

City of Lincoln Park, Michigan

**Financial Report
with Supplemental Information
June 30, 2012**

City of Lincoln Park, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12-13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	15
Statement of Revenue, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Proprietary Funds:	
Statement of Net Assets	18
Statement of Revenue, Expenses, and Changes in Net Assets	19
Statement of Cash Flows	20-21
Fiduciary Funds:	
Statement of Fiduciary Net Assets	22
Statement of Changes in Fiduciary Net Assets	23
Component Units:	
Statement of Net Assets	24
Statement of Activities	25-26
Notes to Financial Statements	27-53
Required Supplemental Information	54
Budgetary Comparison Schedule - General Fund	55-56
Budgetary Comparison Schedule - Major Special Revenue Funds - Community Development Block Grant Fund	57
Retirement Systems Schedule of Funding Progress and Employer Contributions	58-60
Note to Required Supplemental Information	61-62

City of Lincoln Park, Michigan

Contents (Continued)

Other Supplemental Information	63
Nonmajor Governmental Funds:	
Combining Balance Sheet	64-65
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	66-67
Internal Service Funds:	
Combining Statement of Net Assets	68
Combining Statement of Revenue, Expenses, and Changes in Net Assets	69
Combining Statement of Cash Flows	70
Fiduciary Funds:	
Statement of Assets and Liabilities	71-72
Combining Statement of Changes in Fiduciary Net Assets	73

Independent Auditor's Report

To the City Council
City of Lincoln Park, Michigan

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lincoln Park, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012 and the respective changes in its financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that 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, are 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.

To the City Council
City of Lincoln Park, Michigan

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2012 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 opinions 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* and should be read in conjunction with this report in considering the results of our audit.

Plante & Morse, PLLC

December 13, 2012

City of Lincoln Park, Michigan

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, 2012. 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 assets 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 government 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 assets are as follows: net assets of governmental activities were \$31.7 million and net assets of business-type activities were \$29.7 million.

- The current year's expense total was \$34.7 million as compared to the \$27.5 million generated in fees and charges, grants, general revenue, and taxes for governmental programs. In the previous year, expenses were \$33.9 million as compared to the \$28.5 million generated in tax and other revenue for governmental activities.
- For business-type activities, City revenue was \$9.6 million. Expenses were \$10.5 million. In the previous year, revenue was \$9.8 million and expenditures were \$9.0 million.
- The annual cost of all City programs was \$45.2 million. The previous year's cost was \$42.9 million.

The City as a Whole Analysis

The statement of net assets 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 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 assets 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 assets 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 assets and the statement of revenue, expenses, and changes in fund net assets. 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 assets and changes in fiduciary net assets. 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 1 - Net Assets (in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	\$ 15,271.0	\$ 14,376.2	\$ 10,534.7	\$ 7,877.2	\$ 25,805.7	\$ 22,253.4
Noncurrent assets	37,238.7	39,716.4	35,821.9	40,143.3	73,060.6	79,859.7
Total assets	52,509.7	54,092.6	46,356.6	48,020.5	98,866.3	102,113.1
Liabilities						
Current liabilities	9,163.0	5,223.9	2,841.6	2,423.4	12,004.6	7,647.3
Long-term liabilities	11,683.2	10,010.3	13,774.2	14,941.1	25,457.4	24,951.4
Total liabilities	20,846.2	15,234.2	16,615.8	17,364.5	37,462.0	32,598.7
Net Assets						
Invested in capital assets - Net of related debt	34,677.4	36,944.3	21,871.8	20,443.7	56,549.2	57,388.0
Restricted	3,821.9	4,687.0	4,356.3	4,167.0	8,178.2	8,854.0
Unrestricted	(6,835.8)	(2,772.9)	3,512.7	6,045.3	(3,323.1)	3,272.4
Total net assets	<u>\$ 31,663.5</u>	<u>\$ 38,858.4</u>	<u>\$ 29,740.8</u>	<u>\$ 30,656.0</u>	<u>\$ 61,404.3</u>	<u>\$ 69,514.4</u>

City as a Whole

The City's combined net assets from the previous year were \$69.5 million as compared to \$61.4 million this year. Net assets and expenses from governmental and business-type activities must be reviewed separately. Table 1 focuses on the net assets and Table 2 focuses on changes in the net assets of the City's governmental and business-type activities.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

The City's net assets for governmental activities were \$31.7 million this year as compared to \$38.9 million last year. Unrestricted net assets were \$(2.8) million last year as compared to (\$6.8) million this year. Unrestricted net assets are those that can be used to finance everyday operations without restrictions set by legislation, debt covenants, or other legal regulations. The negative unrestricted net assets amount reflects that restricted assets exceeded unrestricted net assets in the current year.

The net assets of the City's business-type activities were \$29.7 million this year as compared to \$30.7 million last year.

City revenue for the current year was \$37.1 million compared to \$38.4 million in the previous year. The total yearly cost of all programs and services was \$45.2 million as compared to \$42.9 million in the previous year.

Table 2 - Change in Net Assets (in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenue						
Program revenue - Restricted:						
Charges for services	\$ 3,363.9	\$ 3,715.8	\$ 7,737.0	\$ 8,157.5	\$ 11,100.9	\$ 11,873.3
Operating and capital grants	4,827.0	3,791.4	400.0	-	5,227.0	3,791.4
General revenue:						
Property taxes	13,841.6	15,778.9	1,408.3	1,666.4	15,249.9	17,445.3
Interest and investment income	1.1	17.6	5.3	11.7	6.4	29.3
Other general revenue including transfers	5,515.2	5,227.7	-	-	5,515.2	5,227.7
Total revenue	27,548.8	28,531.4	9,550.6	9,835.6	37,099.4	38,367.0
Expenditures						
Program expenditures:						
General government	9,124.9	8,352.6	-	-	9,124.9	8,352.6
District Court	1,460.4	1,246.5	-	-	1,460.4	1,246.5
Public safety	13,737.4	14,114.2	-	-	13,737.4	14,114.2
Public works	7,853.5	7,491.5	-	-	7,853.5	7,491.5
Culture and recreation	758.7	865.6	-	-	758.7	865.6
Community development	1,692.7	1,781.0	-	-	1,692.7	1,781.0
Interest on long-term debt	116.1	50.0	-	-	116.1	50.0
Business activities - Water and/or sewer	-	-	10,465.8	9,038.1	10,465.8	9,038.1
Total expenditures	34,743.7	33,901.4	10,465.8	9,038.1	45,209.5	42,939.5
(Decrease) Increase in Net Assets	\$ (7,194.9)	\$ (5,370.0)	\$ (915.2)	\$ 797.5	\$ (8,110.1)	\$ (4,572.5)

Governmental Activities

This year's governmental activities revenue was \$27.5 million as compared to \$28.5 million last year. The year's governmental activities cost was \$34.7 million as compared to \$33.9 million in the previous year. No new debt was added and the City continues to have very few long-term obligations. 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 as compared to \$9.8 million last year. This year's expenses were \$10.5 million as compared to \$9.0 million in the previous year. During the year ended June 30, 2012, the City paid out claims to residents of approximately \$850,000 for basement flooding.

General Fund Budgetary Statements

City management will reduce the use of fund balance in the coming years; however, measures need to be taken to ensure that the City remains financially solvent. The taxpayers approved a three-year public safety and library millage, but revenue recognized by these millages has been reduced drastically coupled with the Headlee Override failure and Wayne County foreclosure chargebacks. These millages are up for renewal in 2013 and are critical to the City's future financial stability. Taxable value has declined significantly since fiscal year 2010. As a result, tax revenue has decreased from \$15.5 million in 2010 to \$12 million for the year ended June 30, 2012. Tax revenue is expected to decline by an additional \$1 million for the upcoming fiscal year.

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.

Estimates for property tax revenue are based on the underlying application of various state laws, and the formulation for each is described in this budget. The City has determined that the short-term revenue includes the planned use of or drawdown from fund reserves or balances, the funds on hand after the completion of one fiscal year, and unencumbered or designated to capital or contractual obligations.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

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 \$5.9 million as compared to \$8.7 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 8 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.

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 9,614.7	\$ 9,614.7	\$ 16.5	\$ 16.5	\$ 9,631.2	\$ 9,631.2
Construction in progress	1,095.9	142.6	-	-	1,095.9	142.6
Equipment	3,195.7	3,531.7	4,514.5	4,219.1	7,710.2	7,750.8
Buildings and improvements	853.4	930.0	215.1	230.1	1,068.5	1,160.1
Infrastructure	21,295.2	24,133.9	31,075.8	31,069.9	52,371.0	55,203.8
Vehicles	1,183.8	1,363.5	-	-	1,183.8	1,363.5
Total	\$ 37,238.7	\$ 39,716.4	\$ 35,821.9	\$ 35,535.6	\$ 73,060.6	\$ 75,252.0

At the close of the year, the City had invested \$73.1 million in capital assets such as land, buildings and improvements, and equipment or infrastructure (see Table 3). A total of \$75.3 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	
	2012	2011	2012	2011	2012	2011
General obligation bonds (backed by the City)	\$ -	\$ -	\$ 14,142.3	\$ 15,532.6	\$ 14,142.3	\$ 15,532.6
Other bonds or outstanding obligations	4,376.4	4,636.5	165.2	153.8	4,541.6	4,790.3
Total	\$ 4,376.4	\$ 4,636.5	\$ 14,307.5	\$ 15,686.4	\$ 18,683.9	\$ 20,322.9

At the close of the year, the City had \$18.7 million in outstanding bonds and notes, as compared to the previous year of \$20.3. The City incurred no additional debt.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

Economic Issues/Upcoming Yearly Budgets

City officials considered many issues when establishing the upcoming year's budget, tax rates, and fees. To prepare strategically for future challenges, a five-year financial plan was prepared by city administration. This plan forecasts the probable impact of changes to revenue and expenditures based on assumptions derived from demographic and historical financial patterns.

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 prospect of an emergency financial manager seems imminent unless significant changes are immediately made.

Expenditures continue to exceed revenue, staff reductions will continue causing decreased service hours to the public, and concessionary contracts will be sought. The City used \$2.3 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 healthcare, 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.

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 of Lincoln Park 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.
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 Lincoln Park's government.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

4. The City revised and disclosed to the public a five-year financial plan including multiyear budgets for transparency and for municipal professional responsibility purposes, continuing our competency stewardship of public investment.

And finally, the City government has been and will continue to be a leader in developing new, innovative, cooperative, and collaborative ways of doing business with neighboring municipal governments. Examples of our commitment and success in this area include:

- Fostering an increased focus on cooperation and collaboration among neighboring communities through joint venture partnerships with organizations such as the Downriver Community Conference, Michigan Economic Development Corporation (MEDC), Wayne County Economic Development, Wayne Metro, and other CDCs such as the Michigan Magnet Fund.
- Entering into an agreement with the City of Southgate to share assessing service
- Entering into an agreement with the cities of Southgate and Wyandotte for central dispatch services

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:

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Ms. Lisa Griggs, Director of Finance
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City of Lincoln Park, Michigan

Statement of Net Assets June 30, 2012

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 10,932,958	\$ 2,720,130	\$ 13,653,088	\$ 1,725,809
Receivables:				
Receivables from sales to customers on account	134,906	3,296,425	3,431,331	-
Loans receivable	2,359,984	-	2,359,984	19,341
Other receivables	371,163	-	371,163	-
Due from other governmental units	1,065,322	-	1,065,322	-
Special assessments receivable	14,082	-	14,082	-
Due from component units	11,590	-	11,590	-
Internal balances	32,704	(32,704)	-	-
Prepaid expenses and other assets	-	2,338	2,338	1,169
Restricted assets (Note 9)	-	4,548,503	4,548,503	-
Land and homes held for resale	348,319	-	348,319	-
Capital assets - Net (Note 5):				
Assets not subject to depreciation	10,710,557	16,540	10,727,097	263,493
Assets subject to depreciation	26,528,145	35,805,357	62,333,502	952,503
Total assets	52,509,730	46,356,589	98,866,319	2,962,315
Liabilities				
Accounts payable	1,675,171	941,574	2,616,745	24,091
Due to pension trust fund	3,086,121	-	3,086,121	11,590
Accrued liabilities and other	696,389	45,286	741,675	-
Deferred revenue (Note 4)	2,514,733	-	2,514,733	19,341
Reserve for delinquent taxes	517,492	64,270	581,762	-
Noncurrent liabilities:				
Due within one year (Note 8):				
Compensated absences - < 1 yr	453,767	41,311	495,078	-
Current portion of long-term debt	219,351	1,749,100	1,968,451	-
Due in more than one year (Note 8):				
Compensated absences - > 1 yr	1,361,299	123,932	1,485,231	-
Net OPEB obligation - > 1 yr (Note 14)	7,979,893	1,257,124	9,237,017	-
Long-term debt	2,341,957	12,393,186	14,735,143	-
Total liabilities	20,846,173	16,615,783	37,461,956	55,022
Net Assets				
Invested in capital assets - Net of related debt	34,677,394	21,871,770	56,549,164	1,215,996
Restricted for:				
Streets and highways	2,548,832	-	2,548,832	-
Debt service	-	4,356,344	4,356,344	-
Sanitation	84,329	-	84,329	-
CDBG	297,990	-	297,990	-
Drug forfeiture	454,685	-	454,685	-
Cable	436,119	-	436,119	-
Unrestricted	(6,835,792)	3,512,692	(3,323,100)	1,691,297
Total net assets	\$ 31,663,557	\$ 29,740,806	\$ 61,404,363	\$ 2,907,293

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

City of Lincoln Park, Michigan

	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 9,124,898	\$ 644,551	\$ 391,777	\$ -
District court	1,460,402	-	-	-
Public safety	13,737,431	1,619,592	258,320	24,357
Public works	7,853,496	936,899	2,133,799	691,689
Community and economic development	1,692,666	-	1,200,705	-
Recreation and culture	758,678	162,817	126,388	-
Interest on long-term debt	116,121	-	-	-
Total governmental activities	34,743,692	3,363,859	4,110,989	716,046
Business-type activities	10,465,785	7,737,041	-	400,016
Total primary government	<u>\$ 45,209,477</u>	<u>\$ 11,100,900</u>	<u>\$ 4,110,989</u>	<u>\$ 1,116,062</u>
Component units:				
Downtown Development Authority	\$ 224,340	\$ -	\$ -	\$ 246,113
Economic Development Corporation	4,503	16,858	-	-
Brownfield Development Corporation	65,350	-	-	-
Total component units	<u>\$ 294,193</u>	<u>\$ 16,858</u>	<u>\$ -</u>	<u>\$ 246,113</u>
General revenue:				
Property taxes				
State-shared revenue				
Investment income				
Cable franchise fees				
Other miscellaneous income				
Total general revenue				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2012

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (8,088,570)	\$ -	\$ (8,088,570)	\$ -
(1,460,402)	-	(1,460,402)	-
(11,835,162)	-	(11,835,162)	-
(4,091,109)	-	(4,091,109)	-
(491,961)	-	(491,961)	-
(469,473)	-	(469,473)	-
(116,121)	-	(116,121)	-
(26,552,798)	-	(26,552,798)	-
-	(2,328,728)	(2,328,728)	-
(26,552,798)	(2,328,728)	(28,881,526)	-
-	-	-	21,773
-	-	-	12,355
-	-	-	(65,350)
-	-	-	(31,222)
13,841,581	1,408,313	15,249,894	494,508
4,134,509	-	4,134,509	-
1,114	5,219	6,333	3,943
615,593	-	615,593	-
765,108	-	765,108	300
19,357,905	1,413,532	20,771,437	498,751
(7,194,893)	(915,196)	(8,110,089)	467,529
38,858,450	30,656,002	69,514,452	2,439,764
\$ 31,663,557	\$ 29,740,806	\$ 61,404,363	\$ 2,907,293

City of Lincoln Park, Michigan

Governmental Funds Balance Sheet June 30, 2012

	General Fund	CDBG Fund	Nonmajor Funds	Total
Assets				
Cash and cash equivalents	\$ 5,880,915	\$ 723,120	\$ 3,330,564	\$ 9,934,599
Receivables:				
Special assessments receivable	-	-	14,082	14,082
Receivables from sales to customers on account	-	-	134,906	134,906
Loans receivable	-	2,359,984	-	2,359,984
Other receivables	337,586	32,115	1,462	371,163
Due from other governmental units	696,422	-	368,900	1,065,322
Due from component units	11,590	-	-	11,590
Due from other funds	457,799	-	84,056	541,855
Land and homes held for resale	-	348,319	-	348,319
Total assets	\$ 7,384,312	\$ 3,463,538	\$ 3,933,970	\$ 14,781,820
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 1,094,278	\$ 127,954	\$ 374,872	\$ 1,597,104
Due to pension trust funds	3,086,121	-	-	3,086,121
Due to other funds	-	522,323	-	522,323
Accrued liabilities and other	640,672	538	21,460	662,670
Deferred revenue	-	2,514,733	14,082	2,528,815
Reserve for delinquent taxes	517,492	-	-	517,492
Total liabilities	5,338,563	3,165,548	410,414	8,914,525
Fund Balances				
Restricted:				
Roads	409	-	2,548,423	2,548,832
Drug forfeiture	-	-	454,685	454,685
CDBG	-	348,319	-	348,319
Sanitation	-	-	84,329	84,329
Cable	-	-	436,119	436,119
Unassigned	2,045,340	(50,329)	-	1,995,011
Total fund balances	2,045,749	297,990	3,523,556	5,867,295
Total liabilities and fund balances	\$ 7,384,312	\$ 3,463,538	\$ 3,933,970	\$ 14,781,820

City of Lincoln Park, Michigan

Governmental Funds **Reconciliation of the Balance Sheet of Governmental Funds to the** **Statement of Net Assets** **June 30, 2012**

Fund Balance Reported in Governmental Funds	\$ 5,867,295
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	35,982,336
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	(2,561,308)
Accrued interest payable is recorded as a liability in governmental activities	(27,425)
Compensated absences are included as a liability in the governmental activities	(1,815,066)
Net other postemployment benefits are not due and payable in the current period and are not reported in the funds	(7,979,893)
Internal service funds are included as part of governmental activities	<u>2,183,536</u>
Net Assets of Governmental Activities	<u>\$ 31,663,557</u>

City of Lincoln Park, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2012

	General Fund	CDBG Fund	Nonmajor Funds	Total
Revenue				
Property taxes	\$ 12,031,377	\$ -	\$ 1,360,204	\$ 13,391,581
Licenses and permits	872,413	-	-	872,413
Federal grants	-	1,200,705	7,092	1,207,797
State-shared revenue and grants	4,746,310	-	2,516,129	7,262,439
Charges for services	-	-	353,898	353,898
Fines and forfeitures	1,615,634	-	-	1,615,634
Investment income	698	-	416	1,114
Rental income	36,151	-	-	36,151
Other revenue	2,240,046	-	103,880	2,343,926
Total revenue	21,542,629	1,200,705	4,341,619	27,084,953
Expenditures - Current				
General government	8,647,122	-	-	8,647,122
District Court	1,460,402	-	-	1,460,402
Public safety	12,094,024	-	257,538	12,351,562
Public works	684,545	-	4,401,259	5,085,804
Community and economic development	208,075	1,482,066	-	1,690,141
Recreation and culture	753,776	-	-	753,776
Total expenditures	23,847,944	1,482,066	4,658,797	29,988,807
Excess of Expenditures over Revenue	(2,305,315)	(281,361)	(317,178)	(2,903,854)
Other Financing Sources (Uses)				
Transfers in	-	-	402,523	402,523
Transfers out	-	-	(402,523)	(402,523)
Total other financing sources (uses)	-	-	-	-
Net Change in Fund Balances	(2,305,315)	(281,361)	(317,178)	(2,903,854)
Fund Balances - Beginning of year (as restated)	4,351,064	579,351	3,840,734	8,771,149
Fund Balances - End of year	\$ 2,045,749	\$ 297,990	\$ 3,523,556	\$ 5,867,295

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, 2012

Net Change in Fund Balances - Total Governmental Funds	\$ (2,903,854)
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	1,597,614
Depreciation expense	(3,726,243)
Net book value of assets disposed of	(142,532)
Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	236,065
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	210,792
Interest expense is recorded in the funds when due; it is recorded in the statement of activities when incurred	2,140
Decrease in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	49,372
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	(1,929,209)
Internal service funds are included as part of governmental activities	(589,038)
Change in Net Assets of Governmental Activities	<u>\$ (7,194,893)</u>

City of Lincoln Park, Michigan

Proprietary Funds Statement of Net Assets June 30, 2012

	Enterprise Fund	Governmental Activities
	Water and Sewer Fund	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,720,130	\$ 998,359
Receivables	3,296,425	-
Due from other funds	44,204	13,172
Prepaid expenses and other assets	2,338	-
Total current assets	6,063,097	1,011,531
Noncurrent assets:		
Restricted assets (Note 9)	4,548,503	-
Capital assets (Note 5):		
Assets not subject to depreciation	16,540	-
Assets subject to depreciation	35,805,357	1,256,366
Total noncurrent assets	40,370,400	1,256,366
Total assets	46,433,497	2,267,897
Liabilities		
Current liabilities:		
Accounts payable	941,574	78,067
Due to other funds	76,908	-
Accrued liabilities and other	45,286	6,294
Reserve for delinquent taxes	64,270	-
Compensated absences - < 1 yr	41,311	-
Current portion of long-term debt	1,749,100	-
Total current liabilities	2,918,449	84,361
Noncurrent liabilities:		
Compensated absences - > 1 yr	123,932	-
Net OPEB obligation (Note 14)	1,257,124	-
Long-term debt (Note 8)	12,393,186	-
Total noncurrent liabilities	13,774,242	-
Total liabilities	16,692,691	84,361
Net Assets		
Invested in capital assets - Net of related debt	21,871,770	1,256,366
Restricted - Debt service	4,356,344	-
Unrestricted	3,512,692	927,170
Total net assets	\$ 29,740,806	\$ 2,183,536

City of Lincoln Park, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2012

	Enterprise Fund	Governmental Activities
	Water and Sewer Fund	Internal Service Funds
Operating Revenue		
Sale of water	\$ 2,521,883	\$ -
Sewage disposal charges	3,306,725	-
System maintenance charge	1,171,083	-
Other	737,350	-
Charges to other funds	-	635,369
Total operating revenue	7,737,041	635,369
Operating Expenses		
Cost of water	2,034,255	-
Cost of sewage treatment	1,733,646	-
Operation and maintenance	738,696	600,019
Billing and administrative costs	2,143,680	346,937
Other	2,069,605	-
Depreciation	1,294,034	308,297
Total operating expenses	10,013,916	1,255,253
Operating Loss	(2,276,875)	(619,884)
Nonoperating Revenue (Expense)		
Property tax revenue	1,408,313	-
Investment income	5,219	112
Interest expense	(451,869)	-
Gain on sale of assets	-	30,734
Total nonoperating revenue	961,663	30,846
Loss - Before contributions	(1,315,212)	(589,038)
Capital Contributions	400,016	-
Change in Net Assets	(915,196)	(589,038)
Net Assets - Beginning of year	30,656,002	2,772,574
Net Assets - End of year	\$ 29,740,806	\$ 2,183,536

City of Lincoln Park, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2012

	Enterprise Fund	Governmental Activities
	Water and Sewer Fund	Internal Service Funds
Cash Flows from Operating Activities		
Receipts from customers	\$ 7,839,809	\$ -
Receipts from interfund services and reimbursements	575	630,455
Payments to suppliers	(5,091,494)	(564,615)
Payments to employees	(2,188,139)	(334,581)
Internal activity - Payments to other funds	77,291	-
Claims paid to residents	(853,564)	-
	(215,522)	(268,741)
Net cash used in operating activities		
Cash Flows from Capital and Related Financing Activities		
Payment to County Debt Service Fund	(637,050)	-
Proceeds from sales of capital assets	-	30,734
Collection of property taxes	1,244,714	-
Purchase of capital assets	(1,180,285)	(101,758)
Principal and interest paid on debt	(1,121,387)	-
	(1,694,008)	(71,024)
Net cash used in capital and related financing activities		
Cash Flows from Investing Activities - Interest received on investments	5,219	112
Net Decrease in Cash and Cash Equivalents	(1,904,311)	(339,653)
Cash and Cash Equivalents - Beginning of year	6,441,850	1,338,012
Cash and Cash Equivalents - End of year	\$ 4,537,539	\$ 998,359
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and investments	\$ 2,720,130	\$ 998,359
Restricted assets (Note 9)	1,192,159	-
Unremitted tax funds	625,250	-
Total cash and cash equivalents	\$ 4,537,539	\$ 998,359
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (2,276,875)	\$ (619,884)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	1,294,034	308,297
Changes in assets and liabilities:		
Receivables	101,308	-
Due to other funds	575	(4,914)
Prepaid and other assets	10,235	7,068
Accounts payable	316,642	37,489
Due from other funds	77,291	-
Accrued and other liabilities	(19,215)	3,203
Net OPEB obligation	269,076	-
Compensated absences	11,407	-
Net cash used in operating activities	\$ (215,522)	\$ (268,741)

City of Lincoln Park, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2012

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2012, the CDBG fund contributed \$400,016 of water lines to the Water and Sewer Fund. In addition, 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, 2011	\$ 2,581,401
Interest earned on investments	3,840
Judgment levy	637,050
Increase in working capital as a result of billings to the City	230,006
Principal paid	(545,310)
Interest paid	(175,893)
	<hr/>
Assets on hand - June 30, 2012	<u>\$ 2,731,094</u>

City of Lincoln Park, Michigan

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2012

	Pension and Other Employee Benefits Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 1,135,288	\$ 245,737
Investments:		
U.S. government securities	2,330,157	-
Stocks	7,726,449	-
Bonds	3,246,418	-
Mutual funds	1,108,099	-
Mutual funds - Alternative investments	808,750	-
Accrued interest receivable	47,579	-
Due from primary government	3,086,121	-
	19,488,861	245,737
Liabilities		
Accounts payable	29,870	5,212
Due to other governmental units	-	59,971
Refundable deposits, bonds, etc.	-	50,979
Accrued liabilities and other	-	129,575
	29,870	245,737
Net Assets - Held in trust for pension and other employee benefits	\$ 19,458,991	\$ -

City of Lincoln Park, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Assets - Pension and Other Employee Benefits Trust Funds Year Ended June 30, 2012

	Pension and Other Employee Benefits Trust Funds
Additions	
Investment activity:	
Interest and dividends	\$ 515,143
Net decrease in fair value of investments	(1,320,091)
Less investment-related expenses	(168,284)
Total investment activity	(973,232)
Contributions:	
Employer	8,579,265
Employee	485,322
Total contributions	9,064,587
Total additions - Net	8,091,355
Deductions	
Benefit payments	10,798,195
Refunds of contributions	97,875
Transfer of plan assets to MERS	10,315,135
Administrative expenses	124,365
Total deductions	21,335,570
Net Decrease in Net Assets Held in Trust	(13,244,215)
Net Assets Held in Trust for Pension and Other Employee Benefits - Beginning of year	32,703,206
Net Assets Held in Trust for Pension and Other Employee Benefits - End of year	\$ 19,458,991

City of Lincoln Park, Michigan

Component Units Statement of Net Assets June 30, 2012

	Downtown Development Authority	Economic Development Corporation	Brownfield Development Corporation	Total
Assets				
Cash and cash equivalents	\$ 1,451,088	\$ 274,721	\$ -	\$ 1,725,809
Receivables - Loans receivable	-	19,341	-	19,341
Prepaid expenses and other assets	1,169	-	-	1,169
Capital assets:				
Nondepreciable	263,493	-	-	263,493
Depreciable	952,503	-	-	952,503
Total assets	2,668,253	294,062	-	2,962,315
Liabilities				
Accounts payable	24,091	-	-	24,091
Due to primary government	9,939	1,651	-	11,590
Deferred revenue	-	19,341	-	19,341
Total liabilities	34,030	20,992	-	55,022
Net Assets				
Invested in capital assets - Net of related debt	1,215,996	-	-	1,215,996
Unrestricted	1,418,227	273,070	-	1,691,297
Total net assets	<u>\$ 2,634,223</u>	<u>\$ 273,070</u>	<u>\$ -</u>	<u>\$ 2,907,293</u>

City of Lincoln Park, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Downtown Development Authority:				
General government	\$ 218,141	\$ -	\$ -	\$ 246,113
Community and economic development	6,199	-	-	-
Total governmental activities	224,340	-	-	246,113
Economic Development Corporation:				
General government	4,473	16,858	-	-
Recreation and culture	30	-	-	-
Total governmental activities	4,503	16,858	-	-
Brownfield Development Corporation	65,350	-	-	-
Total component units	<u>\$ 294,193</u>	<u>\$ 16,858</u>	<u>\$ -</u>	<u>\$ 246,113</u>

General revenue:
 Property taxes
 Investment income
 Other miscellaneous income
 Total general revenue

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2012**

Net (Expense) Revenue and Changes in Net Assets			
Downtown Development Authority	Economic Development Corporation	Brownfield Development Corporation	Total
\$ 27,972	\$ -	\$ -	\$ 27,972
(6,199)	-	-	(6,199)
21,773	-	-	21,773
-	12,385	-	12,385
-	(30)	-	(30)
-	12,355	-	12,355
-	-	(65,350)	(65,350)
21,773	12,355	(65,350)	(31,222)
429,158	-	65,350	494,508
3,286	657	-	3,943
300	-	-	300
432,744	657	65,350	498,751
454,517	13,012	-	467,529
2,179,706	260,058	-	2,439,764
\$ 2,634,223	\$ 273,070	\$ -	\$ 2,907,293

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2012

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 and Municipal Employees' Retirement System have also been blended into the City's financial statements. Both systems are governed by five-member pension boards. The mayor and one City Council member sit on each board. Two members of the board are elected by the participants. In addition, the City Council appoints one City resident to each board. The systems are reported as if they were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement systems. During the year, the Municipal Employees' Retirement System assets were transferred to the Municipal Employees' Retirement System (MERS). As a result, the net assets of the Municipal Employees' Retirement System at the end of the year are zero.

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 assets 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 assets 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 assets 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 1 - 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.

Additionally, the City reports the following internal service and fiduciary activities:

Internal Service Funds - Internal service funds account for vehicle and equipment purchases, as well as technology purchases.

Pension and Other Employee Benefit Trust Funds - The Pension and Other Employee Benefit Trust Funds account for the activities of the Police and Fire Retirement System, the Municipal Employees' Retirement System, and the Retirees' Health Benefit Fund, which accumulate resources for pension and postretirement health benefit payments to qualified police and fire and municipal employees.

Agency Funds - The agency funds are used to account for assets held by the City in a trustee capacity for other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to apply private sector standards issued after December 1, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets 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 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 statements of net assets. 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.

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.

The 2011 taxable valuation of the City totaled \$646 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, 1.1921 mills for Ecorse Creek debt, and 1.2086 mills for Downriver Sewage Disposal System debt. This resulted in approximately \$10.0 million for operating, \$2.2 million for police and fire protection, \$226,000 for library operations, \$1.5 million for rubbish, \$770,000 for Ecorse Creek, and \$781,000 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.

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

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.

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.

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.

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

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, 2012 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, except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."

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.

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 Funds and Retiree Health Care Fund are also authorized by Michigan Public Act 314 of 1965, as amended, 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.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2012

Note 3 - Deposits and Investments (Continued)

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 \$15,297,526 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. At year end, the Downtown Development Authority had \$1,451,088 of bank deposits that were uninsured and uncollateralized. The Economic Development Corporation had \$265,046 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.

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 Average Maturity (Years)
Police and Fire Retirement System:		
U.S. government securities	\$ 2,330,157	5.60
Corporate bonds	3,246,418	8.77
Total	\$ 5,576,575	

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2012

Note 3 - Deposits and Investments (Continued)

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:

<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
\$ 1,389,170	AAA	Moody's
129,787	A1	Moody's
1,389	AA1	Moody's
513,570	A2	Moody's
325,489	AA2	Moody's
626,985	A3	Moody's
137,148	AA3	Moody's
630,665	BAA1	Moody's
1,055,905	BAA2	Moody's
369,175	BAA3	Moody's
<u>397,292</u>	Undefined	Moody's
<u>\$ 5,576,575</u>		

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, 2012

Note 4 - Deferred Revenue (Continued)

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments	\$ 14,082	\$ -
Program income	-	97,172
Rehabilitation liens and loans	-	2,417,561
Total	<u>\$ 14,082</u>	<u>\$ 2,514,733</u>

Note 5 - Capital Assets

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

	<u>Balance July 1, 2011</u>	<u>Reclassifications</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2012</u>
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 9,614,700	\$ -	\$ -	\$ -	\$ 9,614,700
Construction in progress	142,532	-	1,095,857	142,532	1,095,857
Subtotal	9,757,232	-	1,095,857	142,532	10,710,557
Capital assets being depreciated:					
Roads and sidewalks	98,173,004	-	335,781	-	98,508,785
Buildings and improvements	6,229,403	-	-	-	6,229,403
Equipment	9,229,984	-	165,977	66,760	9,329,201
Subtotal	113,632,391	-	501,758	66,760	114,067,389
Accumulated depreciation:					
Roads and sidewalks	74,039,055	-	3,174,493	-	77,213,548
Buildings and improvements	5,299,347	-	76,610	-	5,375,957
Equipment	5,797,725	-	475,140	66,760	6,206,105
Subtotal	85,136,127	-	3,726,243	66,760	88,795,610
Net capital assets being depreciated	28,496,264	-	(3,224,485)	-	25,271,779
Internal service fund capital assets being depreciated:					
Machinery and equipment	214,066	-	-	26,267	187,799
Vehicles	2,726,398	-	108,196	139,725	2,694,869
Subtotal	2,940,464	-	108,196	165,992	2,882,668
Accumulated depreciation:					
Machinery and equipment	114,690	-	16,111	15,680	115,121
Vehicles	1,362,868	-	292,186	143,873	1,511,181
Subtotal	1,477,558	-	308,297	159,553	1,626,302
Net internal service funds capital assets	1,462,906	-	(200,101)	6,439	1,256,366
Net governmental activity capital assets	<u>\$ 39,716,402</u>	<u>\$ -</u>	<u>\$ (2,328,729)</u>	<u>\$ 148,971</u>	<u>\$ 37,238,702</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2012

Note 5 - Capital Assets (Continued)

	Balance July 1, 2011	Reclassifications	Additions	Disposals	Balance June 30, 2012
Business-type Activities					
Capital assets not being depreciated -					
Land	\$ 16,540	\$ -	\$ -	\$ -	\$ 16,540
Capital assets being depreciated:					
Buildings and improvements	1,683,467	-	-	-	1,683,467
Machinery and equipment	5,666,942	-	472,099	-	6,139,041
Water and sewer distribution systems	49,877,221	-	1,108,202	-	50,985,423
Subtotal	57,227,630	-	1,580,301	-	58,807,931
Accumulated depreciation:					
Buildings and improvements	1,453,269	-	15,056	-	1,468,325
Machinery and equipment	1,447,906	-	176,673	-	1,624,579
Water and sewer distribution systems	18,807,365	-	1,102,305	-	19,909,670
Subtotal	21,708,540	-	1,294,034	-	23,002,574
Net capital assets being depreciated	35,519,090	-	286,267	-	35,805,357
Net capital assets	<u>\$ 35,535,630</u>	<u>\$ -</u>	<u>\$ 286,267</u>	<u>\$ -</u>	<u>\$ 35,821,897</u>
	Balance July 1, 2011	Reclassifications	Additions	Disposals	Balance June 30, 2012
Component Units					
Capital assets not being depreciated -					
Land	\$ 263,493	\$ -	\$ -	\$ -	\$ 263,493
Capital assets being depreciated:					
Equipment	281,830	-	-	-	281,830
Vehicles	25,134	-	-	-	25,134
Infrastructure	-	-	732,524	-	732,524
Subtotal	306,964	-	732,524	-	1,039,488
Accumulated depreciation:					
Equipment	18,788	-	18,789	-	37,577
Vehicles	15,081	-	5,027	-	20,108
Infrastructure	-	-	29,300	-	29,300
Subtotal	33,869	-	53,116	-	86,985
Net capital assets being depreciated	273,095	-	679,408	-	952,503
Net capital assets	<u>\$ 536,588</u>	<u>\$ -</u>	<u>\$ 679,408</u>	<u>\$ -</u>	<u>\$ 1,215,996</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2012

Note 5 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 307,959
Public safety	84,646
Public works	3,199,088
Economic development	134,550
Internal service fund depreciation is charged to the various functions based on their usage of the asset	<u>308,297</u>
Total governmental activities	<u>\$ 4,034,540</u>
Business-type activities - Water and sewer	<u>\$ 1,294,034</u>
Component unit activities - DDA	<u>\$ 53,116</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	\$ 457,799
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 funds	Community Development Block Grant Fund	13,172
Pension trust funds	General Fund	<u>3,086,121</u>
	Total	<u>\$ 3,685,352</u>

These 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.

The interfund transfer reported from the Major Streets Fund to the Local Streets Fund for \$402,523 was to pay for the Major Streets Fund's portion of street obligations.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2012

Note 7 - Leases

Capital Leases - The City has entered into lease agreements as lessee for financing the purchase of heating and air conditioning units and various other City Hall renovations. 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, 2012 on the leased assets is \$1,432,000. The future minimum lease obligations for the years ending June 30, 2013 through June 30, 2022 and the net present value are as follows:

Years Ending June 30	Amount
2013	\$ 329,053
2014	329,053
2015	329,053
2016	329,053
2017	329,053
2018-2022	<u>1,563,003</u>
Total minimum lease payments	3,208,268
Less amount representing interest	<u>(646,960)</u>
Present value	<u>\$ 2,561,308</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 Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Other governmental obligations -							
Capital lease - Honeywell agreement:							
Amount of issue - \$3,580,000		\$219,351-					
Maturing through 2022	4.00%	\$301,595	\$ 2,772,100	\$ -	\$ 210,792	\$ 2,561,308	\$ 219,351
Employee compensated absences			<u>1,864,438</u>	<u>416,737</u>	<u>466,109</u>	<u>1,815,066</u>	<u>453,767</u>
Total governmental activities			<u>\$ 4,636,538</u>	<u>\$ 416,737</u>	<u>\$ 676,901</u>	<u>\$ 4,376,374</u>	<u>\$ 673,118</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2012

Note 8 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
General obligations debt (county contracts):							
Ecorse Creek Pollution Bond - Phase III:							
Amount of issue - \$10,250,000							
Maturing through 2013	5%	\$750,000	\$ 1,500,000	\$ -	\$ 750,000	\$ 750,000	\$ 750,000
Downriver Sewage Disposal Bonds:							
Amount of issue - \$12,344,844							
Maturing through various dates	2.0% - 2.5%	\$81,270 - \$898,912	10,587,596	-	545,310	10,042,286	874,100
Water and Sewer System Improvements Bonds:							
Amount of issue - \$3,445,000							
Maturing through 2030	2.5% - 4.125%	\$125,000 - \$275,000	3,445,000	-	95,000	3,350,000	125,000
Total general obligation bonds			15,532,596	-	1,390,310	14,142,286	1,749,100
Other long-term obligations - Employee compensated absences			153,836	49,866	38,459	165,243	41,311
Total business-type activities			<u>\$15,686,432</u>	<u>\$ 49,866</u>	<u>\$ 1,428,769</u>	<u>\$14,307,529</u>	<u>\$ 1,790,411</u>

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

Years Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 219,351	\$ 109,702	\$ 329,053	\$ 1,749,100	\$ 353,548	\$ 2,102,648
2014	228,258	109,702	337,960	1,023,912	307,058	1,330,970
2015	237,526	91,527	329,053	1,022,184	278,179	1,300,363
2016	247,170	81,883	329,053	1,020,898	249,540	1,270,438
2017	257,207	71,847	329,054	989,440	221,881	1,211,321
2018-2022	1,371,796	191,208	1,563,004	3,551,316	754,609	4,305,925
2023-2027	-	-	-	2,741,918	398,634	3,140,552
2028-2031	-	-	-	2,043,518	66,660	2,110,178
Total	<u>\$ 2,561,308</u>	<u>\$ 655,869</u>	<u>\$ 3,217,177</u>	<u>\$ 14,142,286</u>	<u>\$ 2,630,109</u>	<u>\$ 16,772,395</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2012

Note 9 - Restricted Net 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, 2012 consist of the following:

Cash and cash equivalents:	
Ecorse Creek replacement reserve	\$ 1,000,000
Water and sewer improvement unspent bond proceeds	<u>192,159</u>
Total cash and cash equivalents	1,192,159
Wayne County sewage disposal system:	
Assets held at Wayne County for future debt payments	1,131,180
Investment in the Downriver Sewage Disposal System	1,599,914
Unremitted tax funds	<u>625,250</u>
Total restricted assets	<u>\$ 4,548,503</u>

The City has an obligation recorded for the Ecorse Creek pollution bonds 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 \$1,373,255 compared to principal and interest payments of \$1,594,227 on related debt.

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.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2012

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, 2011, 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, 42 fully vested current active employees, and 35 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; police chiefs with more than 28 years of service contribute 8.63 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, 2012, the City's annual pension cost of \$3,086,121 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		
	2012	2011	2010
Annual pension cost (APC)	\$ 3,086,121	\$ 2,947,238	\$ 2,569,039
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
Net pension obligation	-	-	-

Funding Status and Funding Progress - As of June 30, 2011, the most recent actuarial valuation date, the plan was 37 percent funded. The actuarial accrued liability for benefits was \$60,283,325, and the actuarial value of assets was \$22,108,082, resulting in an unfunded actuarial accrued liability of \$38,175,243. The annual covered payroll was \$4,691,970, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 814 percent.

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

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.

Actuarial Methods and Assumptions - The annual required contribution was determined as part of an actuarial valuation at June 30, 2011, 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 4.2 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 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 four-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 13 years.

Reserves - As of June 30, 2012, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 5,553,831
Reserve for retired benefit payments	13,905,160

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

Municipal Employees' Retirement System Plan Description - Effective January 1, 2012, the Municipal Employees' Retirement System assets were transferred to the Municipal Employees' Retirement System of Michigan (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 January 1, 2012, the date of the most recent actuarial valuation, membership consisted of 157 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 45 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.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2012

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, 2012, the City's annual pension cost of \$1,992,507 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 June 30, 2010, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.25 percent investment rate of return and (b) projected salary increases of 4.2 to 7.8 percent per year. Both (a) and (b) include inflation at 4 percent. 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		
	2012	2011	2010
Annual pension cost (APC)	\$ 1,992,507	\$ 2,112,131	\$ 1,811,667
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
Net pension obligation	-	-	-

	Fiscal Year Ended June 30		
	2011	2010	2009
Actuarial value of assets	\$ 13,445,000	\$ 13,061,000	\$ 13,644,000
Actuarial accrued liability (AAL) (entry age)	39,802,000	38,170,000	38,468,000
Unfunded AAL (UAAL)	26,357,000	25,109,000	24,824,000
Funded ratio	33.8 %	34.2 %	35.5 %
Covered payroll	2,200,000	2,299,000	3,011,000
UAAL as a percentage of covered payroll	1,198.0 %	1,092.2 %	824.4 %

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

Transfer of Plan Assets to MERS - As noted above, effective January 1, 2012, the Municipal Employees' Retirement System assets were transferred to the Municipal Employees' Retirement System of Michigan (MERS). MERS performed initial actuarial valuations as of January 1, 2012, using the entry age actuarial cost method to determine the required contribution from January 1, 2012 to June 30, 2012. Significant actuarial assumptions used include (a) an 8 percent investment rate of return and (b) projected salary increases of 4.5 to 17.5 percent per year. Both (a) and (b) include an inflation component of 2.5 percent for years 2013 and 2014 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. The actuarial accrued liability is \$39,800,000.

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. Effective January 1, 2012, the City began participating 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 \$44,000 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, 2012, employee contributions were \$5,645.

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 \$18,140 during the current year.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2012

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, 2012, the City made payments for postemployment health benefit premiums totaling approximately \$4,411,000, of which \$3,910,000 was paid from the governmental funds and \$500,000 was paid from the Water and Sewer Fund.

Funding Progress - For the year ended June 30, 2012, 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	\$ 3,420,123	\$ 3,242,329
Interest on prior year's net OPEB obligation	150,626	130,923
Less adjustment for annual required contribution	<u>(225,988)</u>	<u>(109,103)</u>
Annual OPEB cost	3,344,761	3,264,149
Amounts contributed:		
Payments of current premiums	(2,170,612)	(2,240,013)
Advance funding	<u>-</u>	<u>-</u>
Increase in net OPEB obligation	1,174,149	1,024,136
OPEB obligation - Beginning of the year	<u>3,765,659</u>	<u>3,273,073</u>
OPEB obligation - End of the year	<u>\$ 4,939,808</u>	<u>\$ 4,297,209</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2012

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
6/30/10	6/30/08	\$ 3,024,042	57.0 %	\$ 2,633,487
6/30/11	6/30/10	3,377,950	66.0	3,765,659
6/30/12	6/30/10	3,344,761	65.0	4,939,808

Police and Fire Employees

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Costs	Percentage Contributed	Net OPEB Obligation
6/30/10	6/30/08	\$ 2,828,929	58.0 %	\$ 2,298,002
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

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 \$10,299 during the current year. Employees may also contribute to the plan.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2012

Note 15 - Pension and Other Employee Benefit Trust Funds

The following are condensed financial statements for the individual pension plans and postemployment healthcare plans:

	Police and Fire Retirement	Municipal Employees Retirement	Retirees Health Benefit
Statement of Net Assets			
Investments	\$ 16,325,291	\$ 29,870	\$ -
Other assets	3,133,700	-	-
Liabilities	-	29,870	-
Net assets	<u>\$ 19,458,991</u>	<u>\$ -</u>	<u>\$ -</u>
Statement of Changes in Net Assets			
Investment loss	\$ (366,878)	\$ (606,354)	\$ -
Contributions	3,478,368	1,175,594	4,410,625
Other additions	104,555	-	-
Benefit payments	4,655,759	1,836,366	4,410,625
Transfer to MERS	-	10,315,135	-
Other deductions	20,059	202,181	-
Net change in net assets	<u>\$ (1,459,773)</u>	<u>\$ (11,784,442)</u>	<u>\$ -</u>

Note 16 - 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, 2011	\$ (992,427)
Building permit revenue	381,557
Related direct expenditures	<u>(354,400)</u>
Cumulative shortfall - June 30, 2012	<u>\$ (965,270)</u>

Note 17 - Contingent Liabilities

The City has been named as a defendant in claims requesting damages of various amounts. The various proceedings have not yet progressed to the point where a legal opinion can be reached as to the ultimate liability, if any, after consideration of available insurance, where applicable, that may result from the resolution of these matters. The City has not recorded an estimate of any liabilities that may result from these matters at June 30, 2012.

Note 18 - Upcoming Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement No. 14 and Statement No. 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2013 fiscal year.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2013 fiscal year.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the City's 2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

Note 18 - Upcoming Accounting Pronouncements (Continued)

In March 2012, the GASB issued GASB 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.

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, 2015.

In June 2012, the GASB issued GASB 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, 2015.

Required Supplemental Information

City of Lincoln Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2012

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 13,648,026	\$ 12,869,734	\$ 12,030,463	\$ (839,271)
Licenses and permits	794,301	872,594	872,413	(181)
State-shared revenue and grants	3,738,698	4,403,614	4,746,310	342,696
Fines and forfeitures	1,795,408	1,615,634	1,615,634	-
Investment income	5,000	238	690	452
Rental income	35,000	36,151	36,151	-
Other revenue	1,573,926	2,064,834	2,240,046	175,212
Total revenue	21,590,359	21,862,799	21,541,707	(321,092)
Expenditures - Current				
General government:				
Mayor and City Council	75,762	73,537	73,537	-
City controller	286,061	282,709	282,708	1
Treasury department	145,193	162,050	162,711	(661)
City assessor	109,951	158,326	160,202	(1,876)
Clerk	184,748	175,008	175,008	-
Election commission	43,550	58,514	58,515	(1)
Municipal building and grounds	788,930	1,102,964	1,102,993	(29)
City attorney	168,700	264,295	264,295	-
City manager	257,670	187,119	186,579	540
General government	5,863,548	5,678,682	6,180,574	(501,892)
Total general government	7,924,113	8,143,204	8,647,122	(503,918)
District court	1,314,574	1,477,823	1,460,402	17,421
Public safety:				
Police	7,562,641	8,030,891	8,030,292	599
Fire	3,176,801	3,670,031	3,670,425	(394)
Building department	442,497	390,444	393,307	(2,863)
Total public safety	11,181,939	12,091,366	12,094,024	(2,658)
Public works:				
Planning commission	12,750	11,876	10,435	1,441
Street lighting	536,000	615,016	615,016	-
Department of public services	58,367	55,809	55,809	-
Total public works	607,117	682,701	681,260	1,441

City of Lincoln Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Expenditures - Current (Continued)				
Community and economic development	\$ 15,308	\$ 15,656	\$ 208,075	\$ (192,419)
Recreation and culture:				
Library	218,411	199,509	210,576	(11,067)
Recreation and culture	136,700	180,343	180,343	-
Social Services	171,555	123,095	123,095	-
Historical museum	17,000	17,000	17,000	-
Community center	-	106,628	106,628	-
Parks	97,642	116,034	116,134	(100)
Total recreation and culture	<u>641,308</u>	<u>742,609</u>	<u>753,776</u>	<u>(11,167)</u>
Total expenditures	<u>21,684,359</u>	<u>23,153,359</u>	<u>23,844,659</u>	<u>(691,300)</u>
Excess of Expenditures Over Revenue	(94,000)	(1,290,560)	(2,302,952)	(1,012,392)
Other Financing Sources -				
Transfers in	<u>94,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Net Change in Fund Balance	-	(1,190,560)	(2,202,952)	(1,012,392)
Fund Balance - Beginning of year	<u>4,242,992</u>	<u>4,242,992</u>	<u>4,242,992</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 4,242,992</u>	<u>\$ 3,052,432</u>	<u>\$ 2,040,040</u>	<u>\$ (1,012,392)</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, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with <u>Amended Budget</u>
Revenue - Federal grants	\$ 793,239	\$ 793,239	\$ 1,200,705	\$ 407,466
Expenditures - Current - Community and economic development	<u>793,239</u>	<u>793,239</u>	<u>1,482,066</u>	<u>(688,827)</u>
Net Change in Fund Balance	-	-	(281,361)	(281,361)
Fund Balance - Beginning of year	<u>579,351</u>	<u>579,351</u>	<u>579,351</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 579,351</u>	<u>\$ 579,351</u>	<u>\$ 297,990</u>	<u>\$ (281,361)</u>

City of Lincoln Park, Michigan

Required Supplemental Information Retirement Systems Schedule of Funding Progress and Employer Contributions Municipal Employees' Retirement System

The schedule of funding progress is as follows:

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
6/30/05*	\$ 16,342,000	\$ 35,581,000	\$ 19,239,000	45.9 %	\$ 3,230,000	595.6 %
6/30/06	15,410,000	37,149,000	21,739,000	41.5	3,593,000	605.0
6/30/07	15,553,000	37,010,000	21,457,000	42.0	3,187,000	673.3
6/30/08	15,581,000	37,370,000	21,789,000	41.7	3,103,000	702.2
6/30/09	13,644,000	38,468,000	24,824,000	35.5	3,011,000	824.4
6/30/10	13,061,000	38,170,000	25,109,000	34.2	2,299,000	1,092.2

Effective January 1, 2012, the Municipal Employees' Retirement System assets were transferred to the Municipal Employees' Retirement System of Michigan (MERS). No further actuarial valuations were performed for the municipal employees' single-employer plan. Future valuations are performed under the Municipal Employees' Retirement System of Michigan (MERS).

The schedule of employer contributions is as follows:

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
6/30/06*	\$ 1,067,548	100.0 %
6/30/07	1,485,913	100.0
6/30/08	1,632,765	100.0
6/30/09	1,726,324	100.0
6/30/10	1,811,667	100.0
6/30/11	2,112,131	100.0

* During the year ended June 30, 2006, the City had an experience study performed that changed the amortization period for those individuals that retired under the early retirement window. The study also changed the inflation factor from 4.5 percent to 4.0 percent.

City of Lincoln Park, Michigan

Required Supplemental Information Retirement Systems Schedule of Funding Progress and Employer Contributions (Continued) Municipal Employees' Retirement System

The information presented above was determined as part of the actuarial valuations as of June 30, 2010. Additional information on assumptions used in the study is as follows:

Actuarial cost method	Entry age
Amortization method	Level percent, open
Amortization period **	26 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increases ***	4.0%
***Includes inflation at	4.0%
Additional salary increases attributable to seniority/merit	0.2% to 3.8%

** 14-year remaining amortization period on a closed basis for those individuals who retired under the early retirement window

General municipal members retiring after August 1, 1996 will receive an annual increase of \$300 in annual benefits each year after retirement.

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 Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/06	\$ 32,519,000	\$ 55,488,000	\$ 22,969,000	58.6 %	\$ 4,970,000	462.2 %
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	22,108,082	60,283,000	38,175,000	36.7	4,692,000	813.6

The schedule of employer contributions is as follows:

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
6/30/07	\$ 1,818,550	100.0 %
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

The information presented above was determined as part of the actuarial valuations as of June 30, 2011. 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	4-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	0.2% to 3.8%

* 13-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, 2012

Note - Reconciliation of Budgeted Amounts to Basic Financial Statements

The budgetary comparison schedule for the General Fund is presented on the same basis of accounting used in preparing the adopted budget.

The City adopted GASB No. 54 in a prior year, and, as such, various funds were required to be rolled into the General Fund. A reconciliation of those funds is as follows:

	<u>Total Revenue</u>	<u>Total Expenditures</u>	<u>Excess of Expenditures (Over) Under Revenue</u>
General Fund:			
Amounts per operating statement	\$ 21,542,629	\$ 23,847,944	\$ (2,305,315)
Compensated Absences Fund	(8)	-	(8)
Street Improvement Fund	<u>(914)</u>	<u>(3,285)</u>	<u>2,371</u>
Amounts per budget statement	<u>\$ 21,541,707</u>	<u>\$ 23,844,659</u>	<u>\$ (2,302,952)</u>
			<u>Total Fund Balance</u>
General Fund:			
Amounts per operating statement			\$ 2,194,902
Compensated Absences Fund			(5,300)
Street Improvement Fund			<u>(409)</u>
Amounts per budget statement			<u>\$ 2,189,193</u>

City of Lincoln Park, Michigan

Note to Required Supplemental Information (Continued) June 30, 2012

Note - Reconciliation of Budgeted Amounts to Basic Financial Statements (Continued)

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:			
Treasury department	\$ 162,050	\$ 162,711	\$ (661)
City assessor	158,326	160,202	(1,876)
General government	5,678,682	6,180,574	(501,892)
Public safety:			
Fire	3,670,031	3,670,425	(394)
Building department	390,444	393,307	(2,863)
Community and economic development	15,656	208,075	(192,419)
Recreation and culture:			
Library	199,509	210,576	(11,067)
Parks	116,034	116,134	(100)
Community Development Block Grant Fund - Community and economic development	793,239	1,482,066	(688,827)

These unfavorable variances in the General Fund were caused by unanticipated expenditures that became necessary during the year.

The greater than budgeted CDBG Fund expenditures were covered by additional CDBG revenue.

Other Supplemental Information

City of Lincoln Park, Michigan

	Special Revenue Funds				
	Major Streets	Local Streets		Drug	
	Fund	Fund	Sanitation Fund	Forfeiture	Cable Fund
Assets					
Cash and investments	\$ 2,161,933	\$ 227,486	\$ 26,405	\$ 468,063	\$ 446,677
Receivables:					
Special assessments receivable	-	-	-	-	-
Receivables from sales to customers on account	-	-	134,906	-	-
Other receivables	-	-	1,462	-	-
Due from other governmental units	275,795	93,105	-	-	-
Due from other funds	-	7,148	76,908	-	-
Total assets	\$ 2,437,728	\$ 327,739	\$ 239,681	\$ 468,063	\$ 446,677
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 83,144	\$ 112,440	\$ 155,352	\$ 13,378	\$ 10,558
Accrued liabilities and other	12,371	9,089	-	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	95,515	121,529	155,352	13,378	10,558
Fund Balances - Restricted					
Roads	2,342,213	206,210	-	-	-
Drug forfeiture	-	-	-	454,685	-
Sanitation	-	-	84,329	-	-
Cable capital	-	-	-	-	436,119
Total fund balances	2,342,213	206,210	84,329	454,685	436,119
Total liabilities and fund balances	\$ 2,437,728	\$ 327,739	\$ 239,681	\$ 468,063	\$ 446,677

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012**

<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ 3,330,564
14,082	14,082
-	134,906
-	1,462
-	368,900
-	84,056
<u>\$ 14,082</u>	<u>\$ 3,933,970</u>

\$ -	\$ 374,872
-	21,460
<u>14,082</u>	<u>14,082</u>
14,082	410,414
-	2,548,423
-	454,685
-	84,329
-	436,119
<u>-</u>	<u>3,523,556</u>
<u>\$ 14,082</u>	<u>\$ 3,933,970</u>

City of Lincoln Park, Michigan

	Special Revenue Funds				
	Major Streets	Local Streets	Sanitation Fund	Drug	Cable Fund
	Fund	Fund		Forfeiture	
			Fund		
Revenue					
Property taxes	\$ -	\$ -	\$ 1,360,204	\$ -	\$ -
Federal grants	-	-	-	7,092	-
State-shared revenue and grants	1,677,816	571,641	-	266,672	-
Charges for services	-	-	353,898	-	-
Investment income	244	16	60	49	47
Other revenue	1,281	-	-	-	102,599
Total revenue	1,679,341	571,657	1,714,162	273,813	102,646
Expenditures - Current					
Public safety	-	-	-	257,538	-
Public works	1,246,626	1,143,810	1,935,783	-	75,040
Total expenditures	1,246,626	1,143,810	1,935,783	257,538	75,040
Excess of Revenue Over (Under) Expenditures	432,715	(572,153)	(221,621)	16,275	27,606
Other Financing Sources (Uses)					
Transfers in	-	402,523	-	-	-
Transfers out	(402,523)	-	-	-	-
Total other financing (uses) sources	(402,523)	402,523	-	-	-
Net Change in Fund Balances	30,192	(169,630)	(221,621)	16,275	27,606
Fund Balances - Beginning of year	2,312,021	375,840	305,950	438,410	408,513
Fund Balances - End of year	\$ 2,342,213	\$ 206,210	\$ 84,329	\$ 454,685	\$ 436,119

**Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2012**

Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ 1,360,204
-	7,092
-	2,516,129
-	353,898
-	416
-	103,880
-	4,341,619
-	257,538
-	4,401,259
-	4,658,797
-	(317,178)
-	402,523
-	(402,523)
-	-
-	(317,178)
-	3,840,734
\$ -	\$ 3,523,556

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2012

	Motor Pool Fund	Information Technology Fund	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 837,941	\$ 160,418	\$ 998,359
Due from other funds	-	13,172	13,172
Total current assets	837,941	173,590	1,011,531
Noncurrent assets - Capital assets	1,240,893	15,473	1,256,366
Total assets	2,078,834	189,063	2,267,897
Liabilities - Current			
Accounts payable	67,221	10,846	78,067
Accrued liabilities and other	5,384	910	6,294
Total liabilities	72,605	11,756	84,361
Net Assets			
Invested in capital assets	1,240,893	15,473	1,256,366
Unrestricted	765,336	161,834	927,170
Total net assets	\$ 2,006,229	\$ 177,307	\$ 2,183,536

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets Internal Service Funds Year Ended June 30, 2012

	Motor Pool Fund	Information Technology Fund	Total
Operating Revenue - Charges to other funds	\$ 474,336	\$ 161,033	\$ 635,369
Operating Expenses			
Other operating and maintenance costs	496,115	103,904	600,019
Billing and administrative costs	259,734	87,203	346,937
Depreciation	298,552	9,745	308,297
Total operating expenses	<u>1,054,401</u>	<u>200,852</u>	<u>1,255,253</u>
Operating Loss	(580,065)	(39,819)	(619,884)
Nonoperating Revenue			
Investment income	99	13	112
Gain on sale of assets	30,734	-	30,734
Change in Net Assets	(549,232)	(39,806)	(589,038)
Net Assets - Beginning of year	<u>2,555,461</u>	<u>217,113</u>	<u>2,772,574</u>
Net Assets - End of year	<u><u>\$ 2,006,229</u></u>	<u><u>\$ 177,307</u></u>	<u><u>\$ 2,183,536</u></u>

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2012

	Motor Pool Fund	Information Technology Fund	Total
Cash Flows from Operating Activities			
Receipts from interfund services and reimbursements	\$ 474,336	\$ 156,119	\$ 630,455
Payments to suppliers	(464,605)	(100,010)	(564,615)
Payments to employees	(251,348)	(83,233)	(334,581)
Net cash used in operating activities	(241,617)	(27,124)	(268,741)
Cash Flows from Capital and Related Financing Activities			
Proceeds from sales of capital assets	30,734	-	30,734
Purchase of capital assets	(101,758)	-	(101,758)
Net cash used in capital and related financing activities	(71,024)	-	(71,024)
Cash Flows from Investing Activities - Interest received on investments			
	99	13	112
Net Decrease in Cash and Cash Equivalents	(312,542)	(27,111)	(339,653)
Cash and Cash Equivalents - Beginning of year	1,150,483	187,529	1,338,012
Cash and Cash Equivalents - End of year	\$ 837,941	\$ 160,418	\$ 998,359
Balance Sheet Classification of Cash and Cash Equivalents - Cash and investments	\$ 837,941	\$ 160,418	\$ 998,359
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (580,065)	\$ (39,819)	\$ (619,884)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation and amortization	298,552	9,745	308,297
Changes in assets and liabilities:			
Due from others	-	(4,914)	(4,914)
Prepaid and other assets	4,197	2,871	7,068
Accounts payable	32,111	5,378	37,489
Accrued and other liabilities	3,588	(385)	3,203
Net cash used in operating activities	\$ (241,617)	\$ (27,124)	\$ (268,741)

City of Lincoln Park, Michigan

	Pension Trust Funds			
	Police and Fire Retirement	Municipal		Total Pension Trust Funds
		Employees' Retirement	Retirees' Health Benefit	
Assets				
Cash and cash equivalents	\$ 1,105,418	\$ 29,870	\$ -	\$ 1,135,288
Investments:				
U.S. government securities	2,330,157	-	-	2,330,157
Common stock	7,726,449	-	-	7,726,449
Corporate bonds	3,246,418	-	-	3,246,418
Mutual funds	1,108,099	-	-	1,108,099
Mutual funds - Alternative investments	808,750	-	-	808,750
Accrued interest and other	47,579	-	-	47,579
Due from primary government	3,086,121	-	-	3,086,121
Total assets	\$ 19,458,991	\$ 29,870	\$ -	\$ 19,488,861
Liabilities				
Accounts payable	\$ -	\$ 29,870	\$ -	\$ 29,870
Due to other governmental units	-	-	-	-
Refundable deposits, bonds, etc.	-	-	-	-
Accrued liabilities and other	-	-	-	-
Total liabilities	-	29,870	-	29,870
Net Assets	\$ 19,458,991	\$ -	\$ -	\$ 19,458,991

Other Supplemental Information
Statement of Assets and Liabilities
Fiduciary Funds
June 30, 2012

Agency Funds					
Current Tax Collection	Payroll	Court Bond Fund	Court Depository Fund	Court Civil Fund	Total Agency Funds
\$ 14,500	\$ 132,392	\$ 48,915	\$ 47,866	\$ 2,064	\$ 245,737
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ 14,500	\$ 132,392	\$ 48,915	\$ 47,866	\$ 2,064	\$ 245,737
\$ -	\$ 2,817	\$ -	\$ 2,395	\$ -	\$ 5,212
14,500	-	-	45,471	-	59,971
-	-	48,915	-	2,064	50,979
-	129,575	-	-	-	129,575
\$ 14,500	\$ 132,392	\$ 48,915	\$ 47,866	\$ 2,064	\$ 245,737

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Changes in Fiduciary Net Assets Fiduciary Funds Year Ended June 30, 2012

	Police and Fire Retirement	Municipal Employees' Retirement	Retirees' Health Benefit	Total
Additions				
Investment income:				
Interest and dividends	\$ 412,677	\$ 102,466	\$ -	\$ 515,143
Net decrease in fair value of investments	(650,661)	(669,430)	-	(1,320,091)
Investment-related expenses	(128,894)	(39,390)	-	(168,284)
Total investment income	(366,878)	(606,354)	-	(973,232)
Contributions:				
Employer	3,086,121	1,082,519	4,410,625	8,579,265
Employee	392,247	93,075	-	485,322
Total contributions	3,478,368	1,175,594	4,410,625	9,064,587
Total additions - Net	3,111,490	569,240	4,410,625	8,091,355
Deductions				
Benefit payments	4,551,204	1,836,366	4,410,625	10,798,195
Refunds of contributions	-	97,875	-	97,875
Transfer of Municipal Employees' plan assets to MERS	-	10,315,135	-	10,315,135
Administrative expenses	20,059	104,306	-	124,365
Total deductions	4,571,263	12,353,682	4,410,625	21,335,570
Net Decrease in Net Assets Held in Trust	(1,459,773)	(11,784,442)	-	(13,244,215)
Net Assets - Beginning of year	20,918,764	11,784,442	-	32,703,206
Net Assets - End of year	\$ 19,458,991	\$ -	\$ -	\$ 19,458,991