

City of Lincoln Park, Michigan

**Financial Report
with Supplemental Information
June 30, 2015**

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 the 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, 2015, 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 the 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, 2015 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 described in Note 16 to the financial statements, during the year ended June 30, 2015, the City adopted the new accounting guidance of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of governmental employers through pension plans. 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.

Mr. Brad Coulter, Emergency Manager
and Mayor and Members of the 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 14, 2015 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 14, 2015

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

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, 2015. 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 (deficit) 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

The City's overall net position (deficit) is as follows: the governmental activities was in a deficit of \$(62.7) million and the net position of business-type activities was \$23.1 million. The City implemented GASB Statement No. 68 during the year, which required the City on its government-wide financial statements to recognize its unfunded pension obligation as a liability for the first time. As a result of the implementation, the City recorded a net pension liability of \$87.6 million and \$5.9 million on the governmental activities and business-type activities balance sheet, respectively. Recording this liability significantly reduced the City's unrestricted net position in the governmental activities and resulted in a significant deficit.

- For overall government funds, the current year's expense total was \$26.6 million as compared to the \$28.5 million generated in fees and charges, grants, general revenue, and taxes. The result is a positive \$1.89 million contribution to fund balance. In the previous year, expenses were \$25.9 million as compared to the \$26.1 million generated in tax and other revenue for governmental activities for a positive contribution of \$195,000.
- After GASB Statement No. 34 adjustments for depreciation expense, increased pension and retiree healthcare liabilities, and other nonoperating adjustments, the overall negative contribution from governmental activities is \$(4.7) million. These adjustments are detailed on page 20 in the reconciliation statement.
- For business-type activities, revenue was \$9.7 million. Expenses were \$8.2 million. In the previous year, revenue was \$10.0 million and expenditures were \$9.9 million.
- The annual cost of all City programs was \$41.6 million. The previous year's cost was \$40.4 million. This cost includes \$5 million of depreciation and \$9.1 million of increased retiree liabilities on the balance sheet.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole Analysis

The statement of net position (deficit) 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 (deficit) 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.

The statement of net position (deficit) 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.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

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 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.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

Table I - Net Position (in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Assets						
Current and other assets	\$ 12,211.5	\$ 9,121.0	\$ 10,726.7	\$ 10,506.9	\$ 22,938.2	\$ 19,627.9
Noncurrent assets	<u>29,536.6</u>	<u>32,568.6</u>	<u>35,371.0</u>	<u>35,142.3</u>	<u>64,907.6</u>	<u>67,710.9</u>
Total assets	41,748.1	41,689.6	46,097.7	45,649.2	87,845.8	87,338.8
Deferred Outflows of Resources -						
Deferred outflows related to pensions	6,752.2	713.4	221.2	242.4	6,973.4	955.8
Liabilities						
Current liabilities	5,900.9	5,343.9	1,246.4	997.8	7,147.3	6,341.7
Long-term liabilities	<u>104,828.6</u>	<u>95,061.2</u>	<u>20,881.6</u>	<u>23,283.2</u>	<u>125,710.2</u>	<u>118,344.4</u>
Total liabilities	<u>110,729.5</u>	<u>100,405.1</u>	<u>22,128.0</u>	<u>24,281.0</u>	<u>132,857.5</u>	<u>124,686.1</u>
Deferred Inflows of Resources -						
Deferred inflows related to pensions	507.6	-	1,076.5	-	1,584.1	-
Net Position						
Net investment in capital assets	28,392.9	30,477.4	23,753.7	23,165.0	52,146.6	53,642.4
Restricted	5,506.7	4,498.2	2,722.7	1,871.3	8,229.4	6,369.5
Unrestricted	<u>(96,636.4)</u>	<u>(92,977.7)</u>	<u>(3,362.0)</u>	<u>(3,425.7)</u>	<u>(99,998.4)</u>	<u>(96,403.4)</u>
Total net position (deficit)	<u>\$ (62,736.8)</u>	<u>\$ (58,002.1)</u>	<u>\$ 23,114.4</u>	<u>\$ 21,610.6</u>	<u>\$ (39,622.4)</u>	<u>\$ (36,391.5)</u>

City as a Whole

The City's combined net position (deficit) is \$(39.6) million as compared to \$(36.4)¹ million from the previous year. Net position (deficit) 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 (deficit) of the City's governmental and business-type activities.

The City's governmental activities was in a deficit of \$(62.7) million this year as compared to \$(58.0) million last year. Unrestricted net position (deficit) is (\$96.6) million this year as compared to (\$93.0)² million in the previous 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 fairly consistent and was \$23.1 million this year and \$21.6 million last year.

¹ The net position reported in the fiscal year 2014 financial report was \$49.6 million. Last year's results have been adjusted to reflect the retrospective implementation of GASB Statement No. 68, which required the City on its government-wide financial statements to recognize its unfunded pension obligation as a liability for the first time.

² Unrestricted net position in 2014 was \$(14.8) million before the pension adjustment.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

City revenue for the current year was \$38.3 million compared to \$36.1 million in the previous year. The total yearly cost of all programs and services was \$41.6 million as compared to \$40.4 million in the previous year. This year's cost includes \$9 million of liability increase for retiree obligations on the balance sheet.

Table 2 - Change in Net Position (in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenue						
Program revenue:						
Charges for services	\$ 5,637.1	\$ 4,638.2	\$ 8,220.5	\$ 8,752.7	\$ 13,857.6	\$ 13,390.9
Operating and capital grants	4,173.1	3,585.8	681.3	383.9	4,854.4	3,969.7
General revenue:						
Property taxes	11,647.7	11,530.7	751.8	818.7	12,399.5	12,349.4
Interest and investment income	3.2	0.3	21.1	3.4	24.3	3.7
Other general revenue including transfers	7,197.0	6,427.1	-	-	7,197.0	6,427.1
Total revenue	28,658.1	26,182.1	9,674.7	9,958.7	38,332.8	36,140.8
Expenditures						
Program expenditures:						
General government	6,115.5	6,068.2	-	-	6,115.5	6,068.2
District Court	1,382.1	831.0	-	-	1,382.1	831.0
Public safety	16,889.6	15,286.4	-	-	16,889.6	15,286.4
Public works	7,473.0	6,781.4	-	-	7,473.0	6,781.4
Culture and recreation	432.2	569.7	-	-	432.2	569.7
Community development	1,100.1	922.0	-	-	1,100.1	922.0
Interest on long-term debt	0.3	12.5	-	-	0.3	12.5
Business activities - Water and/or sewer	-	-	8,171.0	9,943.8	8,171.0	9,943.8
Total expenditures	33,392.8	30,471.2	8,171.0	9,943.8	41,563.8	40,415.0
(Decrease) Increase in Net Position	\$ (4,734.7)	\$ (4,289.1)	\$ 1,503.7	\$ 14.9	\$ (3,231.0)	\$ (4,274.2)

Governmental Activities

This year's governmental activities revenue was \$28.7 million as compared to \$26.2 million last year. The year's governmental activities cost was \$33.4 million as compared to \$30.5 million in the previous year. Improvements in the service vehicle fleet were limited to replacement of existing units only. This year's cost includes \$8.6 million of liability increase for retiree obligations on the balance sheet.

Business-type Activities

This year's business-type activities revenue (see Table 2) was \$9.7 million as compared to \$9.9 million in the prior year. This year's expenses were \$8.2 million as compared to \$9.9 million in the previous year.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Statements

The City has eliminated the General Fund deficit through a combination of operating performance and one time asset sales. Going forward, the City's budget will remain tight but is expected to be positive.

The City has made substantial changes over the past two years to enhance revenue and reduce costs. New funding sources have been added such as capturing towing revenue and a reimbursement of central dispatch costs by the ambulance provider. The full effect of these changes will be seen in fiscal year 2016, which are expected to gross over \$250,000 per year. Also, one-time revenue gains from the sale of two cell tower easements grossed \$545,702 in fiscal year 2015 and will generate \$365,762 of revenue in fiscal year 2016.

Net proceeds from the Court were also greater than anticipated. The first full year of having a multi-jurisdictional City court, which resulted in cost efficiencies that increased the net contribution to fund balance to approximately \$800,000, or \$300,000 more than expected. These results are projected to continue going forward.

On the cost side, fire department overtime has been drastically reduced. Minimum manning was eliminated and restrictions on the number of firefighters that can take time off on the same day were implemented in April 2015. When these savings take full effect in fiscal year 2016, overtime is expected to reduce by over \$500,000 per year. The City also eliminated employee's ability to purchase three years of service, which was mainly funded by the City, and put restrictions on termination benefits when employees left before reaching full retirement.

Another major change was the elimination of retiree health care, effective July 1, 2016. This benefit was replaced with a monthly stipend to be used by retirees for purchasing coverage. Of the \$4.3 million annual spent on retiree health care, \$600,000 will be allocated to the monthly stipend, \$3 million will be shifted to increase annual pension contributions, and the remaining \$700,000 will benefit the General Fund, Road Funds, and Water Funds via cost savings.

The retirees have filed a lawsuit against the City asking for a restoration of healthcare benefits. The suit is pending and to date, restructuring of retiree healthcare benefits has been disallowed by any court in other cities. If the retirees were to win the lawsuit, the City would not have the capacity to fund the \$4.3 million per year in retiree healthcare benefits. The choice would then be for the retirees to obtain a 9 mill judgement levy on the property taxes to pay for their health care, or the City could petition the State to file for bankruptcy.

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

Of the other significant funds, the Water and Sewer Fund is the largest. In order for the City to cover increasing water and sewer charges along with the need to provide capital for maintenance and investment, rates were increased by 15 percent in January 2015. A more aggressive collection of water/sewer funds has been put in place and software programming for earlier detection of water leaks has been implemented.

Capital Assets

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

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 9,614.7	\$ 9,614.7	\$ 16.5	\$ 16.5	\$ 9,631.2	\$ 9,631.2
Construction in progress	137.8	225.0	1,209.9	770.3	1,347.7	995.3
Equipment	2,249.3	2,435.7	4,050.1	4,215.4	6,299.4	6,651.1
Buildings and improvements	637.1	708.2	170.0	185.0	807.1	893.2
Infrastructure	15,412.9	17,825.6	29,924.5	29,955.6	45,337.4	47,781.2
Vehicles	1,485.2	1,759.4	-	-	1,485.2	1,759.4
Total	\$ 29,537.0	\$ 32,568.6	\$ 35,371.0	\$ 35,142.8	\$ 64,908.0	\$ 67,711.4

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

At the close of the year, the City had invested \$64.9 million in capital assets such as land, buildings and improvements, and equipment or infrastructure (see Table 3). A total of \$67.7 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	
	2015	2014	2015	2014	2015	2014
General obligation bonds (backed by the City)	\$ -	\$ -	\$ 11,793.9	\$ 12,156.2	\$ 11,793.9	\$ 12,156.2
Other bonds or outstanding obligations	2,041.7	3,427.3	31.1	74.5	2,072.8	3,501.8
Total	<u>\$ 2,041.7</u>	<u>\$ 3,427.3</u>	<u>\$ 11,825.0</u>	<u>\$ 12,230.7</u>	<u>\$ 13,866.7</u>	<u>\$ 15,658.0</u>

At the close of the year, the City had \$13.9 million in outstanding bonds and notes, as compared to the previous year of \$15.7 million. The City incurred \$704,000 of debt in the business-type activities related to the Downriver Sewage Disposal System.

Economic Issues/Upcoming Yearly Budgets

The City has been under control of a state appointed Emergency Manager since July 2014. During this time period, the General Fund deficit has been eliminated, new revenue sources located, and costs restructured. The City is preparing to exit emergency management in December 2015 and return to local control with state oversight.

The City has a revenue problem, not a cost problem. Headcount is down from 148 full time employees in 2009 to 83 full time employees in 2015. The City has a shortage of police officers, public service workers and office staff. Any further cuts to headcount will seriously jeopardize Lincoln Park's ability to protect its citizens and maintain City infrastructure. Since property tax revenue is the primary source of the City's income, any impairment to the City's ability to protect its residents could result in falling property values and a second financial crisis.

The Emergency Manager twice tried to pass Public Act 345 millages which would have increased annual revenue by \$3 million. These millages were narrowly defeated on both occasions. The City will still have positive operations, but will not have the capacity to hire additional police officers, repair the roads, or increase pension contributions.

The City has a 3.4591 mill police and fire millage that expires June 2017. This millage needs to be put back on the ballot for renewal by the voters. If the millage fails to renew, the City will not be able to pay the promised monthly stipends for retiree health care and will need to short pay the pension contributions. Under no circumstances should the City consider reducing headcount in order to make up for a failure of this millage to pass. Doing so puts property values at risk, which in turn could lead to a second financial crisis.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

With the taxable value of the City's real estate declining by 34 percent since 2009, the Lincoln Park has lost \$4 million per year in annual revenue. Property values are just starting to stabilize and Lincoln Park is seeing the first increases in value since 2009. The City is making a concerted effort to control blight, enforce rental ordinances, reinvigorate community involvement, and promote the City as an affordable alternative to downtown or mid-town Detroit.

While property values are just starting to recover after years of continual declines, the Proposal A cap on growth in taxable value will limit the recovery of lost revenue. Being an inner ring suburb of Detroit, Lincoln Park was built out decades ago. The City has no new residential construction and minimal land available for commercial development. The City must depend on rebuilding the value of its existing real estate.

For this coming year, fiscal year 2016, the state calculated inflation factor for taxable value is 0.3 percent, even though Lincoln Park is expecting a 1 - 2 percent increase in market value for its real estate. Given the legislative restrictions on the growth in taxable value, it will take 20 years or more for Lincoln Park to get back to the taxable value it had in 2009.

The underfunding of the City's two pension systems will burden Lincoln Park for years to come. Retiree obligations for pensions and health care represent almost 40 percent of General Fund spending and will stay at this level for the foreseeable future. The General Employee system is funded at 20 percent while the police and fire system is funded at 23 percent. While pension contributions have been increased by \$3 million per year to stop the negative outflow of assets, the contribution from investment earnings is minimal given the low level of equity in the system. Lincoln Park is really on a pay-as-you-go program (the most expensive way to finance a pension system) and targets getting both systems to 60 percent funding levels by 2035. While more spending is needed to help improve pension funding levels, the City has no further capacity to increase spending in this area.

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
Ms. Lisa Griggs, Director of Finance
1355 Southfield Road
Lincoln Park, Michigan 48146
Phone: 313-386-1800
Fax: 313-386-2205
bcoulter@citylp.com
lgriggs@citylp.com

City of Lincoln Park, Michigan

Statement of Net Position (Deficit) June 30, 2015

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 8,075,043	\$ 878,242	\$ 8,953,285	\$ 1,308,834
Receivables:				
Receivables from sales to customers on account	484,592	3,085,419	3,570,011	-
Loans receivable	2,333,523	-	2,333,523	63,056
Other receivables	130,702	-	130,702	-
Due from other governmental units	3,553,857	-	3,553,857	27,662
Special assessments receivable	14,082	-	14,082	-
Due from component units (Note 5)	4,788	-	4,788	-
Due from primary government (Note 5)	-	-	-	95,482
Internal balances	(2,496,704)	2,496,704	-	-
Prepaid expenses and other assets	108,694	8,359	117,053	192
Restricted assets (Note 8)	-	2,899,316	2,899,316	-
Investment in joint ventures (Note 14)	-	1,358,613	1,358,613	-
Land held for resale	3,000	-	3,000	-
Capital assets (Note 4):				
Assets not subject to depreciation	9,752,471	1,226,431	10,978,902	284,670
Assets subject to depreciation	19,784,084	34,144,569	53,928,653	1,239,130
Total assets	41,748,132	46,097,653	87,845,785	3,019,026
Deferred Outflows of Resources -				
Deferred outflows related to pensions (Notes 10 and 11)	6,752,156	221,261	6,973,417	-
Liabilities				
Accounts payable	2,437,278	1,169,964	3,607,242	41,477
Due to other governmental units	-	-	-	121,032
Due to component units (Note 5)	95,482	-	95,482	-
Due to primary government (Note 5)	-	-	-	4,788
Accrued liabilities and other	553,224	43,505	596,729	10,323
Unearned revenue	2,337,653	-	2,337,653	-
Provision for property tax refunds	477,308	32,982	510,290	12,809
Noncurrent liabilities:				
Due within one year:				
Compensated absences (Note 7)	224,520	7,784	232,304	-
Current portion of long-term debt (Note 7)	948,033	1,106,612	2,054,645	-
Due in more than one year:				
Compensated absences (Note 7)	673,563	23,357	696,920	-
Other noncurrent liabilities	-	750,000	750,000	-
Net OPEB obligation (Note 13)	15,224,886	2,400,797	17,625,683	-
Net pension liability (Notes 10 and 11)	87,561,970	5,905,719	93,467,689	-
Long-term debt (Note 7)	195,586	10,687,309	10,882,895	-
Total liabilities	110,729,503	22,128,029	132,857,532	190,429

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

City of Lincoln Park, Michigan

Statement of Net Position (Deficit) (Continued) June 30, 2015

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Deferred Inflows of Resources -				
Deferred inflows related to pensions (Notes 10 and 11)	\$ 507,629	\$ 1,076,501	\$ 1,584,130	\$ -
Net position				
Net investment in capital assets	28,392,936	23,753,698	52,146,634	1,523,800
Restricted for:				
Roads	4,027,297	-	4,027,297	-
Debt service	-	1,722,696	1,722,696	-
Sanitation	153,140	-	153,140	-
Drug forfeiture	788,673	-	788,673	-
Cable	464,973	-	464,973	-
Sewer replacement	-	1,000,000	1,000,000	-
Community promotion	72,505	-	72,505	-
Unrestricted	(96,636,368)	(3,362,010)	(99,998,378)	1,304,797
Total net position (deficit)	<u>\$ (62,736,844)</u>	<u>\$ 23,114,384</u>	<u>\$ (39,622,460)</u>	<u>\$ 2,828,597</u>

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	\$ 6,115,450	\$ 198,252	\$ 197,095	\$ -
District court	1,382,076	1,870,754	-	-
Public safety	16,889,604	20,825	224,034	102,600
Public works	7,473,042	3,450,549	2,782,244	-
Community and economic development	1,100,144	-	867,124	-
Recreation and culture	432,210	96,706	-	-
Interest on long-term debt	330	-	-	-
Total governmental activities	33,392,856	5,637,086	4,070,497	102,600
Business-type activities	8,170,959	8,220,528	-	681,300
Total primary government	\$ 41,563,815	\$ 13,857,614	\$ 4,070,497	\$ 783,900
Component units:				
Downtown Development Authority	\$ 312,299	\$ -	\$ -	\$ -
Economic Development Corporation	19,514	23,575	-	-
Brownfield Development Corporation	29,588	-	-	-
Library	307,468	-	95,716	-
Total component units	\$ 668,869	\$ 23,575	\$ 95,716	\$ -

General revenue:
 Property taxes
 State-shared revenue
 Investment income
 Cable franchise fees
 Other miscellaneous income

Total general revenue

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

Statement of Activities
Year Ended June 30, 2015

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (5,720,103)	\$ -	\$ (5,720,103)	\$ -
488,678	-	488,678	-
(16,542,145)	-	(16,542,145)	-
(1,240,249)	-	(1,240,249)	-
(233,020)	-	(233,020)	-
(335,504)	-	(335,504)	-
(330)	-	(330)	-
(23,582,673)	-	(23,582,673)	-
-	730,869	730,869	-
(23,582,673)	730,869	(22,851,804)	-
-	-	-	(312,299)
-	-	-	4,061
-	-	-	(29,588)
-	-	-	(211,752)
-	-	-	(549,578)
11,647,713	751,824	12,399,537	509,614
4,402,030	-	4,402,030	-
3,160	21,051	24,211	4,633
730,277	-	730,277	-
2,064,731	-	2,064,731	14,191
18,847,911	772,875	19,620,786	528,438
(4,734,762)	1,503,744	(3,231,018)	(21,140)
(58,002,082)	21,610,640	(36,391,442)	2,849,737
\$ (62,736,844)	\$ 23,114,384	\$ (39,622,460)	\$ 2,828,597

City of Lincoln Park, Michigan

Governmental Funds Balance Sheet June 30, 2015

	General Fund	CDBG Fund	Major Streets Fund	Nonmajor Funds	Total
Assets					
Cash and cash equivalents (Note 3)	\$ 1,608,543	\$ 1,201,030	\$ 2,253,463	\$ 2,465,850	\$ 7,528,886
Receivables:					
Special assessments receivable	-	-	-	14,082	14,082
Receivables from sales to customers on account	-	-	-	484,592	484,592
Loans receivable	-	2,333,523	-	-	2,333,523
Other receivables	130,702	-	-	-	130,702
Due from other governmental units	2,722,512	191,178	477,186	162,981	3,553,857
Due from component units (Note 5)	1,788	-	-	-	1,788
Due from other funds (Note 5)	1,197,169	-	-	7,148	1,204,317
Prepaid expenses and other assets	94,043	2,082	3,892	7,349	107,366
Land held for resale	-	3,000	-	-	3,000
Total assets	\$ 5,754,757	\$ 3,730,813	\$ 2,734,541	\$ 3,142,002	\$ 15,362,113
Liabilities					
Accounts payable	\$ 1,859,461	\$ 255,167	\$ 16,584	\$ 240,221	\$ 2,371,433
Due to component units (Note 5)	95,482	-	-	-	95,482
Due to other funds (Note 5)	-	1,137,455	-	133,247	1,270,702
Advances from other funds (Note 5)	2,452,500	-	-	-	2,452,500
Accrued liabilities and other	535,899	538	3,338	5,919	545,694
Unearned revenue	-	2,337,653	-	-	2,337,653
Provision for property tax refunds	456,326	-	-	20,982	477,308
Total liabilities	5,399,668	3,730,813	19,922	400,369	9,550,772
Deferred Inflows of Resources -					
Unavailable revenue	-	184,322	-	14,082	198,404
Fund Balances					
Nonspendable - Prepaids	94,043	2,082	3,892	7,349	107,366
Restricted:					
Roads	1,640	-	2,710,727	1,314,930	4,027,297
Police	-	-	-	788,673	788,673
Grants	-	3,000	-	-	3,000
Sanitation	-	-	-	153,140	153,140
Cable	-	-	-	463,459	463,459
Community promotion	72,505	-	-	-	72,505
Unassigned	186,901	(189,404)	-	-	(2,503)
Total fund balances	355,089	(184,322)	2,714,619	2,727,551	5,612,937
Total liabilities, deferred inflows of resources, and fund balances	\$ 5,754,757	\$ 3,730,813	\$ 2,734,541	\$ 3,142,002	\$ 15,362,113

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

City of Lincoln Park, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2015

Fund Balance Reported in Governmental Funds	\$ 5,612,937
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 (excludes ISF assets)	27,999,593
Special assessment and grant receivables are expected to be collected over several years and are not available to pay for current year expenditures	198,404
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(911,327)
Accrued interest is not due and payable in the current period and is not reported in the funds	(274)
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	(898,083)
Net other postemployment benefit liability not recorded in the modified accrual statements	(15,224,886)
Net pension liability is not due and payable in the current period and is not reported in the funds	(87,561,970)
Deferred outflows related to pensions are not a financial resource and are not reported in the funds	6,752,156
Deferred inflows related to pensions are not due and payable in the current period and are not reported in the funds	(507,629)
Internal service funds are included as part of governmental activities	<u>1,804,235</u>
Net Position (Deficit) of Governmental Activities	<u>\$ (62,736,844)</u>

City of Lincoln Park, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2015

	General Fund	CDBG Fund	Major Streets Fund	Nonmajor Funds	Total
Revenue					
Property taxes	\$ 11,406,216	\$ -	\$ -	\$ 6,773	\$ 11,412,989
Licenses and permits	847,839	-	-	-	847,839
Federal grants	102,600	753,293	-	75,041	930,934
State-shared revenue and grants	4,515,861	-	1,930,085	883,260	7,329,206
Charges for services:					
Charges for services to external parties	572,781	-	-	1,936,130	2,508,911
Fines and forfeitures	1,873,169	-	-	-	1,873,169
Investment income	13,160	-	-	-	13,160
Other revenue:					
Special assessments	20,802	-	-	-	20,802
Cable franchise fees	599,530	-	-	130,747	730,277
Other miscellaneous income	2,793,035	-	15,238	10,399	2,818,672
Total revenue	<u>22,744,993</u>	<u>753,293</u>	<u>1,945,323</u>	<u>3,042,350</u>	<u>28,485,959</u>
Expenditures - Current					
General government	5,128,455	-	-	-	5,128,455
District Court	1,087,690	-	-	-	1,087,690
Public safety	13,291,002	-	-	181,475	13,472,477
Public works	583,317	-	1,052,824	2,634,885	4,271,026
Community and economic development	34,641	943,105	-	-	977,746
Recreation and culture	628,349	-	-	114,483	742,832
Debt service	900,000	-	-	5,939	905,939
Total expenditures	<u>21,653,454</u>	<u>943,105</u>	<u>1,052,824</u>	<u>2,936,782</u>	<u>26,586,165</u>
Excess of Revenue Over (Under) Expenditures	1,091,539	(189,812)	892,499	105,568	1,899,794
Other Financing Sources (Uses)					
Transfers in	-	-	-	818,735	818,735
Transfers out	-	-	(818,735)	-	(818,735)
Total other financing (uses) sources	<u>-</u>	<u>-</u>	<u>(818,735)</u>	<u>818,735</u>	<u>-</u>
Net Change in Fund Balances	1,091,539	(189,812)	73,764	924,303	1,899,794
Fund Balances (Deficit) - Beginning of year	<u>(736,450)</u>	<u>5,490</u>	<u>2,640,855</u>	<u>1,803,248</u>	<u>3,713,143</u>
Fund Balances (Deficit) - End of year	<u>\$ 355,089</u>	<u>\$ (184,322)</u>	<u>\$ 2,714,619</u>	<u>\$ 2,727,551</u>	<u>\$ 5,612,937</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, 2015

Net Change in Fund Balances - Total Governmental Funds	\$ 1,899,794
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 (excludes ISF activity):	
Capital outlay	664,288
Depreciation expense	(3,425,786)
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	172,135
Repayment of capital lease and bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	905,609
Change in accrued interest payable	(27)
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	437,922
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	(2,495,605)
Increase in net pension expense reported in the statement of activities does not require the use of current resources and therefore is not reported in the fund until it becomes due for payment	(8,657,330)
Change in deferred inflows related to pensions are reported in the statement of activities	(507,629)
Change in deferred outflows related to pensions are reported in the statement of activities	6,038,697
Internal service funds are included as part of governmental activities	<u>233,170</u>
Change in Net Position of Governmental Activities	<u>\$ (4,734,762)</u>

City of Lincoln Park, Michigan

Proprietary Funds Statement of Net Position June 30, 2015

	Enterprise Funds Water and Sewer Fund	Governmental Activities Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ 878,242	\$ 546,157
Receivables	3,085,419	-
Due from component units	-	3,000
Due from other funds (Note 5)	44,204	22,181
Prepaid expenses and other assets	8,359	1,328
Total current assets	4,016,224	572,666
Noncurrent assets:		
Restricted assets (Note 8)	2,899,316	-
Advances to other funds (Note 5)	2,452,500	-
Investment in joint ventures (Note 14)	1,358,613	-
Capital assets (Note 4):		
Assets not subject to depreciation	1,226,431	-
Assets subject to depreciation	34,144,569	1,536,962
Total noncurrent assets	42,081,429	1,536,962
Total assets	46,097,653	2,109,628
Deferred Outflows of Resources - Deferred outflows related to pensions (Note 11)	221,261	-
Liabilities		
Current liabilities:		
Accounts payable	1,169,964	65,845
Accrued liabilities and other	43,505	7,256
Provision for property tax refunds	32,982	-
Compensated absences (Note 7)	7,784	-
Current portion of long-term debt	1,106,612	42,460
Total current liabilities	2,360,847	115,561
Noncurrent liabilities:		
Compensated absences (Note 7)	23,357	-
Net OPEB obligation (Note 13)	2,400,797	-
Net pension liability (Note 11)	5,905,719	-
Other noncurrent liabilities	750,000	-
Long-term debt (Note 7)	10,687,309	189,832
Total noncurrent liabilities	19,767,182	189,832
Total liabilities	22,128,029	305,393
Deferred Inflows Related to Pensions	1,076,501	-
Net Position		
Net investment in capital assets	23,753,698	1,304,670
Restricted:		
Debt service	1,722,696	-
Sewer replacement	1,000,000	-
Unrestricted	(3,362,010)	499,565
Total net position	\$ 23,114,384	\$ 1,804,235

City of Lincoln Park, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2015

	Enterprise Funds	Governmental Activities
	Water and Sewer Fund	Internal Service Funds
Operating Revenue		
Sale of water	\$ 2,965,865	\$ -
Sewage disposal charges	3,897,634	-
System maintenance charge	1,158,455	-
Other	198,574	-
Charges to other funds	-	1,054,662
	8,220,528	1,054,662
Total operating revenue		
Operating Expenses		
Cost of water	1,957,663	-
Cost of sewage treatment	1,764,775	-
Operation and maintenance	654,248	431,091
Billing and administrative costs	364,198	99,220
Other	1,733,470	-
Depreciation	1,338,524	283,001
	7,812,878	813,312
Total operating expenses		
Operating Income	407,650	241,350
Nonoperating Revenue (Expenses)		
Property tax revenue	751,824	-
Investment income	21,051	-
Interest expense	(358,081)	(8,180)
	414,794	(8,180)
Total nonoperating revenue (expenses)		
Income - Before contributions	822,444	233,170
Capital Contributions - Capital grants	681,300	-
	1,503,744	233,170
Change in Net Position		
Net Position - Beginning of year (as restated)	21,610,640	1,571,065
Net Position - End of year	\$ 23,114,384	\$ 1,804,235

City of Lincoln Park, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2015

	Enterprise Fund	Governmental Activities
	Water and Sewer Fund	Internal Service Fund
Cash Flow from Operating Activities		
Receipts from customers	\$ 8,039,267	\$ -
Receipts from interfund services and reimbursements	-	1,051,386
Payments to suppliers	(4,748,034)	(411,574)
Payments to employees	(2,406,917)	(96,317)
Internal activity - Payments to other funds	(132,449)	(87,573)
Other receipts	185,875	(3,000)
Net cash provided by operating activities	937,742	452,922
Cash Flows from Noncapital Financing Activities -		
Repayments of loans made to other funds	72,500	-
Cash Flows from Capital and Related Financing Activities		
Receipt of capital grants	681,300	-
Payment to County Debt Service Fund	(807,912)	-
Collection of property taxes	731,983	-
Purchase of capital assets	(858,871)	(12,390)
Principal and interest paid on capital debt	(621,215)	(50,499)
Net cash used in capital and related financing activities	(874,715)	(62,889)
Cash Flows from Investing Activities - Interest received on investments	8,551	-
Net Increase in Cash and Cash Equivalents	144,078	390,033
Cash and Cash Equivalents - Beginning of year	2,471,059	156,124
Cash and Cash Equivalents - End of year	\$ 2,615,137	\$ 546,157
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and investments	\$ 878,242	\$ 546,157
Restricted assets (Note 8)	1,736,895	-
Total cash and cash equivalents	\$ 2,615,137	\$ 546,157
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 407,650	\$ 241,350
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	1,338,524	283,001
Changes in assets and liabilities:		
Receivables	(181,261)	(3,000)
Due to other funds	8,891	(3,276)
Prepaid and other assets	12,788	(1,328)
Accounts payable	1,362,588	23,743
Due from other funds	(141,340)	(87,573)
Accrued and other liabilities	(1,870,098)	5
Net cash provided by operating activities	\$ 937,742	\$ 452,922
Noncash Transactions		
Capital contributions	\$ 318,189	-
Loss from joint venture	(261,972)	-

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

City of Lincoln Park, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2015

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2015, 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, 2014	\$	1,086,275
Interest earned on investments		8,473
Property tax - Judgment levy		807,912
Issuance of long-term debt		703,704
Purchase of capital assets		(703,704)
Principal paid		(692,914)
Interest paid		(116,522)
		<hr/>
Assets on hand - June 30, 2015	\$	<u>1,093,224</u>

City of Lincoln Park, Michigan

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2015

	Police and Fire Retirement Trust Fund	Agency Funds
Assets		
Cash and cash equivalents	\$ 2,675,514	\$ 414,730
Investments:		
Mutual funds - Equities	8,871,041	-
Real estate	677,065	-
Mutual funds - Fixed income	3,933,271	-
Receivables:		
Accrued interest receivable	44,496	-
Other receivables	225,061	-
Due from other governmental units	964,682	-
	17,391,130	\$ 414,730
Liabilities		
Accounts payable	29	\$ -
Due to other governmental units	-	235,007
Accrued liabilities and other	-	179,723
	29	\$ 414,730
Net Position Held in Trust for Pensions	\$ 17,391,101	

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, 2015

	Police Officers and Firefighters Retirement Trust Fund
Additions	
Investment income (loss):	
Interest and dividends	\$ 448,874
Net decrease in fair value of investments	(115,324)
Investment-related expenses	(49,546)
Net investment income	284,004
Contributions:	
Employer	3,464,682
Employee	272,176
Total contributions	3,736,858
Total additions	4,020,862
Deductions	
Benefit payments	4,942,633
Refunds of contributions	25,018
Administrative expenses	20,512
Total deductions	4,988,163
Net Decrease in Net Position Held in Trust	(967,301)
Net Position Held in Trust for Pension - Beginning of year	18,358,402
Net Position Held in Trust for Pension - End of year	<u><u>\$ 17,391,101</u></u>

City of Lincoln Park, Michigan

Component Units Statement of Net Position June 30, 2015

	Downtown Development Authority	Economic Development Corporation	Brownfield Development Corporation	Library	Total
Assets					
Cash and cash equivalents	\$ 905,553	\$ 251,879	\$ -	\$ 151,402	\$ 1,308,834
Receivables - Loans receivable	-	63,056	-	27,662	90,718
Due from primary government (Note 5)	95,482	-	-	-	95,482
Prepaid expenses and other assets	-	-	-	192	192
Capital assets (Note 4):					
Assets not subject to depreciation	284,670	-	-	-	284,670
Assets subject to depreciation	1,239,130	-	-	-	1,239,130
Total assets	2,524,835	314,935	-	179,256	3,019,026
Liabilities					
Accounts payable	32,864	100	-	8,513	41,477
Due to other governmental units	121,032	-	-	-	121,032
Due to primary government (Note 5)	3,000	1,788	-	-	4,788
Accrued liabilities and other	1,923	337	-	8,063	10,323
Provision for property tax refunds	-	-	-	12,809	12,809
Total liabilities	158,819	2,225	-	29,385	190,429
Net Position					
Net investment in capital assets	1,523,800	-	-	-	1,523,800
Unrestricted	842,216	312,710	-	149,871	1,304,797
Total net position	<u>\$ 2,366,016</u>	<u>\$ 312,710</u>	<u>\$ -</u>	<u>\$ 149,871</u>	<u>\$ 2,828,597</u>

City of Lincoln Park, Michigan

	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Downtown Development Authority	\$ 312,299	\$ -	\$ -	\$ -
Economic Development Corporation	19,514	23,575	-	-
Brownfield Development Corporation	29,588	-	-	-
Library	307,468	-	95,716	-
Total component units	\$ 668,869	\$ 23,575	\$ 95,716	\$ -

General revenue:

Property taxes

Investment income

Other miscellaneous income

Total general revenue

Change in Net Position

Net Position - Beginning of year (as restated)

Net Position - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2015**

Net (Expense) Revenue and Changes in Net Position				
Downtown Development Authority	Economic Development Corporation	Brownfield Development Corporation	Library	Total
\$ (312,299)	\$ -	\$ -	\$ -	\$ (312,299)
-	4,061	-	-	4,061
-	-	(29,588)	-	(29,588)
-	-	-	(211,752)	(211,752)
(312,299)	4,061	(29,588)	(211,752)	(549,578)
118,403	-	29,588	361,623	509,614
1,767	2,866	-	-	4,633
14,191	-	-	-	14,191
134,361	2,866	29,588	361,623	528,438
(177,938)	6,927	-	149,871	(21,140)
2,543,954	305,783	-	-	2,849,737
\$ 2,366,016	\$ 312,710	\$ -	\$ 149,871	\$ 2,828,597

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2015

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's Charter calls for governance 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 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 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.

Library Authority - The Library Authority was created to provide library services to the City's residents. The Library board is governed by a five-member board that is appointed by the Mayor and City Council.

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.

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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. 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 for which specific revenues were used. 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 one major enterprise fund, the Water and Sewer Fund, which accounts for the activities of the water distribution system and the 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 Officers and Firefighters 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.

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.

Note I - Summary of Significant Accounting Policies (Continued)

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 healthcare-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.

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.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2015

Note I - Summary of Significant Accounting Policies (Continued)

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:

Capital Asset Class	Lives
Roads and sidewalks	25 years
Water and sewer distribution systems	20 to 75 years
Buildings and building improvements	10 to 45 years
Vehicles	5 to 20 years
Machinery and equipment	10 to 45 years

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 repayment of liens.

Note I - Summary of Significant Accounting Policies (Continued)

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 one item that qualifies for reporting in this category. The governmental activities and the Water and Sewer Fund report deferred outflows of resources related to pensions.

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 two items that qualify for reporting in this category. The deferred inflows of resources related to unavailable revenues is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In the governmental activities, the deferred inflows of resources are related to pensions.

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.

Note I - Summary of Significant Accounting Policies (Continued)

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.

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, 2014 and is recognized as revenue in the year ended June 30, 2015, when the proceeds of the levy are budgeted and available for the financing of operations.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2015

Note I - Summary of Significant Accounting Policies (Continued)

The Wayne County Treasurer (the "Treasurer") is required by the General Property Tax Law, as amended, to collect delinquent real property taxes levied by the City. Under the Act, the Treasurer pays the City in full for delinquent real property taxes owed according to the delinquent tax roll transferred to the Treasurer. Taxes eligible for payment include all delinquent taxes, except on personal property, due and payable to the City. The Treasurer is then responsible for the collection of the outstanding delinquent taxes. Delinquent property taxes not collected within two years after the sale to the County are charged back to the City. A liability for property tax chargebacks has been recorded throughout various funds for approximately \$523,000.

The 2014 taxable valuation of the City totaled \$525 million (a portion of which is captured by the Brownfield). The City entered into a sharing agreement with the Downtown Development Authority. The sharing agreement returned approximately \$196,000 of general operating tax to the General Fund. Taxes were levied as follows:

<u>Purpose</u>	<u>Millage Rate</u>	<u>Revenue</u>
General operating	15.5209	\$ 8,136,000
Police and fire special voted mills	3.4591	1,813,000
Library	.7000	367,000
Judgement levy - Downriver Sewage Disposal System	1.4252	747,000
Judgement levy - Honeywell	1.7210	902,000
Community promotion	.0956	50,000
Total	<u>22.9218</u>	<u>\$ 12,015,000</u>

Pension - The City offers a defined benefit pension plan to its employees. The City records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability has historically been liquidated from the funds from which the individual salaries are paid, which are the General Fund and Water and Sewer Fund.

Note I - Summary of Significant Accounting Policies (Continued)

Other Postemployment Benefit Costs - The City offers retiree healthcare benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, 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 net OPEB obligation has generally been liquidated from the funds from which the individual salaries are paid, which are the General Fund and Water and Sewer Fund.

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, 2015

Note 2 - 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 July 1, 2014	\$ (438,833)
Current year permit revenue	692,262
Related direct costs	<u>(488,193)</u>
Current year surplus	<u>204,069</u>
Cumulative shortfall at June 30, 2015	<u>\$ (234,764)</u>

Note 3 - Deposits and Investments

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

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

The City has designated 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.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2015

Note 3 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$13,537,771 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. At year end, the Downtown Development Authority had \$783,794 of bank deposits that were uninsured and uncollateralized. The Economic Development Corporation had \$251,709 of bank deposits that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

Investment	Fair Value	Weighted Average Maturity (Years)
Police and Fire Retirement System:		
Mutual funds - Fixed income	\$ 2,764,089	3.95
Mutual funds - Fixed income	<u>1,169,182</u>	2.94
Total	<u>\$ 3,933,271</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
Police and Fire Retirement System:			
Mutual funds - Fixed income	\$ 3,933,271	Not rated	Not rated
Money market funds	<u>123,975</u>	AAA	S&P
Total	<u>\$ 4,057,246</u>		

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2015

Note 3 - Deposits and Investments (Continued)

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

Note 4 - Capital Assets

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

	Balance July 1, 2014	Reclassifications	Additions	Disposals	Balance June 30, 2015
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 9,614,700	\$ -	\$ -	\$ -	\$ 9,614,700
Construction in progress	225,014	(298,411)	211,168	-	137,771
Subtotal	9,839,714	(298,411)	211,168	-	9,752,471
Capital assets being depreciated:					
Roads and sidewalks	100,798,478	298,411	198,975	-	101,295,864
Buildings and improvements	6,229,403	-	-	-	6,229,403
Equipment	9,436,575	-	254,145	-	9,690,720
Subtotal	116,464,456	298,411	453,120	-	117,215,987
Accumulated depreciation:					
Roads and sidewalks	82,972,977	-	2,910,368	-	85,883,345
Buildings and improvements	5,521,248	-	71,028	-	5,592,276
Equipment	7,048,854	-	444,390	-	7,493,244
Subtotal	95,543,079	-	3,425,786	-	98,968,865
Net capital assets being depreciated	20,921,377	298,411	(2,972,666)	-	18,247,122
Internal service fund capital assets being depreciated:					
Machinery and equipment	187,799	-	12,390	-	200,189
Vehicles	3,912,260	-	-	-	3,912,260
Subtotal	4,100,059	-	12,390	-	4,112,449
Accumulated depreciation:					
Machinery and equipment	139,606	-	8,812	-	148,418
Vehicles	2,152,880	-	274,189	-	2,427,069
Subtotal	2,292,486	-	283,001	-	2,575,487
Net internal service funds capital assets	1,807,573	-	(270,611)	-	1,536,962
Net governmental activity capital assets	\$ 32,568,664	\$ -	\$ (3,032,109)	\$ -	\$ 29,536,555

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2015

Note 4 - Capital Assets (Continued)

	Balance July 1, 2014	Reclassification	Additions	Disposals	Balance June 30, 2015
Business-type Activities					
Capital assets not being depreciated:					
Land	\$ 16,540	\$ -	\$ -	\$ -	\$ 16,540
Construction in progress	770,362	(288,650)	728,179	-	1,209,891
Subtotal	786,902	(288,650)	728,179	-	1,226,431
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	52,127,914	288,650	838,501	-	53,255,065
Subtotal	59,999,152	288,650	838,501	-	61,126,303
Accumulated depreciation:					
Buildings and improvements	1,498,437	-	15,056	-	1,513,493
Machinery and equipment	1,972,472	-	165,109	-	2,137,581
Water and sewer distribution systems	22,172,301	-	1,158,359	-	23,330,660
Subtotal	25,643,210	-	1,338,524	-	26,981,734
Net capital assets being depreciated	34,355,942	288,650	(500,023)	-	34,144,569
Net capital assets	<u>\$ 35,142,844</u>	<u>\$ -</u>	<u>\$ 228,156</u>	<u>\$ -</u>	<u>\$ 35,371,000</u>
	Balance July 1, 2014	Reclassifications	Additions	Disposals	Balance June 30, 2015
Component Units					
Capital assets not being depreciated -					
Land	\$ 284,670	\$ -	\$ -	\$ -	\$ 284,670
Capital assets being depreciated:					
Infrastructure	1,165,131	-	13,325	-	1,178,456
Equipment	281,830	-	27,488	-	309,318
Vehicles	25,134	-	-	-	25,134
Subtotal	1,472,095	-	40,813	-	1,512,908
Accumulated depreciation:					
Infrastructure	106,463	-	47,138	-	153,601
Equipment	75,155	-	19,888	-	95,043
Vehicles	25,134	-	-	-	25,134
Subtotal	206,752	-	67,026	-	273,778
Net capital assets being depreciated	1,265,343	-	(26,213)	-	1,239,130
Net capital assets	<u>\$ 1,550,013</u>	<u>\$ -</u>	<u>\$ (26,213)</u>	<u>\$ -</u>	<u>\$ 1,523,800</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2015

Note 4 - Capital Assets (Continued)

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

Governmental activities:

General government	\$	304,882
Public safety		123,627
Public works		2,929,313
Economic development		67,964
Internal service fund depreciation is charged to the various functions based on their usage of the asset		<u>283,001</u>
Total governmental activities	\$	<u>3,708,787</u>
Business-type activities - Water and sewer	\$	<u>1,338,524</u>
Component unit activities - DDA	\$	<u>67,026</u>

Construction Commitments - The City has two significant construction projects in progress at June 30, 2015:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Governmental activities - 2015 Concrete Restoration	\$ 63,301	\$ 113,877
Water and Sewer Fund - Mill Street Water Replacement	<u>171,766</u>	<u>305,250</u>
Total	<u>\$ 235,067</u>	<u>\$ 419,127</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2015

Note 5 - 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	\$ 1,063,922
	Nonmajor governmental funds	133,247
	Total General Fund	1,197,169
Water and Sewer Fund	Community Development Block Grant Fund	44,204
Nonmajor governmental funds	Community Development Block Grant Fund	7,148
Internal service fund	Community Development Block Grant Fund	22,181
	Total	\$ 1,270,702

Receivable Fund	Payable Fund	Amount
Advances from/to Other Funds		
Water and Sewer Fund	General Fund	\$ 2,452,500

Receivable Fund	Payable Fund	Amount
Due to/from Primary Government and Component Units		
Downtown Development Authority	General Fund	\$ 95,482
General Fund	Economic Development Corporation	\$ 1,788
Internal Service Fund	Downtown Development Corporation	\$ 3,000

Interfund Transfers

Fund Providing Resources	Fund Receiving Resources	Amount
Major Streets Fund	Nonmajor governmental fund - Local Streets Fund	\$ 818,735

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.

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

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

The interfund transfer reported from the Major Streets Fund to the Local Streets Fund for \$818,735 was to finance a portion of the cost of the City's Local Streets Fund road programs.

Note 6 - 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 7). Construction of the assets under capital lease totaled \$3,580,000. Accumulated depreciation as of June 30, 2015 on the leased assets is \$2,148,000

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 was \$297,616 less than the outstanding balance of the obligation. The City remitted \$300,000 during fiscal year 2014 and remitted \$900,000 during fiscal year 2015, resulting in a remaining amount owed at June 30, 2015 of \$900,000. To extinguish the remaining liability, the City will make a payment of \$900,000 during the year ending June 30, 2016, which will be paid for by a judgment tax levy.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2015

Note 6 - Leases (Continued)

The City has entered into a lease agreement as lessee for financing the purchase of a vactor truck. The lease agreement qualifies as a capital lease for accounting purposes and therefore has been recorded at the present value of the future minimum lease payments as of the inception date (see Note 7). The cost of the truck totaled approximately \$353,000. Accumulated depreciation as of June 30, 2015 on the leased asset is \$151,443. The future minimum lease obligations for the years ending June 30, 2016 through June 30, 2018 and the net present value are as follows:

Years Ending June 30	Amount
2016	\$ 22,444
2017	22,444
2018	151,106
Total minimum lease payments	195,994
Less amount representing interest	(17,205)
Present value	\$ 178,789

Note 7 - 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 6). County contractual agreements and installment purchase agreements are also general obligations of the City.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2015

Note 7 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Governmental obligations							
Capital lease - Vector truck							
Amount of issue -							
\$231,868		\$16,133-					
Maturing through 2018	3.46%	\$145,954	\$ 194,372	\$ -	\$ 15,583	\$ 178,789	\$ 16,133
Capital lease - Honeywell							
Agreement							
Amount of issue -							
\$3,580,000							
Maturing through 2016.	-	\$900,000	1,800,000	-	900,000	900,000	900,000
Installment purchase -							
Police vehicles							
Amount of issue -							
\$96,396		\$31,900-					
Maturing through 2017	3.2%	\$32,930	96,936	-	32,106	64,830	31,900
Total bonds payable			2,091,308	-	947,689	1,143,619	948,033
Employee compensated absences			1,336,005	224,000	661,922	898,083	224,520
Total governmental activities			\$ 3,427,313	\$ 224,000	\$ 1,609,611	\$ 2,041,702	\$ 1,172,553
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%	\$88,257 - \$995,520	\$ 9,056,171	\$ 703,704	\$ 940,954	\$ 8,818,921	\$ 981,612
Water and Sewer System Improvement Bonds:							
Amount of issue -							
\$3,445,000 maturing through 2030	2.5% - 4.125%	\$125,000 - \$275,000	3,100,000	-	125,000	2,975,000	125,000
Total bonds payable			12,156,171	703,704	1,065,954	11,793,921	1,106,612
Employee compensated absences			74,548	10,001	53,408	31,141	7,784
Total business-type activities			\$ 12,230,719	\$ 713,705	\$ 1,119,362	\$ 11,825,062	\$ 1,114,396

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2015

Note 7 - Long-term Debt (Continued)

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
2016	\$ 948,033	\$ 8,405	\$ 956,438	\$ 1,106,612	\$ 300,273	\$ 1,406,885
2017	49,632	6,805	56,437	1,145,520	270,497	1,416,017
2018	145,954	5,152	151,106	1,095,608	239,617	1,335,225
2019	-	-	-	1,123,176	208,932	1,332,108
2020	-	-	-	678,161	184,968	863,129
2021-2025	-	-	-	3,266,972	668,228	3,935,200
2026-2030	-	-	-	3,106,532	260,224	3,366,756
2031-2033	-	-	-	271,340	13,677	285,017
Total	\$ 1,143,619	\$ 20,362	\$ 1,163,981	\$ 11,793,921	\$ 2,146,416	\$ 13,940,337

Note 8 - 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, 2015 consist of the following:

Cash and cash equivalents:

Ecorse Creek replacement reserve	\$ 1,000,000
Tax funds for Downriver Sewage Disposal System	560,276
Unspent water and sewer improvement bond proceeds	<u>176,619</u>
Total cash and cash equivalents	1,736,895
Wayne County Downriver Sewage Disposal System -	
Assets held at Wayne County for future debt payments	1,093,224
Unremitted tax funds related receivable	<u>69,197</u>
Total restricted assets	<u>\$ 2,899,316</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 \$720,225 compared to principal and interest payments of \$810,119 on related debt. The Ecorse Creek replacement reserve is required by the EPA.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2015

Note 9 - Risk Management

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

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

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

Note 10 - Police Officers and Firefighters Retirement System

Plan Description - 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. The plan is closed to new entrants. Benefit terms have been established by union agreements between the City and the various employee union representation; amendments are subject to the same process.

The financial statements of the plan are included in these financial statements as a pension and other employee benefit trust fund (a fiduciary fund).

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.

Employees Covered by Benefit Terms - At the June 30, 2015 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	146
Inactive plan members entitled to but not yet receiving benefits	2
Active plan members	58
	<hr/>
Total employees covered by the plan	206
	<hr/>

Note 10 - Police Officers and Firefighters Retirement System (Continued)

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 base compensation.

Final Average Compensation (FAC) - Average of base compensation (at current pay rates) for ranks held during five years before retirement. Equivalent to a one-year average if no promotion during that period. Patrol Officers hired on or after April 21, 2010 use average compensation based on the best 5 of last 10 years of service.

Early Retirement:

Annual Amount: Computed as a voluntary retirement benefit, but reduced by a certain percentage for each year prior to the voluntary retirement date. The annual percentage reduction is 7.2 percent for the first two years, 6.0 percent for the next three years, and 4.8 percent thereafter.

Postretirement 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.

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.

Note 10 - Police Officers and Firefighters Retirement System (Continued)

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.

Postretirement 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).

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 Commission 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 through 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, 2015, the City contributed the actuarial required contribution of \$3,464,682.

Note 10 - Police Officers and Firefighters Retirement System (Continued)

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 Commission by a majority vote of its members. It is the policy of the Pension Commission to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Commission's adopted asset allocation policy as of June 30, 2015:

Asset Class	Target Allocation
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, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 2.8 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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. The retiree reserve is as of June 30, 2014.

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.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2015

Note 10 - Police Officers and Firefighters Retirement System (Continued)

	<u>Required Reserve</u>	<u>Amount Funded</u>
Retiree reserve	\$ 61,867,800	\$ 13,018,943
Employee reserve	4,372,158	4,372,158

Net Pension Liability

The components of the net pension liability of the City at June 30, 2015 were as follows:

Total pension liability	\$ (78,727,564)
Plan fiduciary net position	<u>17,391,101</u>
City's net pension liability	<u>\$ (61,336,463)</u>

Plan fiduciary net position as a percentage of the total pension liability 22.1 %

The June 30, 2015 total pension liability was determined by an actuarial valuation performed as of June 30, 2014, which used update procedures to roll forward the estimated liability to June 30, 2015.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2015

Note 10 - Police Officers and Firefighters Retirement System (Continued)

Changes in the net pension liability during the measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at June 30, 2014	\$ 73,476,403	\$ 18,307,001	\$ 55,169,402
Service cost	1,082,063	-	1,082,063
Interest	4,454,414	-	4,454,414
Differences between expected and actual experience	(680,675)	-	(680,675)
Changes in assumptions	5,363,010	-	5,363,010
Contributions - Employer	-	3,464,682	(3,464,682)
Contributions - Employee	-	272,176	(272,176)
Net investment income	-	284,004	(284,004)
Benefit payments, including refunds	(4,967,651)	(4,967,651)	-
Administrative expenses	-	(20,512)	20,512
Miscellaneous other charges	-	51,401	(51,401)
Net changes	5,251,161	(915,900)	6,167,061
Balance at June 30, 2015	\$ 78,727,564	\$ 17,391,101	\$ 61,336,463

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

For the year ended June 30, 2015, the City recognized pension expense of \$5,446,219. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 507,629
Changes in assumptions	3,999,591	-
Net difference between projected and actual earnings on pension plan investments	693,563	-
Total	\$ 4,693,154	\$ 507,629

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2015

Note 10 - Police Officers and Firefighters Retirement System (Continued)

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

Years Ending June 30	Amount
2016	\$ 1,363,765
2017	1,363,765
2018	1,284,605
2019	173,390

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 %
Salary increases	3.0-6.8 % Average, including inflation
Investment rate of return	6.50 % Net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant and Employee Mortality Tables for males and females with 2-dimensional, fully generational improvements projected with the MP-2014 Mortality Improvement Scales.

Discount Rate - The discount rate used to measure the total pension liability was 6.5 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 projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2015

Note 10 - Police Officers and Firefighters Retirement System (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, 2015 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment note, are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	6.2 %
International Equity	6.0 %
Emerging Markets Equity	6.5 %
Investment Grade U.S. Fixed	2.5 %
International Fixed Income	2.5 %
Cash	1.0 %

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 6.5 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 (5.5 percent) or 1 percentage point higher (7.5 percent) than the current rate:

	<u>1% Decrease (5.5%)</u>	<u>Current Discount Rate (6.5%)</u>	<u>1% Increase (7.5%)</u>
Net pension liability of the City	\$ 71,051,792	\$ 61,336,463	\$ 53,278,470

Note 10 - Police Officers and Firefighters Retirement System (Continued)

Pension Plan Fiduciary Net Position - Detailed information about the plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources, and deferred inflows or resources related to pension and pension expense, information about the plan's fiduciary net position and addition to/deduction from fiduciary net position have been determined on the same basis as they are report by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Note 11 - Agent Defined Benefit Pension Plan - Municipal Employees' Retirement System

Plan Description - The City participates in an agent multiple-employer defined benefit pension plan administered by the Municipal Employees' Retirement System of Michigan (MERS of Michigan) 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. MERS was established as a statewide public employee pension plan by the Michigan legislature under PA 135 of 1945 and is administered by a nine-member Retirement Board. MERS issues a publicly available financial report which, includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at www.mersofmichigan.com or in writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Benefits Provided - The Plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS.

Employees Hired on or before November 1, 2004 - Retirement benefits for employees are calculated as 2.5 percent (70 percent maximum) of the employee's best three-year average salary times the employee's years of service. Normal retirement age is 50 with 28 years of service, with reduced benefit at age 50 with 25 years of service or age 55 with 15 years of service, or 60 with 10 years of service. Vesting period is 10 years.

Note 11 - Agent Defined Benefit Pension Plan - Municipal Employees' Retirement System (Continued)

Participating employees are eligible for non-duty death and duty death benefits. Non-duty death benefits are payable at the same rate the member would have been entitled. If no spouse, children would equally share 50 percent of the member's straight life benefit until 21 or married. A member must be vested for a beneficiary to receive a benefit. For a beneficiary to receive a duty related death benefit, the participating employee does not have to be vested. The minimum benefit is 55 percent of the final average compensation.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustments are \$300.

Employees Hired after November 2, 2004 - Retirement benefits for employees are calculated as 1.0 percent of the employee's best three-year average salary times the employee's years of service. Normal retirement age is 60. Vesting period is six years.

Benefit terms, within the parameters established by MERS, are generally established and amended by authority of the City Council, generally after negotiations of these terms with the affected unions.

Employees Covered by Benefit Terms - At the December 31, 2014 measurement date, the following employees were covered by the benefit terms:

Retirees or beneficiaries currently receiving benefits	154
Vested former employees	11
Active plan members	<u>34</u>
Total employees covered by MERS	<u><u>199</u></u>

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, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

The annual employer contribution amount was \$2,180,451 for the fiscal year ended June 30, 2015. The employer contributions of \$2,043,176 in the net pension liability calculation on the following page are on the plan's fiscal year end of December 31, 2014.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2015

Note 11 - Agent Defined Benefit Pension Plan - Municipal Employees' Retirement System (Continued)

Net Pension Liability

The net pension liability reported at June 30, 2015 was determined using a measure of the total pension liability and the pension net position as of December 31, 2014. The December 31, 2014 total pension liability was determined by an actuarial valuation performed as of that date.

Changes in the net pension liability during the measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2013	\$ 40,440,368	\$ 8,640,746	\$ 31,799,622
Service cost	174,572	-	174,572
Interest	3,180,992	-	3,180,992
Contributions - Employer	-	2,043,176	(2,043,176)
Contributions - Employee	-	483,626	(483,626)
Net investment income	-	515,455	(515,455)
Benefit payments, including refunds	(3,940,357)	(3,940,357)	-
Administrative expenses	-	(18,297)	18,297
Net changes	<u>(584,793)</u>	<u>(916,397)</u>	<u>331,604</u>
Balance at December 31, 2014	<u>\$ 39,855,575</u>	<u>\$ 7,724,349</u>	<u>\$ 32,131,226</u>

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

For the year ended June 30, 2015, the City recognized pension expense of \$2,264,106. At June 30, 2015, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 110,673
Employer contributions to the plan subsequent to the measurement date	<u>1,093,143</u>
Total	<u>\$ 1,203,816</u>

Note 11 - Agent Defined Benefit Pension Plan - Municipal Employees' Retirement System (Continued)

The proportionate share of the net pension liability between the governmental activities and the Water and Sewer Fund changed since June 30, 2014. A portion of the change is recognized in pension expense for \$1,076,447. The remaining change in the proportionate share is reported as deferred outflows of resources in the governmental activities for \$1,076,447 and as a deferred inflow of resources in the Water and Sewer Fund for \$1,076,447.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the employer contributions to the plan made subsequent to the measurement date (\$1,093,143), which will impact the net pension liability in fiscal year 2016, rather than pension expense.

Years Ending June 30	Amount
2016	\$ 27,668
2017	27,668
2018	27,668
2019	27,669

Actuarial Assumptions - The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4.00 %	
Salary increases	4.50 %	In the long term, 1 percent, 2 percent, and 3 percent for calendar years 2014, 2015, and 2016, respectively, including inflation
Investment rate of return	8.25 %	Net of pension plan investment expense, including inflation

Mortality rates were based on the 1994 Group Annuity Mortality Table of a 50 percent Male and 50 percent Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study in 2008. The MERS retirement board is currently conducting an actuarial experience study covering the period from January 1, 2009 through December 31, 2013.

Note 11 - Agent Defined Benefit Pension Plan - Municipal Employees' Retirement System (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 8.25 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a model 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. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2014, the measurement date, for each major asset class are summarized in the following table:

Asset Class	Target Allocation (%)	Long-term Expected Real Rate of Return
Global equity	58 %	5.0 %
Global fixed income	20 %	2.2 %
Real assets	13 %	4.2 %
Diversifying strategies	10 %	6.6 %

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the City, calculated using the discount rate of 8.25 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 (7.25 percent) or 1 percentage point higher (9.25 percent) than the current rate:

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
Net pension liability of the City	\$ 35,762,569	\$ 32,131,226	\$ 29,045,557

Note 11 - Agent Defined Benefit Pension Plan - Municipal Employees' Retirement System (Continued)

Pension Plan Fiduciary Net Position - Detailed information about the plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources, and deferred inflows or resources related to pension and pension expense, information about the Plan's fiduciary net position and addition to/deduction from fiduciary net position have been determined on the same basis as they are report by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Note 12 - 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 11. 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 \$8,629 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, 2015, there were no employee contributions.

Note 13 - Other Postemployment Benefits

As discussed in Note 17, the Emergency Manager issued an executive order to terminate retiree health care effective July 1, 2015. The retirees subsequently filed a class action complaint to re-establish retiree healthcare benefits. The outcome of this matter is not determinable as of the date of this report. As such, the net postemployment benefit obligation under GASB Statement No. 45 continues to be reflected on the statement of net position as of June 30, 2015.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2015

Note 13 - Other Postemployment Benefits (Continued)

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, 2015, the City made payments for postemployment health benefit premiums totaling approximately \$4,400,000 of which \$4,225,000 was paid from the governmental funds and \$175,000 was paid from the Water and Sewer Fund.

Funding Progress - For the year ended June 30, 2015, 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	\$ 3,782,806	\$ 3,419,855
Interest on prior year's net OPEB obligation	321,660	277,059
Less adjustment for annual required contribution	<u>(514,753)</u>	<u>(230,882)</u>
Annual OPEB cost	3,589,713	3,466,032
Amounts contributed - Payments of current premiums	<u>(2,040,847)</u>	<u>(2,357,194)</u>
Increase in net OPEB obligation	1,548,866	1,108,838
OPEB obligation - Beginning of the year	<u>8,041,510</u>	<u>6,926,469</u>
OPEB obligation - End of the year	<u>\$ 9,590,376</u>	<u>\$ 8,035,307</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2015

Note 13 - 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
6/30/13	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
6/30/15	6/30/12	3,589,713	57.0	9,590,376

Police and Fire Employees

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Costs	Percentage Contributed	Net OPEB Obligation
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
6/30/15	6/30/12	3,466,032	68.0	8,035,307

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 13 - 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.

The assumptions and active plan member census have changed since the most recent actuarial valuation was performed. Due to the uncertainty of the pending retiree health care lawsuit, as described in Note 17, the City did not obtain an updated actuarial valuation. The number of active plan members declined by approximately 25 percent since the most recent actuarial valuation was performed. Until a new valuation is performed, the City cannot estimate the decrease in the UAAL that would result from these census changes. In addition, 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 mortality 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 \$11,152 during the current year. Employees may also contribute to the plan.

Note 14 - 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 \$1,358,613 at June 30, 2015. During the year, the City paid \$720,225 for operations of the system and \$810,119 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, 2015, the City received fines and forfeitures of approximately \$1,873,000 and paid approximately \$1,088,000 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 15 - 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, 2015. 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.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2015

Note 16 - Reporting Change (prior period adjustments)

In the current year, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

The effect of this change is as follows:

	Governmental Activities	Business-type Activities	Water and Sewer Fund
Net position - June 30, 2014 - As previously reported	\$ 20,189,099	\$ 29,432,616	\$ 29,432,616
Adjustment for GASB Statement No. 68	(78,191,181)	(7,821,976)	(7,821,976)
Net position - June 30, 2014 - As restated	<u>\$ (58,002,082)</u>	<u>\$ 21,610,640</u>	<u>\$ 21,610,640</u>

Note 17 - Subsequent Events

The Emergency Manager issued an executive order to terminate retiree health care effective July 1, 2015 as provided under Sections 12(1)k and 12(2) of PA 436 of 2012. The benefits have been replaced with monthly payments to be either used toward purchasing health insurance or as a supplement to income. These payment amounts are set through June 30, 2016 and will be re-evaluated each budget year. On August 8, 2015, the retirees filed a class action complaint for damages and request for injunctive relief lawsuit. The proceedings have not yet progressed to the point where a legal opinion can be reached as to the ultimate resolution of this matter. See Note 13 for more information.

Note 18 - Upcoming Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The City is currently evaluating the impact this standard will have on the financial statements when adopted, during the City's 2016 fiscal year.

Note 18 - Upcoming Accounting Pronouncements (Continued)

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statement more extensive note disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the City will, after adoption of GASB Statement No. 75, recognize on the face of the financial statements its net OPEB liability. The City is currently evaluating the impact these standards will have on the financial statements when adopted. GASB Statement No. 74 is effective for fiscal years beginning after June 15, 2016 whereas GASB Statement No. 75 is effective one year later.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement will require governments to disclose in their financial statement information related to tax abatement agreements. The City is currently evaluating the impact this standard will have on the financial statements when adopted, during the 2017 fiscal year.

Required Supplemental Information

City of Lincoln Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2015

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 10,932,346	\$ 10,872,430	\$ 11,406,216	\$ 533,786
Licenses and permits	735,970	736,770	847,839	111,069
Federal grants	-	-	102,600	102,600
State-shared revenue and grants	4,696,111	4,604,643	4,515,861	(88,782)
Charges for services - street lighting	586,641	586,641	572,781	(13,860)
Fines and forfeitures	238,880	331,853	785,479	453,626
Interest and rents	14,400	13,500	13,160	(340)
Other revenue:				
Special assessments	2,500	-	20,802	20,802
Cable franchise fees	525,000	525,000	599,530	74,530
Other miscellaneous income	1,978,415	2,228,608	2,793,035	564,427
Total revenue	19,710,263	19,899,445	21,657,303	1,757,858
Expenditures - Current				
General government:				
Mayor and City Council	59,285	20,753	21,011	(258)
City controller	153,897	176,925	165,835	11,090
Treasury department	74,739	101,836	75,834	26,002
City assessor	107,816	108,816	110,593	(1,777)
Clerk	125,450	124,691	119,085	5,606
Election commission	68,528	94,390	76,672	17,718
Municipal building and grounds	492,056	535,973	593,248	(57,275)
City attorney	217,100	393,100	295,515	97,585
City manager	94,305	136,485	119,604	16,881
General government	3,757,341	3,836,628	3,551,058	285,570
Total general government	5,150,517	5,529,597	5,128,455	401,142
Public safety:				
Police	7,199,085	7,440,261	7,863,457	(423,196)
Police/Fire clerical	430,504	442,342	451,223	(8,881)
Fire	4,565,377	4,437,970	4,488,129	(50,159)
Building department	409,333	440,000	488,193	(48,193)
Total public safety	12,604,299	12,760,573	13,291,002	(530,429)
Public works:				
Planning commission	9,600	9,600	5,296	4,304
Street lighting	645,528	615,000	570,161	44,839
Department of public services	29,262	34,651	7,860	26,791
Total public works	684,390	659,251	583,317	75,934

City of Lincoln Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2015

	<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	\$ -	\$ -	\$ 34,641	\$ (34,641)
Recreation and culture:				
Recreation and culture	121,792	118,309	118,558	(249)
Social services	178,360	178,360	259,490	(81,130)
Community center	-	124,000	132,895	(8,895)
Parks	70,905	76,017	117,406	(41,389)
Total recreation and culture	371,057	496,686	628,349	(131,663)
Debt service	900,000	900,000	900,000	-
Total expenditures	<u>19,710,263</u>	<u>20,346,107</u>	<u>20,565,764</u>	<u>(219,657)</u>
Net Change in Fund Balance	-	(446,662)	1,091,539	1,538,201
Fund Balance (Deficit) - Beginning of year	<u>(743,390)</u>	<u>(743,390)</u>	<u>(743,390)</u>	<u>-</u>
Fund Balance (Deficit) - End of year	<u>\$ (743,390)</u>	<u>\$ (1,190,052)</u>	<u>\$ 348,149</u>	<u>\$ 1,538,201</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, 2015

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue - Federal grants	\$ 943,105	\$ 943,105	\$ 753,293	\$ (189,812)
Expenditures - Current - Community and economic development	<u>943,105</u>	<u>943,105</u>	<u>943,105</u>	<u>-</u>
Net Change in Fund Balance	-	-	(189,812)	(189,812)
Fund Balance - Beginning of year	<u>5,490</u>	<u>5,490</u>	<u>5,490</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 5,490</u></u>	<u><u>\$ 5,490</u></u>	<u><u>\$ (184,322)</u></u>	<u><u>\$ (189,812)</u></u>

City of Lincoln Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Streets Fund Year Ended June 30, 2015

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 1,637,471	\$ 1,637,471	\$ 1,930,085	\$ 292,614
Investment income	200	200	-	(200)
Other revenue - Other miscellaneous income	250	250	15,238	14,988
Total revenue	1,637,921	1,637,921	1,945,323	307,402
Expenditures - Current - Public works				
Routine maintenance	768,256	857,059	837,406	19,653
Winter maintenance	319,037	233,249	161,704	71,545
Traffic services	57,886	62,029	53,714	8,315
Total public works	1,145,179	1,152,337	1,052,824	99,513
Transfers Out	(573,115)	(573,115)	(818,735)	(245,620)
Net Change in Fund Balance	(80,373)	(87,531)	73,764	161,295
Fund Balance - Beginning of year	2,640,855	2,640,855	2,640,855	-
Fund Balance - End of year	\$ 2,560,482	\$ 2,553,324	\$ 2,714,619	\$ 161,295

City of Lincoln Park, Michigan

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

	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	2.8 %	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 Last Ten Fiscal Years

	2015	2014
Total Pension Liability		
Service cost	\$ 1,082,063	\$ 1,259,975
Interest	4,454,414	4,444,635
Changes in benefit terms	-	-
Differences between expected and actual experience	(680,675)	-
Changes in assumptions	5,363,010	-
Benefit payments, including refunds	(4,967,651)	(5,949,555)
Net Change in Total Pension Liability	5,251,161	(244,945)
Total Pension Liability - Beginning of year	73,476,403	73,721,348
Total Pension Liability - End of year	\$ 78,727,564	\$ 73,476,403
Plan Fiduciary Net Position		
Contributions - Employer	\$ 3,464,682	\$ 3,363,725
Contributions - Member	272,176	395,148
Net investment income	284,004	2,254,104
Administrative expenses	(20,512)	(5,949,555)
Benefit payments, including refunds	(4,967,651)	(42,135)
Other	51,401	(72,793)
Net Change in Plan Fiduciary Net Position	(915,900)	(51,506)
Plan Fiduciary Net Position - Beginning of year	18,307,001	18,358,507
Plan Fiduciary Net Position - End of year	\$ 17,391,101	\$ 18,307,001
City's Net Pension Liability - Ending	\$ 61,336,463	\$ 55,169,402
Plan Fiduciary Net Position as a Percent of Total Pension Liability	22.09 %	24.92 %
Covered Employee Payroll	\$ 3,551,594	\$ 4,119,461
City's Net Pension Liability as a Percent of Covered Employee Payroll	1,727.0 %	1,339.2 %

City of Lincoln Park, Michigan

Required Supplemental Information Schedule of Changes in the City Net Pension Liability and Related Ratios - Municipal Employees' Retirement System Last Ten Fiscal Years

	2015
Total Pension Liability	
Service cost	\$ 174,572
Interest	3,180,992
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds	(3,940,357)
Net Change in Total Pension Liability	(584,793)
Total Pension Liability - Beginning of year	40,440,368
Total Pension Liability - End of year	\$ 39,855,575
Plan Fiduciary Net Position	
Contributions - Employer	\$ 2,043,176
Contributions - Member	483,626
Net investment income	515,455
Administrative expenses	(18,297)
Benefit payments, including refunds	(3,940,357)
Other	-
Net Change in Plan Fiduciary Net Position	(916,397)
Plan Fiduciary Net Position - Beginning of year	8,640,746
Plan Fiduciary Net Position - End of year	\$ 7,724,349
City's Net Pension Liability - Ending	\$ 32,131,226
Plan Fiduciary Net Position as a Percent of Total Pension Liability	19.38 %
Covered Employee Payroll	\$ 1,455,328
City's Net Pension Liability as a Percent of Covered Employee Payroll	2,207.8 %

City of Lincoln Park, Michigan

Required Supplemental Information OPEB System Schedule - Police Officers and Firefighters Retirement System Year Ended June 30, 2015

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
6/30/10	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
6/30/15	6/30/12	3,466,031	68.0

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, 2015

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
6/30/10	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	6/30/14	3,668,830	53.3
6/30/15	6/30/14	3,589,713	57.0

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, 2015

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 fines and forfeitures and related expenses have been recorded net, rather than as "revenue" and "expenditures." 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.

Fund Deficit - At June 30, 2015, the City had an unrestricted fund deficit in the Community Development Block Grant (CDBG) Fund (a major governmental fund) of \$189,404. The deficit is largely offset by \$184,322 of unavailable revenue, leaving a net deficit of \$5,082.

City of Lincoln Park, Michigan

Note to Required Supplemental Information (Continued) June 30, 2015

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	\$ 20,753	\$ 21,011	\$ (258)
City assessor	108,816	110,593	(1,777)
Municipal building and grounds	535,973	593,248	(57,275)
Public Safety:			
Police	7,440,261	7,863,457	(423,196)
Police/Fire clerical	442,342	451,223	(8,881)
Building department	440,000	488,193	(48,193)
Community and economic development	-	34,641	(34,641)
Recreation and culture:			
Recreation and culture	118,309	118,558	(249)
Social services	178,360	259,490	(81,130)
Community center	124,000	132,895	(8,895)

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, 2015

	Special Revenue Funds				Total	
	Local Streets Fund	Sanitation Fund	Drug Forfeiture Fund	Cable Fund	Capital Projects Fund	Nonmajor Governmental Funds
Assets						
Cash and investments	\$ 1,193,168	\$ -	\$ 796,204	\$ 476,478	\$ -	\$ 2,465,850
Receivables:						
Special assessments receivable	-	-	-	-	14,082	14,082
Receivables from sales to customers on account	-	484,592	-	-	-	484,592
Due from other governmental units	162,981	-	-	-	-	162,981
Due from other funds (Note 5)	7,148	-	-	-	-	7,148
Prepaid expenses and other assets	5,835	-	-	1,514	-	7,349
Total assets	<u>\$ 1,369,132</u>	<u>\$ 484,592</u>	<u>\$ 796,204</u>	<u>\$ 477,992</u>	<u>\$ 14,082</u>	<u>\$ 3,142,002</u>
Liabilities						
Accounts payable	\$ 42,696	\$ 177,223	\$ 7,531	\$ 12,771	\$ -	\$ 240,221
Due to other funds (Note 5)	-	133,247	-	-	-	133,247
Accrued liabilities and other	5,671	-	-	248	-	5,919
Provision for property tax refunds	-	20,982	-	-	-	20,982
Total liabilities	48,367	331,452	7,531	13,019	-	400,369
Deferred Inflows of Resources -						
Unavailable revenue	-	-	-	-	14,082	14,082
Fund Balances						
Restricted						
Nonspendable - Prepays	5,835	-	-	1,514	-	7,349
Roads	1,314,930	-	-	-	-	1,314,930
Police	-	-	788,673	-	-	788,673
Sanitation	-	153,140	-	-	-	153,140
Cable	-	-	-	463,459	-	463,459
Total fund balances	<u>1,320,765</u>	<u>153,140</u>	<u>788,673</u>	<u>464,973</u>	<u>-</u>	<u>2,727,551</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,369,132</u>	<u>\$ 484,592</u>	<u>\$ 796,204</u>	<u>\$ 477,992</u>	<u>\$ 14,082</u>	<u>\$ 3,142,002</u>

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2015

	Special Revenue Funds				Capital Projects Fund	Total Nonmajor Governmental Funds
	Local Streets Fund	Sanitation Fund	Drug Forfeiture Fund	Cable Fund		
Revenue						
Property taxes	\$ -	\$ 6,773	\$ -	\$ -	\$ -	\$ 6,773
Federal grants	-	-	75,041	-	-	75,041
State-shared revenue and grants	659,226	-	224,034	-	-	883,260
Charges for services	-	1,936,130	-	-	-	1,936,130
Other revenue:						
Cable franchise fees	-	-	-	130,747	-	130,747
Other miscellaneous income	10,399	-	-	-	-	10,399
Total revenue	669,625	1,942,903	299,075	130,747	-	3,042,350
Expenditures - Current						
Public safety	-	-	181,475	-	-	181,475
Public works	842,615	1,792,270	-	-	-	2,634,885
Recreation and culture	-	-	-	114,483	-	114,483
Debt service	-	-	5,939	-	-	5,939
Total expenditures	842,615	1,792,270	187,414	114,483	-	2,936,782
Excess of Revenue (Under) Over Expenditures	(172,990)	150,633	111,661	16,264	-	105,568
Other Financing Sources -						
Transfers in	818,735	-	-	-	-	818,735
Net Change in Fund Balances	645,745	150,633	111,661	16,264	-	924,303
Fund Balances - Beginning of year	675,020	2,507	677,012	448,709	-	1,803,248
Fund Balances - End of year	<u>\$ 1,320,765</u>	<u>\$ 153,140</u>	<u>\$ 788,673</u>	<u>\$ 464,973</u>	<u>\$ -</u>	<u>\$ 2,727,551</u>

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Net Position Internal Service Funds June 30, 2015

	Motor Pool Fund	Information Technology Fund	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 359,972	\$ 186,185	\$ 546,157
Due from component units	3,000	-	3,000
Due from other funds (Note 5)	-	22,181	22,181
Prepaid expenses and other assets	870	458	1,328
Total current assets	363,842	208,824	572,666
Noncurrent assets - Capital assets			
Assets subject to depreciation (Note 4)	1,523,298	13,664	1,536,962
Total assets	1,887,140	222,488	2,109,628
Liabilities			
Current liabilities:			
Accounts payable	45,495	20,350	65,845
Accrued liabilities and other	7,256	-	7,256
Current portion of long-term debt (Note 7)	42,460	-	42,460
Total current liabilities	95,211	20,350	115,561
Noncurrent liabilities -			
Long-term debt (Note 7)	189,832	-	189,832
Total liabilities	285,043	20,350	305,393
Net Position			
Net investment in capital assets	1,291,006	13,664	1,304,670
Unrestricted (Note 2)	311,091	188,474	499,565
Total net position	\$ 1,602,097	\$ 202,138	\$ 1,804,235

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, 2015

	Motor Pool Fund	Information Technology Fund	Total
Operating Revenue - Charges to other funds	\$ 903,000	\$ 151,662	\$ 1,054,662
Operating Expenses			
Operating and maintenance costs	315,409	115,682	431,091
Management and administrative costs	99,220	-	99,220
Depreciation	280,555	2,446	283,001
Total operating expenses	<u>695,184</u>	<u>118,128</u>	<u>813,312</u>
Operating Income	207,816	33,534	241,350
Nonoperating Expenses - Interest expense	<u>(8,180)</u>	<u>-</u>	<u>(8,180)</u>
Change in Net Position	199,636	33,534	233,170
Net Position - Beginning of year	<u>1,402,461</u>	<u>168,604</u>	<u>1,571,065</u>
Net Position - End of year	<u><u>\$ 1,602,097</u></u>	<u><u>\$ 202,138</u></u>	<u><u>\$ 1,804,235</u></u>

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2015

	Motor Pool Fund	Information Technology Fund	Total
Cash Flows from Operating Activities			
Receipts from interfund services and reimbursements	\$ 903,000	\$ 148,386	\$ 1,051,386
Payments to suppliers	(305,639)	(105,935)	(411,574)
Payments to employees	(96,317)	-	(96,317)
Internal activity - Payments to other funds	(87,573)	-	(87,573)
Other receipts	(3,000)	-	(3,000)
	410,471	42,451	452,922
Net cash provided by operating activities			
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	-	(12,390)	(12,390)
Principal and interest paid on capital debt	(50,499)	-	(50,499)
	(50,499)	(12,390)	(62,889)
Net cash used in capital and related financing activities			
	359,972	30,061	390,033
Net Increase in Cash and Cash Equivalents			
Cash and Cash Equivalents - Beginning of year	-	156,124	156,124
Cash and Cash Equivalents - End of year	\$ 359,972	\$ 186,185	\$ 546,157
Balance Sheet Classification of Cash and Cash Equivalents - Cash and investments			
	\$ 359,972	\$ 186,185	\$ 546,157
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 207,816	\$ 33,534	\$ 241,350
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation and amortization	280,555	2,446	283,001
Changes in assets and liabilities:			
Receivables	(3,000)	-	(3,000)
Due from others	-	(3,276)	(3,276)
Prepaid and other assets	(870)	(458)	(1,328)
Accounts payable	13,538	10,205	23,743
Due to others	(87,573)	-	(87,573)
Accrued and other liabilities	5	-	5
	5	-	5
Net cash provided by operating activities	\$ 410,471	\$ 42,451	\$ 452,922

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Net Position Fiduciary Funds June 30, 2015

	Agency Funds		
	Current Tax Collection	Payroll	Total Agency Funds
Assets - Cash and cash equivalents	\$ 235,007	\$ 179,723	\$ 414,730
Liabilities			
Due to other governmental units	\$ 235,007	\$ -	\$ 235,007
Accrued liabilities and other	-	179,723	179,723
Total liabilities	\$ 235,007	\$ 179,723	\$ 414,730