

City of Lincoln Park, Michigan

Financial Report with Supplemental Information June 30, 2011

City of Lincoln Park, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-12
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14-15
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	17
Statement of Revenue, Expenditures, and Changes in Fund Balances	18
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Proprietary Funds:	
Statement of Net Assets	20
Statement of Revenue, Expenses, and Changes in Net Assets	21
Statement of Cash Flows	22-23
Fiduciary Funds:	
Statement of Fiduciary Net Assets	24
Statement of Changes in Fiduciary Net Assets	25
Component Units:	
Statement of Net Assets	26
Statement of Activities	27-28
Notes to Financial Statements	29-57
Required Supplemental Information	58
Budgetary Comparison Schedule - General Fund	59-60
Budgetary Comparison Schedule - Major Special Revenue Funds - Community Development Block Grant Fund	61
Retirement Systems Schedule of Funding Progress and Employer Contributions	62-63
Note to Required Supplemental Information	64-65

City of Lincoln Park, Michigan

Contents (Continued)

Other Supplemental Information	66
Nonmajor Governmental Funds:	
Combining Balance Sheet	67-68
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	69-70
Internal Service Funds:	
Combining Statement of Net Assets	71
Combining Statement of Revenue, Expenses, and Changes in Net Assets	72
Combining Statement of Cash Flows	73
Fiduciary Funds:	
Statement of Assets and Liabilities	74-75
Combining Statement of Changes in Fiduciary Net Assets	76

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, 2011, 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, 2011 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.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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 basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2011 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, and grant agreements. 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.

During the year, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, as discussed in Note I. As a result of this required implementation, the Compensated Absences Fund, Street Improvement Fund, and the Water Bonds Debt Service Fund are now being reported within the General Fund. In addition, fund balance classifications in the governmental fund financial statements have been changed to reflect the five new classifications under GASB No. 54.

Plante & Morse, PLLC

December 21, 2011

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, 2011. 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 business-type activities were \$30.7 million and net assets of governmental activities were \$38.9 million.

- The current year's expense total was \$33.9 million as compared to the \$28.5 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 \$31.3 million generated in tax and other revenue for governmental activities.
- For business-type activities, City revenue was \$9.8 million. Expenses were \$9.0 million. In the previous year, revenue was \$9.2 million and expenditures were \$8.2 million.
- The annual cost of all City programs was \$42.9 million. The previous year's cost was \$42.1 million.

The City as a Whole Analysis

Because 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 I - Net Assets (in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Assets						
Current and other assets	\$ 14,376.2	\$ 14,810.8	\$ 7,877.2	\$ 3,573.4	\$ 22,253.4	\$ 18,384.2
Noncurrent assets	39,716.4	42,498.3	40,143.3	41,713.5	79,859.7	84,211.8
Total assets	54,092.6	57,309.1	48,020.5	45,286.9	102,113.1	102,596.0
Liabilities						
Current liabilities	5,223.9	4,608.2	2,423.4	2,508.4	7,647.3	7,116.6
Long-term liabilities	10,010.3	8,472.5	14,941.1	12,920.1	24,951.4	21,392.6
Total liabilities	15,234.2	13,080.7	17,364.5	15,428.5	32,598.7	28,509.2
Net Assets						
Invested in capital assets - Net of related debt	36,944.3	39,523.6	20,443.7	20,000.0	57,388.0	59,523.6
Restricted	4,687.0	4,277.9	4,167.0	8,161.3	8,854.0	12,439.2
Unrestricted	(2,772.9)	426.9	6,045.3	1,697.1	3,272.4	2,124.0
Total net assets	<u>\$ 38,858.4</u>	<u>\$ 44,228.4</u>	<u>\$ 30,656.0</u>	<u>\$ 29,858.4</u>	<u>\$ 69,514.4</u>	<u>\$ 74,086.8</u>

City as a Whole

The City's combined net assets from the previous year were \$74.1 million as compared to \$69.5 million this year. The prior year data has been restated to include land. Net assets and expenses from governmental and business-type activities must be reviewed separately. Table I 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 \$38.9 million this year as compared to \$44.2 million last year. Unrestricted net assets were \$427,000 last year as compared to (\$2.7) 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 \$30.7 million this year as compared to \$29.9 million last year.

City revenue for the current year was \$38.4 million compared to \$40.5 million in the previous year. The total yearly cost of all programs and services was \$42.9 million as compared to \$42.1 million in the previous year.

Table 2 - Change in Net Assets (in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Revenue						
Program revenue - Restricted:						
Charges for services	\$ 3,715.8	\$ 3,054.2	\$ 8,157.5	\$ 7,480.9	\$ 11,873.3	\$ 10,535.1
Operating and capital grants	3,791.4	5,407.2	-	223.5	3,791.4	5,630.7
General revenue:						
Property taxes	15,778.9	17,729.2	1,666.4	1,497.1	17,445.3	19,226.3
Interest and investment income	17.6	92.7	11.7	2.9	29.3	95.6
Other general revenue including transfers	5,227.7	5,016.9	-	-	5,227.7	5,016.9
Total revenue	28,531.4	31,300.2	9,835.6	9,204.4	38,367.0	40,504.6
Expenditures						
Program expenditures:						
General government	8,352.6	7,404.5	-	-	8,352.6	7,404.5
District Court	1,246.5	1,535.0	-	-	1,246.5	1,535.0
Public safety	14,114.2	14,033.7	-	-	14,114.2	14,033.7
Public works	7,491.5	7,615.2	-	-	7,491.5	7,615.2
Culture and recreation	865.6	1,152.5	-	-	865.6	1,152.5
Community development	1,781.0	2,032.1	-	-	1,781.0	2,032.1
Interest on long-term debt	50.0	132.4	-	-	50.0	132.4
Business activities - Water and/or sewer	-	-	9,038.1	8,215.3	9,038.1	8,215.3
Total expenditures	33,901.4	33,905.4	9,038.1	8,215.3	42,939.5	42,120.7
(Decrease) Increase in Net Assets	\$ (5,370.0)	\$ (2,605.2)	\$ 797.5	\$ 989.1	\$ (4,572.5)	\$ (1,616.1)

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

This year's governmental activities revenue was \$28.5 million as compared to \$31.3 million last year. The year's governmental activities cost was \$33.9 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.

In the past year, the government of the City of Lincoln Park, Michigan has been able to take on few additional projects in economically restrained financial times. Improvements in the service vehicle fleet as well as computer technology were limited to replacement of existing units only and no new debt was issued.

Business-type Activities

This year's business-type activities revenue (see Table 2) was \$9.8 million as compared to \$9.2 million last year. This year's expenses were \$9.0 million as compared to \$8.2 million in the previous year. These figures are in part due to the following reasons:

General Fund Budgetary Statements

Continual steps must be taken to curb this trend in the near future. The City is still financially solvent, but the rising cost of employee benefits including health care and retiree pension plans is quickly wearing away at the fund.

The intention of City management is to eliminate the use of fund balance in the coming years, and the goal would be to continue to add to those funds within the next few years. Further measures need to be taken to ensure that the City remains financially solvent. The taxpayers approved a three-year public safety and library millage which has helped in the short term, but expenses must continue to be kept under control to accomplish solvency.

In developing the budget and annual operations plan, numerous sources are used for the purpose of estimating community need; priorities and estimating revenue capacity have been utilized.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

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 concert with the city manager, establishes an annual budget preparation calendar. A series of internal briefings and conferences with key staff administrators are held and then internal input is coordinated with external inputs beginning with an annual strategic organizational planning session of the mayor and City Council in January or February of each year. 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.

A significant external input is the economic strategic plan (2006) that provides objectives and priorities for enhancement of the tax base and demographic characteristics such as housing, population, and commercial sales trends. Additionally, City-wide survey data (2006) was used by City management concerning resident priorities in developing the recommendations for services and the financing of those services. It is proposed that the City revise the economic strategic plan in 2012-2013 to reflect the new Michigan economy and lack of growth in commercial and industrial property sectors and the continued decline in the City's population.

The master land use plan guides the development and use of properties upon which property tax is based. This plan (2007) was adopted following significant input from the public during three public hearings. It is proposed that this plan be amended in the 2012-2013 fiscal year as part of the revisions to the community development plan funded by Block Grant Funds (CDBG).

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 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.

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 of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

City Funds

At year end, the City reported a total governmental fund balance of \$8.7 million as compared to \$9.1 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 4 percent. A more aggressive collection of water/sewer funds was also put into place and has reduced delinquencies by 50 percent to date.

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

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 9,614.7	\$ 9,614.7	\$ 16.5	\$ 16.5	\$ 9,631.2	\$ 9,631.2
Construction in progress	142.6	-	-	-	142.6	-
Equipment	3,531.7	3,522.5	4,219.1	1,253.1	7,750.8	4,775.6
Buildings and improvements	930.0	1,025.3	230.1	245.3	1,160.1	1,270.6
Infrastructure	24,133.9	26,547.5	31,069.9	32,037.3	55,203.8	58,584.8
Vehicles	1,363.5	1,788.3	-	-	1,363.5	1,788.3
Total	\$ 39,716.4	\$ 42,498.3	\$ 35,535.6	\$ 33,552.2	\$ 75,252.0	\$ 76,050.5

At the close of the year, the City had invested \$75.3 million in capital assets such as land, buildings and improvements, and equipment or infrastructure (see Table 3). A total of \$76.1 million was invested in similar assets last year. In the current year, the City conducted an appraisal to value all City-owned land and recorded that amount. The prior year data has been restated to include land.

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

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds (backed by the City)	\$ -	\$ -	\$ 15,532.6	\$ 13,552.2	\$ 15,532.6	\$ 13,552.2
Other bonds or outstanding obligations	4,636.5	4,912.8	153.8	146.0	4,790.3	5,058.8
Total	\$ 4,636.5	\$ 4,912.8	\$ 15,686.4	\$ 13,698.2	\$ 20,322.9	\$ 18,611.0

Debt Management

At the close of the year, the City had \$20.3 million in outstanding bonds and notes, as compared to the previous year of \$18.6 (see Table 4). The increase in debt is a result of a new bond issuance for the replacement of City-owned water meters across the City.

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.

The hard economic times in Michigan continue. High unemployment rates persist, difficult and painful economic developments are covered in newspaper headlines all too often, and state government continues to wrestle with these and other developments. The State's problems become our problems as revenue levels remain stagnant or decline. Expenses continue to grow as important and significant costs such as employee and retiree healthcare costs keep escalating. It appears that municipalities around the state are in actual and persistent danger of becoming financially insolvent. The prospect of emergency receivership is all too real for many municipalities across Michigan, including even the largest city in our state.

Simply stated, municipal government in the state of Michigan is in a state of crisis. Nothing less than a profound change in our state's municipal finance model will resolve this crisis in the long term. The City has been heading for fiscal trouble for a long time; for example, in three of the last six years, expenditures exceeded revenue, and in the other three years, revenue slightly covered expenses only after many reductions in staff levels, concession contracts, and elimination of capital expenditures for community and City facility structures, but still did not allow for considerable additions to fund balance. The City used fund balance in the current fiscal year despite the public safety voter-approved millages. The additional revenue generated from these temporary millages will help minimize the use of fund balance in the short-term future. Efforts continue to minimize costs. Significant programs such as the early retirement incentive programs, employee reductions, and reduced insurance and garbage collection costs, achieved through the procurement process, have helped the City with financial survival.

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 that much-needed reform. We require a complete overhaul of how we finance municipal government in this state in order for the City and other municipalities to thrive and to continue to offer the services that we offer. These services, such as police and fire protection, road maintenance, parks and recreation services, and garbage pickup, are critical to the daily quality of life in our communities. Municipal government is one of the best investments we can make in Michigan and our economic recovery and it is time that this investment was properly and adequately made.

The City government continues to do what can be done to manage these problems given a financial environment that basically requires restructuring in order to continue to exist, let alone thrive. A brief summary of some of these efforts includes the following:

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

1. Working to find staff efficiencies to keep our level of employees reasonable, efficient, and affordable. The City has redesigned its workforce without part-time employees and seven full-time employees across numerous departments. Because of tough economic times, the City has had to accept these reduced staffing levels as a new fact and has adjusted service means and methods around our new workforce size.
2. The City has continued 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 the local government and our ability to provide the local services we all rely on.
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 your City government.
4. The City and Court negotiated and entered into the first joint administrative service agreement.
5. The City revised and disclosed to the public the five-year financial plan including multiyear budgets for transparency and professional responsibility purposes, continuing our competency stewardship of the public investment.
6. The City rebid the trash collection contract, reducing taxpayer costs by over \$100,000.

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:

- Obtained \$200,000 in green energy grants to upgrade and replace street lighting to improve safety and reduce costs. The City is a founding member of the Southeast Michigan Regional Energy Office.
- Being a leader in winning and implementing a Center for Regional Excellence grant from the State to fund and develop cooperative and collaborative relationships with other municipalities, and in 2009-2010, the City formed a partnership in an intergovernmental agreement with Wyandotte and Southgate to create the Downriver Central Dispatch, one entity serving three cities with e-911 service for public safety dispatch.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

- Fostering an increased focus on cooperation and collaboration among neighboring communities through our advocacy efforts with organizations such as the Downriver Community Conference and the Michigan Suburbs Alliance
- Contracting for animal shelter services with neighboring Allen Park, and administering energy grants through the Michigan Suburbs Alliance
- Entered into an agreement with the City of Southgate to share assessing services in an effort to reduce costs to both communities
- This past year, three communities began the operation of a Downriver Central Dispatch Agreement by which Lincoln Park, Southgate, and Wyandotte have combined dispatching services to one centralized location. This allows the cities to free up public safety personnel and helps reduce overtime costs to the City.

Contact Information

This report has been created to give our citizens, taxpayers, customers, 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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City of Lincoln Park, Michigan

Statement of Net Assets June 30, 2011

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 8,094,980	\$ 4,415,618	\$ 12,510,598	\$ 1,861,765
Receivables:				
Taxes - Net of allowance for uncollectible taxes of \$46,000	26	6,160	6,186	44,538
Receivables from sales to customers on account	-	3,397,733	3,397,733	-
Loans receivable	2,371,239	-	2,371,239	74,934
Other receivables	562,855	-	562,855	-
Due from other governmental units	1,751,808	-	1,751,808	-
Special assessments receivable	14,082	-	14,082	-
Due from component units	349	-	349	-
Internal balances	(45,162)	45,162	-	-
Prepaid expenses and other assets	782,447	12,573	795,020	1,169
Restricted assets (Note 9)	-	4,607,633	4,607,633	-
Land and homes held for resale	843,585	-	843,585	-
Capital assets - Net (Note 5):				
Assets not subject to depreciation	9,757,232	16,540	9,773,772	263,493
Assets subject to depreciation	29,959,170	35,519,090	65,478,260	273,095
Total assets	54,092,611	48,020,509	102,113,120	2,518,994
Liabilities				
Accounts payable	1,096,936	624,932	1,721,868	3,947
Due to primary government	-	-	-	349
Accrued liabilities and other	1,021,187	65,095	1,086,282	-
Deferred revenue (Note 4)	2,428,816	-	2,428,816	74,934
Noncurrent liabilities:				
Due within one year (Note 8):				
Compensated absences - < 1 yr	466,109	38,459	504,568	-
Current portion of long-term debt	210,792	1,694,922	1,905,714	-
Due in more than one year (Note 8):				
Compensated absences - > 1 yr	1,398,329	115,377	1,513,706	-
Net OPEB obligation - > 1 yr (Note 13)	6,050,684	988,048	7,038,732	-
Long-term debt	2,561,308	13,837,674	16,398,982	-
Total liabilities	15,234,161	17,364,507	32,598,668	79,230
Net Assets				
Invested in capital assets - Net of related debt	36,944,302	20,443,673	57,387,975	536,588
Restricted for:				
Streets and highways	2,690,641	-	2,690,641	-
Debt service	-	4,166,994	4,166,994	-
Sanitation	305,950	-	305,950	-
CDBG	843,585	-	843,585	-
Drug forfeiture	438,410	-	438,410	-
Cable	408,513	-	408,513	-
Unrestricted	(2,772,951)	6,045,335	3,272,384	1,903,176
Total net assets	\$ 38,858,450	\$ 30,656,002	\$ 69,514,452	\$ 2,439,764

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

City of Lincoln Park, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 8,352,532	\$ 951,495	\$ 22,663	\$ -
District court	1,246,564	-	-	-
Public safety	14,114,207	2,058,173	173,751	-
Public works	7,491,487	567,495	1,941,910	-
Community and economic development	1,781,055	-	1,653,149	-
Recreation and culture	865,589	138,647	-	-
Interest on long-term debt	49,974	-	-	-
Total governmental activities	33,901,408	3,715,810	3,791,473	-
Business-type activities	9,038,085	8,157,553	-	-
Total primary government	<u>\$ 42,939,493</u>	<u>\$ 11,873,363</u>	<u>\$ 3,791,473</u>	<u>\$ -</u>
Component units:				
Downtown Development Authority	\$ 144,021	\$ -	\$ -	\$ 145,500
Economic Development Corporation	6,233	84,675	-	-
Total component units:	<u>\$ 150,254</u>	<u>\$ 84,675</u>	<u>\$ -</u>	<u>\$ 145,500</u>
General revenue:				
Property taxes				
State-shared revenue				
Investment income				
Cable franchise fees				
Other miscellaneous income				
Gain on sale of fixed assets				
Total general revenue				
Change in Net Assets				
Net Assets - Beginning of year (as restated) (Note 17)				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2011

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (7,378,374)	\$ -	\$ (7,378,374)	\$ -
(1,246,564)	-	(1,246,564)	-
(11,882,283)	-	(11,882,283)	-
(4,982,082)	-	(4,982,082)	-
(127,906)	-	(127,906)	-
(726,942)	-	(726,942)	-
(49,974)	-	(49,974)	-
(26,394,125)	-	(26,394,125)	-
-	(880,532)	(880,532)	-
(26,394,125)	(880,532)	(27,274,657)	-
-	-	-	1,479
-	-	-	78,442
-	-	-	79,921
15,778,876	1,666,377	17,445,253	445,378
4,538,018	-	4,538,018	-
17,621	11,691	29,312	4,925
585,102	-	585,102	-
102,070	-	102,070	-
2,500	-	2,500	-
21,024,187	1,678,068	22,702,255	450,303
(5,369,938)	797,536	(4,572,402)	530,224
44,228,388	29,858,466	74,086,854	1,909,540
\$ 38,858,450	\$ 30,656,002	\$ 69,514,452	\$ 2,439,764

City of Lincoln Park, Michigan

Governmental Funds Balance Sheet June 30, 2011

	General Fund	CDBG Fund	Nonmajor Funds	Total
Assets				
Cash and cash equivalents	\$ 3,057,216	\$ 457,144	\$ 3,242,608	\$ 6,756,968
Receivables:				
Property taxes receivable	-	-	26	26
Special assessments receivable	-	-	14,082	14,082
Loans receivable	-	2,371,239	-	2,371,239
Other receivables	272,798	121,000	169,057	562,855
Due from other governmental units	977,997	213,935	559,876	1,751,808
Due from component units	349	-	-	349
Due from other funds	424,043	-	83,481	507,524
Prepaid expenses and other assets	765,902	-	9,477	775,379
Land and homes held for resale	-	843,585	-	843,585
	<u>\$ 5,498,305</u>	<u>\$ 4,006,903</u>	<u>\$ 4,078,607</u>	<u>\$13,583,815</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 543,503	\$ 300,610	\$ 212,245	\$ 1,056,358
Due to other funds	77,291	483,653	-	560,944
Accrued liabilities and other	526,447	538	11,546	538,531
Deferred revenue	-	2,642,751	14,082	2,656,833
	<u>1,147,241</u>	<u>3,427,552</u>	<u>237,873</u>	<u>4,812,666</u>
Fund Balances				
Nonspendable - Prepays	639,888	-	-	639,888
Restricted:				
Roads	2,780	-	2,687,861	2,690,641
Police	-	-	438,410	438,410
CDBG	-	834,585	-	834,585
Sanitation	-	-	305,950	305,950
Cable	-	-	408,513	408,513
Unassigned	3,708,396	(255,234)	-	3,453,162
	<u>4,351,064</u>	<u>579,351</u>	<u>3,840,734</u>	<u>8,771,149</u>
Total fund balances	<u>4,351,064</u>	<u>579,351</u>	<u>3,840,734</u>	<u>8,771,149</u>
Total liabilities and fund balances	<u>\$ 5,498,305</u>	<u>\$ 4,006,903</u>	<u>\$ 4,078,607</u>	<u>\$13,583,815</u>

City of Lincoln Park, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets June 30, 2011

Fund Balance Reported in Governmental Funds	\$ 8,771,149
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	38,253,497
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	14,082
Grant revenue is recognized in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	213,935
Claims are not due and payable in the current period and are not reported in the governmental funds	(450,000)
Accrued interest payable is recorded as a liability in governmental activities	(29,565)
Compensated absences are included as a liability in the governmental activities	(1,864,438)
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds	(2,772,100)
Net other postemployment benefits are not due and payable in the current period and are not reported in the funds	(6,050,684)
Internal service funds are included as part of governmental activities	2,772,574
Net Assets of Governmental Activities	<u>\$ 38,858,450</u>

City of Lincoln Park, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2011

	General Fund	CDBG Fund	Nonmajor Funds	Total
Revenue				
Property taxes	\$ 14,328,731	\$ -	\$ 1,951,415	\$ 16,280,146
Licenses and permits	844,393	-	-	844,393
Federal grants	-	1,653,149	156,963	1,810,112
State-shared revenue and grants	4,560,681	-	2,221,508	6,782,189
Fines and forfeitures	2,055,369	-	-	2,055,369
Investment income	4	-	15,436	15,440
Rental income	3,741	-	-	3,741
Other revenue	1,903,137	-	97,447	2,000,584
Total revenue	<u>23,696,056</u>	<u>1,653,149</u>	<u>4,442,769</u>	<u>29,791,974</u>
Expenditures				
Current:				
General government	8,244,235	-	-	8,244,235
District Court	1,246,564	-	-	1,246,564
Public safety	12,646,260	-	131,796	12,778,056
Public works	938,677	-	4,136,271	5,074,948
Community and economic development	17,505	1,761,091	-	1,778,596
Recreation and culture	879,230	-	-	879,230
Debt service	126,486	-	-	126,486
Total expenditures	<u>24,098,957</u>	<u>1,761,091</u>	<u>4,268,067</u>	<u>30,128,115</u>
Excess of Revenue (Under) Over Expenditures	(402,901)	(107,942)	174,702	(336,141)
Other Financing Sources (Uses)				
Transfers in	82,662	-	398,983	481,645
Transfers out	-	-	(481,645)	(481,645)
Total other financing sources (uses)	<u>82,662</u>	<u>-</u>	<u>(82,662)</u>	<u>-</u>
Net Change in Fund Balances	(320,239)	(107,942)	92,040	(336,141)
Fund Balances - Beginning of year (as restated) (Note 17)	<u>4,671,303</u>	<u>687,293</u>	<u>3,748,694</u>	<u>9,107,290</u>
Fund Balances - End of year	<u><u>\$ 4,351,064</u></u>	<u><u>\$ 579,351</u></u>	<u><u>\$ 3,840,734</u></u>	<u><u>\$ 8,771,149</u></u>

City of Lincoln Park, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ (336,141)
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	1,260,543
Depreciation expense	(3,716,976)
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	(330,867)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	202,567
Interest expense is recorded in the funds when due; it is recorded in the statement of activities when incurred	2,810
Decrease in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	73,702
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	(1,879,300)
Claims are not due and payable in the current period and are not reported in the governmental funds	(450,000)
Internal service funds are included as part of governmental activities	(196,276)
Change in Net Assets of Governmental Activities	<u>\$ (5,369,938)</u>

City of Lincoln Park, Michigan

Proprietary Funds Statement of Net Assets June 30, 2011

	Enterprise Fund	Governmental Activities
	Water and Sewer Fund	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,415,618	\$ 1,338,012
Receivables	3,403,893	-
Due from other funds	121,495	8,258
Prepaid expenses and other assets	12,573	7,068
Total current assets	7,953,579	1,353,338
Noncurrent assets:		
Restricted assets	4,607,633	-
Capital assets:		
Assets not subject to depreciation	16,540	-
Assets subject to depreciation	35,519,090	1,462,905
Total noncurrent assets	40,143,263	1,462,905
Total assets	48,096,842	2,816,243
Liabilities		
Current liabilities:		
Accounts payable	624,932	40,578
Due to other funds	76,333	-
Accrued liabilities and other	65,095	3,091
Compensated absences - < 1 yr	38,459	-
Current portion of long-term debt	1,694,922	-
Total current liabilities	2,499,741	43,669
Noncurrent liabilities:		
Compensated absences - > 1 yr	115,377	-
Net OPEB obligation	988,048	-
Long-term debt	13,837,674	-
Total noncurrent liabilities	14,941,099	-
Total liabilities	17,440,840	43,669
Net Assets		
Invested in capital assets - Net of related debt	20,443,673	1,462,905
Restricted	4,166,994	-
Unrestricted	6,045,335	1,309,669
Total net assets	\$ 30,656,002	\$ 2,772,574

City of Lincoln Park, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2011

	Enterprise Fund	Governmental Activities
	Water and Sewer Fund	Internal Service Funds
Operating Revenue		
Sale of water	\$ 3,119,159	\$ -
Sewage disposal charges	3,437,587	-
System maintenance charge	1,250,212	-
Other	350,595	-
Charges to other funds	-	955,453
Total operating revenue	8,157,553	955,453
Operating Expenses		
Cost of water	2,016,321	-
Cost of sewage treatment	1,803,816	-
Operation and maintenance	441,628	542,076
Billing and administrative costs	2,050,153	284,690
Other	865,854	-
Depreciation	1,255,196	325,467
Total operating expenses	8,432,968	1,152,233
Operating Loss	(275,415)	(196,780)
Nonoperating Revenue (Expense)		
Property tax revenue	1,666,377	-
Investment income	11,691	504
Interest expense	(521,384)	-
Bond issuance costs	(83,733)	-
Total nonoperating revenue	1,072,951	504
Change in Net Assets	797,536	(196,276)
Net Assets - Beginning of year	29,858,466	2,968,850
Net Assets - End of year	\$ 30,656,002	\$ 2,772,574

City of Lincoln Park, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2011

	Enterprise Fund Water and Sewer Fund	Governmental Activities Internal Service Funds
Cash Flows from Operating Activities		
Receipts from customers	\$ 8,048,982	\$ -
Receipts from interfund services and reimbursements	-	922,963
Payments to suppliers	(5,314,020)	(568,356)
Payments to employees	(1,703,099)	(278,706)
Internal activity - Payments to other funds	(302,572)	(51)
	729,291	75,850
Cash Flows from Capital and Related Financing Activities		
Issuance of bonds	3,445,000	-
Payment to County debt service fund	(1,272,707)	-
Collection of property taxes	1,561,503	-
Purchase of capital assets	(3,238,578)	-
Principal and interest paid on debt	(821,750)	-
Bond issuance costs	(83,733)	-
	(410,265)	-
Cash Flows from Investing Activities - Interest received on investments	11,691	504
Net Increase in Cash and Cash Equivalents	330,717	76,354
Cash and Cash Equivalents - Beginning of year	6,111,133	1,261,658
Cash and Cash Equivalents - End of year	\$ 6,441,850	\$ 1,338,012
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and investments	\$ 4,415,618	\$ 1,338,012
Restricted assets (Note 9)	1,500,311	-
Unremitted tax funds	525,921	-
	\$ 6,441,850	\$ 1,338,012
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (275,415)	\$ (196,780)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	1,255,196	325,467
Changes in assets and liabilities:		
Receivables	(119,844)	-
Due to other funds	(121,495)	(3,276)
Prepaid and other assets	(11,218)	(1,116)
Accounts payable	(77,579)	(14,493)
Due to others	(181,077)	(29,265)
Compensated absences	119,111	-
Accrued and other liabilities	(97,604)	(4,687)
Net OPEB obligation	239,216	-
	729,291	75,850
Net cash provided by operating activities	\$ 729,291	\$ 75,850

City of Lincoln Park, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2011

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2011, 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, 2010	\$ 2,584,288
Interest earned on investments	5,055
Judgment levy	821,238
Increase in working capital as a result of billings to the City	6,404
Principal paid	(640,929)
Interest paid	<u>(194,655)</u>
Assets on hand - June 30, 2011	<u><u>\$ 2,581,401</u></u>

City of Lincoln Park, Michigan

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2011

	Pension and Other Employee Benefits Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 6,526,371	\$ 187,527
Investments:		
U.S. government securities	2,338,000	-
Stocks	14,561,683	-
Bonds	3,390,517	-
Mutual funds	5,814,088	-
Accrued interest receivable	97,859	-
	32,728,518	187,527
Liabilities		
Accounts payable	25,312	-
Due to other governmental units	-	127,097
Refundable deposits, bonds, etc.	-	25,723
Accrued liabilities and other	-	34,707
	25,312	187,527
Net Assets - Held in trust for pension and other employee benefits	\$ 32,703,206	\$ -

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, 2011

	Pension and Other Employee Benefits Trust Funds
Additions	
Investment activity:	
Interest and dividends	\$ 554,284
Net increase in fair value of investments	4,633,114
Less investment-related expenses	<u>(221,177)</u>
Net investment activity	4,966,221
Contributions:	
Employer	9,479,698
Employee	<u>588,449</u>
Total contributions	<u>10,068,147</u>
Total additions	15,034,368
Deductions	
Benefit payments	12,348,043
Refunds of contributions	952,750
Administrative expenses	<u>139,441</u>
Total deductions	<u>13,440,234</u>
Net Increase in Net Assets Held in Trust	1,594,134
Net Assets Held in Trust for Pension and Other Employee Benefits - Beginning of year	<u>31,109,072</u>
Net Assets Held in Trust for Pension and Other Employee Benefits - End of year	<u>\$ 32,703,206</u>

City of Lincoln Park, Michigan

Component Units Statement of Net Assets June 30, 2011

	Downtown Development Authority	Economic Development Corporation	Total
Assets			
Cash and cash equivalents	\$ 1,601,163	\$ 260,602	\$ 1,861,765
Receivables:			
Property taxes receivable	44,538	-	44,538
Loans receivable	-	74,934	74,934
Prepaid expenses and other assets	1,169	-	1,169
Capital assets	536,588	-	536,588
Total assets	2,183,458	335,536	2,518,994
Liabilities			
Accounts payable	3,752	195	3,947
Due to primary government	-	349	349
Deferred revenue	-	74,934	74,934
Total liabilities	3,752	75,478	79,230
Net Assets			
Invested in capital assets - Net of related debt	536,588	-	536,588
Unrestricted	1,643,118	260,058	1,903,176
Total net assets	\$ 2,179,706	\$ 260,058	\$ 2,439,764

City of Lincoln Park, Michigan

	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions/Programs				
Downtown Development Authority	\$ 144,021	\$ -	\$ -	\$ 145,500
Economic Development Corporation	<u>6,233</u>	<u>84,675</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 150,254</u>	<u>\$ 84,675</u>	<u>\$ -</u>	<u>\$ 145,500</u>

General revenue:

Property taxes

Investment 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, 2011**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Economic Development Corporation	Total
\$ 1,479	\$ -	\$ 1,479
-	78,442	78,442
1,479	78,442	79,921
445,378	-	445,378
4,351	574	4,925
449,729	574	450,303
451,208	79,016	530,224
1,728,498	181,042	1,909,540
\$ 2,179,706	\$ 260,058	\$ 2,439,764

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2011

Note 1 - 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.

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 Area did not have any activity in the current fiscal year.

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.

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

Fund Equity - In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications - nonspendable, restricted, committed, assigned, and unassigned. The City implemented GASB No. 54 during the year.

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
- **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 remaining after all funds have been allocated to the appropriate fund balance components above

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.

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

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 2010 taxable valuation of the City totaled \$718 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, 1.0804 mills for Ecorse Creek debt, and 1.2609 mills for Downriver Sewage Disposal System debt. This resulted in \$11.1 million for operating, \$2.5 million for police and fire protection, \$251,000 for library operations, \$1.7 million for rubbish, \$776,000 for Ecorse Creek, and \$906,000 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.

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.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2011

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

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

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

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

Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2011 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.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2011

Note 3 - Deposits and Investments (Continued)

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.

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 \$12,625,729 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. At year end, the Downtown Development Authority had \$1,205,662 of bank deposits that were uninsured and uncollateralized. The Economic Development Corporation had \$10,253 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 system:		
U.S. government securities	\$ 2,338,000	6.60
Corporate bonds	3,390,517	6.51
Total	<u>\$ 5,728,517</u>	

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2011

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>
\$ 2,623,717	AAA	Moody's
214,985	A1	Moody's
11,332	AA1	Moody's
302,283	A2	Moody's
281,645	AA2	Moody's
308,509	A3	Moody's
156,842	AA3	Moody's
12,712	BA1	Moody's
350,708	BAA1	Moody's
403,984	BAA2	Moody's
119,855	BAA3	Moody's
<u>941,945</u>	Undefined	Moody's
<u>\$ 5,728,517</u>		

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2011

Note 3 - Deposits and Investments (Continued)

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:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments	\$ 14,082	\$ -
Grant payments not collected within 60 days	213,935	-
Rehabilitation liens and loans	<u>-</u>	<u>2,428,816</u>
Total	<u>\$ 228,017</u>	<u>\$ 2,428,816</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2011

Note 5 - Capital Assets

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

	Balance July 1, 2010 (as restated)	Additions	Disposals	Balance June 30, 2011
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 9,614,700	\$ -	\$ -	\$ 9,614,700
Construction in progress	-	142,532	-	142,532
Subtotal	9,614,700	142,532	-	9,757,232
Capital assets being depreciated:				
Roads and sidewalks	97,412,007	760,997	-	98,173,004
Buildings and improvements	6,229,403	-	-	6,229,403
Equipment	8,872,970	357,014	-	9,229,984
Subtotal	112,514,380	1,118,011	-	113,632,391
Accumulated depreciation:				
Roads and sidewalks	70,864,561	3,174,494	-	74,039,055
Buildings and improvements	5,204,125	95,222	-	5,299,347
Equipment	5,350,465	447,260	-	5,797,725
Subtotal	81,419,151	3,716,976	-	85,136,127
Net capital assets being depreciated	31,095,229	(2,598,965)	-	28,496,264
Internal service fund capital assets being depreciated:				
Machinery and equipment	214,066	-	-	214,066
Vehicles	2,726,398	-	-	2,726,398
Subtotal	2,940,464	-	-	2,940,464
Accumulated depreciation:				
Machinery and equipment	91,560	23,130	-	114,690
Vehicles	1,060,532	302,336	-	1,362,868
Subtotal	1,152,092	325,466	-	1,477,558
Net internal service funds capital assets	1,788,372	(325,466)	-	1,462,906
Net governmental activity capital assets	<u>\$ 42,498,301</u>	<u>\$ (2,781,899)</u>	<u>\$ -</u>	<u>\$ 39,716,402</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2011

Note 5 - Capital Assets (Continued)

	Balance July 1, 2010	Additions	Disposals	Balance June 30, 2011
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	2,542,950	3,123,992	-	5,666,942
Water and sewer distribution systems	49,762,635	114,586	-	49,877,221
Subtotal	53,989,052	3,238,578	-	57,227,630
Accumulated depreciation:				
Buildings and improvements	1,438,213	15,056	-	1,453,269
Machinery and equipment	1,289,817	158,089	-	1,447,906
Water and sewer distribution systems	17,725,314	1,082,051	-	18,807,365
Subtotal	20,453,344	1,255,196	-	21,708,540
Net capital assets being depreciated	33,535,708	1,983,382	-	35,519,090
Net capital assets	<u>\$ 33,552,248</u>	<u>\$ 1,983,382</u>	<u>\$ -</u>	<u>\$ 35,535,630</u>
	Balance July 1, 2010	Additions	Disposals	Balance June 30, 2011
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
Subtotal	25,134	281,830	-	306,964
Accumulated depreciation:				
Equipment	-	18,788	-	18,788
Vehicles	10,054	5,027	-	15,081
Subtotal	10,054	23,815	-	33,869
Net capital assets being depreciated	15,080	258,015	-	273,095
Net capital assets	<u>\$ 278,573</u>	<u>\$ 258,015</u>	<u>\$ -</u>	<u>\$ 536,588</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2011

Note 5 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 310,119
Public safety	62,497
Public works	3,198,934
Recreation and culture	145,426
Internal service fund depreciation is charged to the various functions based on their usage of the asset	<u>325,466</u>

Total governmental activities \$ 4,042,442

Business-type activities - Water and sewer \$ 1,255,196

Component unit activities - DDA \$ 23,815

Construction Commitments - The City of Lincoln Park, Michigan has one significant active construction project as of June 30, 2011. At year end, the City has spent \$142,352 related to the Outer Drive Road project. The remaining commitment is approximately \$44,500.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2011

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	\$ 424,043
Water and Sewer Fund	General Fund	77,291
	Community Development Block Grant Fund	<u>44,204</u>
	Total Water and Sewer Fund	121,495
Nonmajor governmental funds	Community Development Block Grant Fund	7,148
	Water and Sewer Fund	<u>76,333</u>
	Total nonmajor governmental funds	83,481
Internal service funds	Community Development Block Grant Fund	<u>8,258</u>
	Total	<u>\$ 637,277</u>

Interfund transfers include the transfer of \$30,080 of Act 51 funding from the Major Streets Fund to the General Fund for street improvement obligations. The nonmajor governmental funds transferred \$52,582 to the General Fund to refund unused amounts transferred for capital projects in previous years. The Major Streets Fund transferred \$398,983 to the Local Streets Fund to pay for the Major Streets Funds portion of street obligations.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2011

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, 2011 on the leased assets is \$1,193,333. The future minimum lease obligations for the years ending June 30, 2012 through June 30, 2022 and the net present value are as follows:

Years Ending June 30	Amount
2012	\$ 329,053
2013	329,053
2014	329,053
2015	329,053
2016	329,053
2017-2022	<u>1,892,059</u>
Total minimum lease payments	3,537,324
Less amount representing interest	<u>(765,224)</u>
Present value	<u>\$ 2,772,100</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.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2011

Note 8 - Long-term Debt (Continued)

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							
Maturing through 2022							
	4.00%	\$210,792- \$301,595	\$ 2,974,667	\$ -	\$ 202,567	\$ 2,772,100	\$ 210,792
Employee compensated absences							
			<u>1,938,140</u>	<u>335,410</u>	<u>409,112</u>	<u>1,864,438</u>	<u>466,109</u>
Total governmental activities							
			<u>\$ 4,912,807</u>	<u>\$ 335,410</u>	<u>\$ 611,679</u>	<u>\$ 4,636,538</u>	<u>\$ 676,901</u>
Business-type Activities							
General obligations debt (county contracts):							
Ecorse Creek Pollution Bond - Phase III:							
Amount of issue - \$10,250,000							
Maturing through 2012							
	5%	\$750,000	\$ 1,500,000	\$ -	\$ -	\$ 1,500,000	\$ 750,000
Ecorse Creek #1 Phase III:							
Amount of issue - \$8,295,000							
Maturing through 2011							
	5.30% - 6.0%	-	725,000	-	725,000	-	-
Downriver Sewage Disposal Bonds:							
Amount of issue - \$12,344,844							
Maturing through various dates							
	2.0% - 2.5%	\$645,000 - \$778,502	11,327,240	-	739,644	10,587,596	849,922
Water and Sewer System Improvements Bonds:							
Amount of issue - \$3,445,000							
Maturing through 2030							
	2.5% - 4.125%	\$95,000 - \$275,000	-	3,445,000	-	3,445,000	95,000
Total general obligation bonds							
			<u>13,552,240</u>	<u>3,445,000</u>	<u>1,464,644</u>	<u>15,532,596</u>	<u>1,694,922</u>
Other long-term obligations -							
Employee compensated absences							
			<u>146,041</u>	<u>42,520</u>	<u>34,725</u>	<u>153,836</u>	<u>38,459</u>
Total business-type activities							
			<u>\$13,698,281</u>	<u>\$ 3,487,520</u>	<u>\$ 1,499,369</u>	<u>\$15,686,432</u>	<u>\$ 1,733,381</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2011

Note 8 - Long-term Debt (Continued)

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
2012	\$ 210,792	\$ 118,261	\$ 329,053	\$ 1,694,922	\$ 417,211	\$ 2,112,133
2013	219,351	109,702	329,053	1,749,100	353,548	2,102,648
2014	228,258	100,796	329,054	1,023,912	307,058	1,330,970
2015	237,526	91,527	329,053	1,022,183	278,179	1,300,362
2016	247,170	81,883	329,053	1,020,898	249,540	1,270,438
2017-2021	1,394,796	250,471	1,645,267	4,037,196	857,345	4,894,541
2022-2026	234,207	12,584	246,791	2,673,294	465,057	3,138,351
2027-2031	-	-	-	2,311,091	119,382	2,430,473
Total	\$ 2,772,100	\$ 765,224	\$ 3,537,324	\$ 15,532,596	\$ 3,047,320	\$ 18,579,916

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, 2011 consist of the following:

Cash and cash equivalents:	
Ecorse Creek replacement reserve	\$ 1,000,000
Enterprise fund debt service	59,672
Water and sewer improvement unspent bond proceeds	<u>440,639</u>
Total cash and cash equivalents	1,500,311
Wayne County sewage disposal system:	
Assets held at Wayne County for future debt payments	2,581,401
Unremitted tax funds	<u>525,921</u>
Total restricted assets	<u>\$ 4,607,633</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 \$1,666,377 compared to principal and interest payments of \$1,867,469 on related debt.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2011

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.

Note 11 - Defined Benefit Pension Plan

Plan Description - The Police and Fire Retirement System and the Municipal Employees' Retirement System are single-employer defined benefit pension plans administered by the City of Lincoln Park, Michigan. These plans cover all full-time police and fire employees and general employees of the City hired before December 1, 2004. The systems provide retirement, disability, and death benefits to plan members and their beneficiaries. The plan does not issue a separate financial report. At June 30, 2010, the date of the most recent actuarial valuation, membership consisted of the following:

	Police and Fire Retirement System	Municipal Employees' Retirement System
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	142	151
Current employees:		
Fully vested	41	23
Nonvested	39	25
Total current employees	80	48

Funding Policy - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plans 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.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2011

Note 11 - Defined Benefit Pension Plan (Continued)

The funding progress of the plans as of the most recent valuation date is as follows:

	<u>Police/Fire</u>	<u>Municipal</u>
Valuation as of June 30, 2010:		
Actuarial value of assets (a)	\$ 23,184,458	\$ 13,060,817
Actuarial accrued liability (AAL) (b)	\$ 59,930,330	\$ 38,169,525
Unfunded AAL (UAAL) (b-a)	\$ 36,745,872	\$ 25,108,708
Funded ratio (a/b)	39 %	34 %
Annual covered payroll	\$ 4,864,949	\$ 2,299,414
Ratio of UAAL to covered payroll	755 %	1,092 %

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 liabilities for benefits.

The obligation to contribute to and maintain the systems for these employees was established by City ordinance and negotiation with the police, fire, and general employees' competitive bargaining units and requires a contribution from the employees of 8.18 percent of qualifying wages for police and fire employees; police chiefs with over 28 years of experience contribute 8.63 and 8.41 percent of qualifying wages for general employees. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plans are financed through investment earnings.

The annual required contributions were determined as part of an actuarial valuation conducted at the year ended June 30, 2010 using the entry age cost method for both the Police and Fire Retirement System and the Municipal Employees' Retirement System. Significant actuarial assumptions for both systems include (i) an 8 percent investment rate of return for the Police and Fire Retirement System and an 8.25 percent investment rate of return for the Municipal Employees' Retirement System and (ii) projected salary increases of 4.2 to 7.8 percent per year. Both (i) and (ii) include inflation at 4 percent. Both plans assume that benefits will not increase after retirement, with the following exceptions: fire members retiring after January 1, 1995, police members retiring after September 6, 1996, and general municipal members retiring after August 1, 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 five-year period. The unfunded actuarial liability is being amortized as a level percent of payroll over a closed period of 30 years. The remaining amortization period is 26 years. The unfunded actuarial liability for those individuals who retired under the early retirement window is being amortized on a closed basis. The remaining amortization period is 14 years.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2011

Note 11 - Defined Benefit Pension Plan (Continued)

Reserves - As of June 30, 2011, the plans' legally required reserves have been funded as follows:

	Police and Fire Retirement System	Municipal Employees' Retirement System
Reserve for employees' contribution	\$ 5,161,584	\$ 6,292,246
Reserve for retired benefit payments	15,757,180	5,492,196

Three-year Trend Information

	Fiscal Year Ended June 30		
	2009	2010	2011
General Employees' Retirement System:			
Annual pension cost (APC)	\$ 1,726,324	\$ 1,811,667	\$ 2,112,131
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	\$ -	\$ -	\$ -
Police and Fire Retirement System:			
Annual pension cost (APC)	\$ 2,354,705	\$ 2,569,039	\$ 2,947,238
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	\$ -	\$ -	\$ -

Note 12 - Defined Contribution Pension Plan

The City established a defined contribution pension plan under Section 401(a) of the Internal Revenue Code with International City and County Management Association. The plan 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.

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 participant's annual earnings. In accordance with the requirements, the City expensed \$48,560 during the current year.

Employees are permitted, but not required, to make contributions up the maximum allowed by law. For the year ended June 30, 2011, employee contributions were \$4,200.

Note 13 - 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. In the current year, the Retiree Healthcare Trust Fund was fully depleted for payments of retiree healthcare premiums. As a result, the trust was closed in fiscal year 2011. 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, 2011, the City made payments for postemployment health benefit premiums totaling approximately \$4,403,600, of which \$4,386,000 was paid from the governmental funds and \$17,600 was paid from the Water and Sewer Fund.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2011

Note 13 - Other Postemployment Benefits (Continued)

Funding Progress - For the year ended June 30, 2011, 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	\$ 3,427,671	\$ 3,117,624
Interest on prior year's net OPEB obligation	105,339	91,920
Less adjustment for annual required contribution	<u>(155,060)</u>	<u>(76,600)</u>
Annual OPEB cost	3,377,950	3,132,944
Amounts contributed:		
Payments of current premiums	(2,245,778)	(2,157,873)
Advance funding	<u>-</u>	<u>-</u>
Increase in net OPEB obligation	1,132,172	975,071
OPEB obligation - Beginning of the year	<u>2,633,487</u>	<u>2,298,002</u>
OPEB obligation - End of the year	<u>\$ 3,765,659</u>	<u>\$ 3,273,073</u>

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

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual OPEB Costs</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
6/30/09	6/30/08	\$ 2,988,387	56.0 %	\$ 1,322,976
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

Police and Fire Employees

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual OPEB Costs</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
6/30/09	6/30/08	\$ 2,673,619	59.0 %	\$ 1,103,374
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

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2011

Note 13 - Other Postemployment Benefits (Continued)

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

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.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2011

Note 13 - Other Postemployment Benefits (Continued)

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 closed basis for municipal members. The remaining amortization period at June 30, 2010 for both plans was 28 years.

In addition, the City has established a Retirement Health Savings Plan with International City and County Management Association. Under the plan, the City contributes 2 percent of covered payroll for employees hired after December 1, 2004. In accordance with the requirements, the City expensed \$9,118 during the current year. Employees may also contribute to the plan.

Note 14 - 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	Total
Statement of Net Assets				
Investments	\$ 20,855,265	\$ 11,775,394	\$ -	\$ 32,630,659
Other assets	88,811	9,048	-	97,859
Liabilities	25,312	-	-	25,312
Net assets	<u>\$ 20,918,764</u>	<u>\$ 11,784,442</u>	<u>\$ -</u>	<u>\$ 32,703,206</u>
Statement of Changes in Net Assets				
Investment income	\$ 2,926,039	\$ 2,040,217	\$ 15	\$ 4,966,271
Contributions	3,325,584	2,322,234	16,677	5,664,495
Benefit payments	5,187,588	3,617,674	91,879	8,897,141
Other deductions	20,351	119,090	50	139,491
Net change in net assets	<u>\$ 1,043,684</u>	<u>\$ 625,687</u>	<u>\$ (75,237)</u>	<u>\$ 1,594,134</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2011

Note 15 - Construction Code Fees

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

Cumulative shortfall - June 30, 2010	\$ (954,481)
Building permit revenue	357,507
Related direct expenditures	<u>(395,453)</u>
Cumulative shortfall - June 30, 2011	<u>\$ (992,427)</u>

Note 16 - Contingent Liabilities

The City is involved in certain legal matters that have not progressed to a point where any ultimate liability can be determined. Settlement payments on certain cases, but potentially not all cases, would be covered by the insurance pool noted in Note 10. No liability has been reflected in these financial statements.

Note 17 - Accounting and Reporting Change

The financial statements for the year ended June 30, 2010 have been restated in order to reflect City-owned land that was previously not recorded. The City's assessor compiled the parcel information and the land is now reported at estimated historical cost. The effect of this correction had no impact on the change in net assets or the change in fund balance in the current year or the prior year.

	<u>Governmental Activities</u>
Net assets - June 30, 2010 (as previously reported)	\$ 34,613,688
To record City-owned land at estimated historical cost	<u>9,614,700</u>
Net assets - June 30, 2010 (as restated)	<u>\$ 44,228,388</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2011

Note 17 - Accounting and Reporting Change (Continued)

During the year, the City adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. In order to conform the classifications of the funds to the appropriate fund types under these new definitions, beginning fund balance was restated as follows to include beginning fund balances from funds previously reflected as special revenue or debt service funds:

	<u>General Fund</u>
Fund balance - June 30, 2010 (as previously reported)	\$ 4,456,949
Compensated Absences Fund	105,243
Street Improvements Fund	106,844
Water Bonds Debt Service Fund	<u>2,267</u>
Fund balance - June 30, 2010 (as restated)	<u>\$ 4,671,303</u>

Note 18 - Upcoming Accounting Pronouncements

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement addresses financial reporting related to service concession arrangements which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (whether a government or nongovernment) in which the transferor conveys to an operator the right and relation obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from third parties. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2012-2013 fiscal year.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 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 2012-2013 fiscal year.

Note 18 - Upcoming Accounting Pronouncements (Continued)

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 2012-2013 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 2012-2013 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 19 - Subsequent Events

Subsequent to year end, the City's Water and Sewer Fund paid out approximately \$800,000 in claims to City residents for basement flooding. Additional claims may be forthcoming. While the city hopes to minimize any damages paid, the maximum exposure for the additional claims is believed to be between \$1 million and \$1.5 million.

The Municipal and Police and Fire Retirement Systems have both been approved for transfer to the Municipal Employees' Retirement System of Michigan (MERS). The municipal employees' trust assets will be transferred to MERS in January 2012. A formal date for the Public Safety Retirement System transfer has not yet been scheduled.

Required Supplemental Information

City of Lincoln Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2011

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 14,227,834	\$ 15,502,076	\$ 14,325,668	\$ (1,176,408)
Licenses and permits	772,946	889,651	844,393	(45,258)
State-shared revenue and grants	4,514,533	4,481,111	4,560,681	79,570
Fines and forfeitures	1,379,000	2,162,660	2,055,369	(107,291)
Rental income	5,750	3,557	3,689	132
Other revenue	986,712	1,561,907	1,903,137	341,230
Total revenue	21,886,775	24,600,962	23,692,937	(908,025)
Expenditures - Current				
General government:				
Mayor and City Council	78,272	71,562	71,561	1
City controller	291,544	278,230	279,498	(1,268)
Treasury department	157,039	188,678	192,771	(4,093)
City assessor	115,029	116,648	119,112	(2,464)
Clerk	200,556	178,753	178,750	3
Election commission	45,875	58,743	58,742	1
Municipal building and grounds	994,868	955,705	951,742	3,963
City attorney	258,700	283,662	283,662	-
City manager	258,372	246,122	252,286	(6,164)
General government	5,700,201	5,939,752	5,980,330	(40,578)
Total general government	8,100,456	8,317,855	8,368,454	(50,599)
District court	1,368,382	1,301,521	1,246,564	54,957
Public safety:				
Police	8,508,285	8,014,449	8,075,926	(61,477)
Fire	3,478,674	4,100,122	4,162,964	(62,842)
Building department	416,147	409,338	407,370	1,968
Total public safety	12,403,106	12,523,909	12,646,260	(122,351)
Public works:				
Street construction	-	-	1,649	(1,649)
Planning commission	12,750	9,718	10,324	(606)
Street lighting	486,633	683,609	734,529	(50,920)
Department of Public Services	81,539	54,961	54,961	-
Total public works	580,922	748,288	801,463	(53,175)

City of Lincoln Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2011

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures - Current (Continued)				
Community and economic development	\$ 17,895	\$ 14,415	\$ 17,505	\$ (3,090)
Recreation and culture:				
Library	246,411	236,476	237,336	(860)
Recreation and culture	326,075	244,499	310,897	(66,398)
Social Services	171,555	195,055	165,550	29,505
Historical museum	17,000	17,000	17,000	-
Parks	94,881	146,610	148,447	(1,837)
Total recreation and culture	<u>855,922</u>	<u>839,640</u>	<u>879,230</u>	<u>(39,590)</u>
Total expenditures	<u>23,326,683</u>	<u>23,745,628</u>	<u>23,959,476</u>	<u>(213,848)</u>
Excess of Revenue (Under) Over Expenditures	(1,439,908)	855,334	(266,539)	(1,121,873)
Other Financing Sources -				
Transfers in	<u>-</u>	<u>52,582</u>	<u>52,582</u>	<u>-</u>
Net Change in Fund Balance	(1,439,908)	907,916	(213,957)	(1,121,873)
Fund Balance - Beginning of year	<u>4,456,949</u>	<u>4,456,949</u>	<u>4,456,949</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 3,017,041</u>	<u>\$ 5,364,865</u>	<u>\$ 4,242,992</u>	<u>\$ (1,121,873)</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, 2011

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue - Federal grants	\$ 1,377,105	\$ 1,377,105	\$ 1,653,149	\$ 276,044
Expenditures - Current				
Health and welfare	1,377,105	-	-	-
Community and economic development	-	1,377,105	1,761,091	(383,986)
Net Change in Fund Balance	-	-	(107,942)	(107,942)
Fund Balance - Beginning of year	687,293	687,293	687,293	-
Fund Balance - End of year	<u>\$ 687,293</u>	<u>\$ 687,293</u>	<u>\$ 579,351</u>	<u>\$ (107,942)</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

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 to 4.0 percent.

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 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*	\$ 35,339,000	\$ 53,553,000	\$ 18,214,000	66.0 %	\$ 4,293,000	424.3 %
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	59,930,300	36,746,000	38.7	4,865,000	755.3

The schedule of employer contributions is as follows:

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
6/30/06*	\$ 1,315,588	100.0
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

* 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 to 4.0 percent.

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, closed
Amortization period**	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases***	4.0%
***Includes inflation at	4.0%
Additional salary increases attributable to seniority/merit	0.2% to 3.6%

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

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, 2011

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.

As described in Note 1, the City adopted GASB No. 54 in the current year and, as such, various funds were required to be rolled into the General Fund. A reconciliation of those funds is as follows:

	Total Revenue	Total Expenditures	Excess of Expenditures (Over) Under Revenue
General Fund:			
Amounts per operating statement	\$ 23,696,056	\$ 24,098,957	\$ (402,901)
Compensated absences fund	(49)	-	(49)
Street improvement fund	(3,070)	(137,214)	134,144
Water Bonds Debt Service Fund	-	(2,267)	2,267
Amounts per budget statement	<u>\$ 23,692,937</u>	<u>\$ 23,959,476</u>	<u>\$ (266,539)</u>

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

	Final Budget	Actual	Variance
General Fund:			
General government:			
City controller	\$ 276,212	\$ 277,480	\$ (1,268)
City treasurer	188,678	192,771	(4,093)
City assessor	116,448	118,912	(2,464)
Human resources	235,308	241,472	(6,164)
General government	8,865,747	8,906,325	(40,578)
Public safety:			
Police	5,088,454	5,149,931	(61,477)
Fire	4,100,122	4,162,964	(62,842)
Public works:			
Street construction	-	1,649	(1,649)
Planning commission	9,718	10,324	(606)
Street lighting	683,609	734,529	(50,920)
Community and economic development	14,415	17,505	(3,090)
Recreation and culture:			
Library	236,476	237,336	(860)
Recreation and culture	244,499	310,897	(66,398)
Parks	146,610	148,447	(1,837)
Community Development Block Grant Fund - Health and welfare	1,377,105	1,761,091	(383,986)

City of Lincoln Park, Michigan

Note to Required Supplemental Information (Continued) June 30, 2011

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

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

The unfavorable budget variances in the CDBG Fund are caused by timing differences for revenue recognition. Grant reimbursement revenue not received within the City's 60-day availability period is deferred. As a result, the CDBG Fund also has an unassigned fund balance deficit in the amount of (255,234) at June 30, 2011.

Other Supplemental Information

City of Lincoln Park, Michigan

	Special Revenue Funds				
	Major Streets	Local Streets	Sanitation Fund	Drug	Cable Fund
	Fund	Fund		Forfeiture	
Assets					
Cash and investments	\$ 1,914,747	\$ 246,928	\$ 227,015	\$ 444,426	\$ 409,492
Receivables:					
Property taxes receivable	-	-	26	-	-
Special assessments receivable	-	-	-	-	-
Other receivables	-	-	169,057	-	-
Due from other governmental units	419,197	140,679	-	-	-
Due from other funds	-	7,148	76,333	-	-
Prepaid expenses and other assets	4,540	3,894	-	-	1,043
Total assets	\$ 2,338,484	\$ 398,649	\$ 472,431	\$ 444,426	\$ 410,535
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 20,689	\$ 19,059	\$ 166,481	\$ 6,016	\$ -
Accrued liabilities and other	5,774	3,750	-	-	2,022
Deferred revenue	-	-	-	-	-
Total liabilities	26,463	22,809	166,481	6,016	2,022
Fund Balances - Restricted					
Roads	2,312,021	375,840	-	-	-
Police	-	-	-	438,410	-
Sanitation	-	-	305,950	-	-
Cable	-	-	-	-	408,513
Total fund balances	2,312,021	375,840	305,950	438,410	408,513
Total liabilities and fund balances	\$ 2,338,484	\$ 398,649	\$ 472,431	\$ 444,426	\$ 410,535

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011**

<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ 3,242,608
-	26
14,082	14,082
-	169,057
-	559,876
-	83,481
-	9,477
<u>\$ 14,082</u>	<u>\$ 4,078,607</u>

\$ -	\$ 212,245
-	11,546
14,082	14,082
14,082	237,873
-	2,687,861
-	438,410
-	305,950
-	408,513
-	3,840,734
<u>\$ 14,082</u>	<u>\$ 4,078,607</u>

City of Lincoln Park, Michigan

	Special Revenue Funds				
	Major Streets	Local Streets	Sanitation Fund	Drug	Cable Fund
	Fund	Fund		Forfeiture	
Revenue					
Property taxes	\$ -	\$ -	\$ 1,951,415	\$ -	\$ -
Federal grants	-	-	-	156,963	-
State-shared revenue and grants	1,663,317	558,191	-	-	-
Investment income	1,180	108	281	221	13,603
Other revenue	-	-	-	-	97,447
Total revenue	1,664,497	558,299	1,951,696	157,184	111,050
Expenditures - Current					
Public safety	-	-	-	131,796	-
Public works	1,135,850	896,609	1,890,445	-	90,547
Total expenditures	1,135,850	896,609	1,890,445	131,796	90,547
Excess of Revenue Over (Under) Expenditures	528,647	(338,310)	61,251	25,388	20,503
Other Financing Sources (Uses)					
Transfers in	-	398,983	-	-	-
Transfers out	(429,063)	-	-	-	-
Total other financing (uses) sources	(429,063)	398,983	-	-	-
Net Change in Fund Balances	99,584	60,673	61,251	25,388	20,503
Fund Balances - Beginning of year	2,212,437	315,167	244,699	413,022	388,010
Fund Balances - End of year	\$ 2,312,021	\$ 375,840	\$ 305,950	\$ 438,410	\$ 408,513

**Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2011**

Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ 1,951,415
-	156,963
-	2,221,508
43	15,436
-	97,447
<u>43</u>	<u>4,442,769</u>
-	131,796
<u>122,820</u>	<u>4,136,271</u>
<u>122,820</u>	<u>4,268,067</u>
(122,777)	174,702
-	398,983
<u>(52,582)</u>	<u>(481,645)</u>
<u>(52,582)</u>	<u>(82,662)</u>
(175,359)	92,040
<u>175,359</u>	<u>3,748,694</u>
<u>\$ -</u>	<u>\$ 3,840,734</u>

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2011

	<u>Motor Pool Fund</u>	<u>Information Technology Fund</u>	<u>Total</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,150,483	\$ 187,529	\$ 1,338,012
Due from other funds	-	8,258	8,258
Prepaid expenses and other assets	4,197	2,871	7,068
Total current assets	<u>1,154,680</u>	<u>198,658</u>	<u>1,353,338</u>
Noncurrent assets - Capital assets	<u>1,437,687</u>	<u>25,218</u>	<u>1,462,905</u>
Total assets	<u>2,592,367</u>	<u>223,876</u>	<u>2,816,243</u>
Liabilities - Current			
Accounts payable	35,110	5,468	40,578
Accrued liabilities and other	1,796	1,295	3,091
Total liabilities	<u>36,906</u>	<u>6,763</u>	<u>43,669</u>
Net Assets			
Invested in capital assets	1,437,687	25,218	1,462,905
Unrestricted	1,117,774	191,895	1,309,669
Total net assets	<u><u>\$ 2,555,461</u></u>	<u><u>\$ 217,113</u></u>	<u><u>\$ 2,772,574</u></u>

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, 2011

	Motor Pool Fund	Information Technology Fund	Total
Operating Revenue - Charges to other funds	\$ 765,220	\$ 190,233	\$ 955,453
Operating Expenses			
Other operating and maintenance costs	429,025	113,051	542,076
Billing and administrative costs	196,392	88,298	284,690
Depreciation	312,740	12,727	325,467
Total operating expenses	<u>938,157</u>	<u>214,076</u>	<u>1,152,233</u>
Operating Loss	(172,937)	(23,843)	(196,780)
Nonoperating Revenue - Investment income	<u>454</u>	<u>50</u>	<u>504</u>
Change in Net Assets	(172,483)	(23,793)	(196,276)
Net Assets - Beginning of year	<u>2,727,944</u>	<u>240,906</u>	<u>2,968,850</u>
Net Assets - End of year	<u><u>\$ 2,555,461</u></u>	<u><u>\$ 217,113</u></u>	<u><u>\$ 2,772,574</u></u>

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2011

	Motor Pool Fund	Information Technology Fund	Total
Cash Flows from Operating Activities			
Receipts from interfund services and reimbursements	\$ 736,378	\$ 186,585	\$ 922,963
Payments to suppliers	(435,471)	(132,885)	(568,356)
Payments to employees	(194,450)	(84,256)	(278,706)
Internal activity - Payments to other funds	(51)	-	(51)
	106,406	(30,556)	75,850
Net cash provided by (used in) operating activities			
Cash Flows from Investing Activities - Interest received on investments	454	50	504
	106,860	(30,506)	76,354
Net Increase (Decrease) in Cash and Cash Equivalents			
Cash and Cash Equivalents - Beginning of year	1,043,623	218,035	1,261,658
	\$ 1,150,483	\$ 187,529	\$ 1,338,012
Cash and Cash Equivalents - End of year			
Balance Sheet Classification of Cash and Cash Equivalents - Cash and investments	\$ 1,150,483	\$ 187,529	\$ 1,338,012
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (172,937)	\$ (23,843)	\$ (196,780)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation and amortization	312,740	12,727	325,467
Changes in assets and liabilities:			
Due from others	-	(3,276)	(3,276)
Prepaid and other assets	(865)	(251)	(1,116)
Accounts payable	1,155	(15,648)	(14,493)
Due to others	(28,893)	(372)	(29,265)
Accrued and other liabilities	(4,794)	107	(4,687)
	106,406	(30,556)	75,850
Net cash provided by (used in) operating activities	\$ 106,406	\$ (30,556)	\$ 75,850

City of Lincoln Park, Michigan

	Pension Trust Funds			
	Police and Fire Retirement	Municipal Employees' Retirement	Retirees' Health Benefit	Total Pension Trust Funds
Assets				
Cash and cash equivalents	\$ 3,457,598	\$ 3,068,773	\$ -	\$ 6,526,371
Investments:				
U.S. government securities	2,338,000	-	-	2,338,000
Common stock	9,674,791	4,886,892	-	14,561,683
Corporate bonds	3,390,517	-	-	3,390,517
Mutual funds	1,994,359	3,819,729	-	5,814,088
Accrued interest and other	88,811	9,048	-	97,859
Total assets	20,944,076	11,784,442	-	32,728,518
Liabilities				
Accounts payable	25,312	-	-	25,312
Due to other governmental units	-	-	-	-
Refundable deposits, bonds, etc.	-	-	-	-
Accrued liabilities and other	-	-	-	-
Total liabilities	25,312	-	-	25,312
Net Assets	\$ 20,918,764	\$ 11,784,442	\$ -	\$ 32,703,206

**Other Supplemental Information
Statement of Assets and Liabilities
Fiduciary Funds
June 30, 2011**

Agency Funds					
Current Tax Collection	Payroll	Court Bond Fund	Court Depository Fund	Court Civil Fund	Total Agency Funds
\$ 76,318	\$ 34,707	\$ 23,237	\$ 50,779	\$ 2,486	\$ 187,527
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 76,318</u>	<u>\$ 34,707</u>	<u>\$ 23,237</u>	<u>\$ 50,779</u>	<u>\$ 2,486</u>	<u>\$ 187,527</u>
-	-	-	-	-	-
76,318	-	-	50,779	-	127,097
-	-	23,237	-	2,486	25,723
-	34,707	-	-	-	34,707
<u>\$ 76,318</u>	<u>\$ 34,707</u>	<u>\$ 23,237</u>	<u>\$ 50,779</u>	<u>\$ 2,486</u>	<u>\$ 187,527</u>

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Changes in Fiduciary Net Assets Fiduciary Funds Year Ended June 30, 2011

	Police and Fire Retirement	Municipal Employees' Retirement	Retirees' Health Benefit	Total
Additions				
Investment income:				
Interest and dividends	\$ 363,005	\$ 191,264	\$ 15	\$ 554,284
Net increase in fair value of investments	2,729,198	1,903,916	-	4,633,114
Investment-related expenses	(166,164)	(54,963)	(50)	(221,177)
Net investment income	2,926,039	2,040,217	(35)	4,966,221
Contributions:				
Employer	2,947,238	2,112,131	4,420,329	9,479,698
Employee	378,346	210,103	-	588,449
Total contributions	3,325,584	2,322,234	4,420,329	10,068,147
Total additions - Net	6,251,623	4,362,451	4,420,294	15,034,368
Deductions				
Benefit payments	4,663,411	3,189,101	4,495,531	12,348,043
Refunds of contributions	524,177	428,573	-	952,750
Administrative expenses	20,351	119,090	-	139,441
Total deductions	5,207,939	3,736,764	4,495,531	13,440,234
Net Increase (Decrease) in Net Assets Held in Trust	1,043,684	625,687	(75,237)	1,594,134
Net Assets - Beginning of year	19,875,080	11,158,755	75,237	31,109,072
Net Assets - End of year	\$ 20,918,764	\$ 11,784,442	\$ -	\$ 32,703,206