,491,190</u>   | <u>\$ 408,957</u> | <u>\$ 308,752</u> | <u>\$ 562,479</u>  | <u>\$ 422,721</u> |

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2013**

| Capital<br>Projects<br>Fund | Total<br>Nonmajor<br>Governmental<br>Funds |
|-----------------------------|--|
| \$ -                        | \$ 3,504,645                               |
| 14,082                      | 14,082                                     |
| -                           | 147,932                                    |
| -                           | 456,466                                    |
| -                           | 1,000                                      |
| -                           | 84,056                                     |
| <u>\$ 14,082</u>            | <u>\$ 4,208,181</u>                        |

|               |                |
|---------------|----------------|
| \$ -          | \$ 433,467     |
| -             | 183,458        |
| -             | 10,079         |
| 14,082        | 14,082         |
| -             | 68,206         |
| <u>14,082</u> | <u>709,292</u> |

|                  |                     |
|------------------|---------------------|
| -                | 2,807,094           |
| -                | 511,567             |
| -                | 416,681             |
| -                | (236,453)           |
| <u>-</u>         | <u>3,498,889</u>    |
| <u>\$ 14,082</u> | <u>\$ 4,208,181</u> |

# City of Lincoln Park, Michigan

|  | Special Revenue Funds |                   |                     |                   |                   |
|--|-----------------------|-------------------|---------------------|-------------------|-------------------|
|  | Major Streets         | Local Streets     |                     | Drug              |                   |
|  | Fund                  | Fund              | Sanitation Fund     | Forfeiture        | Cable Fund        |
| <b>Revenue</b>                                     |                       |                   |                     |                   |                   |
| Property taxes                                     | \$ -                  | \$ -              | \$ 1,230,613        | \$ -              | \$ -              |
| State-shared revenue and grants                    | 1,685,561             | 576,238           | -                   | 244,501           | -                 |
| Charges for services                               | -                     | -                 | 365,390             | -                 | -                 |
| Investment income                                  | 175                   | 10                | 34                  | 39                | 33                |
| Other revenue                                      | 171,558               | 20,000            | -                   | -                 | 107,565           |
| <b>Total revenue</b>                               | <b>1,857,294</b>      | <b>596,248</b>    | <b>1,596,037</b>    | <b>244,540</b>    | <b>107,598</b>    |
| <b>Expenditures - Current</b>                      |                       |                   |                     |                   |                   |
| Public safety                                      | -                     | -                 | -                   | 187,658           | -                 |
| Public works                                       | 1,078,040             | 1,116,831         | 1,916,819           | -                 | 127,036           |
| <b>Total expenditures</b>                          | <b>1,078,040</b>      | <b>1,116,831</b>  | <b>1,916,819</b>    | <b>187,658</b>    | <b>127,036</b>    |
| <b>Excess of Revenue Over (Under) Expenditures</b> | <b>779,254</b>        | <b>(520,583)</b>  | <b>(320,782)</b>    | <b>56,882</b>     | <b>(19,438)</b>   |
| <b>Other Financing Sources (Uses)</b>              |                       |                   |                     |                   |                   |
| Transfers in                                       | -                     | 664,670           | -                   | -                 | -                 |
| Transfers out                                      | (664,670)             | -                 | -                   | -                 | -                 |
| <b>Total other financing (uses) sources</b>        | <b>(664,670)</b>      | <b>664,670</b>    | <b>-</b>            | <b>-</b>          | <b>-</b>          |
| <b>Net Change in Fund Balances</b>                 | <b>114,584</b>        | <b>144,087</b>    | <b>(320,782)</b>    | <b>56,882</b>     | <b>(19,438)</b>   |
| <b>Fund Balances - Beginning of year</b>           | <b>2,342,213</b>      | <b>206,210</b>    | <b>84,329</b>       | <b>454,685</b>    | <b>436,119</b>    |
| <b>Fund Balances (Deficit) - End of year</b>       | <b>\$ 2,456,797</b>   | <b>\$ 350,297</b> | <b>\$ (236,453)</b> | <b>\$ 511,567</b> | <b>\$ 416,681</b> |

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances (Deficit)**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2013**

| Capital<br>Projects<br>Fund | Total<br>Nonmajor<br>Governmental<br>Funds |
|-----------------------------|--|
| \$ -                        | \$ 1,230,613                               |
| -                           | 2,506,300                                  |
| -                           | 365,390                                    |
| -                           | 291  |
| -                           | 299,123                                    |
| -                           | 4,401,717                                  |
| -                           | 187,658                                    |
| -                           | 4,238,726                                  |
| -                           | 4,426,384                                  |
| -                           | (24,667)                                   |
| -                           | 664,670                                    |
| -                           | (664,670)                                  |
| -                           | -  |
| -                           | (24,667)                                   |
| -                           | 3,523,556                                  |
| <b>\$ -</b>                 | <b>\$ 3,498,889</b>                        |

# City of Lincoln Park, Michigan

## Other Supplemental Information Combining Statement of Net Position Internal Service Funds June 30, 2013

|   | Motor Pool<br>Fund  | Information<br>Technology<br>Fund | Total               |
|---|---------------------|-----------------------------------|---------------------|
| <b>Assets</b>   |                     |                                   |                     |
| Current assets:   |                     |                                   |                     |
| Cash and cash equivalents   | \$ 414,485          | \$ 129,728                        | \$ 544,213          |
| Due from other funds  | -                   | 15,629                            | 15,629              |
| Total current assets  | 414,485             | 145,357                           | 559,842             |
| Noncurrent assets - Capital assets - Assets subject to depreciation | 2,006,976           | 5,765                             | 2,012,741           |
| Total assets  | 2,421,461           | 151,122                           | 2,572,583           |
| <b>Liabilities</b>  |                     |                                   |                     |
| Current liabilities:  |                     |                                   |                     |
| Accounts payable  | 30,919              | 5,026                             | 35,945              |
| Accrued liabilities and other                                       | 4,567               | -                                 | 4,567               |
| Current portion of long-term debt                                   | 15,052              | -                                 | 15,052              |
| Total current liabilities   | 50,538              | 5,026                             | 55,564              |
| Noncurrent liabilities - Long-term debt                             | 194,372             | -                                 | 194,372             |
| Total liabilities   | 244,910             | 5,026                             | 249,936             |
| <b>Net Position</b>   |                     |                                   |                     |
| Net investment in capital assets                                    | 1,797,552           | 5,765                             | 1,803,317           |
| Unrestricted  | 378,999             | 140,331                           | 519,330             |
| Total net position  | <b>\$ 2,176,551</b> | <b>\$ 146,096</b>                 | <b>\$ 2,322,647</b> |

# City of Lincoln Park, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Position Internal Service Funds Year Ended June 30, 2013

|  | Motor Pool<br>Fund  | Information<br>Technology<br>Fund | Total               |
|--|---------------------|-----------------------------------|---------------------|
| <b>Operating Revenue</b> - Charges to other funds          | \$ 555,452          | \$ 113,747                        | \$ 669,199          |
| <b>Operating Expenses</b>                                  |                     |                                   |                     |
| Other operating and maintenance costs                      | 382,118             | 117,227                           | 499,345             |
| Billing and administrative costs                           | 165,136             | 18,033                            | 183,169             |
| Depreciation   | 346,266             | 9,708                             | 355,974             |
| Total operating expenses                                   | 893,520             | 144,968                           | 1,038,488           |
| <b>Operating Loss</b>                                      | (338,068)           | (31,221)                          | (369,289)           |
| <b>Nonoperating Revenue (Expenses)</b> - Investment income | 56                  | 10                                | 66                  |
| <b>Loss</b> - Before contributions                         | (338,012)           | (31,211)                          | (369,223)           |
| <b>Capital Contributions</b> - Capital grants              | 675,000             | -                                 | 675,000             |
| <b>Transfers Out</b>                                       | (166,666)           | -                                 | (166,666)           |
| <b>Change in Net Position</b>                              | 170,322             | (31,211)                          | 139,111             |
| <b>Net Position</b> - Beginning of year                    | 2,006,229           | 177,307                           | 2,183,536           |
| <b>Net Position</b> - End of year                          | <u>\$ 2,176,551</u> | <u>\$ 146,096</u>                 | <u>\$ 2,322,647</u> |

# City of Lincoln Park, Michigan

## Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2013

|   | Motor Pool<br>Fund | Information<br>Technology<br>Fund | Total              |
|---|--------------------|-----------------------------------|--------------------|
| <b>Cash Flows from Operating Activities</b>   |                    |                                   |                    |
| Receipts from interfund services and reimbursements                                     | \$ 555,452         | \$ 111,290                        | \$ 666,742         |
| Payments to suppliers   | (422,574)          | (128,819)                         | (551,393)          |
| Payments to employees   | (161,799)          | (13,171)                          | (174,970)          |
|   | (28,921)           | (30,700)                          | (59,621)           |
| <b>Cash Flows from Noncapital Financing Activities -</b>                                |                    |                                   |                    |
| Transfer to other funds   | (166,666)          | -                                 | (166,666)          |
| <b>Cash Flows from Capital and Related Financing Activities</b>                         |                    |                                   |                    |
| Receipt of capital grants   | 675,000            | -                                 | 675,000            |
| Purchase of capital assets  | (902,925)          | -                                 | (902,925)          |
|   | (227,925)          | -                                 | (227,925)          |
| <b>Cash Flows from Investing Activities - Interest received on investments</b>          | 56                 | 10                                | 66                 |
| <b>Net Decrease in Cash and Cash Equivalents</b>  | (423,456)          | (30,690)                          | (454,146)          |
| <b>Cash and Cash Equivalents - Beginning of year</b>                                    | 837,941            | 160,418                           | 998,359            |
| <b>Cash and Cash Equivalents - End of year</b>  | <b>\$ 414,485</b>  | <b>\$ 129,728</b>                 | <b>\$ 544,213</b>  |
| <b>Balance Sheet Classification of Cash and Cash Equivalents - Cash and investments</b> | <b>\$ 414,485</b>  | <b>\$ 129,728</b>                 | <b>\$ 544,213</b>  |
| <b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>           |                    |                                   |                    |
| Operating loss  | \$ (338,068)       | \$ (31,221)                       | \$ (369,289)       |
| Adjustments to reconcile operating loss to net cash from operating activities:          |                    |                                   |                    |
| Depreciation and amortization   | 346,266            | 9,708                             | 355,974            |
| Changes in assets and liabilities:  |                    |                                   |                    |
| Due from others   | -                  | (2,457)                           | (2,457)            |
| Accounts payable  | (36,302)           | (5,820)                           | (42,122)           |
| Accrued and other liabilities   | (817)              | (910)                             | (1,727)            |
|   | (28,921)           | (30,700)                          | (59,621)           |
| <b>Net cash used in operating activities</b>  | <b>\$ (28,921)</b> | <b>\$ (30,700)</b>                | <b>\$ (59,621)</b> |
| <b>Noncash Transactions - Vector truck lease</b>  | <b>\$ 209,424</b>  | <b>\$ -</b>                       | <b>\$ 209,424</b>  |

# City of Lincoln Park, Michigan

## Other Supplemental Information Combining Statement of Net Position Fiduciary Funds June 30, 2013

|   | Agency Funds              |                  |                    |                             |                     | Total<br>Agency<br>Funds |
|---|---------------------------|------------------|--------------------|-----------------------------|---------------------|--------------------------|
|   | Current Tax<br>Collection | Payroll          | Court Bond<br>Fund | Court<br>Depository<br>Fund | Court Civil<br>Fund |                          |
| <b>Assets</b>                                   |                           |                  |                    |                             |                     |                          |
| Cash and cash equivalents                       | \$ 174,783                | \$ 98,912        | \$ 55,091          | \$ 2,103                    | \$ 36,649           | \$ 367,538               |
| Receivables - Due from other governmental units | 71,198                    | -                | -                  | -                           | -                   | 71,198                   |
| Total assets                                    | <u>\$ 245,981</u>         | <u>\$ 98,912</u> | <u>\$ 55,091</u>   | <u>\$ 2,103</u>             | <u>\$ 36,649</u>    | <u>\$ 438,736</u>        |
| <b>Liabilities</b>                              |                           |                  |                    |                             |                     |                          |
| Accounts payable                                | \$ -                      | \$ 3,130         | \$ -               | \$ -                        | \$ 728              | \$ 3,858                 |
| Due to other governmental units                 | 245,981                   | -                | -                  | -                           | 35,921              | 281,902                  |
| Refundable deposits, bonds, etc.                | -                         | -                | 55,091             | 2,103                       | -                   | 57,194                   |
| Accrued liabilities and other                   | -                         | 95,782           | -                  | -                           | -                   | 95,782                   |
| Total liabilities                               | <u>\$ 245,981</u>         | <u>\$ 98,912</u> | <u>\$ 55,091</u>   | <u>\$ 2,103</u>             | <u>\$ 36,649</u>    | <u>\$ 438,736</u>        |