

CITY OF MENOMINEE, MICHIGAN

Annual Financial Report

June 30, 2013

CITY OF MENOMINEE, MICHIGAN

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INDEPENDENT AUDITOR'S REPORT



UNGER & WALTERS, S.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the Common Council
City of Menominee
Menominee, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Menominee, Michigan ("City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City'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 of material misstatement.

An audit includes performing procedures to obtain 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 City's preparation 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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 4 through 8, schedule of funding progress for retirement benefits on page 53, and budgetary comparison information on pages 54 through 58 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, who 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 supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information on pages 59 through 74 identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards on pages 79 through 80 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The supplementary information and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 supplementary information and schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Honorable Mayor and Members of the Common Council
City of Menominee

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 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's internal control over financial reporting and compliance.



UNGER & WALTERS, S.C.

Certified Public Accountants

December 19, 2013

MANAGEMENT DISCUSSION AND ANALYSIS

CITY OF MENOMINEE, MICHIGAN
Management Discussion and Analysis
June 30, 2013

As management of the City of Menominee, we offer readers of the City's financial statements this overview of the financial activities of the City of Menominee for the fiscal year ended June 30, 2013. Please read it in conjunction with the City's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The assets of the City of Menominee exceeded the liabilities as of June 30, 2013 by \$55,181,443 (net position). Of this amount, \$8,298,340 were unrestricted net position. The net position for government activities were \$34,248,736, and for business-type activities \$20,932,707.
- The total net position increased by \$643,234 during the fiscal year.
- The general fund balance is \$2,656,365 with \$158,924 nonspendable, \$625,839 assigned, and \$1,871,602 unassigned.
- General obligation debt increased by a net amount of \$5,189,000 during fiscal year 2013.
- Capital assets decreased by \$598,841 net of depreciation during the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements, required supplementary information, and other supplementary information.

1. Government-wide Financial Statements.

The government-wide financial statements (pages 9-11) provide readers with a broad overview of the finances of the City, in a manner similar to a private sector business.

The statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

The statement of net position shows the net investment in capital assets, restricted net assets and unrestricted net assets. The unrestricted assets are the assets that can be spent under City's discretion. The restricted assets are the assets that are constrained by external regulations on how they may be used, such as debt covenants, enabling legislation, or other legal requirements. These assets can not be spent under the City's discretion. The City's total unrestricted net position was \$8,298,340 at fiscal year end June 30, 2013, with \$4,224,213 in the governmental activities.

The largest portion of the net assets for the business-type activities is the investment in capital assets (i.e., land, buildings, machinery and equipment, and infrastructure), less any related debt used to purchase those assets that is still outstanding. The City uses these capital assets to provide services to citizens. These assets are not available for future spending.

CITY OF MENOMINEE, MICHIGAN
Management Discussion and Analysis
June 30, 2013

CITY OF MENOMINEE NET POSITION

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
ASSETS:						
Current and Other Assets	\$ 12,757,155	\$ 8,087,573	\$ 7,157,173	\$ 5,410,398	\$ 19,914,328	\$ 13,497,971
Capital Assets	<u>27,965,866</u>	<u>28,030,275</u>	<u>23,618,821</u>	<u>24,153,255</u>	<u>51,584,687</u>	<u>52,183,530</u>
Total Assets	<u>40,723,021</u>	<u>36,117,848</u>	<u>30,775,994</u>	<u>29,563,653</u>	<u>71,499,015</u>	<u>65,681,501</u>
DEFERRED OUTFLOWS OF RESOURCES:						
Unamortized Bond Discount/Costs	<u>4,014</u>	<u>5,018</u>	<u>195,842</u>	<u>131,852</u>	<u>199,856</u>	<u>136,870</u>
LIABILITIES:						
Long-Term Liabilities						
Outstanding	5,138,912	1,228,073	9,104,762	7,735,163	14,243,674	8,963,236
Current and Other Liabilities	<u>1,244,424</u>	<u>1,489,143</u>	<u>609,051</u>	<u>500,403</u>	<u>1,853,475</u>	<u>1,989,546</u>
Total Liabilities	<u>6,383,336</u>	<u>2,717,216</u>	<u>9,713,813</u>	<u>8,235,566</u>	<u>16,097,149</u>	<u>10,952,782</u>
DEFERRED INFLOWS OF RESOURCES						
	<u>94,963</u>	<u>1,000</u>	<u>325,316</u>	<u>326,380</u>	<u>420,279</u>	<u>327,380</u>
NET POSITION:						
Net Investment in Capital Assets	22,356,595	25,904,494	14,383,521	16,370,164	36,740,116	42,274,658
Restricted	7,667,928	3,345,125	2,475,059	1,170,458	10,142,987	4,515,583
Unrestricted	<u>4,224,213</u>	<u>4,155,031</u>	<u>4,074,127</u>	<u>3,592,937</u>	<u>8,298,340</u>	<u>7,747,968</u>
Total Net Position	<u>\$ 34,248,736</u>	<u>\$ 33,404,650</u>	<u>\$ 20,932,707</u>	<u>\$ 21,133,559</u>	<u>\$ 55,181,443</u>	<u>\$ 54,538,209</u>

The Change in Net Position presents information showing how the City's net position changed during the fiscal year. All changes for net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the terms of related cash flows. The net position increased by \$643,234.

In the statement of net position and the statement of activities, the City is divided into two kinds of activities: governmental activities and business-type activities.

The governmental activities of the City include police, fire, public works, parks, recreation, and general administration. Property taxes, state shared revenue, and state and federal grants finance most of the activities. Also, all the special revenue funds, debt service funds, capital project funds, and permanent funds are also included here.

The business-type activities include Water Treatment Utility, Wastewater Treatment Utility, Marina, River Park, and Industrial Aid. The City charges a fee to customers to help it cover the cost of certain services it provides.

CITY OF MENOMINEE, MICHIGAN
Management Discussion and Analysis
June 30, 2013

CHANGE IN NET POSITION

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenue	\$ 984,031	\$ 1,021,342	\$ 2,915,259	\$ 2,964,648	\$ 3,899,290	\$ 3,985,990
Operating Grants and Contributions	1,365,167	1,037,243	-	-	1,365,167	839,921
Capital Grants and Contributions	64,369	62,000	-	280,732	64,369	540,054
General Revenues:						
Property Taxes	4,462,579	4,455,610	-	-	4,462,579	4,455,610
State and Federal Aids Not Restricted to Specific Functions	920,203	965,863	-	-	920,203	965,863
Interest and Investment Earnings	107,275	122,374	6,343	7,172	113,618	129,546
Other	646,241	647,528	-	35,501	646,241	683,029
Total Revenues	8,549,865	8,311,960	2,921,602	3,288,053	11,471,467	11,600,013
Expenses:						
Legislative						
General Government	889,012	899,864	-	-	889,012	899,864
Public Safety	2,830,779	2,658,548	-	-	2,830,779	2,658,548
Public Works	1,930,302	1,724,259	-	-	1,930,302	1,724,259
Sanitation	558,570	603,187	-	-	558,570	603,187
Culture and Recreation	1,025,385	1,053,471	-	-	1,025,385	1,053,471
Other	410,647	703,626	-	-	410,647	703,626
Interest and Fiscal Charges	61,084	83,507	-	-	61,084	83,507
Water Treatment	-	-	1,174,885	1,208,184	1,174,885	1,208,184
Wastewater Treatment	-	-	1,313,399	1,303,037	1,313,399	1,303,037
Marina	-	-	521,024	548,424	521,024	548,424
River Park	-	-	113,146	117,435	113,146	117,435
Total Expenses	7,705,779	7,726,462	3,122,454	3,177,080	10,828,233	10,903,542
Change in Net Position	844,086	585,498	(200,852)	110,973	643,234	696,471
Net Position – Beginning of Year	33,404,650	32,819,152	21,133,559	21,022,586	54,538,209	53,841,738
Net Position – End of Year	<u>\$ 34,248,736</u>	<u>\$ 33,404,650</u>	<u>\$ 20,932,707</u>	<u>\$ 21,133,559</u>	<u>\$ 55,181,443</u>	<u>\$ 54,538,209</u>

CITY OF MENOMINEE, MICHIGAN
 Managements Discussion and Analysis
 June 30, 2013

2. Fund Financial Statements

The fund financial statements (pages 12 - 25) provide detailed information about the most significant funds - not the City as a whole. The City has three kinds of funds: governmental, proprietary, and fiduciary funds.

Governmental Funds. Governmental funds financial statements focus on near-term inflows and outflow of spendable resources. Such information is useful in assessing the City's financial requirements. Unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the June 30, 2013 fiscal year. The unassigned funds are the funds that can be spent under management's discretion.

At fiscal year end June 30, 2013, the City's governmental funds reported a combined ending fund balance of \$12,126,174.

The general fund is the chief operating fund of the City. At June 30, 2013, its unassigned fund balance was \$1,871,602. A healthy, unassigned fund balance is necessary for a sound and responsible financial management system. The City needs the unassigned funds to meet emergency needs, generate interest revenues through investments, and to maintain the City's bond rating. The principal use of the unassigned funds is to avoid short term borrowing due to cash flow shortages.

Proprietary Funds. Proprietary funds provide the same type of information found in the government-wide financial statements, only in more detail. For the proprietary funds, unrestricted net assets of the Water Treatment Utility at the fiscal year end amounted to \$1,112,974, for the Wastewater Treatment Utility they amounted to \$1,657,554, for the Marina they amounted to \$872,249, for the River Park they amounted to \$388,412, and for the Industrial Aid they amounted to \$42,938.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's programs.

General Fund Budgetary Highlights

The City amended its budget during the fiscal year as shown in the following chart:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>2012 - 2013 Actual</u>	<u>Variance</u>
General Fund:				
Revenues	\$ 4,879,039	\$ 5,565,208	\$ 5,812,441	\$ 247,233
Expenditures	4,644,371	5,405,010	5,129,732	275,278
Other Financing Sources (Uses)	(234,668)	(160,198)	(327,884)	(167,686)
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 354,825</u>	<u>\$ 354,825</u>
Major Streets:				
Revenues	\$ 582,137	\$ 582,137	\$ 711,534	\$ 129,397
Expenditures	1,217,435	1,217,435	606,177	611,258
Other Financing Sources (Uses)	635,298	635,298	-	(635,298)
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,357</u>	<u>\$ 105,357</u>

CITY OF MENOMINEE, MICHIGAN
Management Discussion and Analysis
June 30, 2013

General Fund Budgetary Highlights (continued)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>2012 - 2013 Actual</u>	<u>Variance</u>
Local Streets:				
Revenues	\$ 272,637	\$ 272,637	\$ 299,213	\$ 26,576
Expenditures	276,500	276,500	286,834	(10,334)
Other Financing Sources (Uses)	3,863	3,863	-	(3,863)
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,379</u>	<u>\$ 12,379</u>
Street Construction:				
Revenues	\$ -	\$ -	\$ 848	\$ 848
Expenditures	710,185	710,185	-	710,185
Other Financing Sources (Uses)	710,185	710,185	4,499,038	3,788,853
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,499,886</u>	<u>\$ 4,499,886</u>

Capital Assets and Debt Administration

The City's capital assets, net of accumulated depreciation, for its governmental and business-type activities as of June 30, 2013 amounts to \$51,584,689. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure.

At June 30, 2013, the City had total bonded debt outstanding of \$14,287,000. Of this amount, \$5,184,000 comprised debt backed by the full faith and credit of the government and \$9,103,000 represents bonds secured by specified revenue sources (i.e., revenue bonds).

The City maintains a A+ bond rating by Standard and Poors for both its general obligation debt and for the revenue bonds for the Wastewater Treatment Utility.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total state equalized value. The current debt limitation for the City of Menominee is \$22.7 million which is significantly in excess of the City's outstanding general obligation debt of \$5,184,000.

NEXT YEAR'S BUDGETS AND RATES

State shared revenue contributes approximately 16% of the general fund revenues for the City of Menominee. For the 2013–2014 fiscal year, the City budgeted this revenue to be approximately 17% of the general fund revenues.

Over 60% of the City's general fund revenues are from general property tax levies. The tax rate has remained relatively unchanged the last few years. City management expects the current tax rate to remain relatively stable.

Request for Information

The financial report is designed to provide a general overview of the City of Menominee's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in the report, or requests for additional financial information, should be addressed to Menominee City Clerk/Treasurer, 2511 Tenth Street, Menominee, Michigan 49858.

BASIC FINANCIAL STATEMENTS

CITY OF MENOMINEE, MICHIGAN
Statement of Net Position
As of June 30, 2013

	Governmental Fund Types		
	Governmental Activities	Business Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	\$ 4,710,849	\$ 3,941,642	\$ 8,652,491
Receivables - Net	732,931	545,624	1,278,555
Due from Other Governments	211,793	-	211,793
Internal Balances	121,871	13,446	135,317
Inventories and Prepaid Items	185,149	181,402	366,551
Restricted Cash	5,213,349	2,475,059	7,688,408
Restricted Investments	1,581,213	-	1,581,213
Capital Assets, Net of Depreciation	27,965,866	23,618,821	51,584,687
TOTAL ASSETS	40,723,021	30,775,994	71,499,015
DEFERRED OUTFLOWS OF RESOURCES:			
Unamortized Bond Discount/Costs	4,014	195,842	199,856
LIABILITIES:			
Accounts Payable	225,271	209,980	435,251
Due to Other Governments	172,444	-	172,444
Accrued Payroll	122,558	14,967	137,525
Accrued Interest	7,631	57,724	65,355
Noncurrent Liabilities:			
Due Within One Year	716,520	349,493	1,066,013
Due in More than One Year	5,138,912	9,081,649	14,220,561
TOTAL LIABILITIES	6,383,336	9,713,813	16,097,149
DEFERRED INFLOWS OF RESOURCES	94,963	325,316	420,279
NET POSITION:			
Net Investment in Capital Assets	22,356,595	14,383,521	36,740,116
Restricted	7,667,928	2,475,059	10,142,987
Unrestricted	4,224,213	4,074,127	8,298,340
TOTAL NET POSITION	\$ 34,248,736	\$ 20,932,707	\$ 55,181,443

See Accompanying Notes

CITY OF MENOMINEE, MICHIGAN
Statement of Activities
For the Year Ended June 30, 2013

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTIONS/PROGRAMS:				
Governmental Activities:				
General Government	\$ 889,012	\$ 2,500	\$ -	\$ -
Public Safety	2,830,779	70,204	501,743	64,369
Public Works	1,930,302	370,060	779,810	-
Sanitation	558,570	440,552	-	-
Culture and Recreation	1,025,385	100,715	83,614	-
Other	410,647	-	-	-
Interest and Fiscal Charges	61,084	-	-	-
Total Governmental Activities	7,705,779	984,031	1,365,167	64,369
Business-Type Activities:				
Water Treatment	1,174,885	950,202	-	-
Wastewater Treatment	1,313,399	1,252,588	-	-
Marina	521,024	594,449	-	-
River Park	113,146	118,020	-	-
Total Business-Type Activities	3,122,454	2,915,259	-	-
TOTAL ACTIVITIES	\$ 10,828,233	\$ 3,899,290	\$ 1,365,167	\$ 64,369

GENERAL REVENUES:

Property Taxes, Levied for General Purposes
Property Taxes, Levied for Debt Service
Property Taxes, Levied for Streets
Property Taxes, Levied for Library
Property Taxes, Levied for Solid Waste
State and Federal Aids Not Restricted to Specific
Functions
Interest and Investment Earnings
Other

Total General Revenues

CHANGE IN NET POSITION

NET POSITION - BEGINNING OF YEAR

NET POSITION - END OF YEAR

See Accompanying Notes

**Net (Expense) Revenue
And Changes in Net Assets**

Governmental Activities	Business-Type Activities	Total
\$ (886,512)	\$ -	\$ (886,512)
(2,194,463)	-	(2,194,463)
(780,432)	-	(780,432)
(118,018)	-	(118,018)
(841,056)	-	(841,056)
(410,647)	-	(410,647)
(61,084)	-	(61,084)
<u>(5,292,212)</u>	<u>-</u>	<u>(5,292,212)</u>
-	(224,683)	(224,683)
-	(60,811)	(60,811)
-	73,425	73,425
-	4,874	4,874
<u>-</u>	<u>(207,195)</u>	<u>(207,195)</u>
<u>(5,292,212)</u>	<u>(207,195)</u>	<u>(5,499,407)</u>
3,350,343	-	3,350,343
527,628	-	527,628
192,310	-	192,310
193,226	-	193,226
199,072	-	199,072
920,203	-	920,203
107,275	6,343	113,618
646,241	-	646,241
<u>6,136,298</u>	<u>6,343</u>	<u>6,142,641</u>
844,086	(200,852)	643,234
<u>33,404,650</u>	<u>21,133,559</u>	<u>54,538,209</u>
<u>\$ 34,248,736</u>	<u>\$ 20,932,707</u>	<u>\$ 55,181,443</u>

See Accompanying Notes

CITY OF MENOMINEE, MICHIGAN

Balance Sheet
Governmental Funds
As of June 30, 2013

	<u>General Fund</u>	<u>Major Street</u>	<u>Local Street</u>
ASSETS:			
Cash and Cash Equivalents	\$ 2,166,875	\$ 587,200	\$ 629,084
Investments	-	-	-
Receivables - Net	169,470	540	-
Due from Other Governments	44,880	85,887	29,646
Due from Other Funds	765,556	115,394	-
Inventories and Prepaid Items	158,924	22,912	-
TOTAL ASSETS	\$ 3,305,705	\$ 811,933	\$ 658,730
LIABILITIES:			
Accounts Payable	\$ 30,625	\$ 143,312	\$ -
Accrued Payroll	105,558	2,039	1,554
Due to Other Funds	398,417	-	162,009
Due to Other Governments	16,047	-	-
Total Liabilities	550,647	145,351	163,563
DEFERRED INFLOWS OF RESOURCES	98,693	540	-
FUND BALANCES:			
Non-Spendable	158,924	22,912	-
Restricted	-	643,130	495,167
Assigned	625,839	-	-
Unassigned	1,871,602	-	-
Total Fund Balances	2,656,365	666,042	495,167
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 3,305,705	\$ 811,933	\$ 658,730

See Accompanying Notes

<u>Street Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 5,211,022	\$ 1,401,295	\$ 9,995,476
-	1,509,935	1,509,935
-	562,921	732,931
-	51,380	211,793
-	359,643	1,240,593
-	3,313	185,149
<u>\$ 5,211,022</u>	<u>\$ 3,888,487</u>	<u>\$ 13,875,877</u>
\$ -	\$ 51,334	\$ 225,271
-	13,407	122,558
-	558,296	1,118,722
-	156,397	172,444
<u>-</u>	<u>779,434</u>	<u>1,638,995</u>
-	10,925	110,158
-	1,183,719	1,365,555
5,211,022	1,318,609	7,667,928
-	595,800	1,221,639
-	-	1,871,602
<u>5,211,022</u>	<u>3,098,128</u>	<u>12,126,724</u>
<u>\$ 5,211,022</u>	<u>\$ 3,888,487</u>	<u>\$ 13,875,877</u>

See Accompanying Notes

CITY OF MENOMINEE, MICHIGAN
 Reconciliation of the Balance Sheet - Governmental Funds
 to the Statement of Net Assets
 As of June 30, 2013

Total Fund Balances - Governmental Funds \$ 12,126,724

Total net position reported for governmental activities in the statement of net position are different from the amount reported above as total governmental funds fund balance because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund statements. Amounts reported for governmental activities in the statement of net position:

Capital Assets	\$ 45,960,950	
Accumulated Depreciation	<u>(17,995,084)</u>	27,965,866

Certain deferred inflows of resources reported on the balance sheet is recognized as revenue on the statement of activities and has been removed from the statement of net position.

Property Taxes and Special Assessments		99,233
--	--	--------

Certain liabilities, including bonds and notes payable, are not due in the current period and therefore not reported in the fund statements. Liabilities reported in the statement of net position that are not reported in the funds balance sheet:

General Obligation Debt	\$ (5,184,000)	
Accrued Interest on General Obligation Debt	(7,631)	
Capital Lease Obligation	(429,286)	
Unamortized Bond Issuance Costs	4,014	
Unamortized Bond Premium	(84,038)	
Vested Compensated Absences	<u>(242,146)</u>	<u>(5,943,087)</u>

Total Net Position - Governmental Activities \$ 34,248,736

CITY OF MENOMINEE, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds
For the Year Ended June 30, 2013

	General Fund	Major Street
REVENUES:		
Property Taxes	\$ 3,492,789	\$ 96,155
Federal Grants	541,378	64,369
State Grants	2,365	55,247
State Shared Revenue	920,203	490,311
Licenses and Permits	183,819	-
Fines and Forfeitures	20,201	-
Investment Income	10,146	-
Rentals	399,360	-
Charges for Services	2,500	-
Other Revenues	239,680	5,452
TOTAL REVENUES	5,812,441	711,534
EXPENDITURES:		
Current:		
General Government	820,404	-
Public Safety	2,724,606	-
Highways, Streets and Bridges	435,390	503,578
Sanitation	-	-
Culture and Recreation	342,982	-
Other	137,790	-
Capital Outlay	594,467	102,599
Debt Service:		
Principal Retirement	47,472	-
Interest and Fiscal Charges	26,621	-
TOTAL EXPENDITURES	5,129,732	606,177
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	682,709	105,357
OTHER FINANCING SOURCES (USES):		
Proceeds from Bond Issuance	-	-
Bond Premium	-	-
Transfers In	-	-
Transfers Out	(327,884)	-
TOTAL OTHER FINANCING SOURCES (USES)	(327,884)	-
NET CHANGE IN FUND BALANCES	354,825	105,357
FUND BALANCES - BEGINNING OF YEAR	2,301,540	560,685
FUND BALANCES - END OF YEAR	\$ 2,656,365	\$ 666,042

See Accompanying Notes

Local Street	Street Construction	Other Governmental Funds	Total Governmental Funds
\$ 96,155	\$ -	\$ 952,693	\$ 4,637,792
-	-	-	605,747
-	-	-	57,612
190,052	-	4,567	1,605,133
-	-	-	183,819
-	-	48,865	69,066
-	848	59,383	70,377
-	-	-	399,360
-	-	515,182	517,682
13,006	-	154,242	412,380
<u>299,213</u>	<u>848</u>	<u>1,734,932</u>	<u>8,558,968</u>
-	-	-	820,404
-	-	-	2,724,606
286,834	-	-	1,225,802
-	-	558,570	558,570
-	-	545,853	888,835
-	-	219,723	357,513
-	-	295,130	992,196
-	-	655,255	702,727
-	-	42,491	69,112
<u>286,834</u>	<u>-</u>	<u>2,317,022</u>	<u>8,339,765</u>
<u>12,379</u>	<u>848</u>	<u>(582,090)</u>	<u>219,203</u>
-	4,415,000	-	4,415,000
-	84,038	-	84,038
-	-	350,204	350,204
-	-	(22,320)	(350,204)
<u>-</u>	<u>4,499,038</u>	<u>327,884</u>	<u>4,499,038</u>
12,379	4,499,886	(254,206)	4,718,241
482,788	711,136	3,352,334	7,408,483
<u>\$ 495,167</u>	<u>\$ 5,211,022</u>	<u>\$ 3,098,128</u>	<u>\$ 12,126,724</u>

See Accompanying Notes

CITY OF MENOMINEE, MICHIGAN
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances -
 Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2013

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	4,718,241
 Amounts reported for governmental activities in the statement of net position are different because:		
 The acquisition of capital assets are reported in the governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities.		
Capital outlay reported in governmental fund statements	\$ 992,196	
Depreciation expense reported in the statement of activities	<u>(1,056,605)</u>	(64,409)
 Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the increase during the year in deferred inflow of resources		
Special Assessments		(9,103)
 Long-Term debt and capital leases incurred in governmental funds is reported as an other financing source but is reported as an increase in outstanding long-term debt in the statement of net position, and does not affect the statement of activities.		
		(4,415,000)
 Repayment of principal on long-term debt and capital leases is reported in the governmental funds as an expenditure but is reported as a reduction in long-term debt in the statement of net position and does not affect the statement of activities.		
		702,727
 Some expenses reported in the government-wide statement of activities do not require the use of current financial resources and, therefore, are not reported in the government funds.		
Compensated Absences		(12,361)
 Unamortized bond issue costs and the bond discount are reported as expenditures in the governmental funds. However, for governmental activities those costs are shown in the statement of net position and amortized over the life of the bond issuance as annual interest and other costs in the statement of activities.		
		(1,004)
 Bond premium on issuance of bonds is reported as income in the governmental funds but reported as deferred outflows of resources in the statement of position and amortized against interest expense in the statement of activities		
		(84,038)
 In governmental funds interest payments on outstanding debt are reported as an expenditure when paid. In the statement of activities, interest is reported as incurred.		
		<u>9,033</u>
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	\$	<u>844,086</u>

See Accompanying Notes

CITY OF MENOMINEE, MICHIGAN

Statement of Net Position

Proprietary Funds

As of June 30, 2013

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Marina</u>
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 940,967	\$ 1,444,062	\$ 1,139,120
Receivables - Net	219,103	326,521	-
Due from Other Funds	42,526	129,747	-
Inventories	110,259	-	-
Prepaid Items	36,622	34,521	-
Total Current Assets	<u>1,349,477</u>	<u>1,934,851</u>	<u>1,139,120</u>
Noncurrent Assets:			
Restricted Cash and Investments	1,269,776	1,205,283	-
Capital Assets, Net of Depreciation	10,202,081	11,542,556	982,286
Total Noncurrent Assets	<u>11,471,857</u>	<u>12,747,839</u>	<u>982,286</u>
TOTAL ASSETS	<u>12,821,334</u>	<u>14,682,690</u>	<u>2,121,406</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Unamortized Bond Discount/Cost	66,189	119,639	10,014
LIABILITIES:			
Current Liabilities:			
Accounts Payable	77,004	132,315	-
Accrued Expense	386	12,177	-
Accrued Interest	25,853	26,184	5,687
Due to Other Funds	105,875	66,247	3,627
Current Portion of Noncurrent Liabilities	86,734	157,759	105,000
Total Current Liabilities	<u>295,852</u>	<u>394,682</u>	<u>114,314</u>
Noncurrent Liabilities:			
Bonds, Notes and Loans Payable	3,762,941	4,958,708	360,000
TOTAL LIABILITIES	<u>4,058,793</u>	<u>5,353,390</u>	<u>474,314</u>
DEFERRED INFLOWS OF RESOURCES	<u>27,385</u>	<u>40,374</u>	<u>257,557</u>
NET POSITION:			
Net Investment in Capital Assets	6,418,595	6,545,728	527,300
Restricted	1,269,776	1,205,283	-
Unrestricted	1,112,974	1,657,554	872,249
TOTAL NET POSITION	<u>\$ 8,801,345</u>	<u>\$ 9,408,565</u>	<u>\$ 1,399,549</u>

See Accompanying Notes

<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
\$ 417,493	\$ 3,941,642
-	545,624
42,938	215,211
-	110,259
-	71,143
<u>460,431</u>	<u>4,883,879</u>
-	2,475,059
891,898	23,618,821
<u>891,898</u>	<u>26,093,880</u>
<u>1,352,329</u>	<u>30,977,759</u>
-	195,842
661	209,980
2,404	14,967
-	57,724
26,016	201,765
-	349,493
<u>29,081</u>	<u>833,929</u>
-	9,081,649
<u>29,081</u>	<u>9,915,578</u>
-	325,316
891,898	14,383,521
-	2,475,059
431,350	4,074,127
<u>\$ 1,323,248</u>	<u>\$ 20,932,707</u>

See Accompanying Notes

CITY OF MENOMINEE, MICHIGAN
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2013

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Marina</u>
OPERATING REVENUES:			
Charges For Services	\$ 927,970	\$ 1,231,698	\$ 594,449
Other Revenues	22,232	20,890	-
Total Operating Revenues	<u>950,202</u>	<u>1,252,588</u>	<u>594,449</u>
OPERATING EXPENSES:			
Personal Services	54,820	147,320	-
Contractual Services	431,898	413,466	384,153
Utilities	88,025	123,401	-
Repairs and Maintenance	104,690	25,697	-
Other Supplies and Expenses	26,962	35,710	11,351
Depreciation	365,710	378,481	99,094
Amortization	2,014	3,802	2,503
Total Operating Expenses	<u>1,074,119</u>	<u>1,127,877</u>	<u>497,101</u>
OPERATING INCOME (LOSS)	<u>(123,917)</u>	<u>124,711</u>	<u>97,348</u>
NON-OPERATING REVENUE (EXPENSES):			
Interest and Investment Revenue	1,513	3,222	1,471
Interest Expense	(100,766)	(185,522)	(23,923)
Total Non-operating Revenue (Expenses)	<u>(99,253)</u>	<u>(182,300)</u>	<u>(22,452)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>(223,170)</u>	<u>(57,589)</u>	<u>74,896</u>
CAPITAL CONTRIBUTIONS	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	<u>(223,170)</u>	<u>(57,589)</u>	<u>74,896</u>
NET POSITION - BEGINNING OF YEAR	<u>9,024,515</u>	<u>9,466,154</u>	<u>1,324,653</u>
NET POSITION - END OF YEAR	<u>\$ 8,801,345</u>	<u>\$ 9,408,565</u>	<u>\$ 1,399,549</u>

See Accompanying Notes

Other Proprietary Funds	Total Proprietary Funds
\$ -	\$ 2,754,117
118,020	161,142
<u>118,020</u>	<u>2,915,259</u>
45,648	247,788
5,702	1,235,219
23,196	234,622
2,180	132,567
4,790	78,813
31,630	874,915
-	8,319
<u>113,146</u>	<u>2,812,243</u>
4,874	103,016
137	6,343
-	(310,211)
<u>137</u>	<u>(303,868)</u>
5,011	(200,852)
-	-
5,011	(200,852)
<u>1,318,237</u>	<u>21,133,559</u>
<u>\$ 1,323,248</u>	<u>\$ 20,932,707</u>

See Accompanying Notes

CITY OF MENOMINEE, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2013

	<u>Water Utility</u>	<u>Wastewater Utility</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers	\$ 979,403	\$ 1,278,042
Payments to Suppliers	(668,583)	(606,828)
Payment to Employees	(56,094)	(145,837)
Interfund Activity	(32,244)	60,667
Net Cash From Operating Activities	<u>222,482</u>	<u>586,044</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Bond Drawdown from USDA	1,190,411	2,363,881
Principal and Interest Paid on Capital Debt	(248,425)	(2,058,658)
Purchases of Capital Assets	(150,930)	(77,067)
Net Cash From Capital and Related Financing Activities	<u>791,056</u>	<u>228,156</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Income	1,513	3,222
Net Cash From Investing Activities	<u>1,513</u>	<u>3,222</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,015,051	817,422
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,195,692</u>	<u>1,831,923</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,210,743</u>	<u>\$ 2,649,345</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ (123,917)	\$ 124,711
Adjustments to Reconcile Operating Income (Loss) to Net Cash From Operating Activities:		
Depreciation	365,710	378,481
Amortization	2,014	3,802
Changes in Non-Cash Components of Working Capital:		
Accounts Receivable	25,601	25,454
Due from Other Funds	(2,261)	22,647
Inventories	(32,992)	-
Prepaid Items	(530)	(499)
Accounts Payable	16,514	(8,055)
Accrued Expenses	(1,274)	1,483
Due to Other Funds	(29,983)	38,020
Deferred Outflows and Inflows of Resources	3,600	-
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 222,482</u>	<u>\$ 586,044</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS:		
Unrestricted Cash and Investments	\$ 940,967	\$ 1,444,062
Restricted Cash and Investments	1,269,776	1,205,283
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 2,210,743</u>	<u>\$ 2,649,345</u>

See Accompanying Notes

<u>Marina</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
\$ 589,526	\$ 118,020	\$ 2,964,991
(395,504)	(35,678)	(1,706,593)
-	(45,450)	(247,381)
3,127	10,726	42,276
<u>197,149</u>	<u>47,618</u>	<u>1,053,293</u>
-	-	3,554,292
(125,098)	-	(2,432,181)
-	(1,065)	(229,062)
<u>(125,098)</u>	<u>(1,065)</u>	<u>893,049</u>
1,471	137	6,343
<u>1,471</u>	<u>137</u>	<u>6,343</u>
73,522	46,690	1,952,685
<u>1,065,598</u>	<u>370,803</u>	<u>4,464,016</u>
<u>\$ 1,139,120</u>	<u>\$ 417,493</u>	<u>\$ 6,416,701</u>
\$ 97,348	\$ 4,874	\$ 103,016
99,094	31,631	874,916
2,503	-	8,319
-	-	51,055
-	-	20,386
-	-	(32,992)
-	-	(1,029)
-	189	8,648
-	198	407
3,127	10,726	21,890
(4,923)	-	(1,323)
<u>\$ 197,149</u>	<u>\$ 47,618</u>	<u>\$ 1,053,293</u>
\$ 1,139,120	\$ 417,493	\$ 3,941,642
-	-	2,475,059
<u>\$ 1,139,120</u>	<u>\$ 417,493</u>	<u>\$ 6,416,701</u>

See Accompanying Notes

CITY OF MENOMINEE, MICHIGAN

Statement of Net Position

Fiduciary Funds

As of June 30, 2013

	Employee Trust Funds	Agency Funds	Total
ASSETS:			
Cash and Cash Equivalents	\$ 61,735	\$ 60,869	\$ 122,604
Investments at Fair Value	9,845,026	-	9,845,026
Taxes Receivable	-	38,613	38,613
TOTAL ASSETS	9,906,761	99,482	10,006,243
LIABILITIES:			
Due to Other Funds	74,444	60,873	135,317
Due to Other Governments	-	38,609	38,609
TOTAL LIABILITIES	74,444	99,482	173,926
NET POSITION:			
Held in Trust for Employees' Retirement System	9,831,748	-	9,831,748
Reserved for Employees' Benefits	569	-	569
TOTAL NET POSITION	\$ 9,832,317	\$ -	\$ 9,832,317

See Accompanying Notes

CITY OF MENOMINEE, MICHIGAN

Statement of Changes in Net Position

Fiduciary Funds

For the Year Ended June 30, 2013

	<u>Employee Trust Funds</u>
ADDITIONS:	
Contributions:	
Employees	\$ 112,034
Employer	462,004
Interest and Dividends	685,888
Total Additions	<u>1,259,926</u>
DEDUCTIONS:	
Net Depreciation in Fair Value of Investments	20,844
Annuities	805,532
Benefits	15,198
Refunds	50,738
Total Deductions	<u>892,312</u>
CHANGE IN NET POSITION	367,614
NET POSITION - BEGINNING OF YEAR	<u>9,464,703</u>
NET POSITION - END OF YEAR	<u>\$ 9,832,317</u>

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

This summary of significant accounting policies of the City of Menominee ("City") is presented to assist in understanding the City's financial statements. The financial statements and notes are representations of the City's management who is responsible for the integrity and objectivity of the financial statements.

The financial statements of the City have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The significant accounting and reporting policies used by the City are described below.

A. REPORTING ENTITY

The City is governed by an appointed city manager, mayor, and an eight-member council and provides the following services as authorized by its charter: public safety, public works, development services, public health and welfare, culture, recreation, water and wastewater.

The City's basic financial statements include the accounts of all City operations. As required by GAAP, the financial statements are required to include the City and any component units for which the City is considered to be financially accountable. The City has not identified any component units that are required to be included in the financial statements in accordance with standards established in GASB Statements No. 14 and 39. City officials are responsible for appointing a majority of the board members for the Menominee Housing Commission, but the City's accountability for this organization does not extend beyond making the appointments. Therefore, this organization is not included in the City's reporting entity.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities present financial information about the City's governmental-type and business-type activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental-type activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions and are reported separately from business-type activities which rely to a significant extent on fees and charges for services.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental-type and business-type activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients for goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

FUND FINANCIAL STATEMENTS

Fund financial statements of the City are organized into individual funds each of which are considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures. Funds are organized as major funds or nonmajor funds within the governmental and proprietary statements. An emphasis is placed on major funds within the governmental and proprietary financial categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type and

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

FUND FINANCIAL STATEMENTS (Continued):

- b. The same element that met the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and proprietary funds combined.
- c. In addition, any other governmental or proprietary fund that the City believes is particularly important to financial statement users may be reported as a major fund.

Governmental Funds

The City reports the following major governmental funds:

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

Major Street Fund – Accounts for revenues and expenditures in connection with the street system designated as major streets by the State of Michigan. This fund is required under state law.

Local Street Fund – Accounts for revenues and expenditures in connection with the street system designated as local streets by the State of Michigan. This fund is required under state law.

Street Construction Fund – Accounts for the financial resources to be used for the improvement of the City's street system.

The City reports the following major proprietary funds:

Water Utility Fund – Accounts for the City's provision of water service to city residents, business entities and public authorities.

Wastewater Treatment Utility Fund – Accounts for the City's provision of wastewater treatment service to city residents, business entities and public authorities.

Marina Fund – Accounts for the operation of the City's marina.

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and, therefore, are not available to support City programs. The reporting focus is on net assets and changes in net assets. These assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the City. For that reason, these funds are not incorporated into the government-wide statements.

The City reports the following employee trust funds:

Police and Fire Retirement Fund – Accounts for investments held for funding police and fire department employees' retirement benefits.

Employee Flexible Benefits Fund – Accounts for employee contributions and payouts for employees enrolled in the City's flexible benefits plan.

The City reports the following agency fund:

The Tax Collection Fund – Accounts for property tax collections and distributions.

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources (current assets less current liabilities) or economic resources (all assets and liabilities). The basis of accounting indicates the timing of transactions or events for recognition in the financial report.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as do the proprietary financial statements. The fiduciary funds have no measurement focus and utilize the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the City gives or receives value without directly, receiving or giving equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as 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. Internally dedicated resources, as well as all tax revenues, are reported as general revenues rather than as program revenues.

Under the terms of grant agreements, the City may fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. When program expenditures are incurred, both restricted and unrestricted resources may be available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 City's enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

CASH AND INVESTMENTS

Cash deposits consist of demand and time deposits with financial institutions carried at cost. Investments are stated at fair value.

For purposes of the statement of cash flows, cash and investments having a maturity of three months or less are considered to be cash equivalents.

Investment Valuation and Income Recognition

Investments are valued at fair value using quoted market prices.

Net appreciation (depreciation) of investments included in the accompanying financial statements includes realized gains or losses from the sale of investments and unrealized appreciation (depreciation) in fair value of investments. Net unrealized appreciation (depreciation) in the fair value of investments represents the net change in the fair value of the investments held during the period. The net realized gains or loss on the sale of investments is the difference between the sale proceeds and the fair value of the investment as of the beginning of the period or the cost of the investment if purchased during the year.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date.

ACCOUNTS RECEIVABLE

Accounts receivable are recorded net of allowances for doubtful accounts.

INVENTORIES

Inventories of governmental and proprietary fund types are recorded at cost, which approximates market, using the first-in first-out method of valuation. The cost is recorded as an expenditure at the time individual inventory items are consumed. A reserve for inventories has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

PREPAID ITEMS

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or higher 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.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Buildings	40 Years	50 Years
Improvements Other Than Building	20 Years	15 – 50 Years
Equipment	15 Years	3 – 10 Years
Infrastructure	50 Years	N/A

DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Deferred outflows of resources is a consumption of net assets by the government that is applicable to future reporting periods. Deferred inflows of resources is an acquisition of net assets by the government that is applicable to future reporting periods.

COMPENSATED ABSENCES

Under terms of employment, employees are granted sick leave and vacations in varying amounts, and are allowed to accrue unused sick leave and vacation time according to specific policies for different departments and unions. A liability for these accrued compensated absences is reported in the government-wide and proprietary funds financial statements. The liability is determined on the basis of current salary rates as of June 30, 2013, although payments for the accrued compensated absences will be made at rates in effect when the benefits are used.

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

LONG-TERM OBLIGATIONS

In the government-wide financial statements and 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 or business-type activities statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the balance sheet. Noncurrent portions of the interfund receivables for the governmental funds are offset by a reservation of fund balance since they do not constitute expendable available financial resources and therefore are not available for appropriation.

The amount reported on the statement of net assets for internal balances represents the residual balance outstanding between the governmental activities and business-type activities.

INTERFUND TRANSACTIONS

During the course of normal operations, the City has various transactions between funds, including expenditures and transfers of resources to provide services, construct assets and service debt. The governmental funds generally record such transactions as operating transfers if within governmental funds. Transactions between governmental and proprietary funds are usually recorded as revenues and either expenditures or expenses of the respective funds.

Fund Financial Statements

Interfund activity, if any, within and among the governmental categories is reported as follows in the fund financial statements:

- Interfund transfers – Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

- Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide statement of activities.

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

CLAIMS AND JUDGMENTS

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with available expendable financial resources are recorded during the year as expenditures in the appropriate governmental fund types. If they are not liquidated with available expendable financial resources, a liability is recorded in the government-wide statement of net assets. The related expenditure is recognized when the liability is liquidated. There were no significant claims or judgments at year-end.

FUND EQUITY DESIGNATIONS

Government-Wide Statements

Equity is classified as net position and displayed in three components:

- Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- Unrestricted – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Financial Statements

Fund balance is classified as follows:

- Nonspendable - amounts that are not in a spendable form (such as inventory and prepaid items) or are required to be maintained intact;
- Restricted - amounts restricted by external sources (such as creditors, grantors, bondholders, and higher levels of government through constitutional provisions, or enabling legislation);
- Committed - amounts that can only be used for specific purposes pursuant to ordinances passed by the City Council; to be reported as committed, amounts cannot be used for any other purpose unless the City Council takes the same action to remove or change the constraint;
- Assigned - amounts the City intends to use for a specific purpose; intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority;
- Unassigned - amounts that are available for any purpose; positive amounts are reported only in the general fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the City Council through adoption or amendment of the budget as intended for specific purposes (such as the purchase of fixed assets, construction, debt service, or for other purposes).

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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 revenues and expenditures/expenses during the reporting period. Actual results may differ from those estimates.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 19, 2013, the date the financial statements were available to be issued.

NOTE 2 - CASH AND INVESTMENTS:

Cash and investments as of June 30, 2013 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Cash Equivalents	\$ 8,652,491
Restricted Cash and Investments	9,269,621
Fiduciary Funds:	
Cash and Cash Equivalents	122,604
Investments	<u>9,845,026</u>
Total Cash and Investments	<u>\$ 27,889,742</u>

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature 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 which are legal for direct investment by local units of government in Michigan.

The City Council has adopted a formal investment policy in accordance with Public Act 196 of 1997. The policy allows all deposits and investments authorized by the above statute, with the following additional restrictions:

- Commercial paper must be rated at the time of purchase within the highest classification established by not less than two standard rating services.
- Mutual Funds must be registered under the Investment Company Act of 1940 and maintain a \$1.00 per share net asset value.

In addition, the policy allows investment in stock, but only for Fund 732, the Police and Fire Retirement Fund, as set forth in Michigan Act 314, PA 1965, and MSA Section 3.98 (114). Donated stock may be held in any fund, in accordance with the wishes of the donor.

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 2 - CASH AND INVESTMENTS (Continued):

CUSTODIAL CREDIT RISK

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Custodial risk for *investments* is the risk that, in the event of the failure of a counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The State statutes and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial risks for deposits or investments.

The City maintains its cash accounts at several financial institutions. The balances, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limits. Effective January 1, 2013, all time and savings deposits, including Negotiable Order of Withdrawal (NOW) accounts and money market deposit accounts owned by a public unit and held by the same official custodian in an insured depository institution within the state in which the public unit is located are added together and insured up to \$250,000. Separately, all demand deposits (interest bearing and non-interest bearing) are added together and insured up to \$250,000. Management acknowledges the possibility of risk in this arrangement. However, the size and longevity of the depository institutions minimizes such risk.

The following is a summary of cash deposits (bank balance) as of June 30, 2013:

Fully Insured Deposits	\$	1,611,571
Collateralized with Securities Held by Pledging Financial Institution in City's Name		1,894,153
Uninsured and Uncollateralized		<u>13,947,606</u>
Total	\$	<u>17,453,330</u>

The following investment types were held by the same counterparty that was used by the City to buy the securities:

Investment Type:		
U.S. Treasury Notes	\$	1,335,740
Federal Agency Securities - GNMA		41
Federal Agency Securities - Others		1,042,316
Corporate Bonds		1,580,773
Mutual Funds		1,028,521
Exchange-Traded Funds (ETF's)		2,370,473
Common Stocks		<u>3,347,820</u>
	\$	<u>10,705,684</u>

INTEREST RATE RISK

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 2 - CASH AND INVESTMENTS (Continued):

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

	<u>Total</u>	<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
Investment Type:					
U.S. Treasury Notes	\$ 1,335,740	\$ -	\$ 825,594	\$ 475,531	\$ 34,615
Federal Agency Securities - GNMA	41	-	-	-	41
Federal Agency Securities	1,042,316	75,516	77,859	807,015	81,926
Corporate Bonds	<u>1,580,773</u>	<u>234,818</u>	<u>185,010</u>	<u>609,534</u>	<u>551,411</u>
	<u>\$ 3,958,870</u>	<u>\$ 310,334</u>	<u>\$ 1,088,463</u>	<u>\$ 1,892,080</u>	<u>\$ 667,993</u>

INVESTMENTS WITH FAIR VALUES HIGHLY SENSITIVE TO INTEREST RATE FLUCTUATIONS

Certain investments are highly sensitive to interest rate fluctuations, to a greater degree than already indicated in the information provided above. The City's investments in Federal Agency Securities (Federal Home Loan Bank, Federal National Mortgage Association, and Federal Farm Credit Bank) are backed by mortgages, which are subject to early payment in periods of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of these securities and makes the fair values of these securities highly sensitive to changes in interest rates.

CREDIT RISK

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2013 for each investment type.

	<u>Total</u>	<u>Moody's Credit Rating</u>
Investment Type:		
U.S. Treasury Notes	\$ 1,335,740	N/A
Federal Agency Securities - GNMA	41	N/A
Federal Agency Securities - Other	1,042,316	AAA
Corporate Bonds	<u>1,580,773</u>	A2 (Ave.)
	<u>\$ 3,958,870</u>	

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 2 - CASH AND INVESTMENTS (Continued):

CONCENTRATION OF CREDIT RISK

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer other than U.S. Treasury securities, mutual funds and money market funds.

Investments in any one issuer that represent 5% or more of total investments by reporting unit are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Cemetery Perpetual Care Fund:		
Federal Home Loan Bank	Federal Agency Securities	\$ 390,670
Federal National Mortgage Association	Federal Agency Securities	208,731
Federal Home Loan Mortgage Corp.	Federal Agency Securities	200,595

NOTE 3 - PROPERTY TAXES:

Property tax is levied on each July 1st on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31.

Property taxes are recorded in the year levied as receivables and recognized as revenue. Real property taxes not collected by February 28 are turned over to the county for collection. The county pays the City for these delinquent taxes within 60 days. Delinquent personal property taxes are recorded as deferred revenue until collected or written off. In addition to property taxes for the City, taxes are collected and remitted to state and county governments as well as local school districts.

The 2012 taxable valuation of the City totaled \$192.3 million, on which ad valorem taxes levied consisted of 18.2027 mills for the City operating purposes, .9872 mills for City street and road repair, 2.7000 mills for debt service, and .9965 mills for the library.

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 4 - RECEIVABLES:

Receivables as of year-end for the City's governmental individual major funds, aggregate nonmajor funds, proprietary funds, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Major Street</u>	<u>Aggregate Nonmajor Funds</u>	<u>Total</u>
Taxes and Special Assessments	\$ 98,692	\$ 540	\$ -	\$ 99,232
Accounts	45,906	-	201,525	247,431
Loans	-	-	540,065	540,065
Other	24,872	-	-	24,872
Less: Allowance for Doubtful Accounts	-	-	(178,669)	(178,669)
Net Receivables	<u>\$ 169,470</u>	<u>\$ 540</u>	<u>\$ 562,921</u>	<u>\$ 732,931</u>
Proprietary Funds				
	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>	
Taxes and Special Assessments	\$ 13,293	\$ 42,585	\$ 55,878	
Accounts	221,740	294,061	515,801	
Less: Allowance for Doubtful Accounts	<u>(15,930)</u>	<u>(10,125)</u>	<u>(26,055)</u>	
Net Receivables	<u>\$ 219,103</u>	<u>\$ 326,521</u>	<u>\$ 545,624</u>	
	<u>Aggregate Fiduciary Funds</u>			
Taxes and Special Assessments	<u>\$ 38,613</u>			

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 5 - CAPITAL ASSETS:

Capital asset balances and activity for the year ended June 30, 2013 were as follows:

	<u>Balance 7/01/2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2013</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 1,873,395	\$ -	\$ -	\$ 1,873,395
Construction in Progress	20,880	281,610	-	302,490
Total Capital Assets not being Depreciated	<u>1,894,275</u>	<u>281,610</u>	<u>-</u>	<u>2,175,885</u>
Other Capital Assets:				
Buildings and Improvements	7,641,866	13,520	-	7,655,386
Infrastructure	29,991,529	102,599	-	30,094,128
Machinery, Equipment and Vehicles	4,108,415	594,467	-	4,702,882
Library Materials	1,332,669	-	-	1,332,669
Total Capital Assets being Depreciated	<u>43,074,479</u>	<u>710,586</u>	<u>-</u>	<u>43,785,065</u>
Less Accumulated Depreciation for:				
Building and Improvements	3,839,968	237,754	-	4,077,722
Infrastructure	9,587,126	644,440	-	10,231,566
Machinery, Equipment and Vehicles	3,511,385	174,411	-	3,685,796
Total Accumulated Depreciation	<u>16,938,479</u>	<u>1,056,605</u>	<u>-</u>	<u>17,995,084</u>
Total Capital Assets Being Depreciated, Net of Depreciation	<u>26,136,000</u>	<u>(346,019)</u>	<u>-</u>	<u>25,789,981</u>
Governmental Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 28,030,275</u>	<u>\$ (64,409)</u>	<u>\$ -</u>	<u>\$ 27,965,866</u>

Depreciation expense was charged to functions of the City's governmental activities as follows:

General Government	\$ 69,288
Public Safety	99,987
Public Works	699,832
Culture and Recreation	136,190
Other	51,308
Total Depreciation Expense – Governmental Activities	<u>\$ 1,056,605</u>

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 5 - CAPITAL ASSETS (Continued):

	<u>Balance 7/01/12</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/13</u>
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 454,087	\$ 1,065	\$ -	\$ 455,152
Construction in Progress	3,294,219	196,457	3,241,818	248,858
Total Capital Assets not being Depreciated	<u>3,748,306</u>	<u>197,522</u>	<u>3,241,818</u>	<u>704,010</u>
Capital Assets being Depreciated:				
Water	16,416,346	2,175,011	-	18,591,357
Wastewater	18,159,011	1,209,768	-	19,368,779
Marina	2,996,536	-	-	2,996,536
River park	1,134,455	-	-	1,134,455
Subtotal	<u>38,706,348</u>	<u>3,384,779</u>	<u>-</u>	<u>42,091,127</u>
Less Accumulated Depreciation	<u>18,301,399</u>	<u>874,915</u>	<u>-</u>	<u>19,176,314</u>
Total Capital Assets, being Depreciated, Net of Depreciation	<u>20,404,949</u>	<u>2,509,864</u>	<u>-</u>	<u>22,914,813</u>
Business-Type Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 24,153,255</u>	<u>\$ 2,707,386</u>	<u>\$ 3,241,818</u>	<u>\$ 23,618,823</u>

Depreciation expense was charged to functions of the City's business-type activities as follows:

Water Treatment	\$ 365,710
Wastewater Treatment	378,481
Marina	99,094
River Park	31,630
Total Depreciation Expense – Business-Type Activities	<u>\$ 874,915</u>

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 6 - LONG-TERM DEBT OBLIGATIONS:

The following is a summary of changes in long-term obligations of the City for the year ended June 30, 2013:

	<u>Balance 7/1/12</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/13</u>	<u>Due Within One Year</u>
Governmental Activities:					
General Obligation Debt:					
Bonds	\$ 1,385,000	\$ 4,415,000	\$ 616,000	\$ 5,184,000	\$ 466,000
Other Liabilities:					
Capital Lease Obligation	516,013	-	86,728	429,285	50,520
Vested Compensated Absences	229,786	193,282	180,921	242,147	200,000
Total Governmental Activities Long-Term Liabilities	<u>\$ 2,130,799</u>	<u>\$ 4,608,282</u>	<u>\$ 883,649</u>	<u>\$ 5,855,432</u>	<u>\$ 716,520</u>

Total interest expense during the year on governmental activities long-term debt totaled \$60,077.

Business-Type Activities:

General Obligation Debt:					
Bonds	\$ 7,713,000	\$ 3,480,000	\$ 2,090,000	\$ 9,103,000	\$ 328,000
Other Liabilities:					
Capital Lease Obligation	348,543	-	20,401	328,142	21,493
Total Business-Type Activities Long-Term Liabilities	<u>\$ 8,061,543</u>	<u>\$ 3,480,000</u>	<u>\$ 2,110,401</u>	<u>\$ 9,431,142</u>	<u>\$ 349,493</u>

Total interest expense during the year on business-type activities long-term debt totaled \$310,211.

Additional information on the outstanding long-term obligations follows:

All general obligation debt is secured by the full faith and credit and unlimiting taxing power of the City. General obligation debt at June 30, 2013 is comprised of the following individual issues:

	<u>Date of Issuance</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance 06/30/13</u>
Governmental Activities:					
Unlimited Tax General Obligation Bond, Series 2013	06/26/13	05/01/23	1.00-3.00%	\$ 4,415,000	\$ 4,415,000
Unlimited Tax General Obligation Bond, Series 2003 (Refunding of Callable 1995 Library Bonds)	09/04/03	10/01/16	2.25-4.55%	965,000	370,000
2007 Brownfield Redemption Authority Tax Investment Bonds (Limited Tax General Obligation)	06/15/07	06/15/18	6.34%	225,000	105,000
2012 Capital Improvement Bonds (Limited Tax General Obligation)	06/25/12	06/1/42	3.375%	300,000	294,000
Total Governmental Activities General Obligation Debt					<u>\$ 5,184,000</u>

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 6 - LONG-TERM OBLIGATIONS (Continued):

Additional information on the outstanding long-term obligations follows:

All general obligation debt is secured by the full faith and credit and unlimited taxing power of the City. General obligation debt at June 30, 2013 is comprised of the following individual issues:

	Date of Issuance	Final Maturity	Interest Rates	Original Indebtedness	Balance 06/30/13
Business Type Activities:					
2013 Capital Improvement and Refunding Bonds					
(Limited Tax General Obligation)	05/15/13	04/01/38	2.00 – 3.625%	3,480,000	3,480,000
1999 Building Authority Bonds					
(Limited Tax General Obligation)	05/01/99	10/01/16	4.40 - 5.00%	1,250,000	465,000
2007 Capital Improvement Bonds					
(Limited Tax General Obligation)	07/01/07	06/15/28	4.60 - 4.75%	2,015,000	1,655,000
Water Supply System Junior Lien Revenue Bond, Series 2010					
	06/17/10	04/01/50	3.25%	2,370,000	2,191,000
Sewage Disposal System Junior Lien Revenue Bond, Series 2010					
	06/17/10	04/01/50	3.25%	1,410,000	1,312,000
Total Business Type Activities General Obligation Debt					<u>\$ 9,103,000</u>

The above debt issues have been allocated to the City's enterprise fund and governmental funds based on the use of the proceeds. The annual principal and interest debt service requirements to maturity are as follows:

	General Long-Term Obligations		Business Type Long-Term Obligations		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 466,000	\$ 112,377	\$ 328,000	\$ 297,572	\$ 794,000	\$ 409,949
2015	511,000	118,242	350,000	297,119	861,000	415,361
2016	532,000	108,724	366,000	283,675	898,000	392,399
2017	552,000	96,634	379,000	269,622	931,000	366,256
2018	467,000	84,355	266,000	258,076	733,000	342,431
2019-2023	2,433,000	252,181	1,450,000	1,152,865	3,883,000	1,405,046
2024-2028	46,000	34,594	1,697,000	881,579	1,743,000	916,173
2029-2033	54,000	26,393	1,222,000	629,254	1,276,000	655,647
2034-2038	64,000	16,605	1,455,000	413,696	1,519,000	430,301
2039-2043	59,000	5,029	633,000	218,694	692,000	223,723
2044-2048	-	-	757,000	108,034	757,000	108,034
2049-2053	-	-	200,000	7,542	200,000	7,542
	<u>\$ 5,184,000</u>	<u>\$ 855,134</u>	<u>\$ 9,103,000</u>	<u>\$ 4,817,728</u>	<u>\$ 14,287,000</u>	<u>\$ 5,672,862</u>

Estimated payments of accumulated employee benefits are not included in the above schedule.

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 7 - OBLIGATION UNDER CAPITAL LEASES:

The City is obligated under certain capital leases for the acquisition of energy efficient upgrades and equipment. The gross amount recorded under capital leases is \$1,000,102. The leases require quarterly and monthly payments beginning March 24, 2010 with a final payment due December 25, 2024. Future minimum lease payments are as follows:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Fiscal Year Ended June 30:			
2014	\$ 74,093	\$ 38,394	\$ 112,487
2015	74,093	38,394	112,487
2016	56,096	38,394	94,490
2017	47,435	38,394	85,829
2018	41,261	38,394	79,655
2019 - 2023	206,307	191,966	398,273
2024 - 2025	60,136	55,846	115,982
	<u>559,421</u>	<u>439,782</u>	<u>999,203</u>
Less: Amount Representing Interest	<u>130,136</u>	<u>111,640</u>	<u>241,776</u>
Present Value of Minimum Lease Payments	429,285	328,142	757,427
Less: Current Maturities	<u>50,520</u>	<u>21,493</u>	<u>72,013</u>
Long-Term Lease Obligation	<u>\$ 378,765</u>	<u>\$ 306,649</u>	<u>\$ 685,414</u>

Capital purchases and related accumulated amortization under capital lease are as follows:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Cost:			
Buildings and Improvements	\$ 415,910	\$ -	\$ 415,910
Equipment	197,298	-	197,298
Wastewater	-	386,894	386,894
	<u>613,208</u>	<u>386,894</u>	<u>1,000,102</u>
Accumulated Depreciation	<u>96,784</u>	<u>73,057</u>	<u>169,841</u>
Net Value	<u>\$ 516,424</u>	<u>\$ 313,837</u>	<u>\$ 830,261</u>

Amortization expense is included in depreciation expense.

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 8 – DEFERRED INFLOWS OF RESOURCES:

Governmental funds deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but are not yet recognizable. Governmental activities defer recognition of only those amounts that have not been earned. At the end of the current fiscal year, the various components of deferred inflows of resources reported in the governmental funds were as follows:

	Governmental Funds	
	Statement of Net Position	Balance Sheet
Taxes and Special Assessments	\$ -	\$ 99,233
Waterfront Festival	10,925	10,925
Unamortized Bond Premium	84,038	-
	<u>\$ 94,963</u>	<u>\$ 110,158</u>

Proprietary funds defer refer recognition of only those amounts that have not been earned. At the end of the current fiscal year, amount of deferred inflows of resources reported in the proprietary funds were as follows:

	Proprietary Funds
Special Assessments	\$ 67,759
Marina	257,557
Total	<u>\$ 325,316</u>

NOTE 9 - RETIREMENT COMMITMENTS:

City employees are covered by either the Policemen and Firemen Retirement System (PFRS) or the Municipal Employees' Retirement System (MERS).

Police and Firemen Retirement System (PFRS)

Police and Firemen Retirement System (PFRS) is a single-employer defined benefit pension plan established and administered by the City to provide pension benefits exclusively for all of its police and fire employees. The plan is accounted for as a separate pension trust fund in the City's financial statements. The PFRS is authorized and operated under state law, Act 345 of the Public Acts of 1937, as amended.

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 9 - RETIREMENT COMMITMENTS (Continued):

	<u>Eligibility</u>	<u>Amount</u>
Service Retirement:	Police: Any age with 20 or more years of service or age 60 regardless of service. Fire: Age 50 with 25 or more years of service or age 60 regardless of service	Straight life pension equals 2.75% of 3 year average final compensation (AFC) times years of service. Straight life pension equals 3.0% of 3 year AFC times years of service - Lump sum payments for unused vacation are included in AFC for Firefighters.
Deferred Retirement:	10 or more years of service.	Computed as service retirement but based upon service, AFC and benefit in effect at termination. Benefit begins at date retirement would have occurred had member remained in employment.
Death After Retirement Survivor's Pension:	Payable to a surviving spouse, if any, upon the death of a retired member who was receiving a straight life pension which was effective July 1, 1975 or later.	Spouse's pension equals 60% of the straight life pension the deceased retiree was receiving.
Non-Duty Death-In-Service Survivor's Pension:	Payable to a surviving spouse, if any, upon the death of a member with 20 or more years of service.	Accrued straight life pension actuarially reduced in accordance with an Option I election.
Duty Death-In-Service Survivor's Pension:	Payable upon the expiration of worker's compensation to the survivors of a member who died in the line of duty.	Same amount that was paid by worker's compensation.
Non-Duty Disability:	Payable upon the total and permanent disability of a member with 5 or more years of service.	To Age 55: 1.5% of AFC times years of service. At age 55: Same as Service Retirement Pension.
Duty Disability:	Payable upon the total and permanent disability of a member in the line of duty.	To Age 55: 50% of AFC. At age 55: Same as Service Retirement Pension with service credit from date of disability to Age 55.

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 9 - RETIREMENT COMMITMENTS (Continued):

Member Contribution as Percent-of-Payroll

8.44% Police

5.0% Fire

Upon retirement, a fire member may withdraw their accumulated contributions with interest and receive correspondingly reduced lifetime benefit.

City's Contribution as Percent-of-Payroll

34.97% Police

30.83% Fire

Actuarial Accrued Liability

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of June 30, 2012, the most recent actuarial valuation. Significant actuarial assumptions used in determining the actuarial accrued liability included a) a rate of return on the investment of present and future assets of 7.75%, b) projected salary increases of 4.50% per year compounded annually, attributable to inflation and c) additional salary increases of 4.6% to 7.6% per year, depending on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the June 30, 2012 actuarial valuation to determine the annual employer contribution amounts. The individual entry-age actuarial cost method was used to determine the entries at disclosure.

GASB 25 and GASB 27 Information (As of 6/30/12)

Actuarial Accrued Liability:	
To Retirees and Beneficiaries	\$ 8,854,027
To Present Active Members:	
Member Contributions	709,853
Employer Financed Portion	4,210,881
Total Actuarial Accrued Liability	<u>13,774,761</u>
 Actuarial Value of Assets	 <u>9,811,421</u>
 Unfunded Actuarial Accrued Liability	 <u>\$ 3,963,340</u>

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 9 - RETIREMENT COMMITMENTS (Continued):

Contributions required and made – The funding policy of the plan provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended June 30, 2012 were determined using the individual entry-age actuarial cost method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of thirty years. The following table provides a schedule of contribution amounts and percentages for the three most recent actuarial valuations.

<u>Year Ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
2010	\$ 397,401	129%
2011	431,570	102%
2012	456,047	91%

The amount shown above as the annual required contribution is the amount actually contributed in each fiscal year. These amounts are determined by applying the computed employer percent of payroll contribution rate to the actual pay during the fiscal year.

The employer portion of the contribution for the fiscal year ending June 30, 2013 was \$462,004.

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Entry Age Actuarial Accrued Liability</u>	<u>(b-a) Unfunded Accrued Liability (UAL)</u>	<u>(a/b) Funded Ratio</u>	<u>(c) Annual Covered Payroll</u>	<u>[(b-a)/c] UAL as a Percent- age of Covered Payroll</u>
06/30/10	\$ 9,558,333	\$ 13,140,798	\$ 3,582,465	73%	\$ 1,318,410	272%
06/30/11	9,825,389	13,248,149	3,422,760	74%	1,267,628	270%
06/30/12	9,811,421	13,774,761	3,963,340	71%	1,353,493	293%

Membership of the plan consists of the following at June 30, 2012, the most recent actuarial valuation:

Retirees and Beneficiaries Receiving Benefits	35
Terminated Plan Members Entitled to but not yet Receiving Benefits	3
Active Plan Members	<u>26</u>
Total	<u>64</u>

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements
For the Year Ended June 30, 2013

NOTE 9 - RETIREMENT COMMITMENTS (Continued):

Michigan Municipal Employees Retirement System (MERS)

The City contributes to the Michigan Municipal Employees Retirement System (MERS), a multiple-employer public retirement system that acts as a common investment and administrative agent for municipalities in the State of Michigan. The plan issues a stand-alone financial report.

All full-time and certain part-time City employees, except for Police and Fire employees, who are covered exclusively under the Police and Fire Retirement System, are eligible to participate in the MERS. Benefits vest after 6 years of service. Normal retirement provisions of the MERS apply to participants who retire at or after age 60 with at least 10 years of credited service. Employees with 15 years of credited service may retire at or after age 55 with reduced benefits. Employees with 25 years or more of credited service may retire at or after age 50 with reduced benefits. Employees with 30 years of credited service may retire at or after age 55 with full benefits. Early retirement before age 60 requires approval of the City Council. All full-time employees, except police and fire, have a benefit equal to 2.5 percent of average annual compensation for the last five years of employment multiplied by years of credited service with a maximum benefit of 80% of final average compensation.

Actuarial Accrued Liability

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2012. Significant actuarial assumptions used in determining the actuarial accrued liability include a) a rate of return on the investment of present and future assets of 8.0%, b) projected salary increases of 4.5% per year compounded annually, attributable to inflation and c) additional salary increases of 0.00% to 12.90% per year, depending on age, attributable to merit and longevity.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2012 actuarial valuation to determine the annual employer contribution amounts. The entry age normal cost method was used to determine the entries at disclosure.

GASB 25 and GASB 27 Information (As Of 12/31/12)

Actuarial Accrued Liability:	
Retirees and Beneficiaries	\$ 3,405,034
Vested Former Members	1,370,098
Active Members	4,180,381
Total Actuarial Accrued Liability	<u>8,955,513</u>
Actuarial Value of Assets	<u>7,620,010</u>
Unfunded Actuarial Accrued Liability	<u>\$ 1,335,503</u>
Fiscal Year Beginning	09/01/14
Annual Required Contribution (ARC)	\$ 208,704

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 9 - RETIREMENT COMMITMENTS (Continued):

Contributions required and made - The employer contribution rate has been determined based on the entry age normal cost method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry-age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. The following table provides a schedule of contribution amounts and percentages for the three most recent actuarial valuations.

<u>Year Ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
2010	\$ 186,768	100%
2011	190,428	100%
2012	208,704	100%

The amount shown above as the annual required contribution is the amount actually contributed in each fiscal year. These amounts are determined by applying the computed employer percent of payroll contribution rate to the actual pay during the fiscal year.

The employer portion of the contribution for the fiscal year ending June 30, 2013 was \$182,918.

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Entry Age Actuarial Accrued Liability</u>	<u>(b-a) Unfunded Accrued Liability (UAL)</u>	<u>(a/b) Funded Ratio</u>	<u>(c) Annual Covered Payroll</u>	<u>[(b-a/c)] UAL as a Percen- tage of Covered Payroll</u>
12/31/10	\$ 7,425,613	\$ 8,270,396	\$ 844,783	90%	\$ 1,835,660	46%
12/31/11	7,538,439	8,627,306	1,088,867	87%	1,940,943	56%
12/31/12	7,620,010	8,955,513	1,335,503	85%	1,939,256	69%

Membership of the plan consists of the following at December 31, 2012, the date of the most recent actuarial valuation:

Active Member	34
Vested Former Members	18
Retirees and Beneficiaries	<u>43</u>
Total	<u>95</u>

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 10 - TAX INCREMENTAL FINANCING FUNDS:

The City has established a separate special revenue fund for Tax Incremental Financing (TIF) created by the City in accordance with the Brownfield Redevelopment Financing Act, Act 381 of the Public Acts of the State of Michigan Statutes of 1996. At the time the TIF was created, the property tax base within the TIF was "frozen" and increment taxes resulting from increases to the property tax base will be used to finance TIF improvements, including principal and interest on long-term debt issued by the City to finance such improvements. The City's TIF was created on December 20, 2005, and therefore is still eligible to incur project costs.

Since creation of the above TIF, the City has provided various financing sources to the TIF. Detail of the amounts recoverable by the City as of June 30, 2013 from future excess tax increment revenues is \$127,963.

The intent of the City is to recover the above amount from future TIF surplus funds, if any, prior to termination of the TIF.

NOTE 11 – LITIGATION AND CONTINGENCIES:

Litigation

The City is party to general legal actions and legal proceedings in the normal course of its governmental operations and ultimate exposure with respect to these potential matters cannot be ascertained. The City's management intends to vigorously defend any such potential claims which may be asserted and also believes the final outcome of any potential claims will not have an adverse effect on the City's financial position.

Grants

The City receives financial assistance from the federal and state governments in the forms of grants and entitlements, which are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal and state regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the granting agencies. Any disallowance as a result of these audits could become a liability of the City. As of June 30, 2013, the City is unable to estimate what liabilities, if any, may result from such audits.

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 12 - INTERFUND RECEIVABLES AND PAYABLES:

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Local Street	\$ 162,009	Cash Flow Timing
	Cemetery Operations	66,863	Cash Flow Timing
	Waterfront	1,212	Cash Flow Timing
	Brownfield	29,667	Cash Flow Timing
	DDA	67	Cash Flow Timing
	Economic Development-GL		
	P&F	500	Cash Flow Timing
	Spies Public Library	204,418	Cash Flow Timing
	Library Construction	41,823	Cash Flow Timing
	Spies Field Construction Debt	13,277	Cash Flow Timing
	Marina	3,627	Cash Flow Timing
	River Park	26,016	Cash Flow Timing
	Wastewater	66,247	Cash Flow Timing
	Water	21,823	Cash Flow Timing
	Tax Collection	53,063	Cash Flow Timing
	ACH Fund	500	Cash Flow Timing
	Flex Benefit Fund	7,240	Cash Flow Timing
Police/Fire Retirement	67,204	Cash Flow Timing	
Revolving Loan Fund	General Fund	60,328	Cash Flow Timing
Solid Waste Disposal	General Fund	168,848	Cash Flow Timing
	ACH Fund	1,652	Cash Flow Timing
Cemetery Operations	Cemetery Perpetual Care	117,906	Cash Flow Timing
Major Street	General Fund	115,394	Cash Flow Timing
Street Construction Debt Reduction	General Fund	10,909	Cash Flow Timing
Wastewater	Water	84,052	Cash Flow Timing
	Solid Waste Disposal	11,284	Cash Flow Timing
	Revolving Loan Fund	31,200	Cash Flow Timing
Water	Solid Waste Disposal	1,479	Cash Flow Timing
	Revolving Loan Fund	38,600	Cash Flow Timing
Industrial Aid	General Fund	42,938	Cash Flow Timing

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 13 - INTERFUND TRANSFERS:

<u>Fund Transferred To</u>	<u>Fund Transferred From</u>	<u>Amount</u>	<u>Purpose</u>
Spies Public Library	General Fund	\$ 147,903	Transfer for Operational Expense
Cemetery Operations	General Fund	79,840	Transfer for Operational Expense
Brownfield TIF	General Fund	6,925	Transfer for Operational Expense
Spies Library Debt	General Fund	93,216	Transfer for Operational Expense
Cemetery Operations	Cemetery Perpetual Care	22,320	Transfer for Operational Expense
		<u>\$ 350,204</u>	

NOTE 14 - NET POSITION / FUND BALANCES:

Net position of the governmental activities reported on the government-wide statement of net position at June 30, 2013 consists of the following:

Net Investment in Capital Assets	\$ 22,356,595
Restricted for:	
Major Streets	643,130
Local Streets	495,167
Street Construction	5,211,022
Revolving Loan Fund	1,038,111
Community Development	8,027
Spies Field Improvement	41,739
Spies Library Construction	34,655
Debt Service – Street Construction	68,050
Debt Service – Spies Public Library	128,027
Unrestricted	<u>4,224,213</u>
Total Governmental Activities Net Position	<u>\$ 34,248,736</u>

CITY OF MENOMINEE, MICHIGAN

Notes to the Financial Statements

June 30, 2013

NOTE 14 - NET POSITION/ FUND BALANCES (Continued):

For the classification of fund balances in the governmental funds balance sheet, the City considers committed, assigned, or unassigned amounts to be available for expenditures to be incurred for purposes for which amounts, if any, of those unrestricted fund balance classifications could be used. Fund balance reported on the governmental funds balance sheet consists of the following:

	General Fund	Major Street	Local Street	Street Construction	Nonmajor Funds
Nonspendable:					
Inventories	\$ 69,817	\$ -	\$ -	\$ -	\$ -
Prepaid Items	89,107	22,912	-	-	3,313
Cemetery Perpetual Care	-	-	-	-	1,180,406
Restricted For:					
Major Street	-	643,130	-	-	-
Local Street	-	-	495,167	-	-
Street Construction	-	-	-	5,211,022	-
Revolving Loan	-	-	-	-	1,038,111
Community Development	-	-	-	-	8,027
Spies Field Improvement	-	-	-	-	41,739
Spies Library Construct.	-	-	-	-	34,655
Street Construction Debt	-	-	-	-	68,050
Spies Public Library Debt	-	-	-	-	128,027
Assigned:					
Plant-A-Tree	6,778	-	-	-	-
Boat Launch	43,212	-	-	-	-
Circle Lane	22,733	-	-	-	-
Fuel Pump	36,072	-	-	-	-
Henes Park Pavillion	29,462	-	-	-	-
Alleys	10,000	-	-	-	-
Recreation	21,803	-	-	-	-
Bricks	3,091	-	-	-	-
D.A.R.E.	2,807	-	-	-	-
Henes Park Project	9,755	-	-	-	-
Street Equipment	440,026	-	-	-	-
Lighthouse	100	-	-	-	-
Cemetery Operations	-	-	-	-	92,595
Waterfront Festival	-	-	-	-	3,048
Solid Waste Disposal	-	-	-	-	233,722
Brownfield TIF	-	-	-	-	7,461
Public Improvement	-	-	-	-	9,853
Downtown Development	-	-	-	-	14,662
DDA #2 TIF	-	-	-	-	39,769
Drug Law Enforcement	-	-	-	-	20,084
Spies Public Library	-	-	-	-	174,106
Economic Development	-	-	-	-	500
Unassigned	<u>1,871,602</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUND BALANCES	<u><u>\$ 2,656,365</u></u>	<u><u>\$ 666,042</u></u>	<u><u>\$ 495,167</u></u>	<u><u>\$ 5,212,022</u></u>	<u><u>\$ 3,098,128</u></u>

The City, unless otherwise required by law or agreement, spends funds in the following order: restricted, committed, assigned, and lastly, unassigned.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MENOMINEE, MICHIGAN

Schedule of Funding Progress
For the Year Ended June 30, 2013

Police and Fire Retirement System (PFRS)

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
06/30/10	\$ 9,558,333	\$ 13,140,798	\$ 3,582,465	73%	\$ 1,318,410	272%
06/30/11	9,825,389	13,248,149	3,422,760	74%	1,267,628	270%
06/30/12	9,811,421	13,774,761	3,963,340	71%	1,353,493	293%

Municipal Employees Retirement System (MERS)

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
12/31/10	\$ 7,425,613	\$ 8,270,396	\$ 844,783	90%	\$ 1,835,660	46%
12/31/11	7,538,439	8,627,306	1,088,867	87%	1,940,943	56%
12/31/12	7,620,010	8,955,513	1,335,503	85%	1,939,256	69%

CITY OF MENOMINEE, MICHIGAN

Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual

General Fund

For the Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
REVENUES:				
Property Taxes	\$ 3,414,765	\$ 3,414,765	\$ 3,492,789	\$ 78,024
Federal Grants	-	520,908	541,378	20,470
State Grants	4,000	4,000	2,365	(1,635)
State Shared Revenue	782,374	914,374	920,203	5,829
Licenses and Permits	150,500	150,500	183,819	33,319
Fines and Forfeitures	21,500	21,500	20,201	(1,299)
Investment Income	15,300	15,300	10,146	(5,154)
Rentals	311,500	311,500	399,360	87,860
Charges for Services	2,500	2,500	2,500	-
Other Revenues	176,600	209,861	239,680	29,819
Total Revenues	<u>4,879,039</u>	<u>5,565,208</u>	<u>5,812,441</u>	<u>247,233</u>
EXPENDITURES:				
Current:				
General Government	863,254	918,845	820,404	98,441
Public Safety	2,597,835	2,729,501	2,724,606	4,895
Highways, Streets and Bridges	501,554	501,554	435,390	66,164
Culture and Recreation	332,222	380,236	342,982	37,254
Other	112,500	159,235	137,790	21,445
Capital Outlay	195,006	673,639	594,467	79,172
Debt Service	42,000	42,000	74,093	(32,093)
Total Expenditures	<u>4,644,371</u>	<u>5,405,010</u>	<u>5,129,732</u>	<u>275,278</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>234,668</u>	<u>160,198</u>	<u>682,709</u>	<u>522,511</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	193,451	-	(193,451)
Transfers Out	(234,668)	(353,649)	(327,884)	25,765
Total Other Financing Sources (Uses)	<u>(234,668)</u>	<u>(160,198)</u>	<u>(327,884)</u>	<u>(167,686)</u>
NET CHANGE IN FUND BALANCE	-	-	354,825	354,825
FUND BALANCE - BEGINNING	<u>2,301,540</u>	<u>2,301,540</u>	<u>2,301,540</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 2,301,540</u>	<u>\$ 2,301,540</u>	<u>\$ 2,656,365</u>	<u>\$ 354,825</u>

CITY OF MENOMINEE, MICHIGAN

Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Major Streets Fund
For the Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
REVENUES:				
Property Taxes	\$ 95,637	\$ 95,637	\$ 96,155	\$ 518
Federal Grants	-	-	64,369	64,369
State Grants	35,000	35,000	55,247	20,247
State Shared Revenue	450,000	450,000	490,311	40,311
Other Revenues	1,500	1,500	5,452	3,952
Total Revenues	<u>582,137</u>	<u>582,137</u>	<u>711,534</u>	<u>129,397</u>
EXPENDITURES:				
Highways, Street and Bridges	382,250	382,250	503,578	(121,328)
Capital Outlay	835,185	835,185	102,599	732,586
Total Expenditures	<u>1,217,435</u>	<u>1,217,435</u>	<u>606,177</u>	<u>611,258</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(635,298)</u>	<u>(635,298)</u>	<u>105,357</u>	<u>740,655</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	710,185	710,185	-	(710,185)
Transfers Out	(74,887)	(74,887)	-	74,887
Total Other Financing Sources (Uses)	<u>635,298</u>	<u>635,298</u>	<u>-</u>	<u>(635,298)</u>
NET CHANGE IN FUND BALANCE	-	-	105,357	105,357
FUND BALANCE - BEGINNING	<u>560,685</u>	<u>560,685</u>	<u>560,685</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 560,685</u>	<u>\$ 560,685</u>	<u>\$ 666,042</u>	<u>\$ 105,357</u>

CITY OF MENOMINEE, MICHIGAN

Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Local Streets Fund
For the Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
REVENUES:				
Property Taxes	\$ 95,637	\$ 95,637	\$ 96,155	\$ 518
State Shared Revenue	175,000	175,000	190,052	15,052
Other Revenues	2,000	2,000	13,006	11,006
Total Revenues	<u>272,637</u>	<u>272,637</u>	<u>299,213</u>	<u>26,576</u>
EXPENDITURES:				
Highways, Street and Bridges	<u>276,500</u>	<u>276,500</u>	<u>286,834</u>	<u>(10,334)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(3,863)</u>	<u>(3,863)</u>	<u>12,379</u>	<u>16,242</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	<u>3,863</u>	<u>3,863</u>	<u>-</u>	<u>(3,863)</u>
Total Other Financing Sources (Uses)	<u>3,863</u>	<u>3,863</u>	<u>-</u>	<u>(3,863)</u>
NET CHANGE IN FUND BALANCE	-	-	12,379	12,379
FUND BALANCE - BEGINNING	<u>482,788</u>	<u>482,788</u>	<u>482,788</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 482,788</u>	<u>\$ 482,788</u>	<u>\$ 495,167</u>	<u>\$ 12,379</u>

CITY OF MENOMINEE, MICHIGAN

Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Street Construction Fund
For the Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
REVENUES:				
Other Revenues	\$ -	\$ -	\$ 848	848
Total Revenues	<u>-</u>	<u>-</u>	<u>848</u>	<u>848</u>
EXPENDITURES:				
Highways, Street and Bridges	710,185	710,185	-	710,185
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(710,185)</u>	<u>(710,185)</u>	<u>848</u>	<u>711,033</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from Bond Issuance	710,185	710,185	4,415,000	3,704,815
Bond Premium	-	-	84,038	84,038
Total Other Financing Sources (Uses)	<u>710,185</u>	<u>710,185</u>	<u>4,499,038</u>	<u>3,788,853</u>
NET CHANGE IN FUND BALANCE	-	-	4,499,886	4,499,886
FUND BALANCE - BEGINNING	<u>711,136</u>	<u>711,136</u>	<u>711,136</u>	<u>-</u>
FUND BALANCE - ENDING	<u><u>\$ 711,136</u></u>	<u><u>\$ 711,136</u></u>	<u><u>\$ 5,211,022</u></u>	<u><u>\$ 4,499,886</u></u>

CITY OF MENOMINEE, MICHIGAN
Notes to the Budgetary Comparison Schedules
For the Year Ended June 30, 2013

BUDGETS AND BUDGETARY ACCOUNTING:

The City follows these procedures in establishing the budgetary data reflected in the budgetary schedules:

- Prior to the first Monday of March, every department submits to the city manager an itemized estimate of its expected income and expenditures during the next fiscal year for the department or activities under its control. The city manager then prepares a proposed budget. A public hearing is then held regarding the proposed budget.
- Not later than sixty days prior to July 1, a recommended budget within the tax limit and other revenue sources of the City is presented to the city council. The annual appropriations bill must then be passed no later than thirty days prior to July 1.
- The city manager may transfer budget amounts between departments within any fund and shall report such transfers to the council in writing in a timely manner. However, any revisions that alter the total expenditures of any fund must be approved by the city council.
- Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds and Proprietary Funds.

BASIS OF ACCOUNTING:

The budget is prepared on the same modified accrual basis of accounting as applied to the governmental funds in the basic financial statements.

EXCESS OF ACTUAL EXPENDITURES OVER BUDGET IN INDIVIDUAL FUNDS:

The following funds have an excess of actual expenditures over budget for the year ended June 30, 2013:

Individual Fund	Excess Expenditures
General Fund:	
Debt Service	\$ 32,093
Major Street Fund:	
Highways, Streets and Bridges	121,328
Local Street Fund:	
Highways, Streets and Bridges	10,334

SUPPLEMENTARY INFORMATION

CITY OF MENOMINEE, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds
As of June 30, 2013

	Permanent Cemetery Perpetual Care	Special Revenue Funds				
	Cemetery Operations	Waterfront Festival	Solid Waste Disposal	Brownfield TIF	Public Improvement	
ASSETS:						
Cash and Cash Equivalents	\$ -	\$ 47,308	\$ 15,185	\$ 111,711	\$ 37,128	\$ 9,853
Investments	1,298,312	13,178	-	-	-	-
Receivables-Net	-	-	-	2,244	-	-
Due from Other Governments	-	-	-	-	-	-
Due from Other Funds	-	117,906	-	170,500	-	-
Inventories and Prepaid Items	-	1,979	408	926	-	-
TOTAL ASSETS	<u>\$ 1,298,312</u>	<u>\$ 180,371</u>	<u>\$ 15,593</u>	<u>\$ 285,381</u>	<u>\$ 37,128</u>	<u>\$ 9,853</u>
LIABILITIES:						
Accounts Payable	\$ -	\$ 13,278	\$ -	\$ 37,474	\$ -	\$ -
Accrued Payroll	-	5,656	-	496	-	-
Due to Other Funds	117,906	66,863	1,212	12,763	29,667	-
Due to Other Governments	-	-	-	-	-	-
TOTAL LIABILITIES	<u>117,906</u>	<u>85,797</u>	<u>1,212</u>	<u>50,733</u>	<u>29,667</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>10,925</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES:						
Non-Spendable	1,180,406	1,979	408	926	-	-
Restricted	-	-	-	-	-	-
Assigned	-	92,595	3,048	233,722	7,461	9,853
TOTAL FUND BALANCES	<u>1,180,406</u>	<u>94,574</u>	<u>3,456</u>	<u>234,648</u>	<u>7,461</u>	<u>9,853</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,298,312</u>	<u>\$ 180,371</u>	<u>\$ 15,593</u>	<u>\$ 285,381</u>	<u>\$ 37,128</u>	<u>\$ 9,853</u>

Special Revenue Funds							
Downtown Development Authority	DDA #2 TIF	Drug Law Enforcement	Spies Public Library	Revolving Loan	Neighborhood Preservation Project	Economic Development Fibrek	Community Development MSHDA
\$ 14,729	\$ 39,769	\$ 20,084	\$ 339,762	\$ 683,715	\$ -	\$ -	\$ 8,446
-	-	-	-	-	-	-	-
-	-	-	-	363,868	70,058	1,000	86,339
-	-	-	46,180	-	-	-	-
-	-	-	-	60,328	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 14,729</u>	<u>\$ 39,769</u>	<u>\$ 20,084</u>	<u>\$ 385,942</u>	<u>\$ 1,107,911</u>	<u>\$ 70,058</u>	<u>\$ 1,000</u>	<u>\$ 94,785</u>
\$ -	\$ -	\$ -	\$ 163	\$ -	\$ -	\$ -	\$ 419
-	-	-	7,255	-	-	-	-
67	-	-	204,418	69,800	-	500	-
-	-	-	-	-	70,058	-	86,339
<u>67</u>	<u>-</u>	<u>-</u>	<u>211,836</u>	<u>69,800</u>	<u>70,058</u>	<u>500</u>	<u>86,758</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	1,038,111	-	-	8,027
14,662	39,769	20,084	174,106	-	-	500	-
<u>14,662</u>	<u>39,769</u>	<u>20,084</u>	<u>174,106</u>	<u>1,038,111</u>	<u>-</u>	<u>500</u>	<u>8,027</u>
<u>\$ 14,729</u>	<u>\$ 39,769</u>	<u>\$ 20,084</u>	<u>\$ 385,942</u>	<u>\$ 1,107,911</u>	<u>\$ 70,058</u>	<u>\$ 1,000</u>	<u>\$ 94,785</u>

CITY OF MENOMINEE, MICHIGAN
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
As of June 30, 2013

	<u>Capital Projects Funds</u>		<u>Debt Service Funds</u>		<u>Total</u>
	<u>Spies Field Improvement Project</u>	<u>Spies Library Construction</u>	<u>Street Construction Debt</u>	<u>Spies Public Library Debt</u>	
ASSETS:					
Cash and Cash Equivalents	\$ 2,327	\$ 71,278	\$ -	\$ -	\$ 1,401,295
Investments	-	-	57,141	141,304	1,509,935
Receivables-Net	39,412	-	-	-	562,921
Due from Other Governments	-	5,200	-	-	51,380
Due from Other Funds	-	-	10,909	-	359,643
Inventories and Prepaid Items	-	-	-	-	3,313
TOTAL ASSETS	<u>\$ 41,739</u>	<u>\$ 76,478</u>	<u>\$ 68,050</u>	<u>\$ 141,304</u>	<u>\$ 3,888,487</u>
LIABILITIES:					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ 51,334
Accrued Payroll	-	-	-	-	13,407
Due to Other Funds	-	41,823	-	13,277	558,296
Due to Other Governments	-	-	-	-	156,397
TOTAL LIABILITIES	<u>-</u>	<u>41,823</u>	<u>-</u>	<u>13,277</u>	<u>779,434</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,925</u>
FUND BALANCES:					
Non-Spendable	-	-	-	-	1,183,719
Restricted	41,739	34,655	68,050	128,027	1,318,609
Assigned	-	-	-	-	595,800
TOTAL FUND BALANCES	<u>41,739</u>	<u>34,655</u>	<u>68,050</u>	<u>128,027</u>	<u>3,098,128</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 41,739</u>	<u>\$ 76,478</u>	<u>\$ 68,050</u>	<u>\$ 141,304</u>	<u>\$ 3,888,487</u>

CITY OF MENOMINEE, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2013

	<u>Permanent</u>	<u>Special Revenue</u>				
	<u>Cemetery Perpetual Care</u>	<u>Cemetery Operations</u>	<u>Waterfront Festival</u>	<u>Solid Waste Disposal</u>	<u>Brownfield TIF</u>	<u>Public Improvement</u>
REVENUES:						
Property Taxes	\$ -	\$ -	\$ -	\$ 199,072	\$ 23,986	\$ -
State Shared Revenue	-	-	-	-	-	-
Fines and Forfeits	-	-	-	-	-	-
Investment Income	26,274	21	51	11,432	80	4
Charges for Services	3,300	64,082	-	440,552	-	-
Other	-	-	122,366	-	-	-
Total Revenues	<u>29,574</u>	<u>64,103</u>	<u>122,417</u>	<u>651,056</u>	<u>24,066</u>	<u>4</u>
EXPENDITURES:						
Culture and Recreation	-	-	130,798	-	-	-
Sanitation	-	-	-	558,570	-	-
Other	7,392	194,973	-	-	-	-
Capital Outlay	-	-	-	-	-	-
Debt Service:						
Principal Retirement	-	39,255	-	-	20,000	-
Interest and Fiscal Charges	-	-	-	-	7,925	-
Total Expenditures	<u>7,392</u>	<u>234,228</u>	<u>130,798</u>	<u>558,570</u>	<u>27,925</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>22,182</u>	<u>(170,125)</u>	<u>(8,381)</u>	<u>92,486</u>	<u>(3,859)</u>	<u>4</u>
OTHER FINANCING SOURCES (USES):						
Transfers In	-	102,160	-	-	6,925	-
Transfers Out	(22,320)	-	-	-	-	-
Total Other Financial Sources (Uses)	<u>(22,320)</u>	<u>102,160</u>	<u>-</u>	<u>-</u>	<u>6,925</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(138)	(67,965)	(8,381)	92,486	3,066	4
FUND BALANCES - BEGINNING	<u>1,180,544</u>	<u>162,539</u>	<u>11,837</u>	<u>142,162</u>	<u>4,395</u>	<u>9,849</u>
FUND BALANCES - ENDING	<u>\$ 1,180,406</u>	<u>\$ 94,574</u>	<u>\$ 3,456</u>	<u>\$ 234,648</u>	<u>\$ 7,461</u>	<u>\$ 9,853</u>

Special Revenue

Downtown Development Authority	DDA #2 TIF	Drug Law Enforcement	Spies Public Library	Revolving Loan	Neighborhood Preservation Project	Economic Development Fibrek	Community Development MSHDA
\$ 7,886	\$ -	\$ -	\$ 194,121	\$ -	\$ -	\$ -	\$ -
-	-	-	4,567	-	-	-	-
-	-	-	48,865	-	-	-	-
-	85	8	-	20,955	-	-	-
-	-	-	7,248	-	-	-	-
1,175	-	3,098	27,603	-	-	-	-
<u>9,061</u>	<u>85</u>	<u>3,106</u>	<u>282,404</u>	<u>20,955</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	415,055	-	-	-	-
-	-	-	-	-	-	-	-
1,879	-	-	-	-	-	-	70
13,520	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>15,399</u>	<u>-</u>	<u>-</u>	<u>415,055</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70</u>
(6,338)	85	3,106	(132,651)	20,955	-	-	(70)
-	-	-	147,903	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	<u>147,903</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(6,338)	85	3,106	15,252	20,955	-	-	(70)
21,000	39,684	16,978	158,854	1,017,156	-	500	8,097
<u>\$ 14,662</u>	<u>\$ 39,769</u>	<u>\$ 20,084</u>	<u>\$ 174,106</u>	<u>\$ 1,038,111</u>	<u>\$ -</u>	<u>\$ 500</u>	<u>\$ 8,027</u>

CITY OF MENOMINEE, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
Nonmajor Governmental Funds
For the Year Ended June 30, 2013

	Capital Projects Funds		Debt Service		Totals
	Spies Field Improvement Project	Spies Library Construction	Street Construction Debt	Spies Public Library Debt	
REVENUES:					
Property Taxes	\$ -	\$ -	\$ 527,628	\$ -	\$ 952,693
State Shared Revenue	-	-	-	-	4,567
Fines and Forfeits	-	-	-	-	48,865
Investment Income	255	-	169	49	59,383
Charges for Services	-	-	-	-	515,182
Other	-	-	-	-	154,242
Total Revenues	<u>255</u>	<u>-</u>	<u>527,797</u>	<u>49</u>	<u>1,734,932</u>
EXPENDITURES:					
Culture and Recreation	-	-	-	-	545,853
Sanitation	-	-	-	-	558,570
Other	2,495	12,600	14	300	219,723
Capital Outlay	-	281,610	-	-	295,130
Debt Service:					
Principal Retirement	-	-	515,000	81,000	655,255
Interest and Fiscal Charges	-	-	11,073	23,493	42,491
Total Expenditures	<u>2,495</u>	<u>294,210</u>	<u>526,087</u>	<u>104,793</u>	<u>2,317,022</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,240)</u>	<u>(294,210)</u>	<u>1,710</u>	<u>(104,744)</u>	<u>(582,090)</u>
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	-	-	-	93,216	350,204
Operating Transfers Out	-	-	-	-	(22,320)
Total Other Financial Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,216</u>	<u>327,884</u>
NET CHANGE IN FUND BALANCES	<u>(2,240)</u>	<u>(294,210)</u>	<u>1,710</u>	<u>(11,528)</u>	<u>(254,206)</u>
FUND BALANCES - BEGINNING	<u>43,979</u>	<u>328,865</u>	<u>66,340</u>	<u>139,555</u>	<u>3,352,334</u>
FUND BALANCES - ENDING	<u>\$ 41,739</u>	<u>\$ 34,655</u>	<u>\$ 68,050</u>	<u>\$ 128,027</u>	<u>\$ 3,098,128</u>

CITY OF MENOMINEE, MICHIGAN

Combining Statement of Net Position

Nonmajor Proprietary Funds

As of June 30, 2013

	<u>River Park</u>	<u>Industrial Aid</u>	<u>Total</u>
ASSETS:			
Current Assets			
Cash and Cash Equivalents	\$ 417,493	\$ -	\$ 417,493
Due from Other Funds	-	42,938	42,938
Total Current Assets	<u>417,493</u>	<u>42,938</u>	<u>460,431</u>
Noncurrent Assets			
Capital Assets - Net of Depreciation	530,624	361,274	891,898
Total Noncurrent Assets	<u>530,624</u>	<u>361,274</u>	<u>891,898</u>
TOTAL ASSETS	<u>948,117</u>	<u>404,212</u>	<u>1,352,329</u>
LIABILITIES:			
Current Liabilities			
Accounts Payable	661	-	661
Accrued Expense	2,404	-	2,404
Due to Other Funds	26,016	-	26,016
Total Current Liabilities	<u>29,081</u>	<u>-</u>	<u>29,081</u>
TOTAL LIABILITIES	<u>29,081</u>	<u>-</u>	<u>29,081</u>
NET POSITION			
Net Investment in Capital Assets	530,624	361,274	891,898
Unrestricted	388,412	42,938	431,350
TOTAL NET POSITION	<u>\$ 919,036</u>	<u>\$ 404,212</u>	<u>\$ 1,323,248</u>

CITY OF MENOMINEE, MICHIGAN
Combining Statement of Revenues, Expenses and Changes in Net Position
Nonmajor Proprietary Funds
For the Year Ended June 30, 2013

	<u>River Park</u>	<u>Industrial Aid</u>	<u>Total</u>
OPERATING REVENUES:			
Other Revenues	\$ 118,020	\$ -	\$ 118,020
Total Operating Revenues	<u>118,020</u>	<u>-</u>	<u>118,020</u>
OPERATING EXPENSES:			
Personal Services	45,648	-	45,648
Contractual Services	5,702	-	5,702
Utilities	23,196	-	23,196
Repairs and Maintenance	2,180	-	2,180
Other Supplies and Expenses	4,790	-	4,790
Depreciation	31,630	-	31,630
Total Operating Expenses	<u>113,146</u>	<u>-</u>	<u>113,146</u>
Operating Income (Loss)	<u>4,874</u>	<u>-</u>	<u>4,874</u>
NON-OPERATING REVENUE (EXPENSE):			
Interest and Investment Revenue	137	-	137
Total Non-Operating Revenue (Expense)	<u>137</u>	<u>-</u>	<u>137</u>
CHANGE IN NET POSITION	5,011	-	5,011
NET POSITION - BEGINNING	<u>914,025</u>	<u>404,212</u>	<u>1,318,237</u>
NET POSITION - ENDING	<u>\$ 919,036</u>	<u>\$ 404,212</u>	<u>\$ 1,323,248</u>

CITY OF MENOMINEE, MICHIGAN

Combining Statement of Cash Flows

Nonmajor Proprietary Funds

For the Year Ended June 30, 2013

	<u>River Park</u>	<u>Industrial Aid</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from Customers	\$ 118,020	\$ -	\$ 118,020
Payments to Suppliers	(35,678)	-	(35,678)
Payments to Employees	(45,450)	-	(45,450)
Internal Activity - Payments to Other Funds	9,661	1,065	10,726
Net Cash From Operating Activities	<u>46,553</u>	<u>1,065</u>	<u>47,618</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of Capital Assets	-	(1,065)	(1,065)
Net Cash From Capital and Related Financing Activities	<u>-</u>	<u>(1,065)</u>	<u>(1,065)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest Income	137	-	137
NET CHANGE IN CASH AND CASH EQUIVALENTS	46,690	-	46,690
CASH AND CASH EQUIVALENTS - BEGINNING	<u>370,803</u>	<u>-</u>	<u>370,803</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 417,493</u>	<u>\$ -</u>	<u>\$ 417,493</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating Income	\$ 4,874	\$ -	\$ 4,874
Adjustments to Reconcile Operating Income (Loss) to Net Cash From Operating Activities:			
Depreciation	31,631	-	31,631
Changes in Non-Cash Components of Working Capital:			
Accounts Payable	189	-	189
Accrued Expenses	198	-	198
Due to Other Funds	9,661	1,065	10,726
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 46,553</u>	<u>\$ 1,065</u>	<u>\$ 47,618</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS:			
Unrestricted Cash and Investments	<u>\$ 417,493</u>	<u>\$ -</u>	<u>\$ 417,493</u>

CITY OF MENOMINEE, MICHIGAN

Combining Statement of Net Position

Employee Trust Funds

As of June 30, 2013

	<u>Police and Fire Retirement</u>	<u>Employee Flexible Benefits</u>	<u>Totals</u>
ASSETS:			
Cash and Cash Equivalents	\$ 53,926	\$ 7,809	\$ 61,735
Investments at Fair Value	9,845,026	-	9,845,026
TOTAL ASSETS	<u>9,898,952</u>	<u>7,809</u>	<u>9,906,761</u>
LIABILITIES:			
Due to Other Funds	<u>67,204</u>	<u>7,240</u>	<u>74,444</u>
NET POSITION:			
Held in Trust for Employees' Retirement System	9,831,748	-	9,831,748
Reserved for Employees' Benefits	-	569	569
TOTAL NET POSITION	<u>\$ 9,831,748</u>	<u>\$ 569</u>	<u>\$ 9,832,317</u>

CITY OF MENOMINEE, MICHIGAN
Combining Statement of Changes in Net Position
Employee Trust Funds
For the Year Ended June 30, 2013

	<u>Police and Fire Retirement</u>	<u>Employee Flexible Benefits</u>	<u>Totals</u>
ADDITIONS:			
Contributions:			
Employees	\$ 97,819	\$ 14,215	\$ 112,034
Employer	462,004	-	462,004
Interest and Dividends	685,888	-	685,888
Total Additions	<u>1,245,711</u>	<u>14,215</u>	<u>1,259,926</u>
DEDUCTIONS:			
Net Depreciation in Fair Value of Investments	20,844	-	20,844
Annuities	805,532	-	805,532
Benefits	-	15,198	15,198
Refunds	50,738	-	50,738
Total Deductions	<u>877,114</u>	<u>15,198</u>	<u>892,312</u>
CHANGE IN NET POSITION	368,597	(983)	367,614
NET POSITION - BEGINNING	<u>9,463,151</u>	<u>1,552</u>	<u>9,464,703</u>
NET POSITION - ENDING	<u>\$ 9,831,748</u>	<u>\$ 569</u>	<u>\$ 9,832,317</u>

CITY OF MENOMINEE, MICHIGAN

Schedule of Bonded Indebtedness

June 30, 2013

Debt Description		Date of Issue	Amount of Issue	
1999 Building Authority Bonds (Limited Tax General Obligation) (Marina Fund)		5/1/99	\$	1,250,000
Interest Rate	Date	Principal	Interest	
4.80%	10/01/13	\$ 105,000	\$	20,227
4.85%	10/01/14	115,000		14,919
4.90%	10/01/15	120,000		9,190
5.00%	10/01/16	125,000		3,125
		\$ 465,000	\$	47,461

Debt Description		Date of Issue	Amount of Issue	
Unlimited Tax General Obligation Bonds, Series 2003 (Refunding of Callable 1995 Library Bonds)		9/4/03	\$	965,000
Interest Rate	Date	Principal	Interest	
4.30%	10/01/13	\$ 85,000	\$	14,570
4.30%	10/01/14	90,000		10,808
4.55%	10/01/15	95,000		6,711
4.55%	10/01/16	100,000		2,275
		\$ 370,000	\$	34,364

Debt Description		Date of Issue	Amount of Issue	Interest Rate
2007 Brownfield Redemption Authority Tax Investment Bonds (Limited Tax General Obligation)		6/5/07	\$ 225,000	6.34%
Date	Principal	Interest		
06/15/14	\$ 20,000	\$ 6,657		
06/15/15	20,000	5,389		
06/15/16	20,000	4,121		
06/15/17	20,000	2,853		
06/15/18	25,000	1,585		
	\$ 105,000	\$ 20,605		

CITY OF MENOMINEE, MICHIGAN
Schedule of Bonded Indebtedness (Continued)
June 30, 2013

Debt Description		Date of Issue	Amount of Issue
2007 Capital Improvement Bonds (Limited Tax General Obligation)		7/1/07	\$ 2,015,000
Interest Rate	Date	Principal	Interest
4.650%	11/1/13	\$ 85,000	\$ 76,109
4.650%	11/1/14	85,000	72,156
4.700%	11/1/15	90,000	68,065
4.700%	11/1/16	90,000	63,835
4.700%	11/1/17	100,000	59,370
4.700% - 4.750%	11/1/18 - 11/1/22	555,000	221,739
4.700% - 4.750%	11/1/23 - 11/1/28	650,000	79,325
		\$ 1,655,000	\$ 640,599

Debt Description		Date of Issue	Amount of Issue	Interest Rate
Water Supply System Junior Lien Revenue Bond, Series 2010		6/17/2010	\$ 2,370,000	3.25%
Date	Principal	Interest		
04/01/14	\$ 30,000	\$ 71,208		
04/01/15	31,000	70,232		
04/01/16	32,000	69,226		
04/01/17	34,000	68,186		
04/01/18	35,000	67,080		
04/01/19 - 04/01/23	194,000	317,588		
04/01/24 - 04/01/28	232,000	283,660		
04/01/29 - 04/01/33	276,000	243,136		
04/01/34 - 04/01/38	332,000	194,806		
04/01/39 - 04/01/43	396,000	136,858		
04/01/44 - 04/01/48	472,000	67,732		
04/01/49 - 04/01/50	127,000	4,844		
		\$ 2,191,000	\$ 1,594,556	

CITY OF MENOMINEE, MICHIGAN
Schedule of Bonded Indebtedness (Continued)
June 30, 2013

<u>Debt Description</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>
Sewage Disposal System Junior Lien Revenue Bond, Series 2010	6/17/2010	\$ 1,410,000	3.25%
<u>Date</u>	<u>Principal</u>	<u>Interest</u>	
04/01/14	\$ 18,000	\$ 42,640	
04/01/15	19,000	42,056	
04/01/16	19,000	41,438	
04/01/17	20,000	40,820	
04/01/18	21,000	40,170	
04/01/19 - 04/01/23	116,000	190,158	
04/01/24 - 04/01/28	140,000	169,814	
04/01/29 - 04/01/33	166,000	145,438	
04/01/34 - 04/01/38	198,000	116,416	
04/01/39 - 04/01/43	237,000	81,836	
04/01/44 - 04/01/48	285,000	40,302	
04/01/49 - 04/01/50	73,000	2,698	
	<u>\$ 1,312,000</u>	<u>\$ 953,786</u>	

<u>Debt Description</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>
2012 Capital Improvement Bonds (Limited Tax General Obligation)	6/25/2012	\$ 300,000	3.375%
<u>Date</u>	<u>Principal</u>	<u>Interest</u>	
04/01/14	\$ 6,000	\$ 9,923	
04/01/15	6,000	9,720	
04/01/16	7,000	9,517	
04/01/17	7,000	9,281	
04/01/18	7,000	9,045	
04/01/19 - 04/01/23	38,000	41,581	
04/01/24 - 04/01/28	46,000	34,594	
04/01/29 - 04/01/33	54,000	26,393	
04/01/34 - 04/01/38	64,000	16,605	
04/01/39 - 04/01/42	59,000	5,029	
	<u>\$ 294,000</u>	<u>\$ 171,688</u>	

CITY OF MENOMINEE, MICHIGAN
Schedule of Bonded Indebtedness (Continued)
June 30, 2013

<u>Debt Description</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>
2013 Capital Improvement and Refunding Bonds (Limited Tax General Obligation)	5/15/13	\$ 3,480,000

<u>Interest Rate</u>	<u>Date</u>	<u>Principal</u>	<u>Interest</u>
2.000%	04/01/14	\$ 90,000	\$ 87,388
2.000%	04/01/15	100,000	97,756
2.000%	04/01/16	105,000	95,756
2.000%	04/01/17	110,000	93,656
2.000%	04/01/18	110,000	91,456
2.000%	04/01/19 – 04/01/23	585,000	423,381
3.000%	04/01/24 – 04/01/28	675,000	348,781
3.000% - 3.250%	04/01/29 – 04/01/33	780,000	257,228
3.500% - 3.625%	04/01/34 – 04/01/38	925,000	85,924
		<u>\$ 3,480,000</u>	<u>\$ 1,581,326</u>

<u>Debt Description</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>
Unlimited Tax General Obligation Bonds, Series 2013	6/26/13	\$ 4,415,000

<u>Interest Rate</u>	<u>Date</u>	<u>Principal</u>	<u>Interest</u>
1.000%	05/01/14	\$ 355,000	\$ 81,227
1.000%	05/01/15	395,000	92,325
1.500%	05/01/16	410,000	88,375
2.000%	05/01/17	425,000	82,225
2.000%	05/01/18	435,000	73,725
2.000% - 3.000%	05/01/19 – 05/01/23	2,395,000	210,600
		<u>\$ 4,415,000</u>	<u>\$ 628,477</u>

CITY OF MENOMINEE, MICHIGAN
Schedule of Bond Reserve Requirements
June 30, 2013

	Required Balance	Actual Balance
<u>Water Fund</u>		
<u>2010 Junior Lien Bonds</u>		
Senior Lien Bond and Interest Redemption Fund:		
Junior Lien Bond and Interest Redemption Account	\$ 26,942	\$ 26,969
Junior Lien Bond Reserve Account	33,900	33,911
Repair, Replacement and Improvement Fund	135,000	135,045
<u>2013 Capital Improvement and Refunding Bonds</u>		
M-35 Construction Account	1,073,851	1,073,851
		\$ 1,269,776
<u>Sewer/Wastewater Fund</u>		
<u>2010 Junior Lien Bonds</u>		
Senior Lien Bond and Interest Redemption Fund:		
Junior Lien Bond and Interest Redemption Account	\$ 15,998	\$ 15,998
Junior Lien Bond Reserve Account	20,100	20,105
Repair, Replacement and Improvement Fund	135,000	135,044
<u>2013 Capital Improvement and Refunding Bonds</u>		
M-35 Construction Account	923,565	923,565
		\$ 1,094,712

**OTHER REPORTING REQUIRED BY
GOVERNMENT AUDITING STANDARDS**



UNGER & WALTERS, S.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Members of the Common Council
City of Menominee
Menominee, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Menominee, Michigan ("City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 19, 2013.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding #13-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to the Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



UNGER & WALTERS, S.C.
Certified Public Accountants
December 19, 2013



UNGER & WALTERS, S.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Honorable Mayor and Members of the Common Council
City of Menominee
Menominee, Michigan

Report on Compliance for Each Major Federal Program

We have audited City of Menominee, Michigan's ("City's"), compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each of the Major Federal Programs

In our opinion, the City complied, in all material respects, with the type of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of questioned costs as items #13-2 to be a material weakness.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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



UNGER & WALTERS, S.C.
Certified Public Accountants
December 19, 2013

FEDERAL AWARDS SECTION

CITY OF MENOMINEE, MICHIGAN
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title Grant Number	Federal CFDA Number	Approved Grant/ Award Amount	Accrued (Deferred) Revenue 7/1/2012	Current Year Receipts
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed Through Federal Emergency Management Agency (FEMA)				
Assistance to Firefighters	97.044	\$ 125,123	\$ -	\$ 122,830
Assistance to Firefighters	97.044	375,000	-	375,000
Total U.S. Department of Homeland Security			-	497,830
U.S. DEPARTMENT OF TRANSPORTATION				
Passed Through State of Michigan Transportation				
Highway Planning and Construction: Job #114396	20.205	375,000	-	64,369
Total U.S. Department of Transportation			-	64,369
U.S. DEPARTMENT OF JUSTICE				
U.S. Department of Justice - Direct				
Safe Trails Task Force	16.308	5,442	-	5,442
Bulletproof Vest Program	16.607	691	-	691
Total U.S. Department of Justice			-	6,133
TOTAL FEDERAL FINANCIAL AWARDS			\$ -	\$ 568,332

See Notes to Schedule of Expenditures of Federal Awards

<u>Current Year Expenditures</u>	<u>Accrued (Deferred) Revenue 6/30/2013</u>
\$ 122,830	\$ -
375,000	-
<u>497,830</u>	<u>-</u>
64,369	-
<u>64,369</u>	<u>-</u>
5,442	-
691	-
<u>6,133</u>	<u>-</u>
<u>\$ 568,332</u>	<u>\$ -</u>

CITY OF MENOMINEE
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards include the federal grant activity of the City of Menominee, Michigan, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 – OVERSIGHT AGENCY

The City's federal oversight agency is the U.S. Department of Homeland Security.

CITY OF MENOMINEE
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified? Yes No

Significant deficiencies identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards:

Internal control over major programs:

Material weakness identified? Yes No

Significant deficiencies identified? Yes None Reported

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

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
97.044	U.S. Department of Homeland Security <u>FEMA – Administered Cluster:</u> Assistance to Firefighters

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

Auditee qualified as low-risk auditee? Yes No

CITY OF MENOMINEE
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section II – Financial Statements Findings

#13-1 SEGREGATION OF DUTIES

Criteria: One component of internal control is to assure that no one individual is able to control all aspects of a transaction cycle. (i.e., receipts, disbursements, etc.).

Condition: Due to limited staff, various business and accounting functions of the City are performed by one or a few individuals.

Cause: The cause of this condition is that management feels the City is not large enough to make the employment of additional persons for the purpose of segregating duties practical from a financial standpoint.

Effect: As a result of this condition, unauthorized transactions could occur in the City's operation.

Recommendation: We recommend that duties should be segregated as much as possible and compensating controls should be used to compensate for the lack of segregation of duties. This includes that the City's Common Council and management continue to provide a greater review and supervision of employee functions and procedures.

Management's Response: Management concurs with this finding and will continue to look for opportunities to strengthen this area. Segregation of duties is enhanced whenever possible and the City's Finance Committee, Common Council and management assumes an active roll through monthly review of receipt and disbursement transactions, review of monthly financial reports, and comparisons to budget. In addition, the Finance Committee, Common Council and management will continue to rely on its direct knowledge of daily operations and direct contact with employees to better control and safeguard assets.

CITY OF MENOMINEE
Schedule of Findings and Questioned Costs (Continued):
For the Year Ended June 30, 2013

Section III - Federal Award Findings and Questioned Costs

#13-2 SEGREGATION OF DUTIES

Criteria: One component of internal control is to assure that no one individual is able to control all aspects of a transaction cycle. (i.e., receipts, disbursements, etc.).

Condition: Due to limited staff, various business and accounting functions of the City are performed by one or a few individuals.

Cause: The cause of this condition is that management feels the City is not large enough to make the employment of additional persons for the purpose of segregating duties practical from a financial standpoint.

Effect: As a result of this condition, unauthorized transactions could occur in the City's operation.

Recommendation: We recommend that duties should be segregated as much as possible and compensating controls should be used to compensate for the lack of segregation of duties. This includes that the City's Common Council and management continue to provide a greater review and supervision of employee functions and procedures.

Management's Response: Management concurs with this finding and will continue to look for opportunities to strengthen this area. Segregation of duties is enhanced whenever possible and the City's Common Council and management assumes an active roll through monthly review of receipt and disbursement transactions, review of monthly financial reports, and comparisons to budget. In addition, the Common Council and management will continue to rely on its direct knowledge of daily operations and direct contact with employees to better control and safeguard assets.

CITY OF MENOMINEE
Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2013

#12-1 Segregation of Duties

The June 30, 2012 findings indicated that because of the limited staff at the City, there was a lack of segregation of duties. Management is aware of this deficiency and will enhance segregation of duties whenever possible and the Common Council and Finance Committee will continue to assume an active roll of monitoring by review of monthly receipt and disbursement transactions and monthly financial statements.

#12-2 Preparation of Financial Statement in Accordance with GAAP

The June 30, 2012 findings indicated the City did not prepare the financial statements including related notes in accordance with generally accepted accounting principles (“GAAP”). Management is aware of this deficiency and will continue to rely on the auditors to assist with preparing the draft copy of the financial statements and related notes as the internal time and cost to prepare the statements is not cost beneficial. This is now considered a non-audit service and the City has appointed an individual with appropriate skill, knowledge, or experience to oversee this non-audit service.

#12-3 Water and Sewer Revenue Bonds – Reserve Accounts

The June 30, 2012 findings indicated the City did not properly account for several water and sewer revenue bond reserves per various bond agreements. This situation was resolved during the fiscal year ended June 30, 2013.

CITY OF MENOMINEE
Corrective Action Plan
For the Year Ended June 30, 2013

Findings #13-1 and #13-2 - Segregation of Duties

The findings indicate that because of the limited staff at the City, there was a lack of segregation of duties. Management is aware of this deficiency and will enhance segregation of duties whenever possible and the Common Council and Finance Committee will continue to assume an active roll of monitoring by review of monthly receipt and disbursement transactions and monthly financial statements.