

City of Lincoln Park, Michigan

**Financial Report
with Supplemental Information
June 30, 2014**

City of Lincoln Park, Michigan

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City of Lincoln Park, Michigan

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Independent Auditor's Report

Mr. Brad Coulter, Emergency Manager
and Mayor and Members of City Council
City of Lincoln Park, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lincoln Park, Michigan (the "City") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Lincoln Park, Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Mr. Brad Coulter, Emergency Manager
and Mayor and Members of City Council
City of Lincoln Park, Michigan

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lincoln Park, Michigan as of June 30, 2014 and the respective changes in its financial position, and, where applicable, cash flows, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the basic financial statements, during the year ended June 30, 2014, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result, certain balances have been reclassified to deferred inflows of resources on the City's governmental funds balance sheet. Our opinion is not modified with respect to this matter.

In addition, as discussed in Notes 2 and 11-15 to the basic financial statements, during the year ended June 30, 2014, the City implemented GASB Statement No. 67, *Financial Reporting for Pension Plans - an Amendment of GASB No. 25*. Adopting this statement resulted in significant changes to the defined benefit related footnote disclosures as well as the required supplemental information schedules. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplemental information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To Mr. Brad Coulter, Emergency Manager
and Mayor and Members of City Council
City of Lincoln Park, Michigan

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014 on our consideration of the City of Lincoln Park, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lincoln Park, Michigan's internal control over financial reporting and compliance.

Plante & Morse, PLLC

December 15, 2014

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, 2014. Please review it conjunction with the City's financial statements.

Reviewing the Annual Report

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

Financial Highlights

Due to this year's operations, the City's net position is as follows: net position in the governmental activities was \$20.2 million and net position of business-type activities was \$29.4 million.

- The current year's expense total was \$30.5 million as compared to the \$26.2 million generated in fees and charges, grants, general revenue, and taxes for governmental programs. In the previous year, expenses were \$33.5 million as compared to the \$26.3 million generated in tax and other revenue for governmental activities.
- For business-type activities, City revenue was \$9.9 million. Expenses were \$9.9 million. In the previous year, revenue was \$9.6 million and expenditures were \$9.9 million.
- The annual cost of all City programs was \$40.4 million. The previous year's cost was \$43.4 million.

The City as a Whole Analysis

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

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

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

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

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

Detailing the Most Important Funds

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

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

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

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

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

City Serving as Trustee

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

Notes to Financial Statements

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

Other Information

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

Table I - Net Position (in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Assets						
Current and other assets	\$ 9,121.0	\$ 8,936.2	\$ 10,506.9	\$ 9,704.2	\$ 19,627.9	\$ 18,640.4
Noncurrent assets	32,568.6	35,353.0	35,142.3	36,282.4	67,710.9	71,635.4
Total assets	41,689.6	44,289.2	45,649.2	45,986.6	87,338.8	90,275.8
Liabilities						
Current liabilities	5,343.9	4,910.9	997.8	1,129.9	6,341.7	6,040.8
Long-term liabilities	16,156.6	14,900.1	15,218.8	15,439.0	31,375.4	30,339.1
Total liabilities	21,500.5	19,811.0	16,216.6	16,568.9	37,717.1	36,379.9
Net Position						
Net investment in capital assets	30,477.4	32,745.9	23,165.0	22,865.7	53,642.4	55,611.6
Restricted	4,498.2	3,845.9	1,871.3	2,741.6	6,369.5	6,587.5
Unrestricted	(14,786.5)	(12,113.6)	4,396.3	3,810.4	(10,390.2)	(8,303.2)
Total net position	<u>\$ 20,189.1</u>	<u>\$ 24,478.2</u>	<u>\$ 29,432.6</u>	<u>\$ 29,417.7</u>	<u>\$ 49,621.7</u>	<u>\$ 53,895.9</u>

City as a Whole

The City's combined net position from the previous year was \$53.9 million as compared to \$49.6 million this year. Net position and expenses from governmental and business-type activities must be reviewed separately. Table I focuses on the net position and Table 2 focuses on changes in the net position of the City's governmental and business-type activities.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

The City's net position for governmental activities was \$20.2 million this year as compared to \$24.5 million last year. Unrestricted net position was (\$12.1) million last year as compared to (\$14.8) million this year. Unrestricted net position represents financial resources that can be used to finance everyday operations without restrictions set by legislation, debt covenants, or other legal regulations. The negative unrestricted net position amount reflects that restricted position and net investments in capital assets exceeded total net position in the current year.

The net position of the City's business-type activities remained consistent and was \$29.4 million this year and last year.

City revenue for the current year was \$36.1 million compared to \$35.9 million in the previous year. The total yearly cost of all programs and services was \$40.4 million as compared to \$43.4 million in the previous year.

Table 2 - Change in Net Position (in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenue						
Program revenue - Restricted:						
Charges for services	\$ 4,638.2	\$ 3,743.6	\$ 8,752.7	\$ 7,877.4	\$ 13,390.9	\$ 11,621.0
Operating and capital grants	3,585.8	4,419.5	383.9	329.0	3,969.7	4,748.5
General revenue:						
Property taxes	11,530.7	12,322.0	818.7	1,359.3	12,349.4	13,681.3
Interest and investment income	0.3	0.7	3.4	3.2	3.7	3.9
Other general revenue including transfers	6,427.1	5,825.2	-	-	6,427.1	5,825.2
Total revenue	26,182.1	26,311.0	9,958.7	9,568.9	36,140.8	35,879.9
Expenditures						
Program expenditures:						
General government	6,068.2	6,308.8	-	-	6,068.2	6,308.8
District Court	831.0	1,046.6	-	-	831.0	1,046.6
Public safety	15,286.4	16,390.8	-	-	15,286.4	16,390.8
Public works	6,781.4	7,476.0	-	-	6,781.4	7,476.0
Culture and recreation	569.7	1,202.5	-	-	569.7	1,202.5
Community development	922.0	716.6	-	-	922.0	716.6
Interest on long-term debt	12.5	355.1	-	-	12.5	355.1
Business activities - Water and/or sewer	-	-	9,943.8	9,892.0	9,943.8	9,892.0
Total expenditures	30,471.2	33,496.4	9,943.8	9,892.0	40,415.0	43,388.4
(Decrease) Increase in Net Position	\$ (4,289.1)	\$ (7,185.4)	\$ 14.9	\$ (323.1)	\$ (4,274.2)	\$ (7,508.5)

Governmental Activities

This year's governmental activities revenue was \$26.2 million as compared to \$26.3 million last year. The year's governmental activities cost was \$30.5 million as compared to \$33.5 million in the previous year. Improvements in the service vehicle fleet were limited to replacement of existing units only.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

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

General Fund Budgetary Statements

The City will continue to look for revenue sources and expenditure reductions to reduce the deficit. The taxpayers renewed a three-year public safety millage in the prior year, but revenue recognized by this millage has been drastically reduced due to the declines in taxable value and Wayne County foreclosure chargebacks. Taxable value has declined significantly since fiscal year 2010. As a result, tax revenue has decreased from \$15.5 million in 2010 to \$12.3 million for the year ended June 30, 2014. The reduction was offset slightly in the current year by a new special assessment tax for street lighting and a community promotion millage, which generated approximately \$583,000 and \$49,000, respectively. Taxable values are expected to decline again for the 2015 fiscal year.

Fiscal year 2012/2013 resulted in a deficit situation in the General Fund for the first time. The City used all reserves that were available but was still unable to avoid a deficit. The General Fund unrestricted deficit grew in fiscal year 2013/2014 to nearly \$1 million.

In 2006, the City entered into an agreement with Honeywell to help with energy efficiency and replace old and non-functional equipment in various City buildings. At that time, the City issued debt for approximately \$3.5 million to fund the project. The annual cost of the debt service was \$329,000. Since that time, as previously discussed, the City has lost significant amounts of tax revenue and state revenue sharing, putting a financial burden on the City to make these debt payments. The City did not make all required payments that were due in fiscal year FY 2013/2014 and SunTrust (holder of the debt) filed a federal lawsuit against the City in an attempt to collect on the debt. During FY 2013/2014, the lawsuit was settled for approximately \$300,000 less than the amount owed. The City made two payments to SunTrust in FY 2013/2014 and the balance will be generated through a judgment levy on the 2014 and 2015 summer tax bills. The debt will be considered paid in full at that time at a reduced cost.

Another key item that has affected the General Fund is the large amount of employee accrued leave payoffs during the fiscal year. Several employees either resigned or retired from the City and were due accrued leave banks at the date of termination. The number of terminations was unforeseen at the time of budget preparation and caused significant expenditures in the General Fund. Additionally, a significant amount of current employees sold back a portion of their accumulated leave time balances. The practice of selling back accumulated leave time for current employees was eliminated during the fiscal year. Caps were also placed on the amount of leave employees are allowed to accumulate.

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

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 connection with the city manager, establishes an annual budget preparation calendar. Internal meetings with key staff were held to determine a course of action that addresses structural limitations and declining tax base. These activities result in submission of a recommended budget to the mayor and City Council by April 1 of the calendar year as required by charter.

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

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

City Funds

At year end, the City reported a total governmental fund balance of \$3.7 million as compared to \$3.5 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 10 percent. A more aggressive collection of water/sewer funds is still in place and has reduced delinquencies by 50 percent to date from previous collections.

Capital Assets

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 9,614.7	\$ 9,614.7	\$ 16.5	\$ 16.5	\$ 9,631.2	\$ 9,631.2
Construction in progress	225.0	-	770.3	350.3	995.3	350.3
Equipment	2,435.7	2,823.6	4,215.4	4,385.2	6,651.1	7,208.8
Buildings and improvements	708.2	780.5	185.0	200.0	893.2	980.5
Infrastructure	17,825.6	20,178.1	29,955.6	31,330.4	47,781.2	51,508.5
Vehicles	1,759.4	1,956.1	-	-	1,759.4	1,956.1
Total	\$ 32,568.6	\$ 35,353.0	\$ 35,142.8	\$ 36,282.4	\$ 67,711.4	\$ 71,635.4

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

At the close of the year, the City had invested \$67.7 million in capital assets such as land, buildings and improvements, and equipment or infrastructure (see Table 3). A total of \$73.1 million was invested in similar assets last year.

Debt Management

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds (backed by the City)	\$ -	\$ -	\$ 12,156.2	\$ 13,607.0	\$ 12,156.2	\$ 13,607.0
Other bonds or outstanding obligations	3,427.3	4,661.1	74.5	112.6	3,501.8	4,773.7
Total	\$ 3,427.3	\$ 4,661.1	\$ 12,230.7	\$ 13,719.6	\$ 15,658.0	\$ 18,380.7

At the close of the year, the City had \$15.7 million in outstanding bonds and notes, as compared to the previous year of \$18.7 million. The City incurred \$246,000 of debt in the business-type activities and \$97,000 in the governmental activities.

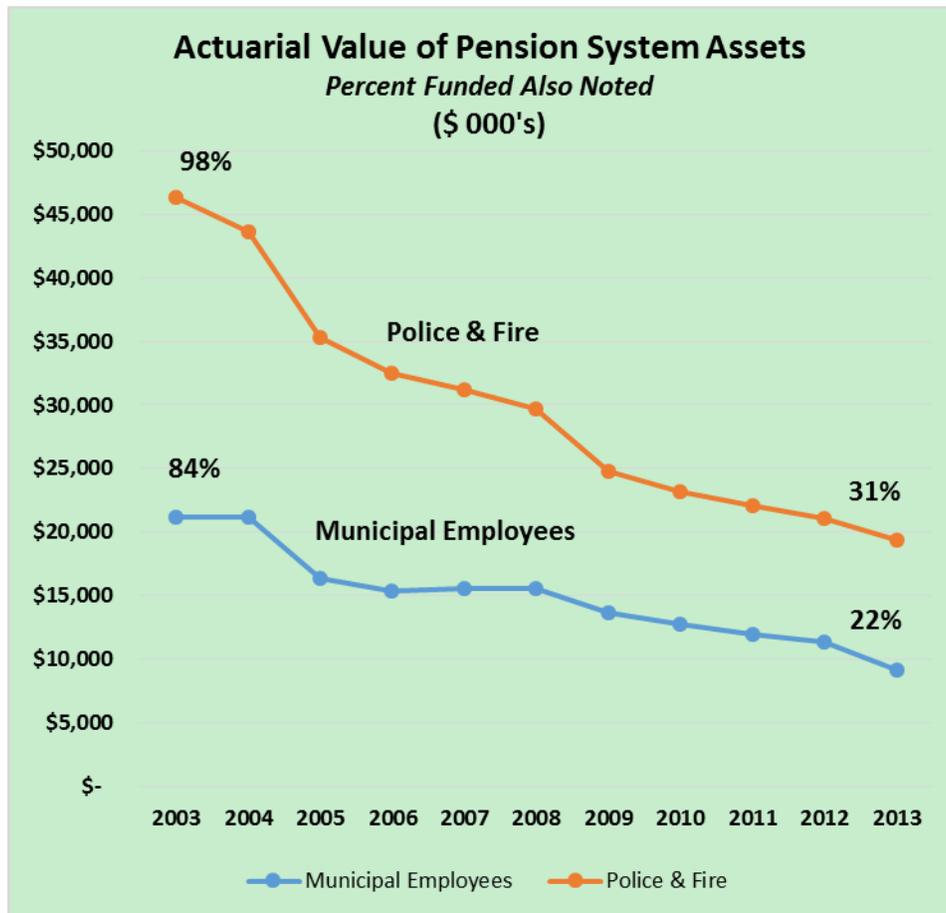
Economic Issues/Upcoming Yearly Budgets

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

The following chart illustrates the significant decline in the actuarial value of pension system assets and funding status. The funding status of both plans has deteriorated significantly even though the City has contributed the actuarially calculated ARC. In 2003, both funds were well funded but have steadily declined since the City initiated a large early retirement program during 2004. In 2003, The Police and Fire Pension System was 98 percent funded, and the Municipal Employees' Pension System was 84 percent funded. Those plans are now funded at 31 percent and 22 percent, respectively. In addition, the actuarial value of assets is approximately half of what it was in 2003.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)



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

The City experienced a loss in the General Fund for the fourth year in a row and currently has a deficit of approximately \$1 million. The City may have to look at an additional PA 345 millage for survival as efforts continue to minimize costs. However, significant fixed costs for retirement contributions, retiree health care, and debt payments use up nearly 40 percent of General Fund annual revenue. As a result, only 60 percent of General Fund revenue is available to cover the cost of current operations and this number will continue to shrink. The City continues to do what it can in light of the financial environment that will require significant restructuring in order to continue to exist. Synopses of these efforts include:

- I. Implement staffing efficiencies to keep our level of employees affordable. The City has had to accept reduced staffing levels and will continue to adjust service means and methods around a reduced workforce.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

2. The City continues to seek reductions in employee-related costs through the collective bargaining process to achieve meaningful and necessary cost reductions in order to maintain the viability of local government. The department heads were given a concessionary contract in February 2013 and the City has reached an agreement with the firefighters union as well as the Governmental Employees Labor Council (GELC) groups. We continue to seek concessionary contracts from all groups, especially for limiting overtime, and this effort is vital in the City's ability to balance its budget in future years.
3. The City recognizes the severe under-funding situation in the pension funds and the need to increase annual funding. The main option being considered is a reduction in retiree health care payments to free up money for funding the pension system. A PA 345 millage for pension is also being explored.
4. The City implemented a transfer of the rubbish fee from the tax bills to the water bills. Over the years with the steeply declining taxable values, the Sanitation Fund was not able to cover the cost of the rubbish collection.

Contact Information

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

Mr. Brad Coulter, Emergency Manager
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City of Lincoln Park, Michigan

Statement of Net Position June 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 4)	\$ 6,948,562	\$ 757,644	\$ 7,706,206	\$ 1,267,934
Receivables:				
Receivables from sales to customers on account	465,836	2,904,158	3,369,994	-
Loans receivable	2,391,980	-	2,391,980	38,959
Other receivables	71,577	-	71,577	-
Due from other governmental units	1,413,349	-	1,413,349	-
Special assessments receivable	14,082	-	14,082	-
Due from primary government	-	-	-	218,762
Internal balances	(2,424,255)	2,424,255	-	-
Prepaid expenses and other assets	236,848	-	236,848	-
Restricted assets (Note 9)	-	2,799,690	2,799,690	-
Investment in joint ventures (Note 19)	-	1,620,585	1,620,585	-
Land held for resale	3,000	-	3,000	-
Capital assets (Note 5):				
Assets not subject to depreciation	9,839,714	786,902	10,626,616	284,670
Assets subject to depreciation	22,728,950	34,355,942	57,084,892	1,265,343
Total assets	41,689,643	45,649,176	87,338,819	3,075,668
Liabilities				
Accounts payable	1,464,013	883,877	2,347,890	63,854
Due to other governmental units	-	-	-	121,032
Due to component units	218,762	-	218,762	-
Accrued liabilities and other	541,510	60,443	601,953	2,086
Unearned revenue (Note 1)	2,583,253	-	2,583,253	38,959
Reserve for tax refunds and delinquencies	536,412	52,823	589,235	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences	334,001	18,636	352,637	-
Current portion of long-term debt	947,689	1,082,995	2,030,684	-
Due in more than one year:				
Compensated absences	1,002,004	55,912	1,057,916	-
Other noncurrent liabilities	-	750,000	750,000	-
Net OPEB obligation	12,729,281	2,238,698	14,967,979	-
Long-term debt	1,143,619	11,073,176	12,216,795	-
Total liabilities	21,500,544	16,216,560	37,717,104	225,931

City of Lincoln Park, Michigan

Statement of Net Position (Continued) June 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Net Position				
Net investment in capital assets	\$ 30,477,356	\$ 23,164,914	\$ 53,642,270	\$ 1,550,013
Restricted for:				
Roads	3,317,515	-	3,317,515	-
Debt service	-	1,621,449	1,621,449	-
Sanitation	2,507	-	2,507	-
Grants	17,677	-	17,677	-
Drug forfeiture	677,012	-	677,012	-
Cable	448,709	-	448,709	-
Sewer replacement	-	1,000,000	1,000,000	-
Community promotion	34,797	-	34,797	-
Unrestricted	(14,786,474)	3,646,253	(11,140,221)	1,299,724
Total net position	\$ 20,189,099	\$ 29,432,616	\$ 49,621,715	\$ 2,849,737

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	\$ 6,068,196	\$ 471,605	\$ 20,752	\$ 16,936
District court	831,070	1,434,087	-	-
Public safety	15,286,412	11,313	229,491	76,722
Public works	6,781,436	2,604,324	2,475,066	-
Community and economic development	922,058	-	766,947	-
Recreation and culture	569,703	116,881	-	-
Interest on long-term debt	12,500	-	-	-
Total governmental activities	30,471,375	4,638,210	3,492,256	93,658
Business-type activities	9,943,788	8,752,666	-	383,916
Total primary government	<u>\$ 40,415,163</u>	<u>\$ 13,390,876</u>	<u>\$ 3,492,256</u>	<u>\$ 477,574</u>
Component units:				
Downtown Development Authority	\$ 353,302	\$ -	\$ -	\$ -
Economic Development Corporation	17,616	25,495	-	-
Brownfield Development Corporation	28,450	-	-	-
Total component units	<u>\$ 399,368</u>	<u>\$ 25,495</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue				
Investment income				
Cable franchise fees				
Other miscellaneous income				
Total general revenue				
Special Items - Gain on capital lease settlement (Note 7)				
Change in Net Position				
Net Position - Beginning of year				
Net Position - End of year				

Statement of Activities
Year Ended June 30, 2014

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (5,558,903)	\$ -	\$ (5,558,903)	\$ -
603,017	-	603,017	-
(14,968,886)	-	(14,968,886)	-
(1,702,046)	-	(1,702,046)	-
(155,111)	-	(155,111)	-
(452,822)	-	(452,822)	-
(12,500)	-	(12,500)	-
(22,247,251)	-	(22,247,251)	-
-	(807,206)	(807,206)	-
(22,247,251)	(807,206)	(23,054,457)	-
-	-	-	(353,302)
-	-	-	7,879
-	-	-	(28,450)
-	-	-	(373,873)
11,530,713	818,725	12,349,438	360,460
4,312,778	-	4,312,778	-
330	3,386	3,716	3,192
677,063	-	677,063	-
1,139,669	-	1,139,669	882
17,660,553	822,111	18,482,664	364,534
297,616	-	297,616	-
(4,289,082)	14,905	(4,274,177)	(9,339)
24,478,181	29,417,711	53,895,892	2,859,076
\$ 20,189,099	\$ 29,432,616	\$ 49,621,715	\$ 2,849,737

City of Lincoln Park, Michigan

Governmental Funds Balance Sheet June 30, 2014

	General Fund	CDBG Fund	Major Streets Fund	Nonmajor Funds	Total
Assets					
Cash and cash equivalents (Note 4)	\$ 1,085,090	\$ 1,224,433	\$ 3,237,930	\$ 1,244,985	\$ 6,792,438
Receivables:					
Special assessments receivable	-	-	-	14,082	14,082
Receivables from sales to customers on account	-	-	-	465,836	465,836
Loans receivable	-	2,391,980	-	-	2,391,980
Other receivables	71,577	-	-	-	71,577
Due from other governmental units	1,019,269	12,248	285,125	96,707	1,413,349
Due from other funds	1,289,172	-	-	642,342	1,931,514
Prepaid expenses and other assets	234,358	2,490	-	-	236,848
Land held for resale	-	3,000	-	-	3,000
Total assets	\$ 3,699,466	\$ 3,634,151	\$ 3,523,055	\$ 2,463,952	\$ 13,320,624
Liabilities					
Accounts payable	\$ 655,744	\$ 240,171	\$ 289,718	\$ 236,278	\$ 1,421,911
Due to component units	218,497	265	-	-	218,762
Due to other funds	8,891	792,247	590,350	383,113	1,774,601
Advances from other funds	2,512,500	-	-	-	2,512,500
Accrued liabilities and other	526,825	538	2,132	4,278	533,773
Unearned revenue	-	2,583,253	-	-	2,583,253
Reserve for tax refunds and delinquencies	513,459	-	-	22,953	536,412
Total liabilities	4,435,916	3,616,474	882,200	646,622	9,581,212
Deferred Inflows of Resources -					
Unavailable revenue	-	12,187	-	14,082	26,269
Fund Balances					
Nonspendable - Prepaids	234,358	-	-	-	234,358
Restricted:					
Roads	1,640	-	2,640,855	675,020	3,317,515
Drug forfeiture	-	-	-	677,012	677,012
Grants	-	5,490	-	-	5,490
Sanitation	-	-	-	2,507	2,507
Cable	-	-	-	448,709	448,709
Community promotion	34,797	-	-	-	34,797
Unassigned (Note 3)	(1,007,245)	-	-	-	(1,007,245)
Total fund balances	(736,450)	5,490	2,640,855	1,803,248	3,713,143
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,699,466	\$ 3,634,151	\$ 3,523,055	\$ 2,463,952	\$ 13,320,624

City of Lincoln Park, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2014

Fund Balance Reported in Governmental Funds	\$ 3,713,143
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	30,761,091
Special assessment and grant receivables are expected to be collected over several years and are not available to pay for current year expenditures	26,269
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(1,816,936)
Accrued interest is not due and payable in the current period and is not reported in the funds	(247)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(1,336,005)
Net other postemployment benefits are not due and payable in the current period and are not reported in the funds	(12,729,281)
Internal Service Funds are included as part of governmental activities	<u>1,571,065</u>
Net Position of Governmental Activities	<u>\$ 20,189,099</u>

City of Lincoln Park, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2014

	General Fund	CDBG Fund	Major Streets Fund	Nonmajor Funds	Total
Revenue					
Property taxes	\$ 11,479,456	\$ -	\$ -	\$ 51,257	\$ 11,530,713
Licenses and permits	1,003,158	-	-	-	1,003,158
Federal grants	-	697,354	-	54,054	751,408
State-shared revenue and grants	4,390,248	-	1,737,359	974,548	7,102,155
Charges for services	-	-	-	1,897,538	1,897,538
Fines and forfeitures	1,437,669	-	-	-	1,437,669
Investment income	330	-	-	-	330
Rental income	33,749	-	-	-	33,749
Other revenue:					
Special assessments	41,016	-	-	-	41,016
Cable franchise fees	558,305	-	-	118,758	677,063
Other miscellaneous income	1,483,837	-	119,972	-	1,603,809
Total revenue	<u>20,427,768</u>	<u>697,354</u>	<u>1,857,331</u>	<u>3,096,155</u>	<u>26,078,608</u>
Expenditures - Current					
General government	5,207,649	-	-	-	5,207,649
District Court	831,070	-	-	-	831,070
Public safety	13,666,998	-	-	142,386	13,809,384
Public works	779,118	-	1,114,987	2,767,835	4,661,940
Community and economic development	35,732	800,707	-	-	836,439
Recreation and culture	541,348	-	-	-	541,348
Debt service	12,500	-	-	-	12,500
Total expenditures	<u>21,074,415</u>	<u>800,707</u>	<u>1,114,987</u>	<u>2,910,221</u>	<u>25,900,330</u>
Excess of Revenue (Under) Over Expenditures	(646,647)	(103,353)	742,344	185,934	178,278
Other Financing Sources (Uses)					
Face value of debt issue	-	-	-	16,936	16,936
Transfers in	-	-	-	558,286	558,286
Transfers out	-	-	(558,286)	-	(558,286)
Total other financing (uses) sources	<u>-</u>	<u>-</u>	<u>(558,286)</u>	<u>575,222</u>	<u>16,936</u>
Net Change in Fund Balances	(646,647)	(103,353)	184,058	761,156	195,214
Fund Balances (Deficit) - Beginning of year	<u>(89,803)</u>	<u>108,843</u>	<u>2,456,797</u>	<u>1,042,092</u>	<u>3,517,929</u>
Fund Balances (Deficit) - End of year (Note 3)	<u>\$ (736,450)</u>	<u>\$ 5,490</u>	<u>\$ 2,640,855</u>	<u>\$ 1,803,248</u>	<u>\$ 3,713,143</u>

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

City of Lincoln Park, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds \$ 195,214

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	804,196
Depreciation expense	(3,383,340)

Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	12,187
--	--------

Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position	(16,936)
--	----------

Repayment of capital lease is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	300,000
--	---------

Gain on settlement of capital lease does not provide financial resources to governmental funds, but reduces capital lease liability in the statement of net position	297,616
--	---------

Change in accrued interest payable and other	25,801
--	--------

Decrease in accumulated employee sick and vacation pay reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment	605,450
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Increase in net other postemployment benefits reported in the statement of activities does not require current financial resources and therefore is not reported in the fund statements until due	(2,377,688)
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Internal Service Funds are included as part of governmental activities	<u>(751,582)</u>
--	------------------

Change in Net Position of Governmental Activities \$ (4,289,082)

City of Lincoln Park, Michigan

Proprietary Funds Statement of Net Position June 30, 2014

	Enterprise Funds	Governmental
	Water and Sewer	Activities
	Fund	Internal Service
		Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ 757,644	\$ 156,124
Receivables	2,904,158	-
Due from other funds	53,095	18,905
Total current assets	3,714,897	175,029
Noncurrent assets:		
Restricted assets (Note 9)	2,799,690	-
Advances to other funds (Note 6)	2,512,500	-
Investment in joint ventures (Note 19)	1,620,585	-
Capital assets (Note 5):		
Assets not subject to depreciation	786,902	-
Assets subject to depreciation	34,355,942	1,807,573
Total noncurrent assets	42,075,619	1,807,573
Total assets	45,790,516	1,982,602
Liabilities		
Current liabilities:		
Accounts payable	883,877	42,102
Due to other funds	141,340	87,573
Accrued liabilities and other	60,443	7,490
Reserve for tax refunds and delinquencies	52,823	-
Compensated absences	18,636	-
Current portion of long-term debt	1,082,995	42,080
Total current liabilities	2,240,114	179,245
Noncurrent liabilities:		
Compensated absences	55,912	-
Net OPEB obligation (Note 18)	2,238,698	-
Other noncurrent liabilities	750,000	-
Long-term debt (Note 8)	11,073,176	232,292
Total noncurrent liabilities	14,117,786	232,292
Total liabilities	16,357,900	411,537
Net Position		
Net investment in capital assets	23,164,914	1,533,201
Restricted:		
Debt service	1,621,449	-
Sewer replacement	1,000,000	-
Unrestricted	3,646,253	37,864
Total net position	\$ 29,432,616	\$ 1,571,065

City of Lincoln Park, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2014

	Enterprise Funds	Governmental Activities
	Water and Sewer Fund	Internal Service Funds
Operating Revenue		
Sale of water	\$ 2,998,674	\$ -
Sewage disposal charges	3,988,504	-
Interest and penalty charges	12,500	-
System maintenance charge	1,182,083	-
Other	570,905	-
Charges to other funds	-	151,662
	8,752,666	151,662
Total operating revenue		
Operating Expenses		
Cost of water	2,205,717	-
Cost of sewage treatment	1,630,529	-
Operation and maintenance	287,423	466,950
Billing and administrative costs	2,010,916	129,886
Other	2,099,461	-
Depreciation	1,314,418	310,210
	9,548,464	907,046
Total operating expenses		
Operating Loss	(795,798)	(755,384)
Nonoperating Revenue (Expenses)		
Property tax revenue	818,725	-
Investment income	3,386	-
Interest expense	(395,324)	(13,134)
	426,787	(13,134)
Total nonoperating revenue (expenses)		
Loss - Before contributions	(369,011)	(768,518)
Capital Contributions		
Capital grants	267,365	-
Other capital contributions	116,551	16,936
	383,916	16,936
Total capital contributions		
Change in Net Position	14,905	(751,582)
Net Position - Beginning of year	29,417,711	2,322,647
Net Position - End of year	\$ 29,432,616	\$ 1,571,065

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

City of Lincoln Park, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2014

	Enterprise Fund	Governmental Activities
	Water and Sewer Fund	Internal Service Fund
Cash Flows from Operating Activities		
Receipts from customers	\$ 8,624,410	\$ -
Receipts from interfund services and reimbursements	-	148,386
Payments to suppliers	(4,864,015)	(466,873)
Payments to employees	(2,223,043)	(126,625)
Internal activity - Payments (to) from other funds	(57,336)	87,573
Other receipts	255,461	-
	<u>1,735,477</u>	<u>(357,539)</u>
Net cash provided by (used in) operating activities		
Cash Flows from Capital and Related Financing Activities		
Receipt of capital grants	267,365	-
Payment to County Debt Service Fund	(874,976)	-
Collection of property taxes	788,809	-
Purchase of capital assets	(620,586)	(88,106)
Principal and interest paid on capital debt	(643,925)	57,556
	<u>(1,083,313)</u>	<u>(30,550)</u>
Net cash used in capital and related financing activities		
Cash Flows from Investing Activities - Interest received on investments	<u>3,386</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	655,550	(388,089)
Cash and Cash Equivalents - Beginning of year	<u>1,815,509</u>	<u>544,213</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 2,471,059</u></u>	<u><u>\$ 156,124</u></u>
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and investments	\$ 757,644	\$ 156,124
Restricted assets (Note 9)	1,713,415	-
	<u>\$ 2,471,059</u>	<u>\$ 156,124</u>
Total cash and cash equivalents		
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (795,798)	\$ (755,384)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	1,314,418	310,210
Changes in assets and liabilities:		
Receivables	(61,242)	-
Due to other funds	(12,500)	(3,276)
Accounts payable	648,150	6,157
Due from other funds	(44,836)	87,573
Accrued and other liabilities	687,285	(2,819)
	<u>\$ 1,735,477</u>	<u>\$ (357,539)</u>
Net cash provided by (used in) operating activities		
Noncash Transactions		
Capital contributions	\$ 116,551	\$ 16,936
Capital lease	-	80,000
Income from joint venture	49,216	-

City of Lincoln Park, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2014

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2014, 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, 2013	\$	1,042,217
Interest earned on investments		3,280
Property tax - Judgment levy		874,976
Issuance of long-term debt		245,527
Purchase of capital assets		(245,527)
Principal paid		(697,068)
Interest paid		(137,130)
		<hr/>
Assets on hand - June 30, 2014	\$	<u>1,086,275</u>

City of Lincoln Park, Michigan

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2014

	Police and Fire Retirement Trust Fund	Agency Funds
Assets		
Cash and cash equivalents	\$ 3,970,832	\$ 222,581
Investments:		
Mutual funds - Equities	9,575,879	-
Mutual funds - Fixed income	4,808,894	-
Receivables - Accrued interest	2,871	-
Total assets	18,358,476	\$ 222,581
Liabilities		
Accounts payable	74	\$ -
Due to other governmental units	-	188,825
Accrued liabilities and other	-	33,756
Total liabilities	74	\$ 222,581
Net Position Held in Trust for Pension and Other Employee Benefits	\$ 18,358,402	

City of Lincoln Park, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Position - Police Officers and Firefighters Retirement Trust Fund Year Ended June 30, 2014

	Police Officers and Firefighters Retirement Trust Fund
Additions	
Investment income (loss):	
Interest and dividends	\$ 464,378
Net increase in fair value of investments	1,855,622
Investment-related expenses	(51,578)
Net investment income	2,268,422
Contributions:	
Employer	3,332,855
Employee	395,148
Total contributions	3,728,003
Total additions	5,996,425
Deductions	
Benefit payments	5,064,208
Refunds of contributions	856,603
Administrative expenses	75,719
Total deductions	5,996,530
Net Decrease in Net Position Held in Trust	(105)
Net Position Held in Trust for Pension - Beginning of year	18,358,507
Net Position Held in Trust for Pension - End of year	\$ 18,358,402

City of Lincoln Park, Michigan

Component Units Statement of Net Position June 30, 2014

	Downtown Development Authority	Economic Development Corporation	Brownfield Development Corporation	Total
Assets				
Cash and cash equivalents	\$ 961,447	\$ 306,487	\$ -	\$ 1,267,934
Receivables - Loans receivable	-	38,959	-	38,959
Due from primary government	218,203	559	-	218,762
Capital assets:				
Assets not subject to depreciation	284,670	-	-	284,670
Assets subject to depreciation	1,265,343	-	-	1,265,343
Total assets	2,729,663	346,005	-	3,075,668
Liabilities				
Accounts payable	62,591	1,263	-	63,854
Due to other governmental units	121,032	-	-	121,032
Accrued liabilities and other	2,086	-	-	2,086
Unearned revenue	-	38,959	-	38,959
Total liabilities	185,709	40,222	-	225,931
Net Position				
Net investment in capital assets	1,550,013	-	-	1,550,013
Unrestricted	993,941	305,783	-	1,299,724
Total net position	\$ 2,543,954	\$ 305,783	\$ -	\$ 2,849,737

City of Lincoln Park, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Downtown Development Authority::				
General government	\$ 333,699	\$ -	\$ -	\$ -
Community and economic development	19,603	-	-	-
Total governmental activities	353,302	-	-	-
Economic Development Corporation	17,616	25,495	-	-
Brownfield Development Corporation	28,450	-	-	-
Total component units	\$ 399,368	\$ 25,495	\$ -	\$ -
General revenue:				
Property taxes				
Investment income				
Other miscellaneous income				
Total general revenue				
Change in Net Position				
Net Position - Beginning of year				
Net Position - End of year				

**Component Units
Statement of Activities
Year Ended June 30, 2014**

Net (Expense) Revenue and Changes in Net Position			
Downtown Development Authority	Economic Development Corporation	Brownfield Development Corporation	Total
\$ (333,699)	\$ -	\$ -	\$ (333,699)
<u>(19,603)</u>	<u>-</u>	<u>-</u>	<u>(19,603)</u>
(353,302)	-	-	(353,302)
-	7,879	-	7,879
<u>-</u>	<u>-</u>	<u>(28,450)</u>	<u>(28,450)</u>
(353,302)	7,879	(28,450)	(373,873)
332,010	-	28,450	360,460
2,447	745	-	3,192
882	-	-	882
<u>335,339</u>	<u>745</u>	<u>28,450</u>	<u>364,534</u>
(17,963)	8,624	-	(9,339)
<u>2,561,917</u>	<u>297,159</u>	<u>-</u>	<u>2,859,076</u>
<u>\$ 2,543,954</u>	<u>\$ 305,783</u>	<u>\$ -</u>	<u>\$ 2,849,737</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

Note I - Summary of Significant Accounting Policies

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. Effective July 1, 2014, the City is governed and administered by an emergency manager (EM) appointed pursuant to State statute by the governor of the State of Michigan. 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 legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Units

Building Authority - 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.

The City of Lincoln Park Police Officers and Firefighters Retirement System - The City of Lincoln Park Police Officers and Firefighters Retirement System has been blended into the City's financial statements. The system is governed by a five-member pension board. The mayor and one City Council member sit on the board. Two members of the board are elected by the participants. In addition, the City Council appoints one City resident to the board. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operation of the retirement system.

Discretely Presented Component Units

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

Note I - Summary of Significant Accounting Policies (Continued)

Economic Development Corporation - The Economic Development Corporation (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.

Brownfield Development Area - The Brownfield Development Area (the "Area") was created to facilitate the implementation of plans for the identification, treatment, and revitalization of an environmentally distressed area within the City designated as a Brownfield Development Area. The Area's governing body, which consists of nine individuals, is selected by the City Council and the mayor.

The component units above do not issue separate financial statements.

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

Jointly Governed Organization - The City is a participant in jointly governed organizations as discussed in Note 19.

Accounting and Reporting Principles

The City follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

Note I - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenues are reported instead as general revenue.

For the most part, the effect of interfund activity has been removed from these 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 revenues reported for the various functions concerned.

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.

Fund Accounting

The City accounts for its various activities in several different funds, in order to demonstrate accountability for how we have spent certain resources - separate funds allow us to show the particular expenditures that specific revenues were used for. The various funds are aggregated into three broad fund types:

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, and a capital project fund. The City reports the following funds as "major" governmental funds:

- The General Fund, which is the primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund.
- The Community Development Block Grant Fund, which accounts for resources of federal grant revenue, which is restricted for use in assisting the City with community development.
- The Major Streets Fund, which accounts for repairs and maintenance of the major streets in the City, which is financed primarily through state-shared revenue.

Note I - Summary of Significant Accounting Policies (Continued)

Proprietary funds include enterprise funds, (which provide goods or services to users in exchange for charges or fees) and internal service funds (which provide goods or services to other funds of the City). The City reports the following fund as a “major” enterprise fund:

- The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

The City’s internal service funds are used to allocate vehicle and information technology purchases and maintenance to the various funds on a full accrual basis, so that the full costs are recognized and allocated to the various funds in the year that the costs are incurred.

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts will not be used to operate our government's programs. Activities that are reported as fiduciary include:

- The Police and Fire Retirement Trust Fund accounts for the activities of the Police Officers and Firefighters Retirement System, which accumulates resources for pension benefit payments to qualified police and fire employees.
- The Agency Fund accounts for deposits received by the City that will ultimately be returned to customers, developers, and others once the terms of the deposit arrangement have been satisfied. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Interfund activity: During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Note I - Summary of Significant Accounting Policies (Continued)

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the City has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree health care related costs, or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenues are not recognized until they are collected, or collected soon enough after the end of the year that they are available to pay for obligations outstanding at the end of the year. For this purpose, the City considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: state-shared revenue and state gas and weight tax revenue associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred inflow of resources".

Proprietary funds and fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Specific Balances and Transactions

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Note I - Summary of Significant Accounting Policies (Continued)

Investments - Investments are reported at fair value or estimated fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Land Held for Resale - The City records an asset for land 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.

Restricted Assets - The restricted assets in the Water and Sewer Fund consist of cash and cash equivalents related to unspent bond proceeds which are 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, intangible assets, 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 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.

Infrastructure, intangibles, buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

<u>Capital Asset Class</u>	<u>Lives</u>
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

Note I - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts 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 expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an "other financing source," as well as bond premiums and discounts. The General Fund is generally used to liquidate governmental long-term debt. A portion of the long-term debt in the governmental activities is liquidated by the internal service fund through charges for service. The Water and Sewer fund is used to liquidate business-type activities long-term debt.

Unearned Revenue - The City has made loans to homeowners and assessed liens for rehabilitation projects paid for with grant funds. Program income is recognized as monies are received from HUD loaned out again.

The Economic Development Corporation has made loans to businesses under the Small Business Loan Program. Revenue will be earned as payments are received.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The government has one item that qualifies for reporting in this category. The deferred inflows of resources related to unavailable revenues from two sources: special assessments and deferred loans.

Note I - Summary of Significant Accounting Policies (Continued)

Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. 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 City Council or finance director, who is authorized by resolution approved by the City Council to make assignments

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

Note I - Summary of Significant Accounting Policies (Continued)

Unassigned: Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

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 City's 2014 tax is levied and collectible on July 1, 2013 and is recognized as revenue in the year ended June 30, 2014, when the proceeds of the levy are budgeted and available for the financing of operations.

The Wayne County Treasurer (the "Treasurer") is required by the General Property Tax Law, as amended, to collect delinquent real property taxes levied by the City. Under the Act, the Treasurer pays the City in full for delinquent real property taxes owed according to the delinquent tax roll transferred to the Treasurer. Taxes eligible for payment include all delinquent taxes, except on personal property, due and payable to the City. The Treasurer is then responsible for the collection of the outstanding delinquent taxes. Delinquent property taxes not collected within two years after the sale to the County are charged back to the City. A liability for property tax chargebacks has been recorded throughout various funds for approximately \$589,000.

The 2013 taxable valuation of the City totaled \$543 million (a portion of which is captured by the DDA and Brownfield). Taxes were levied as follows:

<u>Purpose</u>	<u>Millage Rate</u>	<u>Revenue</u>
General operating	15.5209	\$ 8,246,000
Police and fire special voted mills	3.4591	1,838,000
Library operations special voted mills	.3500	186,000
Downriver Sewage Disposal System	1.5027	789,000
Community promotion	.0921	49,000
Total	<u>20.9248</u>	<u>\$ 11,108,000</u>

Note I - Summary of Significant Accounting Policies (Continued)

Pension and Other Postemployment Benefit Costs - The City offers both pension and retiree health care 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. The General Fund and Water and Sewer Fund are used to liquidate the obligation.

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. All sick and vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. Generally the funds that report each employee's compensation (the General Fund and Water and Sewer Fund, primarily) are used to liquidate the obligations.

Proprietary Funds Operating Classification - Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Fund and internal service funds are charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

Note 2 - Changes in Accounting

During the current year, the City adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or as outflows of resources.

As a result of implementing this statement, the following liabilities have been reclassified, as indicated:

Item	Amount	Prior Reporting Classification/Treatment	New Classification After Adoption of GASB Statement No. 65
Special assessment revenue in governmental funds not collected within 60 days of year end	\$ 14,082	Liability	Deferred inflow of resources
Grant revenue in governmental funds not collected within 60 days of year end	12,187	Liability	Deferred inflow of resources

During the current year, the City adopted GASB Statement No. 67, *Financial Reporting for Pension Plans - an Amendment of GASB No. 25*. This statement required changes to the actuarial valuations resulting in a different measurement of the liability of the employer to plan members for benefits provided through the pension plan. As a result, the disclosures within the pension footnote have changed considerably along with the related schedules in the required supplemental information.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

Note 3 - Stewardship, Compliance, and Accountability

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. 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 surplus or shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall at June 30, 2013	\$ (762,042)
Current year permit revenue	656,870
Related direct costs	<u>(333,661)</u>
Current year shortfall	<u>323,209</u>
Cumulative shortfall at June 30, 2014	<u>\$ (438,833)</u>

Fund Deficits - The General Fund had a deficit at June 30, 2014 totaling (\$736,450). In addition, the City budgeted for a deficit for the year ended June 30, 2014. At the end of April 2014, a financial emergency was declared by the governor and an emergency manager (EM) was appointed to the City during July 2014. The EM will remain in place until the State determines that a financial emergency no longer exists. The EM has the responsibility to balance the City's budget and eliminate the cumulative deficit. The City will implement a State-approved financial operating and deficit elimination plan.

The motor pool fund had a deficit at June 30, 2014 totaling (\$127,020). The deficit will be eliminated by future charges for services to benefiting funds.

Note 4 - Deposits and Investments

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

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

The City has designated two banks 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 \$9,189,037 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. At year end, the Downtown Development Authority had \$951,778 of bank deposits that were uninsured and uncollateralized. The Economic Development Corporation had \$305,691 of bank deposits that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

Note 4 - Deposits and Investments (Continued)

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

Investment	Fair Value	Weighted Average Maturity (Years)
Police and Fire Retirement System:		
Mutual funds - Fixed income	\$ 3,254,412	3.56
Mutual funds - Fixed income	<u>1,554,482</u>	3.81
Total	<u>\$ 4,808,894</u>	

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

	Fair Value	Rating	Rating Organization
Mutal funds - Fixed income	\$ 4,808,894	Not rated	Not rated
Money market funds	<u>3,919,358</u>	AAA	S&P
Total	<u>\$ 8,728,252</u>		

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

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

Note 5 - Capital Assets

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

	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 9,614,700	\$ -	\$ -	\$ 9,614,700
Construction in progress	-	225,014	-	225,014
Subtotal	9,614,700	225,014	-	9,839,714
Capital assets being depreciated:				
Roads and sidewalks	100,260,580	537,898	-	100,798,478
Buildings and improvements	6,229,403	-	-	6,229,403
Equipment	9,395,291	41,284	-	9,436,575
Subtotal	115,885,274	579,182	-	116,464,456
Accumulated depreciation:				
Roads and sidewalks	80,082,505	2,890,472	-	82,972,977
Buildings and improvements	5,448,934	72,314	-	5,521,248
Equipment	6,628,300	420,554	-	7,048,854
Subtotal	92,159,739	3,383,340	-	95,543,079
Net capital assets being depreciated	23,725,535	(2,804,158)	-	20,921,377
Internal service fund capital assets being depreciated:				
Machinery and equipment	187,799	-	-	187,799
Vehicles	3,807,218	105,042	-	3,912,260
Subtotal	3,995,017	105,042	-	4,100,059
Accumulated depreciation:				
Machinery and equipment	131,195	8,411	-	139,606
Vehicles	1,851,081	301,799	-	2,152,880
Subtotal	1,982,276	310,210	-	2,292,486
Net internal service funds capital assets	2,012,741	(205,168)	-	1,807,573
Net governmental activity capital assets	<u>\$ 35,352,976</u>	<u>\$ (2,784,312)</u>	<u>\$ -</u>	<u>\$ 32,568,664</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

Note 5 - Capital Assets (Continued)

	Balance July 1, 2013	Adjustment (Note 8)	Additions	Disposals	Balance June 30, 2014
Business-type Activities					
Capital assets not being depreciated:					
Land	\$ 16,540	\$ -	\$ -	\$ -	\$ 16,540
Construction in progress	350,275	-	420,087	-	770,362
Subtotal	366,815	-	420,087	-	786,902
Capital assets being depreciated:					
Buildings and improvements	1,683,467	-	-	-	1,683,467
Machinery and equipment	6,187,771	-	-	-	6,187,771
Water and sewer distribution systems	52,373,151	(606,672)	361,435	-	52,127,914
Subtotal	60,244,389	(606,672)	361,435	-	59,999,152
Accumulated depreciation:					
Buildings and improvements	1,483,381	-	15,056	-	1,498,437
Machinery and equipment	1,802,598	-	169,874	-	1,972,472
Water and sewer distribution systems	21,042,813	-	1,129,488	-	22,172,301
Subtotal	24,328,792	-	1,314,418	-	25,643,210
Net capital assets being depreciated	35,915,597	(606,672)	(952,983)	-	34,355,942
Net capital assets	\$ 36,282,412	\$ (606,672)	\$ (532,896)	\$ -	\$ 35,142,844

	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
Component Units				
Capital assets not being depreciated -				
Land	\$ 263,493	\$ 21,177	\$ -	\$ 284,670
Capital assets being depreciated:				
Infrastructure	763,951	401,180	-	1,165,131
Equipment	281,830	-	-	281,830
Vehicles	25,134	-	-	25,134
Subtotal	1,070,915	401,180	-	1,472,095
Accumulated depreciation:				
Infrastructure	59,858	46,605	-	106,463
Equipment	56,366	18,789	-	75,155
Vehicles	25,134	-	-	25,134
Subtotal	141,358	65,394	-	206,752
Net capital assets being depreciated	929,557	335,786	-	1,265,343
Net capital assets	\$ 1,193,050	\$ 356,963	\$ -	\$ 1,550,013

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

Note 5 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 306,348
Public safety	98,322
Public works	2,909,420
Economic development	69,250
Internal service fund depreciation is charged to the various functions based on their usage of the asset	<u>310,210</u>
Total governmental activities	<u>\$ 3,693,550</u>
Business-type activities - Water and sewer	<u>\$ 1,314,418</u>
Component unit activities - DDA	<u>\$ 65,394</u>

Construction Commitments - The City has two significant construction projects in progress at June 30, 2014:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Progress Avenue reconstruction	\$ 217,740	\$ 30,000
Sewer rehab project	<u>116,551</u>	<u>100,000</u>
Total	<u>\$ 334,291</u>	<u>\$ 130,000</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

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	\$ 721,990
	Water and Sewer Fund	64,432
	Major Streets Fund	32,064
	Internal service fund	87,573
	Nonmajor governmental funds	<u>383,113</u>
	Total General Fund	1,289,172
Water and Sewer Fund	Community Development Block Grant Fund	44,204
	General Fund	<u>8,891</u>
	Total Water and Sewer Fund	53,095
Nonmajor governmental funds	Community Development Block Grant Fund	7,148
	Major Streets Fund	558,286
	Water and Sewer Fund	<u>76,908</u>
	Total nonmajor governmental funds	642,342
Internal service fund	Community Development Block Grant Fund	<u>18,905</u>
	Total	<u>\$ 2,003,514</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

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

Receivable Fund	Payable Fund	Amount
Advances from/to Other Funds		
Water and Sewer Fund	General Fund	<u>\$ 2,512,500</u>

Receivable Fund	Payable Fund	Amount
Due to/from Primary Government and Component Units		
Downtown Development Authority	General Fund	<u>\$ 218,203</u>
Economic Development Corporation	General Fund	\$ 294
	Community Development Block Grant Fund	<u>265</u>
	Total Economic Development Corporation	<u>\$ 559</u>

Interfund Transfers

Fund Providing Resources	Fund Receiving Resources	Amount
Major Streets Fund	Nonmajor governmental fund - Local Streets Fund	<u>\$ 558,286</u>

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

The long-term advance from the Water and Sewer Fund to the General Fund represents monies advanced to provide cash flow for normal operating expenditures. The advance is to be repaid, with interest of 0.5 percent, over 12 years.

The interfund transfer reported from the Major Streets Fund to the Local Streets Fund for \$558,286 was to finance a portion of the cost of the City's Local Streets Fund road programs.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

Note 7 - Leases

Capital Leases - The City has entered into lease agreements as lessee for financing the purchase of heating and air conditioning units for various City-owned buildings. These lease agreements qualify as capital leases for accounting purposes and therefore have been recorded at the present value of the future minimum lease payments as of the inception date (see Note 8). Construction of the assets under capital lease totaled \$3,580,000. Accumulated depreciation as of June 30, 2014 on the leased assets is \$1,909,333.

During the year ended June 30, 2013, the City did not make a quarterly rental payment that was due on April 1, 2013. The lessor filed a federal lawsuit against the City on October 1, 2013. The lawsuit was settled on December 20, 2013 in favor of the lessor in the amount of \$2,100,000, which is \$297,616 less than the outstanding balance of the obligation. The City remitted \$300,000 during fiscal year 2014, resulting in a remaining amount owed at June 30, 2014 of \$1,800,000. To extinguish the remaining liability, the City will make annual payments of \$900,000 during the years ending June 30, 2015 and 2016, which will be paid for by a judgment tax levy beginning July 1, 2014.

The City has entered into a lease agreement as lessee for financing the purchase of a vactor truck. The lease agreement qualifies as a capital lease for accounting purposes and therefore has been recorded at the present value of the future minimum lease payments as of the inception date (see Note 8). The cost of the truck totaled approximately \$353,000. Accumulated depreciation as of June 30, 2014 on the leased asset is \$100,962. The future minimum lease obligations for the years ending June 30, 2015 through June 30, 2018 and the net present value are as follows:

Years Ending June 30	Amount
2015	\$ 22,444
2016	22,444
2017	22,444
2018	151,106
Total minimum lease payments	218,438
Less amount representing interest	(24,066)
Present value	\$ 194,372

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

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 and vactor truck are recorded at present value (see Note 7). County contractual agreements and installment purchase agreements are also general obligations of the City.

Long-term debt activity can be summarized as follows:

Governmental Activities	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental obligations							
Capital lease - Vactor truck							
Amount of issue -							
\$231,868		\$15,583-					
Maturing through 2018	3.46%	\$145,954	\$ 209,424	\$ -	\$ 15,052	\$ 194,372	\$ 15,583
Capital lease - Honeywell Agreement							
Amount of issue -							
\$3,580,000							
Maturing through 2016.							
Reduction for 2014 includes settlement principal reduction of \$297,616	-	\$900,000	2,397,616	-	597,616	1,800,000	900,000
Installment purchase - Police vehicles							
Amount of issue:							
\$96,396		\$32,106-					
Maturing through 2017	3.2%	\$32,930	-	96,936	-	96,936	32,106
Total bonds payable			2,607,040	96,936	612,668	2,091,308	947,689
Employee compensated absences			1,941,455	-	605,450	1,336,005	334,001
Net OPEB obligation			10,351,593	2,377,688	-	12,729,281	-
Total governmental activities			<u>\$ 14,900,088</u>	<u>\$ 2,474,624</u>	<u>\$ 1,218,118</u>	<u>\$ 16,156,594</u>	<u>\$ 1,281,690</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

Note 8 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
General Obligation debt (county contracts):							
Downriver Sewage Disposal Bonds:							
Amount of issue - \$12,344,844 maturing through various dates	2.0% - 5.7%	\$90,409 - \$1,005,891	\$ 10,381,988	\$ 245,527	\$1,571,344*	\$ 9,056,171	\$ 957,995
Water and Sewer System Improvement Bonds:							
Amount of issue - \$3,445,000 maturing through 2030	2.5% - 4.125%	\$125,000 - \$275,000	3,225,000	-	125,000	3,100,000	125,000
Total bonds payable			13,606,988	245,527	1,696,344	12,156,171	1,082,995
Employee compensated absences			112,625	-	38,077	74,548	18,636
Net OPEB obligation			1,719,351	519,347	-	2,238,698	-
Total business-type activities			<u>\$ 15,438,964</u>	<u>\$ 764,874</u>	<u>\$ 1,734,421</u>	<u>\$ 14,469,417</u>	<u>\$ 1,101,631</u>

* The Downriver Sewage Disposal System bonds are allocated to member communities based on a five-year rolling average. As usage goes up or down, the City's percentage of the debt increases or decreases. The City's usage decreased in the current year, resulting in a reduction of debt in the amount of \$606,672, which is included in the reductions amount. This adjustment also reduced the City's capital asset balance.

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 947,689	\$ 8,749	\$ 956,438	\$ 1,082,995	\$ 315,715	\$ 1,398,710
2016	948,033	8,405	956,438	1,130,891	285,609	1,416,500
2017	49,632	6,805	56,437	1,110,982	255,335	1,366,317
2018	145,954	5,152	151,106	1,048,263	224,570	1,272,833
2019	-	-	-	1,068,822	194,646	1,263,468
2020-2024	-	-	-	2,981,058	714,240	3,695,298
2025-2029	-	-	-	3,114,032	325,043	3,439,075
2030-2034	-	-	-	619,128	29,831	648,959
Total	<u>\$ 2,091,308</u>	<u>\$ 29,111</u>	<u>\$ 2,120,419</u>	<u>\$ 12,156,171</u>	<u>\$ 2,344,989</u>	<u>\$ 14,501,160</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

Note 9 - Restricted Assets

The restricted assets in the business-type activities consist of cash and cash equivalents restricted to provide for the replacement of enterprise fund assets. Also, monies received from a tax levy are restricted for the payment of outstanding enterprise fund debt. In addition, restricted assets result from the establishment of debt and operating reserves related to county sewage disposal system bonds. The restricted assets at June 30, 2014 consist of the following:

Cash and cash equivalents:	
Ecorse Creek replacement reserve	\$ 1,000,000
Tax funds for Downriver Sewage Disposal System	535,174
Unspent water and sewer improvement bond proceeds	<u>178,241</u>
Total cash and cash equivalents	1,713,415
Wayne County Downriver Sewage Disposal System -	
Assets held at Wayne County for future debt payments	<u>1,086,275</u>
Total restricted assets	<u>\$ 2,799,690</u>

The City has an obligation recorded for 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 \$784,900 compared to principal and interest payments of \$834,198 on related debt. The Ecorse Creek replacement reserve is required by the EPA.

Note 10 - Risk Management

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

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

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

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

Note 11 - Pension Plan Description

During the current year, the City adopted GASB Statement No. 67, *Financial Reporting for Pension Plans - an Amendment of GASB No. 25*. Adopting the statement resulted in significant changes to the defined benefit-related disclosures as noted in Notes 11-15.

Plan Administration - The Police Officers and Firefighters Retirement System Pension Commission administers the City of Lincoln Park, Michigan Pension Plan - a single employer defined benefit pension plan that covers all full-time police and fire employees of the City hired before December 1, 2004. Effective July 1, 2011, the City offered the option to enroll new hires in a separate retirement program. No new members have been reported since then. Benefit terms have been established by union agreements between the City and the various employee union representation; amendments are subject to the same process.

Management of the Plan is vested in the Pension Commission, which consists of five members - the mayor, a City Council member appointed by City Council, a resident appointed by City Council, and two members of the retirement system elected by plan members.

Plan Membership - At June 30, 2013, the date of the most recent actuarial valuation, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	143
Inactive plan members entitled to but not yet receiving benefits	1
Active plan members	<u>66</u>
Total	<u><u>210</u></u>

Benefits Provided - The Pension Plan provides retirement, disability, and death benefits. Benefit terms are established by contractual agreements between the City and various employee union representation; amendments are subject to the same process. The benefits are defined as follows:

Voluntary Retirement:

Annual Amount: Credited service times 2.8 percent (2.25 percent for Patrol Officers hired on or after April 21, 2010) of final average compensation. Maximum benefit is 78.4 percent of final average compensation.

Early Retirement:

Annual Amount: Computed as a voluntary retirement benefit, but reduced to reflect the early commencement of benefits.

Post-Retirement Death Benefit:

Annual Amount: Effective July 1, 1979, all members whose retirement benefits commenced after June 30, 1975 shall be covered by an automatic 50 percent spouse (or dependent children under age 18) benefit at no cost to the members.

Note 11 - Pension Plan Description (Continued)

Deferred Retirement:

Annual Amount: Computed as voluntary retirement benefit, but based on service and final average compensation at time of termination.

Duty Disability Retirement:

Annual Amount: (1) Disability after eligible for voluntary retirement; computed as voluntary retirement benefit. (2) Disability before eligible for voluntary retirement; 55 percent of final average compensation is payable until date member would have been eligible for voluntary retirement. Then added service credit is granted for period of receipt and benefit computed as voluntary retirement benefit. Workers' compensation payments offset.

Non-Duty Disability Retirement:

Annual Amount: Computed as voluntary retirement benefit based on service and final average compensation at time of disability. Workers' compensation payments offset until attaining age when member would have been eligible for voluntary retirement had he/she remained in service.

Duty Death Before Retirement:

Annual Amount: Accumulated contributions are refunded to named beneficiary or estate if no widow or child. Widow receives 1/3 of final average compensation. Children under 18 share in 1/4 of final average compensation. If no widow, children under 18 receive 1/4 of final average compensation (to 1/2 maximum). If no widow or children, each dependent parent receives 1/6 of final average compensation. Workers' compensation payments offset.

Non-Duty Death Before Retirement:

Annual Amount: Widow's benefit (or other dependent if Option A was elected) computed as voluntary retirement benefit but actuarially reduced to reflect a 100 percent joint and survivor election.

Post-Retirement Cost-of-Living Adjustments: A one-time increase for retirees on the rolls was enacted on July 1, 1975. Annual amount of the increase was \$50 (\$25 for beneficiaries) for each year since retirement. For fire retirees after July 1, 1995 and police retirees after September 6, 1996 (and their eventual beneficiaries), retirement benefits will increase \$300 annually (\$150 for beneficiaries) each January 1, beginning with the January 1 which is at least one year after retirement. Beginning July 1, 1980, the minimum benefit for retirees was gradually raised to \$7,500 (\$3,750 for survivors). For fire retirees, the minimum was raised to \$9,683 (\$4,842 for survivors). For police retirees, the minimum was raised to \$9,683 (two persons) or \$7,570 (one person).

Purchase of Additional Service Credit: Members may buy up to three years of service credit at a cost of 5 percent of current base pay for each year of service credit.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

Note 11 - Pension Plan Description (Continued)

Contributions - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the Pension Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established by negotiation with the City's collective bargaining units. The System requires contribution from the employees of 8.18 percent. For the year ended June 30, 2014, the City contributed the actuarial required contribution of \$3,332,855.

Note 12 - Pension Plan Investments - Policy and Rate of Return

Investment Policy - The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Pension Board by a majority vote of its members. It is the policy of the Pension Board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Pension Board's adopted asset allocation policy as of June 30, 2014:

Asset class:	<u>Target Allocation</u>
Domestic equity	52%
International equity	10%
Emerging markets equity	5%
Investment grade U.S. fixed	21%
International fixed income	10%
Cash	2%

Rate of Return - For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 13.38 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 13 - Pension Plan Reserves

In accordance with the Pension Board, the following reserves are required to be set aside within the pension plan:

The retiree reserve is to be computed annually by the actuary as the present value of estimated benefit payments for all current retirees. The amounts reserved may be used solely to pay monthly retiree benefit payments.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

Note 13 - Pension Plan Reserves (Continued)

The employee reserve is credited as employee contributions are received throughout the year; the plan maintains a record of the amount contributed by each employee, but does not credit the contribution with any interest. For any employee who terminates before vesting in the pension plan, their balance is returned to them; for those who stay until retirement, the balance is transferred into the retiree reserve.

The employer reserve account is used to account for the residual net position balance in the pension plan after funding the above two reserves.

	Required Reserve	Amount Funded
Retiree reserve	\$ 13,321,945	\$ 13,321,945
Employee reserve	5,036,531	5,036,531
Employer reserve	N/A	-

Note 14 - Net Pension Liability of the City

The City reports pension expense based on funding requirements, as directed by GASB Statement No. 27. Beginning next year, the City will adopt GASB Statement No. 68 which will require the measurement of pension expense as it is earned, rather than as it is funded. The net pension liability of the City has been measured as of June 30, 2014 and is composed of the following:

The components of the net pension liability of the City at June 30, 2014 were as follows:

Total pension liability	\$ 73,476,403
Plan fiduciary net position	<u>(18,307,001)</u>
City's net position liability	<u>\$ 55,169,402</u>

Plan fiduciary net position as a percentage of the total pension liability	24.9 %
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Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of June 30, 2013, which used update procedures to roll forward the estimated liability to June 30, 2014. The valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4.0 %
Salary increases	4.0-7.8 % average, including inflation
Investment rate of return	8.0 % net of pension plan investment expense, including inflation

Note 14 - Net Pension Liability of the City (Continued)

Mortality rates were based on the 1971 Group Mortality Table projected to 2000, set back 0 years for men and six years for women. There is currently no margin for future mortality improvement. The actuary expects in the 2015 valuation to update the mortality tables. The impact of updating these tables will be an increase to the City's total pension liability and therefore an increase in the net pension liability. The impact could be significant.

Discount Rate - The discount rate used to measure the total pension liability was 6.23 percent. This single discount rate was based on an expected rate of return on pension plan investments of 8.00 percent and a municipal bond rate of 4.29 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate incorporates a municipal bond rate which was 4.29. The source of that bond rate was the Federal Reserve. The long-term expected rate of return was applied to projected benefit payments through 2041, and the municipal bond rate was applied to the remaining periods.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

Note 14 - Net Pension Liability of the City (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2014 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

Asset class:	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	7.3%
International equity	7.2%
Emerging markets equity	7.4%
Investment grade U.S. fixed	1.8%
International fixed income	2.0%
Cash	0.8%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the City, calculated using the discount rate of 6.23 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.23 percent) or 1 percentage point higher (7.23 percent) than the current rate:

	1% Decrease <u>(5.23%)</u>	Current Discount Rate <u>(6.23%)</u>	1% Increase <u>(7.23%)</u>
Net pension liability of the City	\$ 63,690,088	\$ 55,169,402	\$ 47,980,919

Note 15 - City Pension Cost

The pension plan does not issue a separate financial report.

Annual Pension Cost - For the year ended June 30, 2014, the City's annual pension cost of \$3,332,855 for the plan was equal to the City's required and actual contribution. The pension cost for the three most recent years is as follows:

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

Note 15 - City Pension Cost (Continued)

	Fiscal Year Ended June 30		
	2014	2013	2012
Annual pension cost (APC)	\$ 3,332,855	\$ 3,186,996	\$ 3,086,121
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
Net pension obligation	-	-	-

Funding Status and Funding Progress - As of June 30, 2013, the most recent actuarial valuation date, the plan was 31.2 percent funded. The actuarial accrued liability for benefits was \$62,082,000, and the actuarial value of assets was \$19,345,000, resulting in an unfunded actuarial accrued liability of \$42,737,000. The covered payroll (annual payroll to active employees covered by the plan) was \$4,119,000, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 1037.4 percent.

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

Actuarial Methods and Assumptions - The annual required contribution was determined as part of an actuarial valuation at June 30, 2013, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return and (b) projected salary increases of 4.0 to 7.8 percent per year. Both (a) and (b) include an inflation component of 4.0 percent. The plan assumes benefits will not increase after retirement with the following exceptions: fire members retiring after January 1, 1995 and police members retiring after September 6, 1996. These employees will receive an increase of \$300 (\$150 for beneficiaries) in annual benefits each year. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open period of 30 years. The unfunded actuarial liability for those individuals who retired under the early retirement window offered in 2004 is being amortized on a closed basis. The remaining amortization period is 11 years.

Mortality rates in the Police and Fire Employees plan were based on the 2000 Projection of the 1971 Group Annuity Table, set back 0 years for men and six years for women. The actuary expects in the 2015 valuation to update the mortality tables. The impact of updating these tables will be an increase to the City's required contributions going forward.

Note 16 - Municipal Employees' Retirement System - Defined Benefit Pension Plan

Municipal Employees' Retirement System Plan Description - The City participates in the Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all general employees of the City hired before November 1, 2004. Employees hired after November 1, 2004 are covered under the MERS Hybrid Plan. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2013, the date of the most recent actuarial valuation, membership consisted of 168 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 33 current active employees. MERS issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 8.41 percent and 0 percent of qualifying wages for employees hired before November 1, 2004 and after November 1, 2004, respectively.

Annual Pension Cost - For the year ended June 30, 2014, the City's annual pension cost of \$2,221,647 for the plan was equal to the City's required and actual contribution plus \$389,645 for members' interest earned from July 2010 to January 2012. The annual required contribution was determined as part of an actuarial valuation at January 1, 2012, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) additional projected salary increases of 0 percent to 13 percent per year, attributable to seniority/merit. Both (a) and (b) include inflation at 1 percent for 2014, 2 percent for 2015, 3 percent for 2016, and 4.5 percent thereafter. The plan assumes that benefits will not increase after retirement, with the following exception: general municipal employees retiring after August 1, 1996 will receive an increase of \$300 in annual benefits each year after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis for retirees and on an open basis for actives. The remaining amortization period is 21 years and 25 years for retirees and actives, respectively.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

Note 16 - Municipal Employees' Retirement System - Defined Benefit Pension Plan (Continued)

Three-year Trend Information

	Fiscal Year Ended June 30		
	2014	2013	2012
Annual pension cost (APC)	\$ 2,221,647	\$ 1,832,066	\$ 1,992,507
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
Net pension obligation	\$ -	\$ -	\$ -

	As of December 31		
	2013	2012	2011
Actuarial value of assets	\$ 9,175,000	\$ 11,397,000	\$ 13,445,000
Actuarial accrued liability (AAL) (entry age)	\$ 41,146,000	\$ 40,670,000	\$ 39,802,000
Unfunded AAL (UAAL)	\$ 31,971,000	\$ 29,273,000	\$ 26,357,000
Funded ratio	22.3 %	28.0 %	33.8 %
Covered payroll	\$ 1,557,000	\$ 2,234,000	\$ 2,200,000
UAAL as a percentage of covered payroll	2,053.4 %	1,310.3 %	1,198.0 %

Note 17 - Defined Contribution Pension Plan

The City established a defined contribution pension plan under Section 401(a) which was approved by the City Council during the year ended June 30, 2005 and covers all full-time employees (with the exception of elected officials and commission or board members) hired on or after December 1, 2004. The City participates in the Municipal Employees' Retirement System of Michigan for all defined contribution plan participant members. The members had a choice of a defined contribution plan or a hybrid pension plan. Members that chose the hybrid pension plan are included in Note 16. MERS issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Under the defined contribution plan, the City is required to contribute 7 percent of each member's annual earnings. In accordance with the requirements, the City expensed approximately \$26,000 during the current year. Employees are permitted, but not required, to make contributions up to the maximum allowed by state law. For the year ended June 30, 2014, there were no employee contributions.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

Note 18 - Other Postemployment Benefits

Plan Description - The City provides healthcare benefits to all employees covered by the Police Officers and Firefighters Retirement System and the Municipal Employees' Retirement System upon retirement, in accordance with labor contracts. Currently, there are approximately 130 police and fire retirees and 135 general retirees that are eligible. In addition, there are 42 active municipal employees and 76 active police and fire employees that may be entitled to benefits upon retirement. The municipal employees' plan was closed at the conclusion of the early retirement window at December 31, 2004. The police and fire plan remains open.

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

Funding Policy - The labor contracts and City personnel policies as approved by City Council require no contributions from employees. Retiree healthcare costs are recognized when paid by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended June 30, 2014, the City made payments for postemployment health benefit premiums totaling approximately \$4,098,000, of which \$3,710,000 was paid from the governmental funds and \$388,000 was paid from the Water and Sewer Fund.

Funding Progress - For the year ended June 30, 2014, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2012. 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	\$ 3,811,666	\$ 3,288,285
Interest on prior year's net OPEB obligation	253,172	229,666
Less adjustment for annual required contribution	<u>(396,008)</u>	<u>(191,389)</u>
Annual OPEB cost	3,668,830	3,326,562
Amounts contributed - Payments of current premiums	<u>(1,956,624)</u>	<u>(2,141,733)</u>
Increase in net OPEB obligation	1,712,206	1,184,829
OPEB obligation - Beginning of the year	<u>6,329,304</u>	<u>5,741,640</u>
OPEB obligation - End of the year	<u>\$ 8,041,510</u>	<u>\$ 6,926,469</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2014

Note 18 - Other Postemployment Benefits (Continued)

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

Municipal Employees

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Costs	Percentage Contributed	Net OPEB Obligation
6/30/12	6/30/10	\$ 3,344,761	65.0 %	\$ 4,939,808
6/30/13	6/30/10	3,291,098	58.0	6,329,305
6/30/14	6/30/12	3,668,830	53.0	8,041,510

Police and Fire Employees

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Costs	Percentage Contributed	Net OPEB Obligation
6/30/12	6/30/12	\$ 3,264,149	69.0 %	\$ 4,297,209
6/30/13	6/30/12	3,400,670	58.0	5,741,640
6/30/14	6/30/12	3,326,563	64.0	6,926,469

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
6/30/12	-	53,192,760	53,192,760	-	2,026,614	2,624.7

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
6/30/12	-	57,736,481	57,736,481	-	4,728,209	1,221.1

Note 18 - Other Postemployment Benefits (Continued)

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

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

In the June 30, 2012 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 4 percent after nine years. Both rates included a 4 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis for public safety members and on a level dollar of projected payroll on a closed basis for municipal members. The remaining amortization period at June 30, 2012 for the Municipal Employees' Plan and the Police and Fire Plan was 26 years and 30 years, respectively.

Mortality rates in the Police and Fire Employees' Plan were based on the 2000 Projection of the 1971 Group Annuity Table, set back 0 years for men and six years for women. Had an updated table been used, the UAAL would have been greater by \$2.9 to \$5.8 million.

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 \$7,990 during the current year. Employees may also contribute to the plan.

Note 19 - Joint Venture

Downriver Sewage Disposal System - The City, along with 12 other communities, jointly participates in the Downriver Sewage Disposal System. The City's share of capital assets and related debt is recorded in the Water and Sewer Fund as "investment in joint ventures" and was \$1,620,585 at June 30, 2014. During the year, the City paid \$870,964 for operations of the system and \$1,218,888 for debt service. The City is unaware of any circumstances that would cause an additional financial benefit or burden to the participating governments in the near future.

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

25th District Court - The City is a member of the 25th District Court (the "District Court"). The City appoints one member to the joint venture's governing board, who then approves the annual budget. The District Court receives its operating revenue principally through contributions from the member communities. During the year ended June 30, 2014, the City received fines and forfeitures of approximately \$1,438,000 and paid approximately \$831,000 for operations. The City is unaware of any circumstances that would cause additional financial benefit or burden to the participating governments in the near future. The City does not have an equity interest in the District Court.

Note 20 - Contingent Liabilities

The City has been named as a defendant involving claims for damages of various amounts related to basement floodings and storm events that occurred during July and August 2011. The City has recorded an estimated liability for potential claims that may result from these matters at June 30, 2014. However, it is possible that the loss may be passed through to other third-party defendants. The City has filed complaints against other local units of government for events that the City believes ultimately caused the damages.

Note 21 - Upcoming Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

Required Supplemental Information

City of Lincoln Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 11,363,805	\$ 11,361,314	\$ 11,479,439	\$ 118,125
Licenses and permits	890,027	911,844	1,003,158	91,314
State-shared revenue and grants	4,627,644	4,620,050	4,390,248	(229,802)
Fines and forfeitures - Other fines and forfeitures	1,846,972	1,499,446	1,437,669	(61,777)
Investment income	200	200	330	130
Rental income	37,000	37,000	33,749	(3,251)
Other revenue	1,985,147	2,005,758	2,083,158	77,400
Total revenue	20,750,795	20,435,612	20,427,751	(7,861)
Expenditures - Current				
General government:				
Mayor and City Council	59,061	59,412	59,853	(441)
City controller	215,112	163,605	158,027	5,578
Treasury department	70,189	99,442	97,887	1,555
City assessor	147,991	100,982	100,382	600
Clerk	124,411	140,091	133,254	6,837
Election commission	89,501	78,348	32,035	46,313
Municipal building and grounds	524,458	803,914	851,217	(47,303)
City attorney	230,195	230,195	175,100	55,095
City manager	218,909	191,255	189,443	1,812
General government	3,767,363	3,922,792	3,410,451	512,341
Total general government	5,447,190	5,790,036	5,207,649	582,387
District court - District court costs	1,306,928	938,409	831,070	107,339
Public safety:				
Police	7,411,881	7,886,622	8,091,695	(205,073)
Fire	4,895,702	5,159,040	5,241,642	(82,602)
Building department	422,348	383,564	333,661	49,903
Total public safety	12,729,931	13,429,226	13,666,998	(237,772)
Public works:				
Planning commission	9,600	9,600	2,361	7,239
Street lighting	654,429	661,429	756,755	(95,326)
Department of public services	29,733	36,730	20,002	16,728
Total public works	693,762	707,759	779,118	(71,359)

City of Lincoln Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Expenditures - Current (Continued)				
Community and economic development - Other community and economic development	\$ -	\$ -	\$ 35,732	\$ (35,732)
Recreation and culture:				
Library	188,003	188,003	157,677	30,326
Recreation and culture	148,508	114,674	120,366	(5,692)
Social services	155,000	155,000	150,535	4,465
Community center	-	53,492	53,316	176
Parks	81,473	89,220	59,454	29,766
Total recreation and culture	572,984	600,389	541,348	59,041
Debt service	-	-	12,500	(12,500)
Total expenditures	<u>20,750,795</u>	<u>21,465,819</u>	<u>21,074,415</u>	<u>391,404</u>
Net Change in Fund Balance	-	(1,030,207)	(646,664)	383,543
Fund Balance (Deficit) - Beginning of year	<u>(96,726)</u>	<u>(96,726)</u>	<u>(96,726)</u>	<u>-</u>
Fund Balance (Deficit) - End of year	<u>\$ (96,726)</u>	<u>\$ (1,126,933)</u>	<u>\$ (743,390)</u>	<u>\$ 383,543</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, 2014

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with <u>Amended Budget</u>
Revenue - Federal grants	\$ 621,729	\$ 865,283	\$ 697,354	\$ (167,929)
Expenditures - Current - Community and economic development	<u>621,729</u>	<u>800,707</u>	<u>800,707</u>	<u>-</u>
Net Change in Fund Balance	-	64,576	(103,353)	(167,929)
Fund Balance - Beginning of year	<u>108,843</u>	<u>108,843</u>	<u>108,843</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 108,843</u></u>	<u><u>\$ 173,419</u></u>	<u><u>\$ 5,490</u></u>	<u><u>\$ (167,929)</u></u>

City of Lincoln Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Streets Fund Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 1,595,103	\$ 1,595,103	\$ 1,737,359	\$ 142,256
Investment income	200	200	-	(200)
Other revenue - Other miscellaneous income	250	250	119,972	119,722
Total revenue	1,595,553	1,595,553	1,857,331	261,778
Expenditures - Current - Public works				
Routine maintenance	1,017,393	668,798	854,707	(185,909)
Winter maintenance	333,252	319,732	207,682	112,050
Traffic services	43,188	54,559	52,598	1,961
Total public works	1,393,833	1,043,089	1,114,987	(71,898)
Transfers Out	(558,286)	(558,286)	(558,286)	-
Net Change in Fund Balance	(356,566)	(5,822)	184,058	189,880
Fund Balance - Beginning of year	2,456,797	2,456,797	2,456,797	-
Fund Balance - End of year	<u>\$ 2,100,231</u>	<u>\$ 2,450,975</u>	<u>\$ 2,640,855</u>	<u>\$ 189,880</u>

City of Lincoln Park, Michigan

Required Supplemental Information Pension System Schedule - Municipal Employees' Retirement System Year Ended June 30, 2014

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
12/31/11	\$ 13,445,000	\$ 39,802,000	\$ 26,357,000	33.8	\$ 2,200,000	1,198.0
12/31/12	11,397,000	40,670,000	29,273,000	28.0	2,234,000	1,310.3
12/31/13	9,175,000	41,146,000	31,971,000	22.3	1,557,000	2,053.4

City of Lincoln Park, Michigan

Required Supplemental Information Pension System Schedule - Police Officers and Firefighters Retirement System Year Ended June 30, 2014

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/08	\$ 29,698,000	\$ 58,931,000	\$ 29,233,000	50.4 %	\$ 4,734,000	617.5 %
6/30/09	24,777,000	59,537,000	34,760,000	41.6	4,805,000	723.4
6/30/10	23,184,000	59,930,000	36,746,000	38.7	4,865,000	755.3
6/30/11	22,108,000	60,283,000	38,175,000	36.7	4,692,000	813.6
6/30/12	21,082,000	60,924,000	39,842,000	34.6	4,752,000	838.4
6/30/13	19,345,000	61,853,000	42,508,246	31.3	4,119,000	1,032.0

The schedule of employer contributions is as follows:

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
6/30/09	\$ 2,354,705	100.0 %
6/30/10	2,569,039	100.0
6/30/11	2,947,238	100.0
6/30/12	3,086,121	100.0
6/30/13	3,186,996	100.0
6/30/14	3,332,855	100.0

The information presented above was determined as part of the actuarial valuations as of June 30, 2013. Additional information on assumptions used in the study is as follows:

Actuarial cost method	Entry age
Amortization method	Level percent, open
Amortization period*	30 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return**	8.0%
Projected salary increases**	4.0%
**Includes inflation at	4.0%
Additional salary increases attributable to seniority/merit	0.0% to 3.8%

* 11-year remaining amortization period on a closed basis for those individuals who retired under the early retirement window offered in 2004. Fire members retiring after January 1, 1995 and police members retiring after September 6, 1996 will receive an annual increase of \$300 in annual benefits each year after retirement

City of Lincoln Park, Michigan

Required Supplemental Information Schedule of Investment Returns - Police Officers and Firefighters Retirement System Year Ended June 30, 2014

	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	13.4 %

City of Lincoln Park, Michigan

Required Supplemental Information Schedule of Changes in the City Net Pension Liability and Related Ratios - Police Officers and Firefighters Retirement System Year Ended June 30, 2014

Total Pension Liability	
Service cost	\$ 1,259,975
Interest	4,444,635
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds	<u>(5,949,555)</u>
Net change in total pension liability	(244,945)
Total pension liability - Beginning of year	<u>73,721,348</u>
Total pension liability - End of year	<u>\$ 73,476,403</u>
Plan Fiduciary Net Position	
Contributions - Employer	\$ 3,363,725
Contributions - Member	395,148
Net investment income	2,254,104
Administrative expenses	(5,949,555)
Benefit payments, including refunds	(42,135)
Other	<u>(72,793)</u>
Net change in plan fiduciary net position	(51,506)
Plan fiduciary net position - Beginning of year	<u>18,358,507</u>
Plan fiduciary net position - End of year	<u>\$ 18,307,001</u>
City's Net Pension Liability - Ending	<u>\$ 55,169,402</u>
Plan Fiduciary Net Position as a % of Total Pension Liability	24.92 %
Covered Employee Payroll	\$ 4,119,461
City's Net Pension Liability as a % of Covered Employee Payroll	1,339.2 %

City of Lincoln Park, Michigan

Required Supplemental Information Schedule of City Contributions - Police Officers and Firefighters Retirement System Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	\$ 3,332,855	\$ 3,186,996	\$ 3,086,121	\$ 2,947,238	\$ 2,569,039	\$ 2,354,705	\$ 2,172,141	\$ 1,900,854	\$ 1,315,588	\$ 928,116
Contributions in relation to the actuarially determined contribution	<u>3,332,855</u>	<u>3,186,996</u>	<u>3,086,121</u>	<u>2,947,238</u>	<u>2,569,039</u>	<u>2,354,705</u>	<u>2,172,141</u>	<u>1,900,854</u>	<u>1,315,588</u>	<u>928,116</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>								
Covered employee payroll	\$ 4,119,461	\$ 4,752,332	\$ 4,691,970	\$ 4,864,949	\$ 4,805,056	\$ 4,733,544	\$ 4,454,818	\$ 4,969,547	\$ 4,293,082	\$ 4,347,159
Contributions as a percentage of covered employee payroll	80.9 %	67.1 %	65.8 %	60.6 %	53.5 %	49.7 %	48.8 %	38.3 %	30.6 %	21.3 %

Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date	The June 30, 2014 contribution was determined in the June 30, 2013 actuarial valuation. Actuarially determined contribution amounts are calculated as of June 30 each year, which is one year prior to the beginning of the fiscal year in which the contribution is reported.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Individual Entry-Age Normal
Amortization method	Level percent-of-payroll
Remaining amortization period	11-year closed for early retirement window 30-year open for all other liabilities
Asset valuation method	5-Year smoothed market
Inflation	4.00%
Salary increases	4.00% to 7.80% per year
Investment rate of return	8.00%
Retirement age	Age and Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	1971 Group Annuity Mortality Table projected to 2000, set back 0 years for men and six years for women. There is currently no margin for future mortality improvement.
Other information	Municipal Bond Rate: 4.29%

City of Lincoln Park, Michigan

Required Supplemental Information OPEB System Schedule - Police Officers and Firefighters Retirement System Year Ended June 30, 2014

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
12/31/08	\$ -	\$ 50,471,469	\$ 50,471,469	- %	\$ 4,733,544	1,066.3 %
12/31/10	-	55,952,092	55,952,092	-	4,858,534	1,151.6
12/31/12	-	57,736,481	57,736,481	-	4,728,209	1,221.1

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Cost	Percentage Contributed
6/30/09	6/30/08	\$ 2,673,619	58.7
6/30/10	6/30/08	2,824,699	57.7
6/30/11	6/30/10	3,132,944	68.9
6/30/12	6/30/10	3,264,149	68.6
6/30/13	6/30/10	3,400,670	57.5
6/30/14	6/30/12	3,326,563	64.4

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2012, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent - Closed
Amortization period (perpetual)	30 years
Asset valuation method	N/A
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases*	4.0%-7.8%
*Includes inflation at	4.0%
Cost of living adjustments	None
Valuation Health Care Cost Trend Rate:	
Medical and Prescription Drug	9.0% grading to 4.0%
Vision	4.0%

City of Lincoln Park, Michigan

Required Supplemental Information OPEB System Schedule - Municipal Employees Year Ended June 30, 2014

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
12/31/08	\$ -	\$ 42,695,191	\$ 42,695,191	- %	\$ 3,067,530	1,391.8 %
12/31/10	-	49,468,118	49,468,118	-	2,262,191	2,186.7
12/31/12	-	53,192,760	53,192,760	-	2,026,614	2,624.7

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Cost	Percentage Contributed
6/30/09	6/30/08	\$ 2,988,387	55.7
6/30/10	6/30/08	3,028,272	56.7
6/30/11	6/30/10	3,377,951	66.5
6/30/12	6/30/10	3,344,761	64.9
6/30/13	6/30/10	3,291,099	57.8
6/30/14	6/30/12	3,668,830	53.3

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2012, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age
Amortization method	Level dollar closed
Amortization period (perpetual)	26 years
Asset valuation method	N/A
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	4.0%-17.0%
*Includes inflation at	4.0%
Cost of living adjustments	None
Valuation Health Care Cost Trend Rate:	
Medical and Prescription Drug	9.0% grading to 4.0%
Vision	4.0%

City of Lincoln Park, Michigan

Note to Required Supplemental Information Year Ended June 30, 2014

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds, except that operating transfers and debt proceeds have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)". All annual appropriations lapse at fiscal year end.

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

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

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

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

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.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. 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.

City of Lincoln Park, Michigan

Note to Required Supplemental Information (Continued) June 30, 2014

Reconciliation of Budgeted Amounts to Basic Financial Statements - A reconciliation of the budgetary comparison schedules to the fund-based statement of changes in fund balance is as follows:

	<u>Total Revenue</u>	<u>Total Expenditures</u>	<u>Net Change in Fund Balance</u>
General Fund			
Amounts per operating statement	\$ 20,427,768	\$ 21,074,415	\$ (646,647)
Street Improvement Fund	(17)	-	(17)
Amounts per budget statement	<u>\$ 20,427,751</u>	<u>\$ 21,074,415</u>	<u>\$ (646,664)</u>

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
General government:			
Mayor and City Council	\$ 59,412	\$ 59,853	\$ (441)
Municipal building and grounds	803,914	851,217	(47,303)
District Court	938,409	954,096	(15,687)
Public safety:			
Police	7,886,622	8,091,695	(205,073)
Fire	5,159,040	5,241,642	(82,602)
Public works - Street lighting	661,429	756,755	(95,326)
Community and economic development	-	35,732	(35,732)
Recreation and culture	114,674	120,366	(5,692)
Debt service	-	12,500	(12,500)
Major Streets - Public works - Routine maintenance	668,798	854,707	(185,909)

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

Other Supplemental Information

City of Lincoln Park, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2014

	Special Revenue Funds				Capital Projects Fund	Total Nonmajor Governmental Funds
	Local Streets Fund	Sanitation Fund	Drug Forfeiture Fund	Cable Fund		
Assets						
Cash and investments	\$ 102,014	\$ -	\$ 687,959	\$ 455,012	\$ -	\$ 1,244,985
Receivables:						
Special assessments receivable	-	-	-	-	14,082	14,082
Receivables from sales to customers on account	-	465,836	-	-	-	465,836
Due from other governmental units	96,707	-	-	-	-	96,707
Due from other funds	565,434	76,908	-	-	-	642,342
Total assets	\$ 764,155	\$ 542,744	\$ 687,959	\$ 455,012	\$ 14,082	\$ 2,463,952
Liabilities						
Accounts payable	\$ 38,805	\$ 184,862	\$ 10,947	\$ 1,664	\$ -	\$ 236,278
Due to other funds	46,416	332,422	-	4,275	-	383,113
Accrued liabilities and other	3,914	-	-	364	-	4,278
Reserve for tax refunds and delinquencies	-	22,953	-	-	-	22,953
Total liabilities	89,135	540,237	10,947	6,303	-	646,622
Deferred Inflows of Resources -						
Unavailable revenue	-	-	-	-	14,082	14,082
Fund Balances - Restricted						
Roads	675,020	-	-	-	-	675,020
Drug forfeiture	-	-	677,012	-	-	677,012
Sanitation	-	2,507	-	-	-	2,507
Cable	-	-	-	448,709	-	448,709
Total fund balances	675,020	2,507	677,012	448,709	-	1,803,248
Total liabilities, deferred inflows of resources, and fund balances	\$ 764,155	\$ 542,744	\$ 687,959	\$ 455,012	\$ 14,082	\$ 2,463,952

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Nonmajor Governmental Funds Year Ended June 30, 2014

	Special Revenue Funds				Capital Projects Fund	Total Nonmajor Governmental Funds
	Local Streets Fund	Sanitation Fund	Drug Forfeiture Fund	Cable Fund		
	Fund	Fund	Fund	Fund		
Revenue						
Property taxes	\$ -	\$ 51,257	\$ -	\$ -	\$ -	\$ 51,257
Federal grants	-	-	54,054	-	-	54,054
State-shared revenue and grants	737,707	-	236,841	-	-	974,548
Charges for services	-	1,897,538	-	-	-	1,897,538
Other revenue	-	-	-	118,758	-	118,758
Total revenue	737,707	1,948,795	290,895	118,758	-	3,096,155
Expenditures - Current						
Public safety	-	-	142,386	-	-	142,386
Public works	971,270	1,709,835	-	86,730	-	2,767,835
Total expenditures	971,270	1,709,835	142,386	86,730	-	2,910,221
Excess of Revenue (Under) Over Expenditures	(233,563)	238,960	148,509	32,028	-	185,934
Other Financing Sources						
Face value of debt issue	-	-	16,936	-	-	16,936
Transfers in	558,286	-	-	-	-	558,286
Total other financing sources	558,286	-	16,936	-	-	575,222
Net Change in Fund Balances	324,723	238,960	165,445	32,028	-	761,156
Fund Balances (Deficit) - Beginning of year	350,297	(236,453)	511,567	416,681	-	1,042,092
Fund Balances - End of year	\$ 675,020	\$ 2,507	\$ 677,012	\$ 448,709	\$ -	\$ 1,803,248

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Net Position Internal Service Funds June 30, 2014

	Motor Pool Fund	Information Technology Fund	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ -	\$ 156,124	\$ 156,124
Due from other funds	-	18,905	18,905
Total current assets	-	175,029	175,029
Noncurrent assets - Capital assets - Assets subject to depreciation	1,803,853	3,720	1,807,573
Total assets	1,803,853	178,749	1,982,602
Liabilities			
Current liabilities:			
Accounts payable	31,957	10,145	42,102
Due to other funds	87,573	-	87,573
Accrued liabilities and other	7,490	-	7,490
Current portion of long-term debt	42,080	-	42,080
Total current liabilities	169,100	10,145	179,245
Noncurrent liabilities - Long-term debt	232,292	-	232,292
Total liabilities	401,392	10,145	411,537
Net Position			
Net investment in capital assets	1,529,481	3,720	1,533,201
Unrestricted	(127,020)	164,884	37,864
Total net position	\$ 1,402,461	\$ 168,604	\$ 1,571,065

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Position Internal Service Funds Year Ended June 30, 2014

	Motor Pool Fund	Information Technology Fund	Total
Operating Revenue - Charges to other funds	\$ -	\$ 151,662	\$ 151,662
Operating Expenses			
Operating and maintenance costs	339,841	127,109	466,950
Management and administrative costs	129,886	-	129,886
Depreciation	308,165	2,045	310,210
Total operating expenses	<u>777,892</u>	<u>129,154</u>	<u>907,046</u>
Operating (Loss) Income	(777,892)	22,508	(755,384)
Nonoperating Expenses - Interest expense	<u>(13,134)</u>	<u>-</u>	<u>(13,134)</u>
(Loss) Income - Before contributions	(791,026)	22,508	(768,518)
Capital Contributions - Other capital contributions	<u>16,936</u>	<u>-</u>	<u>16,936</u>
Change in Net Position	(774,090)	22,508	(751,582)
Net Position - Beginning of year	<u>2,176,551</u>	<u>146,096</u>	<u>2,322,647</u>
Net Position - End of year	<u><u>\$ 1,402,461</u></u>	<u><u>\$ 168,604</u></u>	<u><u>\$ 1,571,065</u></u>

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2014

	Motor Pool Fund	Information Technology Fund	Total
Cash Flows from Operating Activities			
Receipts from interfund services and reimbursements	\$ -	\$ 148,386	\$ 148,386
Payments to suppliers	(344,883)	(121,990)	(466,873)
Payments to employees	(126,625)	-	(126,625)
Internal activity - Payments from other funds	87,573	-	87,573
	(383,935)	26,396	(357,539)
Net cash (used in) provided by operating activities			
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(88,106)	-	(88,106)
Principal and interest paid on capital debt	57,556	-	57,556
	(30,550)	-	(30,550)
Net cash used in capital and related financing activities			
Net (Decrease) Increase in Cash and Cash Equivalents	(414,485)	26,396	(388,089)
Cash and Cash Equivalents - Beginning of year	414,485	129,728	544,213
Cash and Cash Equivalents - End of year	\$ -	\$ 156,124	\$ 156,124
Balance Sheet Classification of Cash and Cash Equivalents - Cash and investments	\$ -	\$ 156,124	\$ 156,124
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities			
Operating (loss) income	\$ (777,892)	\$ 22,508	\$ (755,384)
Adjustments to reconcile operating (loss) income to net cash from operating activities:			
Depreciation and amortization	308,165	2,045	310,210
Changes in assets and liabilities:			
Due from others	-	(3,276)	(3,276)
Accounts payable	1,038	5,119	6,157
Due to others	87,573	-	87,573
Accrued and other liabilities	(2,819)	-	(2,819)
	(383,935)	26,396	(357,539)
Net cash (used in) provided by operating activities	\$ (383,935)	\$ 26,396	\$ (357,539)
Noncash Transactions			
Capital contribution	\$ 16,936	\$ -	\$ 16,936
Capital lease	80,000	-	80,000

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Net Position Fiduciary Funds June 30, 2014

	Agency Funds		
	Current Tax Collection	Payroll	Total Agency Funds
Assets - Cash and cash equivalents	\$ 188,825	\$ 33,756	\$ 222,581
Liabilities			
Due to other governmental units	\$ 188,825	\$ -	\$ 188,825
Accrued liabilities and other	-	33,756	33,756
Total liabilities	\$ 188,825	\$ 33,756	\$ 222,581

City of Lincoln Park, Michigan

**Federal Awards
Supplemental Information
June 30, 2014**

City of Lincoln Park, Michigan

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Report on Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133

Independent Auditor's Report

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

We have audited the 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 15, 2014 which contained unmodified opinions on the 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. Our audit was conducted for the purpose of forming opinions on the financial statement that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to December 15, 2014.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

December 15, 2014

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management, the Emergency Manager,
Mayor, and City Council
City of Lincoln Park, Michigan

We have audited, 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, the 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Lincoln Park, Michigan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2014-001, 2014-002, 2014-003, and 2014-004 to be material weaknesses.

To Management, the Emergency Manager,
Mayor, and City Council
City of Lincoln Park, Michigan

Compliance and Other Matters

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

City of Lincoln Park, Michigan's Responses to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Morse, PLLC

December 15, 2014

Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the City of Lincoln Park, Michigan's (the "City") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2014. The City of Lincoln Park, Michigan's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Lincoln Park, Michigan's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Lincoln Park, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

Opinion on Each Major Federal Program

In our opinion, the City of Lincoln Park, Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the City of Lincoln Park, Michigan is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Lincoln Park, Michigan's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

December 15, 2014

City of Lincoln Park, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Direct Programs - Community Development Block Grant Cluster - Community Development Block Grant	14.218	N/A	\$ 781,885
Direct Programs - Community Development Block Grant Cluster - Neighborhood Stabilization Program I	14.218	N/A	<u>6,634</u>
Direct Programs Subtotal			788,519
Home Investment Partnership - Passed through Wayne County	14.239	N/A	<u>12,187</u>
Total U.S. Department of Housing and Urban Development			800,706
U.S. Department of Justice -			
Passed through the Michigan State Police - ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	2009-SU-B9-4017	<u>39,884</u>
Total federal awards			<u>\$ 840,590</u>

City of Lincoln Park, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

Note 1 - Basis of Presentation and Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Lincoln Park, Michigan under programs of the federal government for the year ended June 30, 2014. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-87, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Because the Schedule presents only a selected portion of the operations of the City of Lincoln Park, Michigan, it is not intended to, and does not, present the financial position, changes in net position, or cash flows, if applicable, of the City of Lincoln Park, Michigan. Pass-through entity identifying numbers are presented where available.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the Schedule, federal awards were provided to subrecipients as follows:

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grant	14.218	\$ 19,085

City of Lincoln Park, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

Yes No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant Cluster

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

City of Lincoln Park, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings

Reference Number	Finding
2014-001	<p>Finding Type - Material weakness</p> <p>Criteria - Management should record all year-end closing entries in accordance with generally accepted accounting principles (GAAP) prior to the commencement of the audit. In addition, the general ledger activity should be reviewed on a regular basis to ensure financial activity has been appropriately reflected within the system throughout the year.</p> <p>Condition - Auditor-proposed adjusting journal entries were required in order to present the City's financial statements in accordance with GAAP. Insignificant passed audit adjustments were also identified. Additionally, a high-level managerial review of the general ledger activity was not performed on a regular basis.</p> <p>Context - Adjusting journal entries were required in order to present the City's financial statements in accordance with GAAP. These entries related to cash, capital assets, prepaid assets, housing stock inventory, accounts payable, retainage payable, compensated absences, fringe benefit allocations, interfunds, accrued liabilities, long-term debt, property taxes revenue and receivable, utility billing revenue and receivable, miscellaneous revenue and receivable, fund balance, loans receivable, joint ventures, police and fire retirement system activity, and other postemployment benefits activity. Entries were also necessary to record activity related to the Downriver Sewage Disposal System and the associated net position reserves in the Water and Sewer Fund. Reclassification entries were recorded to gross-up activity that was initially netted. Passed audit adjustments related to increasing other assets and the Michigan Tax Tribunal liability in the General Fund and governmental activities. In addition, there was a passed audit adjustment related to increasing the net OPEB liability in the governmental activities.</p> <p>Cause - The City has historically relied on the auditors to propose certain entries necessary for full GAAP presentation for financial statement purposes. Additionally, there is a limited number of City staff available to perform a thorough general ledger review.</p> <p>Effect - Significant auditor-proposed journal entries were recorded.</p> <p>Recommendation - The City should implement procedures to ensure that all appropriate journal entries are made prior to the commencement of the audit and develop a procedure to perform regular overall managerial review of the general ledger activity.</p>

City of Lincoln Park, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2014-001 (Cont'd)	Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will work toward putting a process in place to address the issue.

Reference Number	Finding
2014-002	<p>Finding Type - Material weakness</p> <p>Criteria - Bank reconciliations should be prepared and reviewed on a timely basis to identify errors or unusual reconciling items.</p> <p>In addition, electronic transfers between bank accounts and/or electronic vendor payments should require dual approval. Individuals with access to the bank website should require dual approval to set up approved vendors for electronic payments.</p> <p>Cash should be deposited in the bank on a daily basis.</p> <p>Condition - Bank reconciliations were not prepared timely or reviewed throughout the year. The June 2014 bank reconciliation was not prepared until November 2014. During the preparation of the bank reconciliation, the City identified several adjusting journal entries to record the bank activity in the general ledger.</p> <p>During tests of transactions, we noted that individuals with access to the bank's website have the ability to initiate and approve transfers and vendor payments. Those same individuals have the ability to set up approved vendors for electronic payments without approval.</p> <p>Cash was not deposited on a timely basis in all instances.</p>

City of Lincoln Park, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2014-002 (Cont'd)	<p>Context - Bank reconciliations were not prepared timely throughout the year. The adjusting journal entries that were identified were in excess of \$100,000.</p> <p>Although no unauthorized transfers or payments were identified in our audit sampling, without approval or timely review of bank activity, the risk increases that errors or missappropriation of assets can occur without being identified or resolved.</p> <p>In some instances, cash was held for a week prior to being deposited in the bank.</p> <p>Cause - Staffing constraints and turnover contributed to the difficulty in preparing and reviewing reconciliations in a timely manner as well as dual approval processes and timely bank deposits.</p> <p>Effect - Untimely preparation and review of bank reconciliations increases the risk that errors or missappropriation can occur without being identified or resolved.</p> <p>Recommendation - The City should make it a priority to put internal control procedures in place to ensure the timely preparation and review of bank reconciliations as well as timely bank deposits.</p> <p>The City should put immediate procedures in place to require dual approval of cash transfers and initial setup of electronic vendor payments.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will work toward putting a process in place to address the issues.</p>

Reference Number	Finding
2014-003	<p>Finding Type - Material weakness</p> <p>Criteria - In an ideal information technology control environment, administrative access to the financial applications should be segregated from the employees who have the ability to post journal entries.</p> <p>Condition - During our information technology general controls review that was performed in connection with the audit, we noted the finance director has full administrative access to the system and is also able to post transactions.</p>

City of Lincoln Park, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2014-003 (Cont'd)	<p>Context - The separation of these functions is considered a key internal control. Although the City does have some mitigating controls in place for this item, we recommend the City consider if there is an individual outside of the finance department who could be assigned the administrative access instead.</p> <p>Cause - Staffing constraints and information technology personnel turnover contributed to the difficulty of assigning administrative access to an individual outside of the finance department.</p> <p>Effect - While misappropriation of assets was not identified during the audit sampling, individuals with full administrative access to the general ledger system could adjust financial data without being identified.</p> <p>Recommendation - The City should assign an individual outside of the finance department to have full administrative access to the general ledger system.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will explore the possibility of assigning a person outside the finance department with administrative access or will develop alternative mitigating controls.</p>

Reference Number	Finding
2014-004	<p>Finding Type - Material weakness</p> <p>Criteria - Water and sewer bills should be reviewed for accuracy before being mailed to residential and commercial customers.</p> <p>Condition - During testing of water and sewer revenue, we noted that there were significant adjustments to correct water and sewer bills after year end. The adjustments were made as a result of correcting billing errors for unusually high usage.</p> <p>Context - Several customer invoices were abnormally high, resulting in an overstatement of revenue of approximately \$110,000.</p> <p>Cause - The City is undergoing a multi-year meter replacement program. Some customers received unusually high bills after being transferred to new electronic meters. The City did not review the bills for accuracy before mailing to customers and, as such, did not identify the potential errors.</p>

City of Lincoln Park, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2014-004 (Cont'd)	<p>Effect - The billing errors resulted in the overstatement of revenue.</p> <p>Recommendation - The City should assign an individual to review customer bills before being mailed and/or review an exceptions report from the water and sewer billing module to identify potential errors.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will work toward putting a process in place to address the issue.</p>

Section III - Federal Program Audit Findings

None

City of Lincoln Park, Michigan

Summary Schedule of Prior Audit Findings Year Ended June 30, 2014

<u>Prior Year Finding Number</u>	<u>Federal Program</u>	<u>Original Finding Description</u>	<u>Status</u>	<u>Planned Corrective Action</u>
2013-005	Assistance to Firefighters, CFDA No. 97.044	The semi-annual financial report submitted as of December 31, 2012 indicated that the City had received \$675,000 in federal funds that were not actually received until March 2013.	No longer applicable as grant has ended.	Not applicable
2013-006	Community Development Block Grant, CFDA No. 14.218	Planning and administration costs exceeded the 20 percent limitation as of June 30, 2013.	Administrative expenses for the year ended June 30, 2014 were less than 15 percent.	Not applicable

December 15, 2014

Mr. Brad Coulter, Emergency Manager
and Mayor and Members of City Council
City of Lincoln Park, Michigan

We have audited the financial statements of the City of Lincoln Park, Michigan (the "City") as of and for the year ended June 30, 2014 and have issued our report thereon dated December 15, 2014. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Communications Required Under AU 260

Section II - Other Recommendations

Section III - Legislative and Informational Items

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the Emergency Manager, Honorable Mayor, and members of the City Council of the City of Lincoln Park, Michigan.

Section II presents recommendations related to internal control, procedures, and other matters noted during our current year audit. These comments are offered in the interest of helping the City in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

Section III contains updated legislative and informational items that we believe will be of interest to you.

In addition to the comments and recommendations in this letter, our observations and comments regarding the City of Lincoln Park's internal control, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This report is included in the supplemental schedule of federal awards, and we recommend that the matters we have noted there receive your careful consideration.

We would like to take this opportunity to thank the City's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

Mr. Brad Coulter, Emergency Manager
and Mayor and Members of City Council
City of Lincoln Park, Michigan

December 15, 2014

This report is intended solely for the use of the Emergency Manager, Honorable Mayor, the members of the City Council, and management of the City of Lincoln Park, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC



Beth A. Bialy, Partner



Kristin L. Hunt, Senior Manager

Section I - Communications Required Under AU 260

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 10, 2014, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the City of Lincoln Park, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the City of Lincoln Park, Michigan's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the City of Lincoln Park, Michigan, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. We have communicated those conditions in a separate letter dated December 15, 2014 regarding 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.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on October 10, 2014.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Lincoln Park, Michigan are described in Note 1 to the financial statements. As described in Note 2, the City changed accounting policies related to the adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result, certain amounts have been reclassified to deferred inflows or deferred outflows on the City's balance sheet.

In addition, as described in Note 11, the City adopted GASB Statement No. 67, *Financial Reporting for Pension Plans - an Amendment of GASB No. 25*. Adopting this statement resulted in significant changes to the defined benefit-related note disclosures as well as the required supplemental information schedules.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the reserve for property tax chargebacks, unbilled water and sewer amounts, collectibility of the advance that the General Fund owes the Water and Sewer Fund, and the future costs of retiree health care and future pension obligations. Management's estimate of the reserve for property tax chargebacks is based on historical chargeback trends, unbilled water and sewer receivables are based on subsequent billings being applied based on the number of days of service, collectibility of the advance is based on management's intent to repay the advance which includes reducing General Fund costs to provide the resources necessary for repayment, and retiree healthcare costs and future pension obligations are based on actuarial estimates using certain assumptions. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were Note 3 - Stewardship, Compliance, and Accountability, Note 7 - Leases, Note 8 - Long-term Debt, Notes 11 to 17 - Retirement Systems, and Note 18 - Other Postemployment Benefits.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements which were requested to be recorded. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

The following material misstatements detected as a result of audit procedures were corrected by management:

- In order to comply with GASB Statement No. 34, capital assets, long-term debt, and compensated absences were recorded on the government-wide statements and within the enterprise funds and component units.
- Entries in the following areas were needed to adjust year-end balances to be in conformity with generally accepted accounting principles: property tax revenue and receivable, transfers between major and local street funds, joint venture activities, loans receivable, police and fire retirement system activity, and other postemployment benefits activity.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 15, 2014.

Mr. Brad Coulter, Emergency Manager
and Mayor and Members of City Council
City of Lincoln Park, Michigan

December 15, 2014

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the City’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Section II - Other Recommendations

General Fund Financial Condition

**General Fund
Fund Balance Trends**

	2009	2010	2011	2012	2013	2014
Net increase (decrease) in fund balance	\$1,003,144	\$234,589	\$(213,957)	\$(2,202,952)	\$(2,135,552)	\$(646,647)
Unassigned fund balance	3,927,152	4,077,668	3,708,396	2,045,340	(91,426)	(1,007,245)
Taxable Value	791,634,818	790,669,380	718,199,341	632,028,024	570,775,937	531,334,695
Increase (decrease) in property tax revenue as compared to the prior year	2,940,000	(38,000)	(1,099,000)	(2,294,000)	(940,000)	(244,000)*

* Does not include street lighting special assessment and community promotion tax

The General Fund experienced a net loss of approximately \$647,000 during the year ended June 30, 2014, increasing the accumulated unassigned deficit to over \$1 million. However, the overall use of fund balance was significantly reduced from losses in the previous two years by reducing payroll costs. Salaries and wages were reduced in the Fire Department by \$361,000, the Police Department by \$192,000, and by \$360,000 from other municipal employees. Leave payouts which were \$695,000 in the prior year were reduced to \$338,000 and have been eliminated for future periods. In addition, the City's portion of costs related to active employees purchasing additional service time decreased from \$399,000 in 2013 to \$168,000 in 2014. District Court costs were also reduced by \$150,000, by combining the 25th District Court with the court for the Cities of Ecorse and River Rouge. The Court formerly served only the City of Lincoln Park.

Property tax values continued to decrease for fiscal year 2014, decreasing over 6 percent. Since fiscal year 2009, the City's taxable value has decreased 33 percent. Tax revenue decreased for the fifth year in a row.

The City levied a new special assessment tax for street lighting and a community promotion millage, which generated approximately \$583,000 and \$49,000, respectively. While the new street lighting special assessment generated \$583,000 in revenue, it was not enough to cover the street lighting expenditures of \$634,000 and should be considered for an increase.

Cost cutting will continue to be difficult. While the previous cost reductions were significant, they were not enough to eliminate the deficit. As shown below, nearly 40 percent of General Fund revenue is used to cover fixed costs for retirement benefits and debt.

**General Fund Fixed Costs
 Percent of Total Revenue**

	2013	2014
General Fund revenue	\$ 20,402,022	\$ 20,427,768
Fixed costs:		
Pension contributions - General Fund	4,040,772	4,403,906
Retiree health care	3,138,754	3,242,972
Debt payments (Honeywell)	329,053	300,000
Total fixed costs	<u>\$ 7,508,579</u>	<u>\$ 7,946,878</u>
Fixed costs as a percentage of total revenue	37 %	39%

The City settled the lawsuit related to delinquent lease payments for \$300,000 less than owed at June 30, 2013. Funding for the remaining debt of \$1.8 million will be provided by tax revenue generated by a court-ordered judgment levy in fiscal years 2015 and 2016. The judgment levy will alleviate the burden of the debt payments from the General Fund and will reduce total fixed costs as a percentage of total revenue from 39 percent to 37 percent.

As has been discussed in past years, the pension systems are not well funded. The Police and Fire Pension System is approximately 31 percent funded and the Municipal Employees' Pension System is approximately 22 percent funded. Actuarially required contributions have increased significantly over the years and will continue to do so. General Fund pension contributions are over \$1 million more than they were just five years ago.

If expenditures remained constant, on the surface it would appear that the General Fund net loss of \$646,647 could be reduced to approximately break-even with the elimination of leave sell-backs (\$338,000) and Honeywell debt payments which will be funded with a judgment levy (\$300,000) as well as increasing the street lighting special assessment revenue to cover the actual costs (\$50,000). However, the City will continue to face challenges that will make balancing the budget difficult. The Motor Pool internal service fund stopped charging rent to all funds to reduce costs in the General Fund. All of the reserves in the Motor Pool Fund are now depleting so the General Fund will now have to budget for its share of expenditures for equipment replacement and maintenance. Increasing pension contributions, normal inflationary increases in other expenditures, and further declines in taxable value will make deeper cost-cutting necessary to balance the budget and eliminate the accumulated deficit which includes a \$2.5 million loan owed to the Water and Sewer Fund.

Elimination of Leave Sell-backs

In prior years, the union contracts allowed for the annual payments of unused vacation and sick leave balances in excess of the maximum carryover amounts for active employees. As discussed in the General Fund Financial Condition section above, in fiscal year 2013, the General Fund paid out \$695,000 for accumulated leave sell-backs. In fiscal year 2014, the General Fund paid out \$338,000 in leave sell-backs before the benefit was eliminated. During fiscal year 2014, the City placed caps on sick leave balances and now the City only pays a portion of unused sick leave balances at the date of retirement. In addition, caps were placed on maximum carryover balances for furlough/vacation leave and the provision for selling back unused vacation/furlough leave was removed from all contracts to cut costs.

Pension and OPEB Actuarial Assumptions

Actuarial assumptions used to estimate other post-employment and pension obligations and related annual required contributions should be updated on a regular basis to reflect the actual experience of the covered members and should emphasize expected long-term future trends.

During our review of the police officers and firefighters pension and other postemployment benefits actuarial valuations, we noted that some actuarial assumptions (including mortality tables) have not been updated in many years and may understate future annual required contributions and the unfunded actuarial accrued liabilities.

The City will be required to record a liability for the unfunded actuarially accrued liability for the defined benefit pension plan for the fiscal year ending June 30, 2015 in accordance with GASB Statement No. 68. The liability will be significant. As a result, it is important to use appropriate assumptions to ensure an accurate liability is calculated. Continuing to use outdated mortality tables could result in a material misstatement and could prevent the City from obtaining a “clean” audit opinion in the future. In addition, the City should consult with the actuaries to determine the impact of adopting a closed amortization period which would likely increase contributions in the short run but would result in an improvement to the funded status over time.

Actuarial Valuation for OPEB

The City is required to obtain an actuary report for other postemployment benefits (i.e., retiree healthcare or OPEB). The actuarial report is required to be updated, at a minimum, on a bi-annual basis. The City’s actuarial valuation was last performed in August 2014. The date of the valuation is as of June 30, 2012 and is effective for the June 30, 2014 and 2015 fiscal year ends. However, a number of employees were terminated or left the City’s employment after the valuation date. The loss of non-vested employees could significantly affect the actuarial accrued liability and the annual required contribution (which is the basis for the liability). As a result, the actuarial valuation should be updated for the upcoming fiscal year to incorporate the new census data and ensure the OPEB liability reported on the financial statements is materially correct.

Public Safety Paid Time Off

Public safety personnel complete standardized forms to document their leave time usage. To strengthen internal controls over this process, the leave forms should also be reviewed and signed by a supervisor. The approved leave slips should be reconciled to the payroll records and work schedules to ensure accumulated leave balances are accurate. In addition, leave balances should be tracked within the financial accounting system for public safety employees and reflected on individual pay stubs to allow employees the opportunity to review their own leave balances for accuracy. (The leave time balances for municipal employees are already being tracked within the financial accounting system.)

Administrative and Rent Chargebacks

The City provides administrative and overhead support to the Library and 25th District Court. The City should charge the Library and the Court for the cost of those services provided. In addition, the City of Lincoln Park owns the building in which the 25th District Court is located. The Court is a joint venture with the Cities of Lincoln Park, Ecorse, and River Rouge. The costs of the Court are shared by the three cities. The City of Lincoln Park should charge rent for use of the Court building to ensure the other two cities are paying their fair share of the total Court costs.

Sanitation Fund

The Sanitation Fund assesses fees to homeowners and some businesses for garbage collection. The fees charged are accumulated in the Sanitation Fund to pay the contracted garbage hauler. The Sanitation Fund ended the year with a fund balance of \$2,500. As a result, cumulative fees charged virtually break even with the hauler expense. However, the fund has a large accounts receivable balance (over \$465,000) and has not generated the necessary cash to pay the hauler bills itself. As a result, the Sanitation Fund has had to borrow temporarily from the General Fund in order to pay the hauler bills currently. The City should consider increasing fees in order to generate working capital reserves necessary to pay hauler bills without borrowing from other City funds.

Brownfield Tax Capture

The City collects taxes from parcels in the Brownfield district. The City and County portion of the taxes is “captured” and is refunded to the property owners to pay for property developments made in accordance with established agreements. Over the past few years, the City’s General Fund has refunded the full amount of the captured taxes to the property owners and has not charged the County back for its portion. As a result, the County owes the City approximately \$50,000 for its portion of the Brownfield captured taxes that were refunded to the property owner. The City should put a procedure in place to withhold the County’s portion of captured taxes prior to making the distribution to the County. In addition, the City should follow up with the County to collect the amount owed.

Due to/From

As described in Note 6, Interfund Receivables, Payables and Transfers, several funds borrow from each other throughout the year temporarily. This temporary borrowing results from interfund reimbursements as well as for cash flow purposes. The City should clear out the interfund payables and receivables on a periodic (monthly) basis to the extent possible rather than allowing them to accumulate large balances at year end. Clearing out the interfund borrowing on a regular basis will make it easier for management to analyze the true cash position of each fund.

Fund Deficits

The General Fund had an accumulated total deficit of (\$736,450) and an unrestricted fund deficit of (\$1,007,245) as discussed in the General Fund Financial Condition section of this letter. In addition, the Motor Pool Internal Service Fund has an unrestricted fund deficit of (\$127,020).

Please note that the State recently changed its requirements related to deficit elimination plans. It is the position of the Treasury that a reasonable plan to eliminate a deficit condition is vital to the fiscal well-being of a local unit as is early implementation of that plan. Therefore, the State will no longer send a request letter for a deficit elimination plan. It is the expectation of Treasury that a local unit will submit a plan as soon as possible after the close of its fiscal year end. A plan should be filed prior to or concurrent with the submission of the City's audit report. If a plan is not submitted, Treasury will withhold EVIP payments. Plans also need formal approval of the governing body before being remitted to the State.

Section III - Legislative and Informational Items

Revenue Sharing

The State of Michigan's 2014-2015 budget eliminates the Economic Vitality Incentive Program (EVIP) for cities, villages, and townships. EVIP created the need for communities to meet certain requirements to obtain what had been the statutory portion of state-shared revenue.

The statutory revenue sharing will now be called "City, Village, and Township Revenue Sharing (CVTRS)." The total appropriation for revenue sharing is \$23 million less than originally proposed. The decrease is a result of the May revenue estimation conference, which showed declines in the State's projected revenue. Year to year, there is still an overall increase to the appropriation for this portion of revenue sharing.

There will be an increase of \$13 million to the City, Village, and Township Revenue Sharing. Key provisions of the new revenue sharing formula are as follows:

1. The CVTRS revenue sharing for cities, villages, and townships that are currently receiving EVIP will be as follows:
 - a. Communities with a population greater than 7,500 will receive the greater of a payment that is equal to the prior year (fiscal year 2013-2014) payment plus 3.05 percent or a total payment equal to \$2.64659 per capita. The State estimates that only about 15 local units will receive more using the per capita formula; all others will see a 3.05 percent increase.
 - b. Communities with populations less than 7,500 will simply receive a payment equal to an increase of 3.05 percent over their 2013-2014 EVIP payment.
2. An additional appropriation of \$5.8 million will be available for one-time funding to cities, villages, and townships that are newly eligible. These communities will receive a per capita payment of \$2.64659.

Constitutional Revenue Sharing - Communities will also see an increase of 2.4 percent in their constitutional revenue-sharing payment.

County Incentive Program - Counties still have to participate in the County Incentive Program (CIP), which is basically the EVIP. The good news is that an additional \$65.4 million was appropriated for counties. As a result, it is expected that counties will receive full funding when CIP payments (20 percent) and county revenue sharing (80 percent) are combined.

In addition to the dollars above, \$8 million has been set aside to help financially distressed cities. The funds will be applied for and disbursed through a grant-type program by the Department of Treasury.

The question is when will these payments be made? It appears that they will be distributed on the last business day of October, December, February, April, June, and August - 1/6th of the total payment is distributed on each date. This is the same distribution schedule currently being used for bi-monthly distributions.

The State has published the estimated payments for each community for 2014-2015 at the following link: [State Shared Revenue 2014-2015 estimates](#)

We have not seen a formal listing of the new communities that will be eligible under the CVTRS program that were not eligible under EVIP. However, they can be identified in the State's document as they will have \$0 as the payment in the "estimated FY 2013-2014 payment" column of the above document and will have an amount in the "estimated FY 2014-2015 payment" column.

It is important to note that the CVTRS program will still require communities to complete the accountability and transparency documents including the following:

- A citizen's guide of its most recent local finances (including recognition of its unfunded liabilities)
- A performance dashboard
- A debt service report containing a detailed listing of its debt service requirements including at a minimum:
 - The issuance date
 - Issuance amount
 - Type of debt instrument
 - Listing of all revenues pledged to finance debt service by instrument
 - Listing of the annual payment amounts
- Projected budget report including at a minimum:
 - Current fiscal year
 - Projection for the immediately following fiscal year
 - Revenues and expenditures as well as an explanation of assumptions

These documents are to be made available for public viewings either in the municipality's clerk's office or posted for public internet access. In addition, all of the above documents must be submitted to the Department of Treasury. The accountability and transparency requirements apply to all eligible cities, villages, townships, and counties. The Department of Treasury will post and distribute to all eligible local units the detailed guidance by October 1.

The dashboard will now be due December 1 (which is a change from the October 1 deadline under EVIP). Therefore, the October payment will be made to all eligible local units (under EVIP, local units were only eligible if they certified by October 1). Under CVTRS, if a local unit does not certify by December 1, it will forfeit the December payment. By certifying by the first day of any payment month subsequent to December, a local unit can qualify for that month's payment.

TIF Authority Personal Property Tax Reimbursement Forms

The Michigan Municipal League has communicated that the two forms created by Treasury for reimbursement of TIF plans for Small Parcel Exemption Losses are available on the Treasury's website under *Local Government Services/Forms/Instructions/Local Government Officials Forms*. These forms were due August 29, 2014.

The forms are:

- Form 5176 - Non-Brownfield Authorities (to be used for DDAs, LDFAs, CIAs, etc.)
- Form 5176BR - Brownfield Authorities

Authorities can only receive reimbursement for the Small Parcel Exemption Loss to the extent the exemption actually causes revenue loss. In the case where an authority has "negative capture" overall and would not have any tax increment revenue regardless of the Small Parcel Exemption Loss, they are not eligible for any reimbursement. Therefore, one step on the form requires the estimated 2014 tax increment revenue for all property by class to be provided. Since Brownfield Authorities cannot have negative capture, that step is omitted from Form 5176BR.

The forms have multiple tabs requiring input, but in essence the calculation takes the difference between the 2013 captured value of the personal property in the TIF district and the 2014 captured value of the personal property in the TIF district, times the captured millages adjusted for exemptions by class to get the personal property TIF revenue loss or gain. This total is compared to the estimated overall TIF revenue including small taxpayer loss (FY 2014) to determine the amount to be reimbursed.

Personal Property Tax

Significant personal property tax legislation has recently passed. Key provisions of the new acts include:

1. In August 2014, Michigan voters overwhelmingly approved Proposal 1. As a result, there will be a shift in use tax dollars to create a replacement fund. The eligible manufacturing exemption described below will occur, and the \$40,000 Small Taxpayer Exemption under PA 48 of 2012 will be effective for 2014 and subsequent tax years.
2. The much-talked-about local Essential Services Assessment (ESA) will be replaced with a State-assessed ESA, which is actually a tax but is being referred to as an assessment simply so that it is recognized as the substitute for the local ESA.
3. The new bills increase the reimbursement to local units for lost personal property tax revenue to an amount stated as 100 percent replacement.

Two key provisions under the previous personal property tax reform legislation (PA 408 of 2012) remain. Businesses will benefit from the following provisions:

1. Under PA 408 of 2012, businesses with less than \$40,000 of combined industrial and commercial personal property TV (\$80,000 true cash value) would not have to file PPT returns or pay any personal property tax. This provision remains unchanged in these new bills. This exemption begins with the 2014 tax year (December 31, 2013 assessments).
2. "Eligible Manufacturing" property would be exempt from PPT. This would be phased in beginning in 2016 (December 31, 2015 assessment date), with the following provisions:
 - a. Any property purchased subsequent to December 31, 2012 would be exempt immediately effective in 2016.
 - b. Property purchased prior to December 31, 2012 would be reduced to zero by its 10th year of existence (should take nine years).

Determining the Amount of Community Loss:

Communities will first need to calculate their losses. Losses are classified as either debt loss or non-debt loss, as follows:

- **Debt Loss** - Debt loss is defined as the amount of ad valorem and dedicated taxes that go toward debt that are lost as a result of the personal property tax exemption. During FY 2014-2015 and 2015-2016, revenue distributed by the newly created Local Community Stabilization Authority (LCSA) would equal either a community's debt loss or, in the case of a TIF, the small taxpayer loss. Through the 2015-2016 fiscal year, the losses are limited to the impact of the \$40,000 small business exemption. When the phase-out of Eligible Manufacturing property would begin to occur when tax bills go out in 2016, the debt loss (and corresponding reimbursement) will increase.
- **Non-debt Loss** - Non-debt loss is calculated using the lowest rate of each individual millage levied in the period between 2012 and the year immediately preceding the current year. This will exclude debt millage. The department will compute the loss by comparing the current year taxable value of commercial and industrial property to the taxable value that existed at December 31, 2012 (2013 tax year). In 2016, cities will be reimbursed for non-debt loss for 2014 and 2015 related to the small taxpayer exemption loss. This is for cities only. For 2014 and 2015, townships will be getting reimbursed for the debt loss related to the small business exemption, but not the other losses created by the small business exemption. Starting in 2016, all municipalities are reimbursed for non-debt loss.

Reimbursement Mechanisms:

Beginning in 2015-2016, the LCSA would reimburse local units. Reimbursement to communities for the losses comes from two funding sources:

- **Use Tax Shift** - A portion of use tax will shift to the LCSA.

- **Essential Services Reimbursement** - Beginning in 2015-2016, the LCSA would receive a portion of the use tax as well as the full Essential Services Assessments in which to reimburse local units. This assessment is set at a prescribed millage rate based on the acquisition cost of property (depreciation will no longer apply). The rate is set at 2.4 mills for a property's first five years; then 1.25 mills for the next five; then 0.9 mills thereafter. Essential services are defined as ambulance, fire, and police services as well as jail operations. This includes the cost of related pension funding.

The losses described by the bill are to be paid in order of this priority: school debt; Intermediate School District losses; school operations; government essential services; debt and TIFA forgone increases; and all other reimbursements (defined below). In theory, if there is not enough money available, the lower priority items may not be fully reimbursed. However, the department has indicated that it expects the fund to have enough to cover all reimbursements.

All other reimbursements - These reimbursements come from the use tax and would also begin in 2015-2016 and initially be proportional to each local unit's share of total "qualified losses", taking into account the losses of all municipalities. Over time, the reimbursement will shift to be based on each entity's share of eligible manufacturing personal property (based on the amount used in the ESA calculation above). Beginning in FY 2017-2018, 5 percent of the revenue would be distributed proportionally based on each local unit's share of eligible manufacturing personal property. The 5 percent portion would increase in 5 percent increments in each subsequent year. By FY 2036-2037, all revenue in the last category of reimbursements would be distributed based on the local unit's share of eligible manufacturing personal property. In short, in the beginning, the reimbursement is closely tied to the amount of lost personal property taxes, but over time, the community's reimbursement will be tied to the level of eligible manufacturing personal property.

Retro-pay Prohibition - Exemption for Public Safety Personnel

Public Act 54 of 2011, which was signed by the governor on June 7, 2011, prohibits retroactive pay on an expired contract and calls for employees working under an expired agreement to bear the cost of any increased healthcare costs until a new contract is in effect. During that period, the public employer is authorized to make payroll deductions necessary to pay the increased cost of maintaining those benefits.

The Legislature has been working over the past two years to pass a bill to amend PA 54 of 2011 to allow those who are eligible to negotiate contracts under PA 312 of 1969 to be exempt from PA 54. HB 5097 of 2013, which has now been signed into law by the governor as PA 301 of 2014, provides for exceptions to the retro-pay prohibition for public safety personnel that are subject to compulsory arbitration of labor disputes under PA 312 of 1969. The passing of this legislation would mean that police, fire, and emergency medical personnel would be eligible to receive retroactive increases in compensation (this includes wage or benefit increases and step increases) that cover the period after a bargaining agreement expires and before a new agreement is in place if those higher benefit levels are a result of arbitration under PA 312 or included in a negotiated bargaining agreement after expiration of their collective bargaining agreement. In addition, these employees would only be required to pay increases in insurance benefits after a collective bargaining agreement expired and before a new agreement is in place that would not exceed the amount of the employee's share under the Publicly Funded Health Insurance Contribution Act.

Deficit Elimination Plans

In May 2014, the Michigan Department of Treasury issued another Numbered Letter addressing deficit elimination plans. This Numbered Letter, 2014-1, supersedes the prior Numbered Letter which the State issued in 2012. This new guidance clarifies when a deficit elimination plan is required and identifies when an entity would need to formulate a deficit elimination plan.

Key changes within this new guidance are:

- For governmental funds other than the General Fund, if the “deferred inflows of resources minus taxes and special assessments receivable” is greater than the “unrestricted fund balance”, no deficit elimination plan is necessary. Otherwise, for modified accrual funds, a deficit is still identified as having an unrestricted fund balance deficit, where unrestricted fund balance includes the sum of committed, assigned, and unassigned balances.
- For proprietary, fiduciary, and discretely presented component units:
 - A deficit would not exist if the deferred inflows of resources minus taxes and special assessments receivable are greater than either the unrestricted net position or total net position deficit balance.
 - A deficit would also not exist if current assets less current liabilities is a positive figure. For purposes of this calculation, current liabilities should not include the current portion of long-term obligations.

This new Numbered Letter does not change the timing of filing the deficit elimination plan. Local units are responsible to file deficit elimination plans concurrent with the submission of the audit report to the Department of Treasury. Local units should not wait for a letter from the State to file their plans. The plans are due on or before the filing of your financial statement. Failure to file a plan can result in withholding of 25 percent of the EVIP revenue-sharing payments.

Mr. Brad Coulter, Emergency Manager
and Mayor and Members of City Council
City of Lincoln Park, Michigan

December 15, 2014

The plans should typically result in elimination of the deficit within one year but should never exceed five years. These plans should also have acceptable evidence to support the plan. The letter defines "acceptable evidence" as certified board/council resolutions approving the funding and the journal entry showing that the transfer was made in the general ledger. As stated in Numbered Letter 2012-1, "local units with multiple-year plans that do not meet their subsequent year deficit projections must submit a revised plan that adheres to the time frame that was originally certified, not to exceed five years." Additionally, if there is a projected multi-year budget, this too must be approved by the council/board and submitted. Plans and support can be emailed to Treas_MunicipalFinance@michigan.gov or mailed to the Michigan Department of Treasury.

Michigan Qualifying Statement Revisions and Changes to Filing Process

Bulletin 6 was issued by the State Department of Treasury and was effective beginning May 1, 2013. The bulletin details out the revisions made to the form, changes in the electronic filing process, and provides information on the new process to submit a reconsideration request.

The Qualifying Statement is now Form 5047. The new form and link to the online filing are available at: www.michigan.gov/municipalfinance. You can also find Bulletin 6 by following this same link.

Several minor changes have been made to the form including the following: additional question asking for the municipality's six-digit municode, information buttons to provide added instruction, and elimination of the requirement to include SEV and population. In addition, changes were made to help ease the completion of the form such as the elimination of certain questions which were duplicative of information that the Department of Treasury already had at its disposal (i.e., audit filing date) as well as separating out compound questions to ease the process of responding to them.

The more significant change, however, is with the electronic filing process. Since May 1, 2013, there is now only one way in which a Qualifying Statement can be submitted:

1. The form is now a PDF that can be downloaded and saved. The form is fillable allowing preparers to type in responses and save the form with answers intact.
2. The PDF will be uploaded via the Department of Treasury website. The upload page is: www.michigan.gov/municipalfinance. Once you are on the webpage, choose the Online Qualifying Statement link.
3. The State has a set naming convention that should be used for each uploaded file. The file should be named as follows: municipality's six-digit municode + fiscal year + the words "QStmt" (example: 7830402012QStmt). Please note, the system will only accept one Qualifying Statement per fiscal year per municipality.

4. Municipalities will not be able to use the same username and password that they used for filings prior to May 1, 2013. The State has directed each municipality to call the Local Audit and Finance Division at 517.373.3227 to obtain a new username and password.

The Bulletin also allows the Qualifying Statement to be filed by an individual other than the Chief Administrative Officer (CAO) as long as the CAO is made aware and takes full responsibility for the filing. The filer will be asked to indicate whether they are the CAO or the designee at the time the Qualifying Statement is filed.

EVIP-like Requirements Tied to Act 51 Monies (Public Act 506 of 2012)

A new reporting requirement by MDOT that was originally due each September 30, starting in 2014 has been delayed. Senate Bill 882 passed and has been sent to the governor for signature and will delay implementation until September 30, 2015. This requirement is a result of Public Act 506 of 2012 (the "Act") which places EVIP-like limitations on pension and healthcare benefits paid to transportation employees. For the purposes of this Act, "transportation employee" means an employee paid in whole or in part through Act 51 revenues or who is engaged in work funded through Act 51 revenues.

The Act requires local units receiving Act 51 money for the construction or maintenance of roads to comply with one of the following conditions by September 30, 2015:

1. Develop and publicize a transportation employee compensation plan that the local agency intends to implement with any new, modified, or extended employment contracts or agreements. This compensation plan must include all of the following:
 - For new employee hires, the employer contribution toward retirement plans must be capped at 10 percent of base salary.
 - Defined benefit pension plans may use a maximum multiplier of 1.5 percent of final average compensation if postemployment healthcare is provided and 2.25 percent if postemployment healthcare is not provided.
 - For defined benefit pension plans, the final average compensation must be calculated using a minimum of three years of compensation and must not include more than 240 hours of paid leave. Overtime hours cannot be used in calculating final average compensation.
 - The employer contribution for health care coverage for new employee hires is capped at 80 percent of the employee's premium or must be competitive with the new state preferred provider organization health plan on a per-employee basis.
2. Comply with Public Act 152 of 2011, which requires public employers to place hard caps on the amounts they contribute toward healthcare costs with an option to elect an 80 percent contribution cap rather than a hard cap. These hard caps are adjusted annually for inflation. The caps in 2012 were \$5,000 for single coverage, \$11,000 for individual and spousal coverage, and \$15,000 for family coverage. See below for a discussion of Senate Bill 542 that proposes changes to the individual and spousal coverage limit from \$11,000 to \$13,455.
3. Certify that the local road agency does not offer medical benefits to its transportation employees or elected public officials.

If a local unit receiving Act 51 money does not certify that it complies with one of the above criteria by September 30 of each year, the Department of Transportation may withhold Act 51 distributions until compliance is established.

Act 506 also requires local road agencies to maintain a searchable website (accessible to the public) that includes the current budget, the number of active transportation employees by job classification and wage rate, a financial performance dashboard, the names and contact information of the governing body, and a copy of the annual certification provided to MDOT.

For communities that are already complying with the requirements of Public Act 152 of 2011, we do not expect this new legislation to have a significant impact on operations since it essentially just creates a new reporting requirement; however, please contact your audit team if you would like to talk through the details of the act and your community's compliance.

Amendments to Public Act 152 of 2011 (Health Care Limitations)

On December 11, 2013, legislation was passed (formerly SB 541-545) in an effort to clarify PA 152 of 2011. These amendments are effective immediately. SB 542 and 543 have perhaps the most direct financial impact on communities.

SB 542: This bill modified the current law which allows employers to opt between a percentage-based cap or a dollar limit (hard cap) on employee health insurance premiums. The bill increases the dollar cap for individual and spouse coverage from the current limit under PA 152 of \$11,000 to \$13,455. This applies for all medical plan coverage years beginning in calendar year 2013 according to the current language. The \$13,455 cap is increased annually for any changes in medical CPI on an annual basis. Please keep in mind that if your coverage year began after January 1, 2013, this could have resulted in an unanticipated additional cost of \$2,455 per employee. Several communities have questioned this aspect but it does not appear to have been addressed in the bill.

Currently, PA 152 excludes elected officials from the number of employees in the dollar cap formula. This would no longer be the case; they would become part of that calculation.

SB 543: This bill applies only to those public employers that adopt the 80/20 percentage-based option. It clarifies that all public employers (excluding the State) have to have support of a 2/3 vote by the governing body prior to the start of each medical benefit plan coverage year. If this does not occur, the public employer would then have to follow the hard cap requirement.

New Rules Governing Management of Federal Programs

In December 2013, the Office of Management and Budget (OMB) issued long-awaited reforms to the compliance requirements that must be followed by non-federal entities receiving federal funding. All entities receiving federal dollars will need to understand the changes made as a result of these reforms and may be required to make some changes to your internal procedures, processes, and controls.

These reforms impact three key areas of federal grants management:

1. **Audit Requirements** - For fiscal years beginning on or after January 1, 2015, the threshold for obtaining a federal awards audit will increase from the current threshold of \$500,000 of annual federal spending to \$750,000. There will also be significant changes to the criteria for qualifying as a low-risk auditee and a reduction in the number of major programs required to be tested for some clients.

The City has historically been above the current \$500,000 threshold and will likely still be subject to an audit requirement even at the new higher \$750,000 threshold.

2. **Cost Principles** - Effective December 26, 2014, the grant reforms related to cost principles go into effect. Not only were certain changes made to allowable costs under this new guidance, but there were significant changes in the area of time and effort reporting and indirect costs.
3. **Administrative Requirements** - Also effective December 26, 2014, non-federal entities receiving federal funding must adhere to new rules related to administering federal awards. Most notably, these requirements may impact the City's procurement systems, including maintaining written conflict of interest policies and disclosures.

These revisions are clearly the most significant changes to occur to federal grants management in recent history. Entities receiving federal funding will need to carefully digest these changes. Plante & Moran, PLLC has been on the cutting edge of these reforms, offering our clients free webinars, checklists, and other tools to aid in implementation. The City will need to ensure that the implementation of the new regulations occurs in a timely and complete manner. Plante & Moran, PLLC has many experts in this area and welcomes any questions or needs you may have in this area.

New Pension Standards

There are two new accounting standards issued by the Governmental Accounting Standards Board (GASB) that will significantly impact the City's financial statements. GASB Statement No. 67, *Financial Reporting for Pension Plans - an Amendment of GASB No. 25*, which was implemented during the current fiscal year ended June 30, 2014, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will be effective for the fiscal year ending June 30, 2015. These new accounting standards significantly revise the current accounting and reporting requirements for pensions, both from an employer perspective as well as from a plan perspective.

Employers providing defined benefit pensions to their employees must now recognize their unfunded pension benefit obligation as a liability for the first time, and must more comprehensively and comparably measure the annual costs of pension benefits. The statements also enhance accountability and transparency through revised and expanded note disclosures and required supplemental information (RSI). When implementing GASB Statement No. 68 for the upcoming fiscal year ending June 30, 2015, the City will be required to record a net pension liability, resulting in a significant impact to the City's governmental and business-type activities. In addition, the City will also have to determine if the annual required contributions should be calculated using the assumption stipulated by GASB 67 or if the actuary should continue to calculate the funding requirements using the same assumptions used in recent years.

Significant coordination between the City, the actuary, and Plante & Moran, PLLC will be required in order to implement these pronouncements effectively. We are happy to work with the City over the next year to ensure smooth implementations of the new standards. We would also encourage City personnel to view the free webinars available on Plante & Moran, PLLC's website, if you have not already done so.

Potential Change in Audited Financial Statement Due Date

Senate Bill 949 of 2014 was recently introduced. Among other things, the bill changes the due date for audits.

- The audit deadline would be moved to 150 days from 180 days (effective for fiscal years ending after June 30, 2014).
- If the deadline cannot be met, the State can move in and either perform or contract for and charge the local unit for the audit services.
- There would be a requirement that budgets conform to the Uniform Chart of Accounts.
- The biennial audit exception for units under 4,000 population would be removed.
- Very specific language is added to say a unit cannot adopt or operate under a deficit budget, nor incur an operating deficit. If a unit is operating under a deficit, the State is to be notified. In that situation, a deficit elimination plan is due to the State within 90 days. Failure to comply will allow the State to withhold state funds as is necessary to gain compliance.

Reminder: Brownfield and DDA Annual Reporting

Please remember that if you have any sort of tax capture district, you may have annual filing requirements with the Department of Treasury.

Mr. Brad Coulter, Emergency Manager
and Mayor and Members of City Council
City of Lincoln Park, Michigan

December 15, 2014

For DDA districts:

Form 2604 is due annually in July. These forms are titled Tax Increment Financing Plan Report for Capture of Property Taxes and State Reimbursement Amount. Form 2604 is for plans that have only one school district.

If the TIF plan had no eligible obligations and did not capture any school taxes (state education tax, local school district tax, or ISD tax), the form still needs to be completed although it basically only involves providing background information and checking a box. The State has indicated that it will notify local units when they no longer are required to file this form.

In addition, an Annual Report (AR) is required by State Tax Commission Bulletin 9 of 1997 setting forth the amount and source of tax increments received, amount and purpose of expenditures, etc. In addition, authorities must submit a copy of the assessor's or treasurer's worksheet for the authority's tax increment financing plan district, which was used to determine the plan's tax increment revenue. This is the worksheet that was used to compute how much money to send to the authority, and it may be either handwritten or computed.

For Brownfield Redevelopment Authorities:

Reporting for BRAs includes information similar to the items noted above, but also includes capital investment, square footage, number of residential units constructed, etc.

A recent Michigan Auditor General Office audit indicated neither the Brownfield Redevelopment Authorities nor the Department of Treasury were in compliance with reporting requirements of the Brownfield Redevelopment Financing Act (Act 381 of 1996) between January 2011 and December 2013. More than 72 percent of Brownfield Redevelopment Authorities did not submit the required annual financial status reports to the Department of Treasury.

Attachment I

Client: **City of Lincoln Park, Michigan**
Opinion Unit: **Governmental Activities**
Y/E: **6/30/2014**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net Income Statement Impact
FACTUAL MISSTATEMENTS:									
A1	To record BCBS prescription deposit	\$ 61,714						\$ (61,714)	\$ 61,714
A2									
JUDGMENTAL ADJUSTMENTS:									
B1	To record estimate for loss related to open Michigan Tax Tribunal cases from tax years 2010-2013			\$ 45,800				45,800	(45,800)
B2	To increase the net other post-employment benefits liability				\$ 328,900			328,900	(328,900)
PROJECTED ADJUSTMENTS:									
C1									
C2									
	Combined effect	61,714		45,800	328,900			312,986	(312,986)
	Total	<u>\$ 61,714</u>	<u>\$ -</u>	<u>\$ 45,800</u>	<u>\$ 328,900</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 312,986</u>	<u>\$ (312,986)</u>

PASSED DISCLOSURES:

D1
D2

Client: **City of Lincoln Park, Michigan**
Opinion Unit: **General Fund**
Y/E: **6/30/2014**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net Income Statement Impact
FACTUAL MISSTATEMENTS:									
A1	To record BCBS prescription deposit	\$ 61,714						\$ (61,714)	\$ 61,714
A2									
JUDGMENTAL ADJUSTMENTS:									
B1	To record estimate for loss related to open Michigan Tax Tribunal cases from tax years 2010-2013			\$ 45,800				45,800	(45,800)
B2									
PROJECTED ADJUSTMENTS:									
C1									
C2									
	Combined effect	61,714		45,800				(15,914)	15,914
	Total	<u>\$ 61,714</u>	<u>\$ -</u>	<u>\$ 45,800</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (15,914)</u>	<u>\$ 15,914</u>

PASSED DISCLOSURES:

D1
D2



Michigan Department of Treasury
Local Audit and Finance Division
P.O. Box 30728
Lansing, MI 48909

December 18, 2014

Re: City of Lincoln Park, Michigan Deficit Elimination Plan

On July 7, 2014, Brad Coulter was started as the Emergency Manager for the City of Lincoln Park to address the financial stress and fund deficit faced by the City.

At June 30, 2014, the City had an unassigned fund balance deficit in the amount of (\$736,450) in the General Fund. There are several factors that have contributed to the deficit. Lincoln Park has lost over 30% of its taxable value since 2009 and property values are just starting to flatten out. This decline has accounted for almost \$5 million in lost revenue to the General Fund.

On the expense side, Public Safety overtime has not been effectively controlled due to contractual limitations. Termination payments and the funding of employee's purchase of service years credits cost the City over \$500,000 in FY 2013/14. In addition, legacy costs continue to rise and the pension systems for Lincoln Park are poorly funded. Retiree obligations take up 40% of General Fund spending as well as substantial amounts in the Road and Water funds. In total for all Funds, the City spent \$4,100,982 on retiree health care and contributed \$5,554,501 to the pension systems in FY 2013/14.

From having both systems close to fully funded in 2003, the Municipal System has declined to a 22% funding level and the Police and Fire System has declined to 31% - even though Lincoln Park has always contributed the actuarially calculated ARC. Going forward, Lincoln Park may have to almost double its pension contributions each year for the next 20 years in order to get both pension systems to 100% funded. The City is working on options to address this issue including a drastic reduction in retiree health care benefits and a PA 345 millage for funding the Police and Fire System.

The city has both implemented and is the process of implementing a number of restructuring changes to address the deficit situation. The Emergency Manager filed a Financial and Operating plan in October 2014 with Michigan Treasury. This plan, which is available on the City's website, outlines the City's restructuring plan for eliminating the General Fund deficit and achieving long-term sustainability. An official Deficit Elimination Plan is also being prepared as well as an update of the Financial and Operating plan; both will be submitted to Treasury in the January 2015 timeframe.

One other deficit for the unrestricted portion of the Motor Pool appeared in the FY 2013/14 results. The Motor Pool owns the City's vehicles and the (\$127,020) deficit will be eliminated via a modification in charge backs to the departments that are using the vehicles such as Police, Fire and Water.

Sincerely,

Brad Coulter
Emergency Manager