

CITY OF MARSHALL, MICHIGAN

Year Ended
June 30, 2012

Financial
Statements

CITY OF MARSHALL, MICHIGAN

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet - Governmental Funds	16
Reconciliation of Fund Balances for Governmental Funds to Net Assets of Governmental Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	18
Reconciliation of Net Changes in Fund Balances of Governmental Funds to Change in Net Assets of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	20
Statement of Net Assets - Proprietary Funds	22
Reconciliation of Net Assets for Enterprise Funds to Net Assets of Business-type Activities	24
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	26
Reconciliation of Net Changes in Net Assets of Enterprise Funds to Change in Net Assets of Business-type Activities	28
Statement of Cash Flows - Proprietary Funds	30
Statement of Fiduciary Assets and Liabilities - Agency Funds	34
Discretely Presented Component Units:	
Combining Statement of Net Assets	35
Combining Statement of Activities	36
Notes to Financial Statements	38
Required Supplementary Information	
Schedules of Funding Progress and Employer Contributions:	
Municipal Employees' Retirement System of Michigan	61
Other Postemployment Health Care Benefits	62
Combining and Individual Fund Financial Statements and Schedules	
Combining Balance Sheet - Nonmajor Governmental Funds	64
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	65
Combining Balance Sheet - Nonmajor Special Revenue Funds	66
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Special Revenue Funds	67

CITY OF MARSHALL, MICHIGAN

Table of Contents

	<u>Page</u>
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Nonmajor Special Revenue Funds	68
Combining Balance Sheet - Nonmajor Debt Service Funds	71
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Debt Service Funds	72
Supplemental Schedule of Operating Expenses - Electric, Wastewater and Water Enterprise Funds	73
Supplemental Schedule of Revenues and Expenses - Dial-A-Ride Transportation Fund	75
Nonurban Regular Service Revenue Report - Dial-A-Ride Transportation Fund	80
Nonurban Regular Service Expense Report - Dial-A-Ride Transportation Fund	81
Nonurban Regular Service Nonfinancial Report - Dial-A-Ride Transportation Fund	83
Combining Statement of Net Assets - Internal Service Funds	84
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets - Internal Service Funds	85
Combining Statement of Cash Flows - Internal Service Funds	86
Combining Statement of Fiduciary Assets and Liabilities - Agency Funds	87
Discretely Presented Component Units:	
Statement of Net Assets and Governmental Fund Balance Sheet - Downtown Development Authority	88
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances - Downtown Development Authority	89
Statement of Activities, Expenditures and Changes in Fund Balance - Budget and Actual - Downtown Development Authority	90
Statement of Net Assets and Governmental Fund Balance Sheet - Local Development Finance Authority	91
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances - Local Development Finance Authority	92
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Local Development Finance Authority	93
Statement of Net Assets and Governmental Fund Balance Sheet - Economic Development Corporation	94
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance - Economic Development Corporation	95
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Economic Development Corporation	96

This page intentionally left blank.

INDEPENDENT AUDITORS' REPORT

December 13, 2012

Honorable Mayor and
Members of the City Council
City of Marshall, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Marshall, Michigan*, (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Marshall's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marshall, Michigan, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2012 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions for the pension and other postemployment benefit plans, as noted in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MARSHALL, MICHIGAN

Management's Discussion and Analysis

As management of the City of Marshall, Michigan, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with the basic financial statements.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$43,482,857 (net assets). Of this amount, \$14,331,672 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$554,340.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,703,632, an increase of \$205,285 in comparison with the prior year. Approximately 46.0 percent of this total amount, or \$1,705,362, is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,705,362 or 32.3% of total general fund revenues and other financing sources.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, highways and streets, parks and recreation and community development. The business-type activities of the City include electric, wastewater, water, public transit, solid waste collection, affordable senior citizen housing and other enterprise operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also legally separate entities for which the City is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself. The Building Authority, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

CITY OF MARSHALL, MICHIGAN

Management's Discussion and Analysis

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government wide financial statements. However, unlike the government wide financial statements, governmental fund financial statements focus on *near term inflows and outflows of spendable resources*, as well as on *balances of spendable* resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, wastewater, water, public transportation, housing and other operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses *internal service funds* to account for its motor pool, employee safety services, and data processing/computer technology. Because these services predominantly benefit governmental rather than business type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, wastewater, water, Dial-A-Ride, and public housing (Marshall House) funds, which are considered to be major funds of the City. Conversely, all of the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

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 own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents the combining statements referred to earlier in connection with nonmajor funds.

CITY OF MARSHALL, MICHIGAN

Management's Discussion and Analysis

Government-wide Financial Analysis

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the City of Marshall, assets exceeded liabilities by \$43,482,857 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (51.8 percent) reflects its investment in capital assets (such as land, buildings, vehicles, equipment, systems and infrastructure), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 5,317,586	\$ 4,785,679	\$19,652,444	\$19,953,504	\$24,970,030	\$24,739,183
Capital assets, net	16,677,437	16,851,586	16,012,795	16,162,897	32,690,232	33,014,483
Total assets	21,995,023	21,637,265	35,665,239	36,116,401	57,660,262	57,753,666
Long-term liabilities	3,296,034	3,167,161	7,335,474	7,958,774	10,631,508	11,125,935
Other liabilities	2,103,792	1,496,997	1,442,105	1,093,537	3,545,897	2,590,534
Total liabilities	5,399,826	4,664,158	8,777,579	9,052,311	14,177,405	13,716,469
Net assets:						
Invested in capital assets, net of related debt	13,632,575	13,960,325	8,876,689	8,378,716	22,509,264	22,339,041
Restricted	787,803	772,879	5,285,471	4,347,200	6,073,274	5,120,079
Unrestricted	2,174,819	2,239,903	12,725,500	14,338,174	14,900,319	16,578,077
Total net assets	\$16,595,197	\$16,973,107	\$26,887,660	\$27,064,090	\$43,482,857	\$44,037,197

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

An additional portion of the County's net assets of \$6,073,274 (14.0 percent) represents resources that are subject to external restrictions on how they may be used. The County may use the remaining balance of unrestricted net assets of \$14,900,319 (34.3 percent) to meet its ongoing obligations to citizens and creditors.

The government's net assets decreased by \$554,340 during the current fiscal year as compared to an increase of \$1,310,583 for the prior year. The current year increase in net assets reflects the extent by which revenues exceeded accrual basis expenses, including depreciation on governmental capital assets and infrastructure.

CITY OF MARSHALL, MICHIGAN

Management's Discussion and Analysis

	Change in Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	\$ 1,390,503	\$ 1,461,292	\$15,247,070	\$15,985,395	\$16,637,573	\$17,446,687
Operating grants	1,426,002	1,311,931	554,956	644,678	1,980,958	1,956,609
Capital grants	-	91,257	15,072	299,404	15,072	390,661
General revenues:						
Property taxes	3,400,641	3,487,465	99,887	102,461	3,500,528	3,589,926
Grants and contributions not restricted to specific programs	639,043	610,106	-	-	639,043	610,106
Other	82,489	75,757	29,323	297,609	111,812	373,366
Total revenues	6,938,678	7,037,808	15,946,308	17,329,547	22,884,986	24,367,355
Expenses:						
General government	2,035,070	1,907,279	-	-	2,035,070	1,907,279
Public safety	2,675,567	2,722,997	-	-	2,675,567	2,722,997
Public works	1,954,109	1,877,076	-	-	1,954,109	1,877,076
Parks and recreation	599,987	623,244	-	-	599,987	623,244
Community development	167,198	151,077	-	-	167,198	151,077
Interest on long-term debt	121,582	135,294	-	-	121,582	135,294
Electric	-	-	12,352,835	12,118,033	12,352,835	12,118,033
Wastewater	-	-	1,343,044	1,310,690	1,343,044	1,310,690
Water	-	-	1,219,040	1,287,914	1,219,040	1,287,914
Public transit	-	-	385,992	401,678	385,992	401,678
Public housing	-	-	584,902	521,490	584,902	521,490
Total expenses	7,553,513	7,416,967	15,885,813	15,639,805	23,439,326	23,056,772
Change in net assets before transfers	(614,835)	(379,159)	60,495	1,689,742	(554,340)	1,310,583
Transfers	236,925	237,808	(236,925)	(237,808)	-	-
Change in net assets	(377,910)	(141,351)	(176,430)	1,451,934	(554,340)	1,310,583
Net assets:						
Beginning of year	16,973,107	17,114,458	27,064,090	25,612,156	44,037,197	42,726,614
End of year	<u>\$16,595,197</u>	<u>\$16,973,107</u>	<u>\$26,887,660</u>	<u>\$27,064,090</u>	<u>\$43,482,857</u>	<u>\$44,037,197</u>

Governmental activities. Governmental activities decreased the City's net assets by \$377,910 (as compared to a prior year decrease of \$141,351). The major element of this decrease and the change from the prior year is mainly due to the decline in revenue growth as a result of decreasing market property values and investment.

Business-type activities. Business-type activities decreased the City's net assets by \$176,430 as compared to an increase of \$1,451,934 the prior year.

CITY OF MARSHALL, MICHIGAN

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,703,632, an increase of \$203,285 in comparison with the prior year. Approximately 46.0% of this total amount (\$1,705,362) constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is designated as *nonspendable*, *restricted* or *committed* to indicate the degree to which those monies are available for the identified purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,705,362, while the total fund balance was \$2,370,824. As a measure of the general fund's liquidity, it is useful to compare unassigned fund balance to total general fund revenues. Unassigned fund balance represents 32.3 percent of total general fund revenues and other financing sources. As a measure of fiscal stability (when examining the City's ability to maintain public services if a major revenue source is disrupted), the ratio of unassigned fund balance is 33.0 percent of expenditures and transfers out.

It should also be noted that the City has a long-standing policy to maintain a cash reserve of \$500,000 committed for working capital. This amount is included in the committed portion of the total fund balance.

The fund balance of the City's general fund increased by \$118,329 during the current fiscal year, which was \$130,085 more than the total operating deficit that was authorized in the final amended budget (and \$136,230 more than the original budget).

The City has seen a reduction in its overall taxable valuation due to the market decline in property values and a few industrial businesses closing.

Proprietary funds. The City's proprietary funds provide the same type of information found in the business-type activities in the government-wide financial statements, but in more detail.

Unrestricted net assets of the electric fund at the end of the year amounted to \$11,376,410. The fund had a decrease in net assets for the year of \$269,956 as compared to an increase of \$1,293,290 in the prior year.

The wastewater fund reported unrestricted net assets at the end of the year of \$452,089. For the year, the fund had an increase in net assets of \$96,433 as compared to an increase of \$60,102 in the prior year.

The water fund reported unrestricted net assets at the end of the year of \$451,801. For the year, the fund had an increase in net assets of \$24,273 as compared to an increase of \$147,915 in the prior year.

The Dial-A-Ride fund reported unrestricted net assets at the end of the year of \$121,642. For the year, the fund had an increase in net assets of \$14,115 as compared to a decrease of \$37,731 in the prior year.

The Marshall House fund reported unrestricted net assets at the end of the year of \$388,563. For the year, the fund had a decrease in net assets of \$17,819 as compared to an increase of \$34,593 in the prior year.

CITY OF MARSHALL, MICHIGAN

Management's Discussion and Analysis

General Fund Budgetary Highlights

Differences between the final amended budgets and actual revenues and expenditures were minor. For the year, general fund budgetary estimates for revenues, expenditures and other financing sources and uses differed from actual, resulting in a net increase in fund balance that was \$130,085 more than anticipated in the final amended budget.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounted to \$32,690,232 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, system, vehicles, equipment, and streets. Net capital assets for governmental activities decreased 1.0%, and for business-type activities decreased by 0.9%. Overall, total net capital assets for the City decreased 1.0%.

Capital Assets (Net of Depreciation)						
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 2,018,823	\$ 2,257,343	\$ 283,787	\$ 164,618	\$ 2,302,610	\$ 2,421,961
Land improvements	1,914,574	2,215,272	-	-	1,914,574	2,215,272
Buildings	3,359,381	3,565,247	1,535,256	1,718,651	4,894,637	5,283,898
Vehicles	220,138	1,472,731	573,203	552,541	793,341	2,025,272
Equipment	2,169,614	392,342	375,661	379,967	2,545,275	772,309
Systems	-	-	13,244,888	13,347,120	13,244,888	13,347,120
Infrastructure	6,994,907	6,948,651	-	-	6,994,907	6,948,651
Total capital assets, net	\$16,677,437	\$16,851,586	\$16,012,795	\$16,162,897	\$32,690,232	\$33,014,483

Additional information on the City's capital assets can be found in Note 8 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$8,975,000. Of this amount, \$8,355,000 is comprised of debt backed by the full faith and credit of the government. The remainder of the City's bonded debt represents bonds secured solely by specified revenue sources.

General Obligation and Revenue Bonds						
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 2,540,000	\$ 2,850,000	\$ 5,815,000	\$ 6,405,000	\$ 8,355,000	\$ 9,255,000
Revenue bonds	-	-	620,000	680,000	620,000	680,000
Total	\$ 2,540,000	\$ 2,850,000	\$ 6,435,000	\$ 7,085,000	\$ 8,975,000	\$ 9,935,000

The City's total bonded debt decreased by \$960,000 (9.7 percent) during the current fiscal year; no new bonds were issued during the year.

The following chart depicts the City's credit rating for the various outstanding debt by Standard & Poors:

Electric revenue bonds	BBB+
General obligation limited tax bonds	A+
General obligation unlimited tax bonds	A+

CITY OF MARSHALL, MICHIGAN

Management's Discussion and Analysis

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total state equalized valuation. The current debt limitation for the City is \$24,554,808 which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note 11 of this report.

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the City's budget for the next fiscal year:

- Developed target-based budgets within the context of the forecasted revenues;
- Flat in state shared revenue;
- Slight increase in property tax revenues; and
- Expenditure increases generally limited to inflation with a dramatically reduced capital project program.

During the current fiscal year, the unassigned fund balance in the general fund increased by \$51,486 to \$1,705,362. The City has not appropriated any fund balance for fiscal 2012-13 planned expenditures.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 323 West Michigan Avenue, Marshall, Michigan 49068-1578.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF MARSHALL, MICHIGAN

Statement of Net Assets

June 30, 2012

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 643,664	\$ 1,162,516	\$ 1,806,180	\$ 43,757
Investments	4,247,783	484,873	4,732,656	1,862,803
Receivables	183,474	1,376,603	1,560,077	8,305
Internal balances	65,005	(65,005)	-	-
Inventories, prepaid items and other assets	177,660	1,209,520	1,387,180	35,110
Investment in MSCPA	-	10,198,466	10,198,466	-
Restricted cash and cash equivalents	-	5,285,471	5,285,471	281,610
Capital assets not being depreciated	2,018,823	283,787	2,302,610	-
Capital assets being depreciated, net	14,658,614	15,729,008	30,387,622	562,085
Total assets	21,995,023	35,665,239	57,660,262	2,793,670
Liabilities				
Accounts payable and accrued expenses	555,057	1,378,117	1,933,174	12,443
Accrued interest payable	36,035	63,988	100,023	14,252
Unearned revenue	29,589	-	29,589	-
Net other postemployment benefit obligation	1,483,111	-	1,483,111	-
Long-term liabilities:				
Due within one year	532,632	729,843	1,262,475	115,000
Due in more than one year	2,763,402	6,605,631	9,369,033	1,590,000
Total liabilities	5,399,826	8,777,579	14,177,405	1,731,695
Net assets				
Invested in capital assets, net of related debt	13,632,575	8,876,689	22,509,264	562,085
Restricted for:				
Debt service	16,259	5,285,471	5,301,730	281,610
Capital projects	61,654	-	61,654	-
Cemetery perpetual care and operations	709,890	-	709,890	-
Unrestricted	2,174,819	12,725,500	14,900,319	218,280
Total net assets	\$ 16,595,197	\$ 26,887,660	\$ 43,482,857	\$ 1,061,975

The accompanying notes are an integral part of these financial statements.

CITY OF MARSHALL, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2012

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 2,035,070	\$ 1,173,148	\$ 880,950	\$ -	\$ 19,028
Public safety	2,675,567	-	-	-	(2,675,567)
Public works	1,954,109	-	545,052	-	(1,409,057)
Parks and recreation	599,987	217,355	-	-	(382,632)
Community development	167,198	-	-	-	(167,198)
Interest on long-term debt	121,582	-	-	-	(121,582)
Total governmental activities	7,553,513	1,390,503	1,426,002	-	(4,737,008)
Business-type activities:					
Electric	12,352,835	12,209,757	51,183	-	(91,895)
Wastewater	1,343,044	1,366,166	55,537	11,480	90,139
Water	1,219,040	1,257,005	426	3,592	41,983
Public transit	385,992	47,715	251,549	-	(86,728)
Public housing	584,902	366,427	196,261	-	(22,214)
Total business-type activities	15,885,813	15,247,070	554,956	15,072	(68,715)
Total primary government	\$ 23,439,326	\$ 16,637,573	\$ 1,980,958	\$ 15,072	\$ (4,805,723)
Component units					
Community development	\$ 626,172	\$ -	\$ 85,496	\$ -	\$ (540,676)

continued...

CITY OF MARSHALL, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2012

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net revenue (expense)	\$ (4,737,008)	\$ (68,715)	\$ (4,805,723)	\$ (540,676)
General revenues:				
Property taxes	3,400,641	99,887	3,500,528	1,163,530
Grants and contributions not restricted to specific programs	639,043	-	639,043	-
Unrestricted investment earnings	24,206	29,323	53,529	23,481
Gain on sale of capital assets	70,729	-	70,729	-
Transfers - internal activities	236,925	(236,925)	-	-
Total general revenues and transfers	4,359,098	(107,715)	4,251,383	1,187,011
Change in net assets	(377,910)	(176,430)	(554,340)	646,335
Net assets, beginning of year	16,973,107	27,064,090	44,037,197	415,640
Net assets, end of year	\$ 16,595,197	\$ 26,887,660	\$ 43,482,857	\$ 1,061,975

concluded

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

CITY OF MARSHALL, MICHIGAN

Balance Sheet

Governmental Funds

June 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 258,318	\$ 294,506	\$ 552,824
Investments	2,504,167	898,519	3,402,686
Accounts receivable	34,023	57,779	91,802
Interfund receivable	905	-	905
Due from other governments	7,666	84,006	91,672
Inventory	-	8,051	8,051
Prepaid items	105,373	2,185	107,558
Total assets	\$ 2,910,452	\$ 1,345,046	\$ 4,255,498
Liabilities			
Accounts payable	\$ 392,888	\$ 9,628	\$ 402,516
Accrued liabilities	117,151	2,610	119,761
Deferred revenue	29,589	-	29,589
Total liabilities	539,628	12,238	551,866
Fund balances			
Nonspendable for:			
Inventory	-	8,051	8,051
Prepaid items	105,373	2,185	107,558
Cemetery perpetual care	-	477,510	477,510
Restricted for:			
Highways and streets	-	405,895	405,895
Drug law enforcement	-	4,798	4,798
Cemetery operations	-	232,380	232,380
Committed for:			
Working capital reserve	500,000	-	500,000
Fire truck replacement	58,000	-	58,000
Scholarships	2,089	-	2,089
Highways and streets	-	61,654	61,654
Special projects	-	124,076	124,076
Debt service	-	16,259	16,259
Unassigned	1,705,362	-	1,705,362
Total fund balances	2,370,824	1,332,808	3,703,632
Total liabilities and fund balances	\$ 2,910,452	\$ 1,345,046	\$ 4,255,498

The accompanying notes are an integral part of these financial statements.

CITY OF MARSHALL, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
to Net Assets of Governmental Activities
June 30, 2012

Fund balances - total governmental funds	\$ 3,703,632
--	--------------

Amounts reported for *governmental activities* in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources and therefore
are not reported in the funds.

Capital assets	27,460,982
Accumulated depreciation	(13,043,249)

Internal service funds are used by management to charge the costs of certain equipment
usage to individual governmental funds. The assets and liabilities of the internal service
funds are included in governmental activities in the statement of net assets.

Net assets of governmental internal service funds	2,585,418
Portion of internal service funds cumulative net operating loss attributed to business-type funds activities	65,005

Certain liabilities, such as bonds payable, are not due and payable in the current period
and therefore are not reported in the funds.

Net other postemployment benefit obligation	(1,483,111)
Bonds and installment contracts payable	(2,569,905)
Unamortized bond issuance costs	58,682
Premium on bonds	(4,831)
Unamortized deferred loss on refunding	98,521
Accrued interest on bonds and installment contracts payable	(25,404)
Compensated absences	(250,543)

Net assets of governmental activities	<u>\$ 16,595,197</u>
---------------------------------------	----------------------

The accompanying notes are an integral part of these financial statements.

CITY OF MARSHALL, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 3,400,641	\$ -	\$ 3,400,641
Licenses and permits	41,394	-	41,394
Intergovernmental	914,834	803,236	1,718,070
Charges for services	374,082	13,406	387,488
Fines and forfeitures	113,861	-	113,861
Investment earnings	23,210	8,827	32,037
Other	278,209	68,766	346,975
Total revenues	5,146,231	894,235	6,040,466
Expenditures			
Current expenditures:			
General government	996,799	225,786	1,222,585
Public safety	2,504,389	20	2,504,409
Public works	891,416	-	891,416
Highways and streets	-	182,133	182,133
Community development	121,126	-	121,126
Culture and recreation	461,359	-	461,359
Debt service:			
Principal	99,043	340,030	439,073
Interest and fiscal charges	9,588	108,625	118,213
Capital outlay	83,164	252,148	335,312
Total expenditures	5,166,884	1,108,742	6,275,626
Revenues over (under) expenditures	(20,653)	(214,507)	(235,160)
Other financing sources (uses)			
Sale of capital assets	201,520	-	201,520
Transfers in	82,903	431,250	514,153
Transfers out	(145,441)	(131,787)	(277,228)
Total other financing sources (uses)	138,982	299,463	438,445
Net change in fund balances	118,329	84,956	203,285
Fund balances, beginning of year	2,252,495	1,247,852	3,500,347
Fund balances, end of year	\$ 2,370,824	\$ 1,332,808	\$ 3,703,632

The accompanying notes are an integral part of these financial statements.

CITY OF MARSHALL, MICHIGAN

Reconciliation

Net Changes in Fund Balances for Governmental Funds
to Changes in Net Assets of Governmental Activities
For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds	\$ 203,285
--	------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	295,206
Depreciation expense	(772,102)
Loss on disposal of capital assets	(238,520)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal payments on long-term liabilities	439,073
Net amortization of premiums and issuance costs on bonds	(18,256)

Internal service funds are used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Net operating loss from governmental activities in internal service funds	(49,013)
Interest revenue from governmental internal service funds	10,424
Gain on sale of capital assets from governmental internal service funds	107,729
Interest expense from governmental internal service funds	(10,631)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Change in net other postemployment benefit obligation	(363,071)
Change in accrued interest payable on bonds	7,261
Change in the accrual for compensated absences	10,705

Change in net assets of governmental activities	<u>\$ (377,910)</u>
---	---------------------

The accompanying notes are an integral part of these financial statements.

CITY OF MARSHALL, MICHIGAN

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 3,491,264	\$ 3,417,089	\$ 3,400,641	\$ (16,448)
Licenses and permits	35,850	35,850	41,394	5,544
Intergovernmental	645,628	809,077	914,834	105,757
Charges for services	325,622	359,905	374,082	14,177
Fines and forfeitures	76,700	106,000	113,861	7,861
Investment earnings	11,110	20,151	23,210	3,059
Other	272,195	281,920	278,209	(3,711)
Total revenues	4,858,369	5,029,992	5,146,231	116,239
Expenditures				
General government:				
Council	3,778	3,778	3,061	(717)
Manager	115,410	116,919	114,641	(2,278)
Assessor	107,007	73,581	73,824	243
Attorney	65,000	65,000	58,769	(6,231)
Human resources	58,501	61,283	61,550	267
Clerk-Treasurer	269,538	275,006	269,289	(5,717)
City hall	106,654	94,382	71,517	(22,865)
Chapel	2,825	2,825	2,388	(437)
Other city property	37,318	44,525	44,403	(122)
Cemetery	179,808	179,729	185,662	5,933
Airport	137,387	162,500	149,487	(13,013)
Compost	55,766	55,766	41,328	(14,438)
Non-departmental	441,280	468,109	768,640	300,531
Administrative and operating costs reimbursed by other funds	(897,004)	(847,760)	(847,760)	-
Total general government	683,268	755,643	996,799	241,156
Public safety:				
Police	1,315,505	1,389,299	1,391,188	1,889
Fire	800,667	809,327	796,881	(12,446)
Dispatch	230,369	211,920	211,920	-
Inspection / code enforcement	113,354	85,187	83,662	(1,525)
Crossing guards	27,785	22,909	20,738	(2,171)
Total public safety	2,487,680	2,518,642	2,504,389	(14,253)
Public works:				
Streets	727,467	819,541	772,218	(47,323)
Public services building	94,831	99,606	92,974	(6,632)
Engineering	22,646	25,842	26,224	382
Total public works	844,944	944,989	891,416	(53,573)

continued...

CITY OF MARSHALL, MICHIGAN

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures (concluded)				
Community development:				
Community development	\$ 40,441	\$ 40,441	\$ 33,310	\$ (7,131)
Planning	82,509	89,069	87,816	(1,253)
Total community development	<u>122,950</u>	<u>129,510</u>	<u>121,126</u>	<u>(8,384)</u>
Culture and recreation:				
Parks	81,352	87,886	78,418	(9,468)
Recreation	392,841	390,915	382,941	(7,974)
Total culture and recreation	<u>474,193</u>	<u>478,801</u>	<u>461,359</u>	<u>(17,442)</u>
Debt service:				
Principal	99,043	99,463	99,043	(420)
Interest and fiscal charges	9,587	9,167	9,588	421
Total debt service	<u>108,630</u>	<u>108,630</u>	<u>108,631</u>	<u>1</u>
Capital outlay	<u>184,300</u>	<u>149,495</u>	<u>83,164</u>	<u>(66,331)</u>
Total expenditures	<u>4,905,965</u>	<u>5,085,710</u>	<u>5,166,884</u>	<u>81,174</u>
Revenues over (under) expenditures	<u>(47,596)</u>	<u>(55,718)</u>	<u>(20,653)</u>	<u>35,065</u>
Other financing sources (uses)				
Sale of capital assets	198,520	198,520	201,520	3,000
Transfers in	80,188	136,801	82,903	(53,898)
Transfers out	(249,013)	(291,359)	(145,441)	145,918
Total other financing sources (uses)	<u>29,695</u>	<u>43,962</u>	<u>138,982</u>	<u>95,020</u>
Net change in fund balance	<u>(17,901)</u>	<u>(11,756)</u>	<u>118,329</u>	<u>130,085</u>
Fund balance, beginning of year	<u>2,252,495</u>	<u>2,252,495</u>	<u>2,252,495</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,234,594</u>	<u>\$ 2,240,739</u>	<u>\$ 2,370,824</u>	<u>\$ 130,085</u>

concluded

The accompanying notes are an integral part of these financial statements.

CITY OF MARSHALL, MICHIGAN

Statement of Net Assets

Proprietary Funds

June 30, 2012

	Business-type Activities - Enterprise Funds		
	Electric	Wastewater	Water
Assets			
Current assets:			
Cash and cash equivalents	\$ 570,373	\$ 227,813	\$ 145,484
Investments	2,561	36,608	97
Accounts receivable	946,288	145,700	130,121
Due from other governments	-	20,029	-
Inventories	804,498	27,703	79,702
Prepaid items	11,900	2,759	3,574
Total current assets	<u>2,335,620</u>	<u>460,612</u>	<u>358,978</u>
Noncurrent assets:			
Restricted cash and cash equivalents	3,273,063	831,906	1,180,502
Capital assets, net	4,701,071	3,538,315	7,084,469
Long term special assessments receivable	134,465	-	-
Investment in MSCPA	10,198,466	-	-
Unamortized bond issuance costs	16,003	71,423	188,252
Total noncurrent assets	<u>18,323,068</u>	<u>4,441,644</u>	<u>8,453,223</u>
Total assets	<u>20,658,688</u>	<u>4,902,256</u>	<u>8,812,201</u>
Liabilities			
Current liabilities:			
Accounts payable	985,136	25,884	15,620
Accrued payroll	169,608	16,605	15,870
Accrued interest payable	17,036	9,939	37,013
Due to other governments	1,947	-	-
Interfund payable	-	-	-
Current portion of:			
Compensated absences	33,604	6,880	6,732
Contracts payable	-	-	-
Bonds payable	95,000	203,727	381,273
Total current liabilities	<u>1,302,331</u>	<u>263,035</u>	<u>456,508</u>
Noncurrent liabilities:			
Compensated absences	100,813	20,638	20,194
Contracts payable	-	720,000	-
Bonds payable	1,186,048	1,204,457	3,345,601
Total noncurrent liabilities	<u>1,286,861</u>	<u>1,945,095</u>	<u>3,365,795</u>
Total liabilities	<u>2,589,192</u>	<u>2,208,130</u>	<u>3,822,303</u>
Net assets			
Invested in capital assets, net			
of related debt	3,420,023	1,410,131	3,357,595
Restricted for debt service	3,273,063	831,906	1,180,502
Unrestricted	11,376,410	452,089	451,801
Total net assets	<u>\$ 18,069,496</u>	<u>\$ 2,694,126</u>	<u>\$ 4,989,898</u>

The accompanying notes are an integral part of these financial statements.

Business-type Activities - Enterprise Funds			Governmental Activities -
DART	Marshall House	Total	Internal Service Funds
\$ 11,777	\$ 207,069	\$ 1,162,516	\$ 90,840
128,215	317,392	484,873	845,097
-	-	1,222,109	-
-	-	20,029	-
-	-	911,903	-
3,531	175	21,939	3,369
143,523	524,636	3,823,369	939,306
-	-	5,285,471	-
270,364	418,576	16,012,795	2,259,704
-	-	134,465	-
-	-	10,198,466	-
-	-	275,678	-
270,364	418,576	31,906,875	2,259,704
413,887	943,212	35,730,244	3,199,010
4,735	128,796	1,160,171	29,577
7,315	5,250	214,648	3,203
-	-	63,988	10,631
1,351	-	3,298	-
-	-	-	905
2,120	507	49,843	629
-	-	-	107,727
-	-	680,000	-
15,521	134,553	2,171,948	152,672
6,360	1,520	149,525	-
-	-	720,000	460,920
-	-	5,736,106	-
6,360	1,520	6,605,631	460,920
21,881	136,073	8,777,579	613,592
270,364	418,576	8,876,689	1,691,057
-	-	5,285,471	-
121,642	388,563	12,790,505	894,361
\$ 392,006	\$ 807,139	\$ 26,952,665	\$ 2,585,418

CITY OF MARSHALL, MICHIGAN

Reconciliation

Net Assets of Enterprise Funds
to Net Assets of Business-type Activities
June 30, 2012

Net assets - total enterprise funds	\$ 26,952,665
-------------------------------------	---------------

Amounts reported for *business-type activities* in the statement of net assets
are different because:

Internal service funds are used by management to charge the costs of certain services
to individual governmental and business-type funds. The net revenue (expense) of
the internal service funds are allocated to governmental and business-type activities.

Cumulative portion of internal service funds net operating loss attributed to business-type funds	(65,005)
--	----------

Net assets of business-type activities	<u>\$ 26,887,660</u>
--	----------------------

The accompanying notes are an integral part of these financial statements.

This page intentionally left blank.

CITY OF MARSHALL, MICHIGAN

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds		
	Electric	Wastewater	Water
Operating revenues			
Charges for services	\$ 12,172,266	\$ 1,364,619	\$ 1,250,228
Other	37,491	1,547	6,777
Total operating revenues	<u>12,209,757</u>	<u>1,366,166</u>	<u>1,257,005</u>
Operating expenses			
Personal services	1,685,474	522,386	513,797
Materials and supplies	200,915	109,315	88,625
Purchased power	8,613,998	110,085	31,001
Contractual	169,366	114,482	14,829
Insurance	46,604	20,733	6,642
Maintenance	2,879	9,849	236
Administration	739,805	43,618	39,628
Other expense	303,480	44,633	48,535
Depreciation	509,813	287,535	277,294
Total operating expenses	<u>12,272,334</u>	<u>1,262,636</u>	<u>1,020,587</u>
Operating income (loss)	<u>(62,577)</u>	<u>103,530</u>	<u>236,418</u>
Nonoperating revenues (expenses)			
Intergovernmental subsidies	-	55,537	426
Property taxes	-	-	-
Investment earnings	15,147	3,756	4,886
Change in investment in MSCPA	51,183	-	-
Gain on sale of capital assets	-	-	-
Interest expense	(63,109)	(77,870)	(194,724)
Total nonoperating revenues (expenses)	<u>3,221</u>	<u>(18,577)</u>	<u>(189,412)</u>
Income (loss) before contributions and transfers	<u>(59,356)</u>	<u>84,953</u>	<u>47,006</u>
Capital contributions	-	11,480	3,592
Transfers out	<u>(210,600)</u>	<u>-</u>	<u>(26,325)</u>
Change in net assets	<u>(269,956)</u>	<u>96,433</u>	<u>24,273</u>
Net assets, beginning of year	<u>18,339,452</u>	<u>2,597,693</u>	<u>4,965,625</u>
Net assets, end of year	<u>\$ 18,069,496</u>	<u>\$ 2,694,126</u>	<u>\$ 4,989,898</u>

The accompanying notes are an integral part of these financial statements.



Business-type Activities - Enterprise Funds			Governmental Activities -
DART	Marshall House	Total	Internal Service Funds
\$ 47,715	\$ -	\$ 14,834,828	\$ 770,370
-	366,427	412,242	2,087
47,715	366,427	15,247,070	772,457
257,131	178,137	3,156,925	112,163
35,197	8,864	442,916	255,683
-	103,866	8,858,950	-
1,253	101,687	401,617	36,357
4,050	8,911	86,940	27,392
12,526	33,520	59,010	59,361
21,027	-	844,078	-
12,132	82,261	491,041	35,536
42,742	67,773	1,185,157	318,454
386,058	585,019	15,526,634	844,946
(338,343)	(218,592)	(279,564)	(72,489)
251,549	196,261	503,773	-
99,887	-	99,887	-
1,022	4,512	29,323	10,424
-	-	51,183	-
-	-	-	107,729
-	-	(335,703)	(10,631)
352,458	200,773	348,463	107,522
14,115	(17,819)	68,899	35,033
-	-	15,072	-
-	-	(236,925)	-
14,115	(17,819)	(152,954)	35,033
377,891	824,958	27,105,619	2,550,385
\$ 392,006	\$ 807,139	\$ 26,952,665	\$ 2,585,418

CITY OF MARSHALL, MICHIGAN

Reconciliation

Change in Net Assets of Enterprise Funds
to Changes in Net Assets of Business-type Activities
For the Year Ended June 30, 2012

Change in net assets - total enterprise funds	\$ (152,954)
---	--------------

Amounts reported for *business-type activities* in the statement of activities
are different because:

Internal service funds are used by management to charge the costs of certain services
to individual governmental and business-type funds. The net revenue (expense) of
the internal service funds are allocated to governmental and business-type activities.

Net operating loss from internal service funds related to enterprise funds	(23,476)
--	----------

Change in net assets of business-type activities	<u>\$ (176,430)</u>
--	---------------------

The accompanying notes are an integral part of these financial statements.

This page intentionally left blank.

CITY OF MARSHALL, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds		
	Electric	Wastewater	Water
Cash flows from operating activities			
Receipts from customers and users	\$ 11,997,304	\$ 1,337,094	\$ 1,238,459
Receipts from interfund services	-	-	-
Payments to suppliers	(9,172,692)	(413,157)	(156,084)
Payments to employees	(1,640,908)	(517,663)	(512,393)
Payments for interfund services	(739,805)	(43,618)	(39,628)
Net cash provided by operating activities	443,899	362,656	530,354
Cash flows from non-capital financing activities			
Transfers out	(210,600)	-	(26,325)
Intergovernmental subsidies	-	55,537	426
Property taxes	-	-	-
Net cash provided by non-capital financing activities	(210,600)	55,537	(25,899)
Cash flows from capital and related financing activities			
Cash received on sale of capital assets	-	-	-
Principal and interest paid on debt	(154,522)	(263,711)	(570,920)
Purchase of capital assets	(597,755)	(91,710)	(173,103)
Proceeds from installment contract	-	-	-
Net cash used in capital and related financing activities	(752,277)	(355,421)	(744,023)
Cash flows from investing activities			
Purchase of investments	-	-	-
Proceeds from investments	15,468	118,392	596,857
Interest received on investments	15,147	3,756	4,886
Net cash provided by investing activities	30,615	122,148	601,743
Net change in cash and cash equivalents	(488,363)	184,920	362,175
Cash and cash equivalents, beginning of year	4,331,799	874,799	963,811
Cash and cash equivalents, end of year	\$ 3,843,436	\$ 1,059,719	\$ 1,325,986
Reconciliation to statement of net assets			
Cash and cash equivalents	\$ 570,373	\$ 227,813	\$ 145,484
Restricted cash and cash equivalents	3,273,063	831,906	1,180,502
	\$ 3,843,436	\$ 1,059,719	\$ 1,325,986

Business-type Activities - Enterprise Funds			Governmental Activities -
DART	Marshall House	Total	Internal Service Funds
\$ 47,719	\$ 366,427	\$ 14,987,003	\$ -
-	-	-	772,457
(48,445)	(247,980)	(10,038,358)	(398,513)
(256,163)	(176,445)	(3,103,572)	(114,426)
(21,027)	-	(844,078)	-
(277,916)	(57,998)	1,000,995	259,518
-	-	(236,925)	-
251,549	196,261	503,773	-
99,887	-	99,887	-
351,436	196,261	366,735	-
-	-	-	107,729
-	-	(989,153)	-
(63,404)	(94,012)	(1,019,984)	(859,721)
-	-	-	568,647
(63,404)	(94,012)	(2,009,137)	(183,345)
(6,837)	(4,254)	(11,091)	(280,019)
-	-	730,717	5,290
1,022	4,512	29,323	10,424
(5,815)	258	748,949	(264,305)
4,301	44,509	107,542	(188,132)
7,476	162,560	6,340,445	278,972
\$ 11,777	\$ 207,069	\$ 6,447,987	\$ 90,840
\$ 11,777	\$ 207,069	\$ 1,162,516	\$ 90,840
-	-	5,285,471	-
\$ 11,777	\$ 207,069	\$ 6,447,987	\$ 90,840

continued...

CITY OF MARSHALL, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds		
	Electric	Wastewater	Water
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ (62,577)	\$ 103,530	\$ 236,418
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation	509,813	287,535	277,294
Amortization of bond premiums, issuance costs, and loss on refunding	2,233	9,290	25,058
Changes in assets and liabilities:			
Accounts receivable	(77,988)	(9,043)	(18,546)
Special assessment receivable	(134,465)	-	-
Due from other governments	-	(20,029)	-
Due from other funds	-	-	-
Inventories	(78,225)	(325)	(5,067)
Prepaid items	(1,287)	622	4,115
Accounts payable	241,829	(13,640)	9,757
Accrued payroll	23,677	3,398	437
Compensated absences	20,889	1,325	967
Due to other governments	-	(7)	(79)
Interfund payable	-	-	-
Net cash provided by operating activities	<u>\$ 443,899</u>	<u>\$ 362,656</u>	<u>\$ 530,354</u>
Noncash items			
Change in investment in MSCPA	\$ 51,183	\$ -	\$ -
Capital contributions	-	11,480	3,592

The accompanying notes are an integral part of these financial statements.

Business-type Activities - Enterprise Funds			Governmental Activities -
DART	Marshall House	Total	Internal Service Funds

\$ (338,343) \$ (218,592) \$ (279,564) \$ (72,489)

42,742	67,773	1,185,157	318,454
-	-	36,581	-
-	-	(105,577)	73
-	-	(134,465)	-
4	-	(20,025)	-
16,520	-	16,520	-
-	-	(83,617)	-
157	3,659	7,266	2,946
1,564	87,502	327,012	12,245
551	516	28,579	(805)
417	1,176	24,774	(1,579)
(1,528)	(32)	(1,646)	-
-	-	-	673
<u>\$ (277,916)</u>	<u>\$ (57,998)</u>	<u>\$ 1,000,995</u>	<u>\$ 259,518</u>

\$ - \$ - \$ 51,183 \$ -
 - - 15,072 -

concluded

CITY OF MARSHALL, MICHIGAN

Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2012

Assets

Cash and cash equivalents	\$ 30,398
Delinquent taxes receivable	<u>354,762</u>

Total assets	<u>\$ 385,160</u>
--------------	-------------------

Liabilities

Undistributed receipts	<u>\$ 385,160</u>
------------------------	-------------------

The accompanying notes are an integral part of these financial statements.

CITY OF MARSHALL, MICHIGAN

Combining Statement of Net Assets

Component Units

June 30, 2012

	Downtown Development Authority	Local Development Finance Authority	Economic Development Corporation	Total
Assets				
Cash and cash equivalents	\$ 40,742	\$ 2,158	\$ 857	\$ 43,757
Investments	206,873	1,655,930	-	1,862,803
Accounts receivable	-	-	8,305	8,305
Prepaid items	253	-	-	253
Unamortized bond issuance costs	-	34,857	-	34,857
Restricted cash and cash equivalents	71,797	209,813	-	281,610
Capital assets being depreciated, net	-	562,085	-	562,085
Total assets	319,665	2,464,843	9,162	2,793,670
Liabilities				
Accounts payable	4,567	6,943	-	11,510
Accrued liabilities	933	-	-	933
Accrued interest payable	2,194	12,058	-	14,252
Long-term liabilities:				
Due within one year	35,000	80,000	-	115,000
Due in more than one year	500,000	1,090,000	-	1,590,000
Total liabilities	542,694	1,189,001	-	1,731,695
Net assets				
Invested in capital assets	-	562,085	-	562,085
Restricted for debt service	71,797	209,813	-	281,610
Unrestricted (deficit)	(294,826)	503,944	9,162	218,280
Total net assets (deficit)	\$ (223,029)	\$ 1,275,842	\$ 9,162	\$ 1,061,975

The accompanying notes are an integral part of these financial statements.

CITY OF MARSHALL, MICHIGAN

Combining Statement of Activities

Component Units

For the Year Ended June 30, 2012

	Downtown Development Authority	Local Development Finance Authority	Economic Development Corporation	Total
Expenses				
Community development	\$ 201,343	\$ 424,829	\$ -	\$ 626,172
Program revenues				
Operating grants and contributions	84,796	700	-	85,496
Net revenue (expense)	116,547	424,129	-	540,676
General revenues				
Property taxes	207,420	956,110	-	1,163,530
Unrestricted investment earnings	2,116	21,245	120	23,481
Total general revenues	209,536	977,355	120	1,187,011
Change in net assets	92,989	553,226	120	646,335
Net assets (deficit), beginning of year	(316,018)	722,616	9,042	415,640
Net assets (deficit), end of year	<u>\$ (223,029)</u>	<u>\$ 1,275,842</u>	<u>\$ 9,162</u>	<u>\$ 1,061,975</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

Index

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity	39
Basis of Presentation	40
Measurement of Focus / Basis of Accounting	41
Assets, Liabilities, and Equity	42

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information	44
Excess of Expenditures Over Appropriations	45
Unrestricted Net Assets Deficit	45

DETAILED NOTES ACCOUNT BALANCES

Deposits and Investments	46
Receivables	47
Investment in the Michigan South Central Power Agency	47
Capital Assets	48
Payables	50
Interfund Receivables, Payables, and Transfers	51
Long-term Debt	51
Segment Information - Enterprise Funds	54

OTHER INFORMATION

Risk Management	54
Property Taxes	55
Contingent Liabilities	55
Defined Benefit Pension Plan	55
Postemployment Benefits	56
Net Assets Invested in Capital Assets, Net of Related Debt	59
Dial-A-Ride Disclosures	59

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Marshall, Michigan (the “City” or “government”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

Reporting Entity

The City of Marshall, Michigan is a municipal corporation formed in 1830 and governed by a seven-member council and administered by an appointed city manager. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the government’s operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government. The blended and discretely presented component units each have a June 30 year-end.

Component Unit	Included in the Reporting Entity Because:
Blended:	
Building Authority; finances and constructs the City's public buildings and other structures	Provides services exclusively to the City
Discretely Presented:	
Downtown Development Authority (DDA); Corrects and prevents deterioration in the downtown district, encourages historical preservation and promotes economic growth within the district.	City Council appoints and may remove DDA Board, and approves DDA budget
Local Development Finance Authority (LDFA); enhances and expands industrial development to eliminate the conditions of joblessness and underemployment.	City Council appoints and may remove LDFA Board, and approves LDFA budget
Economic Development Corporation (EDC); promotes economic development in the community.	City Council appoints and may remove EDC Board, and approves EDC budget

Separate financial statements are not prepared for the discretely presented component units; accordingly, fund financial statements for these entities are presented herein as supplementary information.

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

Basis of Presentation

Government-wide Financial Statements. The statements of net assets and activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the City's *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines and charges paid by the recipients of 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. The fund financial statements provide information about the City's funds, including its fiduciary funds and blended component unit. Separate statements for each fund category - *governmental*, *proprietary* and *fiduciary* - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The *general fund* is used to account for and reports all financial resources not accounted for and reported in another fund.

The City reports the following major enterprise funds:

The *electric fund* accounts for the operation and maintenance of the electric supply system; financing is provided primarily by user charges.

The *wastewater fund* accounts for the activities of the government's sewage disposal and treatment system.

The *water fund* accounts for the activities of the government's water distribution and treatment system.

The *Dial-A-Ride transportation (DART) fund* accounts for the operation and maintenance of a local public transportation system.

The *Marshall House fund* accounts for the activities of a lower-income senior citizen housing facility.

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

Additionally, the City reports the following fund types:

Special revenue funds are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

Debt service funds are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Permanent funds are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's purposes.

Internal service funds account for the insurance activity of the City provided to other departments and funds on a cost reimbursement basis.

Agency funds account for assets held for other governments in an agency capacity.

Measurement Focus / Basis of Accounting

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange 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.

Governmental Fund Financial Statements. Governmental funds 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 they are collected within sixty days after year-end or one year for expenditure-driven grants. Property taxes, franchise taxes, licenses and interest are considered to be susceptible to accrual.

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, 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, if any, are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues, subject to satisfying any grant program matching provisions.

Assets, Liabilities and Equity

Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *interfund receivables/payables* (i.e., the current portion of interfund loans) or *advances to/from other funds* (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

Inventories, Prepaid Items and Other Assets

All inventories are valued at cost using the first-in/first-out method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

The City's unamortized bond issuance costs are recorded as other assets in the government-wide financial statements and amortized using the straight-line method over the term of the respective bonds.

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

Restricted Cash and Cash Equivalents

Certain proceeds of bond issues as well as other resources set aside for the repayment of debt are classified as restricted cash and cash equivalents on the statement of net assets because their use is limited by applicable bond covenants.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks, and similar items acquired or constructed since 1980), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed.

Infrastructure acquired or constructed since 1980 has been recorded in the governmental activities of the accompanying statement of net assets.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	Years
Land improvements	5-50
Building and improvements	5-50
Public domain infrastructure	50
Systems infrastructure	25-50
Machinery and equipment	3-25

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits, subject to certain limitations. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

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, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts 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.

Fund Equity

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance* is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the City Council. A formal resolution of the City Council is required to establish, modify, or rescind a fund balance commitment. The City currently has no *assigned fund balance* as the City Council has not yet given authority for the making of such assignments; assigned fund balances are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund.

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed, assigned, and finally unassigned fund balance.

2. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year end. The legal level of budgetary control is the functional level.

On or before its first meeting in April of each year, the City Manager must present the proposed budget to the government's council for review. The proposed budget must be on file and available for public inspection for a period of not less than one week prior to adoption by City Council, which must occur not later than the first meeting in June.

Formal budgetary integration is employed as a management control during the year. Supplemental appropriations were approved by the City Council in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds or notes, the total of which was not significant in relation to the original budget appropriation valuations.

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders or contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

3. EXCESS OF EXPENDITURES OVER BUDGET

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the City were adopted on a function level basis, although budget and actual information for the general fund in the fund financial statements has been presented at a level of detail greater than the level of legal budgetary control.

During the year ended June 30, 2012, the City incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control in the following funds:

	Final Budget	Actual	Over Budget
General fund			
General government:			
Assessor	\$ 73,581	\$ 73,824	243
Human resources	61,283	61,550	267
Cemetery	179,729	185,662	5,933
Non-departmental	468,109	768,640	300,531
Public safety - Police	1,389,299	1,391,188	1,889
Public works - Engineering	25,842	26,224	382
Debt service -			
Interest and fiscal charges	9,167	9,588	421
Nonmajor special revenue funds			
Local street fund -			
Capital outlay	236,000	237,066	1,066

4. UNRESTRICTED NET ASSETS DEFICIT

At June 30, 2012, the Downtown Development Authority had a deficit of \$294,826 in unrestricted net assets.

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

5. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of June 30, 2012:

	Primary Government	Component Units	Totals
Statement of net assets			
Cash and cash equivalents	\$ 1,806,180	\$ 43,757	\$ 1,849,937
Investments	4,732,656	1,862,803	6,595,459
Restricted cash and cash equivalents	5,285,471	281,610	5,567,081
Statement of fiduciary net assets			
Cash and cash equivalents	30,398	-	30,398
Total	<u>\$ 11,854,705</u>	<u>\$ 2,188,170</u>	<u>\$ 14,042,875</u>
Deposits and investments			
Bank deposits (checking and savings accounts)			\$ 12,430,163
Investments			1,611,512
Cash on hand			<u>1,200</u>
Total			<u>\$ 14,042,875</u>

Custodial Credit Risk - Deposits. For deposits, custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to the government. As of June 30, 2012, \$8,556,945 of the City's total bank balance of \$12,354,263 (total book balance was \$12,430,163) was exposed to custodial credit risk as it was uninsured and uncollateralized.

The City's investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk - Investments. The City's investments as of June 30, 2012 were as follows:

Deposit/Investment	Maturity	Fair Value	Rating
MBIA Investment Fund	n/a	<u>\$ 1,611,512</u>	S&P-AAAm

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery vs. payment.

Credit Risk. As of June 30, 2012, the City's investment in the external local government investment pool was rated AAAM by Standard and Poors. All of the City's investments comply with its policy regarding the types of investments it may hold.

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

Concentration of Credit Risk. The City's investment policy provides that, except for U.S. treasuries and authorized investment pools, no more than 50 percent of the total investment portfolio may be invested in a single security type or with a single financial institution. All investments held at year-end consisted of amounts in the MBIA external investment pool.

Interest Rate Risk. It is the City's policy that, unless matched to a specific cash flow, the government will not directly invest in securities maturing more than three years from the date of purchase. Reserve funds may be invested in securities exceeding three years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds. The average maturity of the portfolio investments in the external investment pools was less than 60 days as of June 30, 2012.

6. RECEIVABLES

Receivables in the governmental activities are 50 percent accounts receivables and 50 percent due from other governments. Business-type activities receivables are 98.5 percent accounts receivable and 1.5 percent due from other governments.

Governmental funds report 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 not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned	Total
Deferred revenue reported by			
General fund	\$ -	\$ 29,589	\$ 29,589

7. INVESTMENT IN THE MICHIGAN SOUTH CENTRAL POWER AGENCY

The Michigan South Central Power Agency (MSCPA or the "Agency") was organized in 1978 under the authority of Public Act 448 of 1976 to supply electricity to member municipalities in south central Michigan. The Act provides that the MSCPA establish rates and charges to produce revenues sufficient to cover its costs, but may not operate for profit, except for the public benefit. The MSCPA is governed by a board of commissioners, comprised of one representative from each member municipality and the MSCPA general manager. Member municipalities and their respective shares of ownership are as follows:

City of Coldwater	40.0%
City of Hillsdale	25.5%
City of Marshall	24.0%
Village of Clinton	6.5%
Village of Union City	4.0%
	<u>100.0%</u>

The City has entered into a contract with the MSCPA that requires the City to purchase all of its bulk power supply from the Agency and to pay its share of the Agency's operating and debt service costs. The City has also entered into an agreement for services to be provided by the Agency with respect to substation facilities, which requires the City to sell to the Agency power generated by the City's facilities.

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

The City accounts for its investment in the MSCPA as a joint venture in accordance with GASB Statement No. 14. Information presented below is taken from financial statements of the MSCPA for the year ended June 30, 2012, which was audited by other auditors whose report dated August 21, 2012, expressed an unqualified opinion on those financial statements.

Summary information of the City's equity interest in the MSCPA as of June 30, 2012, is as follows:

	MSCPA	City of Marshall (24.0%)
Assets		
Current	\$ 22,643,176	\$ 5,434,362
Noncurrent	8,437,999	2,025,120
Capital assets, net	20,530,911	4,927,419
Total assets	51,612,086	12,386,901
Liabilities		
Current	8,100,585	1,944,140
Long-term	1,017,892	244,294
Total liabilities	9,118,477	2,188,434
Net assets	\$ 42,493,609	\$ 10,198,466
Revenues	\$ 45,776,324	\$ 10,986,318
Expenses	45,347,738	10,883,457
Operating income	428,586	102,861
Nonoperating expenses	(215,325)	(51,678)
Change in net assets	213,261	51,183
Net assets, beginning of year	42,280,348	10,147,284
Net assets, end of year	\$ 42,493,609	\$ 10,198,466

8. CAPITAL ASSETS

Primary government

Capital asset activity for the primary government for the year ended June 30, 2012, was as follows:

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 2,257,343	\$ -	\$ (238,520)	\$ 2,018,823
Capital assets being depreciated:				
Land improvements	5,337,016	-	-	5,337,016
Buildings	9,270,060	8,465	-	9,278,525
Vehicles	2,339,701	64,233	(282,404)	2,121,530
Equipment	3,582,559	824,315	(403,798)	4,003,076
Infrastructure	9,701,733	257,914	-	9,959,647
	<u>30,231,069</u>	<u>1,154,927</u>	<u>(686,202)</u>	<u>30,699,794</u>
Less accumulated depreciation for:				
Land improvements	(3,121,744)	(300,698)	-	(3,422,442)
Buildings	(5,704,813)	(214,331)	-	(5,919,144)
Vehicles	(2,109,828)	(73,968)	282,404	(1,901,392)
Equipment	(1,947,359)	(289,901)	403,798	(1,833,462)
Infrastructure	(2,753,082)	(211,658)	-	(2,964,740)
	<u>(15,636,826)</u>	<u>(1,090,556)</u>	<u>686,202</u>	<u>(16,041,180)</u>
Total capital assets being depreciated, net	14,594,243	64,371	-	14,658,614
Governmental activities capital assets, net	\$ 16,851,586	\$ 64,371	\$ (238,520)	\$ 16,677,437
Business-type activities				
Capital assets not being depreciated:				
Land	\$ 164,618	\$ 119,169	\$ -	\$ 283,787
Capital assets being depreciated:				
Buildings	5,352,649	86,188	-	5,438,837
Vehicles	821,110	63,404	-	884,514
Equipment	1,414,083	7,823	(22,630)	1,399,276
Systems	33,859,203	758,471	-	34,617,674
	<u>41,447,045</u>	<u>915,886</u>	<u>(22,630)</u>	<u>42,340,301</u>
Less accumulated depreciation for:				
Buildings	(3,633,998)	(269,583)	-	(3,903,581)
Vehicles	(268,569)	(42,742)	-	(311,311)
Equipment	(1,034,116)	(12,129)	22,630	(1,023,615)
Systems	(20,512,083)	(860,703)	-	(21,372,786)
	<u>(25,448,766)</u>	<u>(1,185,157)</u>	<u>22,630</u>	<u>(26,611,293)</u>
Total capital assets being depreciated, net	15,998,279	(269,271)	-	15,729,008
Business-type activities capital assets, net	\$ 16,162,897	\$ (150,102)	\$ -	\$ 16,012,795

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

Component unit capital assets activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Local Development Finance Authority				
Capital assets being depreciated:				
Land	\$ -	\$ 500,000	\$ -	\$ 500,000
Land improvements	40,940	-	-	40,940
Equipment	91,640	-	-	91,640
Total capital assets being depreciated	<u>132,580</u>	<u>500,000</u>	<u>-</u>	<u>632,580</u>
Less accumulated depreciation for:				
Land improvements	(31,229)	(18,636)	-	(49,865)
Equipment	(19,300)	(1,330)	-	(20,630)
Total accumulated depreciation	<u>(50,529)</u>	<u>(19,966)</u>	<u>-</u>	<u>(70,495)</u>
LDFA component unit				
capital assets, net	<u>\$ 82,051</u>	<u>\$ 480,034</u>	<u>\$ -</u>	<u>\$ 562,085</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Depreciation of governmental activities by function

General government	\$ 135,955
Public safety	51,524
Public works, including general infrastructure assets	419,058
Parks and recreation	121,736
Community development	43,829
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>318,454</u>

Total governmental activities depreciation expense \$ 1,090,556

Business-type activities

Electric	\$ 509,813
Wastewater	287,535
Water	277,294
Public transit	42,742
Public housing	<u>67,773</u>

Total business-type activities depreciation expense \$ 1,185,157

Depreciation expense for the component unit was charged to the community development function.

9. PAYABLES

Payables in the governmental activities are 77.8 percent vendors and 22.2 percent accrued payroll. Business-type activities are 84.4 percent vendors and 15.6 percent accrued payroll and compensated absences.

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

10. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At June 30, 2012, the interfund receivables and payables, which resulted from negative cash balances, consisted of the following:

	Receivable	Payable
General fund	\$ 905	\$ -
Internal service funds	-	905
Totals	\$ 905	\$ 905

For the year ended June 30, 2012, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General fund	\$ 82,903	\$ 145,441
Nonmajor governmental funds	431,250	131,787
Electric fund	-	210,600
Water fund	-	26,325
Totals	\$ 514,153	\$ 514,153

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

11. LONG-TERM DEBT

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. During the year, the City did not issue any water and sewer general obligation bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 10 to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities		
1999 transportation fund bonds	4.05%-4.60%	\$ 275,000
2004 improvements	3.00%-4.40%	105,000
2005 building authority refunding	3.00%-4.25%	2,160,000
Total governmental activities		\$ 2,540,000

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

Purpose	Interest Rates	Amount
Business-type activities		
2004 improvements	3.00%-4.70%	\$ 390,000
2006 refunding	3.65%-3.80%	2,175,000
2007 electric	3.10%-3.95%	660,000
2008 refunding	3.00%-4.00%	1,400,000
2009 water main	4.00%-5.10%	1,190,000
Total business-type activities		<u>\$ 5,815,000</u>
Discretely presented component unit		
2002 downtown development	4.20%-5.10%	<u>\$ 535,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 325,000	\$ 101,615	\$ 615,000	\$ 246,588	\$ 35,000	\$ 26,333
2014	340,000	83,194	640,000	222,258	40,000	24,758
2015	205,000	77,444	650,000	196,380	40,000	22,918
2016	215,000	69,343	680,000	170,025	45,000	21,038
2017	310,000	60,688	535,000	141,675	50,000	18,878
2018-2022	1,145,000	96,407	1,585,000	352,875	250,000	48,179
2023-2027	-	-	765,000	192,888	75,000	3,825
2028-2031	-	-	345,000	32,220	-	-
	<u>\$ 2,540,000</u>	<u>\$ 488,691</u>	<u>\$ 5,815,000</u>	<u>\$ 1,554,909</u>	<u>\$ 535,000</u>	<u>\$ 165,929</u>

Revenue bonds. The City also issues bonds where the income derived from the acquired or constructed assets is pledged to pay debt service. Revenue bonds outstanding at year-end are as follows:

Purpose	Interest Rates	Amount
Business-type activities		
1999 electric	4.25%-5.20%	<u>\$ 620,000</u>
Discretely presented component unit		
2005 local development	3.50%-4.30%	<u>\$ 1,170,000</u>

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

Revenue bond debt service requirements to maturity are as follows:

Year Ending June 30,	Business-type Activities		Component Unit	
	Principal	Interest	Principal	Interest
2013	\$ 65,000	\$ 30,350	\$ 80,000	\$ 48,230
2014	65,000	27,068	85,000	45,030
2015	70,000	23,625	85,000	41,715
2016	75,000	19,890	85,000	38,400
2017	80,000	15,860	90,000	35,085
2018-2022	265,000	20,930	365,000	103,620
2023-2026	-	-	380,000	40,755
	<u>\$ 620,000</u>	<u>\$ 137,723</u>	<u>\$ 1,170,000</u>	<u>\$ 352,835</u>

Installment obligations. The government has entered into various long-term installment payment agreements. One new installment obligation was entered into during the current year. Installment obligations outstanding at year-end are as follows:

Purpose	Interest Rates	Amount
Governmental activities		
2006 communication equipment	4.00%	\$ 29,905
2012 motor pool equipment	2.89%	568,647
Total governmental activities		<u>\$ 598,552</u>
Business-type activities		
2002 public improvement (State Farm)	0.00%	<u>\$ 720,000</u>

Repayment of the 2002 public improvement (State Farm) is contingent upon the company constructing a new building in the City. While this agreement matures October 1, 2015, repayment is unlikely since the company has closed its existing offices in the City and consolidated its operations in another location.

Annual debt service requirements to maturity for installment obligations, except as noted above, are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 137,632	\$ 15,947	\$ -	\$ -
2014	110,353	13,321	-	-
2015	113,543	10,131	-	-
2016	116,824	6,850	-	-
2017	120,200	3,474	-	-
State Farm	-	-	720,000	-
	<u>\$ 598,552</u>	<u>\$ 49,723</u>	<u>\$ 720,000</u>	<u>\$ -</u>

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

Changes in Long-term Debt. Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Deductions (Including Forgiveness)	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds	\$ 2,850,000	\$ -	\$ (310,000)	\$ 2,540,000	\$ 325,000
Installment contracts	146,532	568,647	(116,627)	598,552	137,632
Compensated absences	275,900	83,000	(107,728)	251,172	70,000
Add (deduct) deferred amounts:					
For issuance premiums	5,234	-	(403)	4,831	-
On refunding	(110,505)	-	11,984	(98,521)	-
Total governmental activities	\$ 3,167,161	\$ 651,647	\$ (522,774)	\$ 3,296,034	\$ 532,632
Business-type activities					
General obligation bonds	\$ 6,405,000	\$ -	\$ (590,000)	\$ 5,815,000	\$ 615,000
Revenue bonds	680,000	-	(60,000)	620,000	65,000
Installment contracts	720,000	-	-	720,000	-
Compensated absences	174,593	24,775	-	199,368	49,843
Add (deduct) deferred amount:					
For issuance premiums	42,457	-	(5,276)	37,181	-
On refunding	(63,276)	-	7,201	(56,075)	-
Total business-type activities	\$ 7,958,774	\$ 24,775	\$ (648,075)	\$ 7,335,474	\$ 729,843
Component unit - LDFA					
Revenue bonds	\$ 1,195,000	\$ -	\$ (25,000)	\$ 1,170,000	\$ 80,000
Component unit - DDA					
General obligation bonds	\$ 565,000	\$ -	\$ (30,000)	\$ 535,000	\$ 35,000
Compensated absences	1,748	-	(1,748)	-	-
Total Component unit - DDA	\$ 566,748	\$ -	\$ (31,748)	\$ 535,000	\$ 35,000

For the governmental activities, compensated absences are generally liquidated by the general fund.

12. SEGMENT INFORMATION - ENTERPRISE FUNDS

The government issued general obligation bonds to finance and refinance certain improvements to its electric, water and wastewater system. Because the electric, water and wastewater funds are segments and are reported as major funds in the fund financial statements, segment disclosures herein are not required.

13. RISK MANAGEMENT

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2012, the government carried insurance through various commercial carriers, including the Michigan Municipal League, to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

14. PROPERTY TAXES

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 15; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Calhoun County. Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the City for the 2011 levy, including industrial facilities, was \$236,732,805. The government's general operating tax rate for fiscal 2011-12 was 15.4629 mills with an additional 0.9393 mills for recreation, 0.4840 for public transportation, and 1.6129 for DDA (based on \$10,569,894 taxable value).

Property taxes for the DDA and LDFA are derived from tax increment financing agreements with the various applicable taxing authorities. Under these arrangements, the DDA and LDFA receives the property taxes levied on the increment of current taxable values over the base year values on those properties located within the established tax increment financing district.

Property taxes are recognized in the fiscal year in which they are levied.

15. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

16. DEFINED BENEFIT PENSION PLAN

Plan Description. The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS and issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS at 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

Funding Policy. The City was required to contribute 0.00% to 6.86% of the annual covered payroll, depending on the applicable bargaining unit, for the year ended June 30, 2012. City employees are required to contribute 7.70% to 12.24% of their annual covered payroll, depending on the applicable bargaining unit. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, subject to collective bargaining agreements and depending on the MERS contribution program adopted by the City.

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

Annual Pension Cost. For the year ended June 30, 2012, the City's annual pension cost of \$415,427 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2009 actuarial valuation using the entry age normal actuarial method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit.

Funded Status. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2011, the date of the latest actuarial valuation, was 27 years. Three-year trend information is follows:

Years Ended June 30,	Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2010	\$ 247,197	100%	\$ -
2011	339,409	100%	-
2012	415,427	100%	-

The funded status of the plan as of December 31, 2011, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/09	\$ 23,384,381	\$ 27,106,276	\$ 3,721,895	86.3%	\$ 4,291,122	86.7%
12/31/10	23,297,013	28,320,967	5,023,954	82.3%	4,121,120	121.9%
12/31/11	22,830,561	29,133,822	6,303,261	78.4%	4,390,462	143.6%

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

17. OTHER POSTEMPLOYMENT BENEFITS

Plan Description. The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer plan, to provide postemployment healthcare benefits to eligible retirees and their dependents upon retirement. Retirees who were hired prior to July 15, 1986 are eligible for the benefits subject to length of service criteria at the same level and cost sharing as active employees. Retirees who were hired on or after July 15, 1986 are similarly eligible for the benefits except a sliding scale for sharing the cost of the annual insurance premium between the City and retiree also applies. Finally, for employees hired after January 1, 1997, the City pays no portion of the benefit. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to MERS at 447 N. Canal Road, Lansing, MI 48917.

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

Plan Membership. As of June 30, 2012, the date of the last plan valuation, the Plan covered 88 members (23 active plan members and 65 retirees receiving benefits).

Funding Policy. The contribution requirements of Plan members and the City are established and may be amended by the City Council. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City Council. For the year ended June 30, 2012, the City contributed \$427,260 to the Plan, all of which was to fund current year benefits. Retirees receiving benefits contributed \$42,966 or approximately 7.37 percent of the total premiums, through their required contribution.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's net OPEB obligation:

Annual required contribution	\$ 774,398
Interest on net OPEB obligation	72,804
Adjustment to annual required contribution	<u>(56,871)</u>
Net OPEB cost	790,331
Contributions made	<u>(427,260)</u>
Increase in net OPEB obligation	363,071
Net OPEB obligation, beginning of year	<u>1,120,040</u>
Net OPEB obligation, end of year	<u><u>\$ 1,483,111</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2012, and the two preceding years, were as follows:

Year Ending June 30,	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 961,400	59%	\$ 804,498
2011	793,484	62%	1,120,040
2012	790,331	55%	1,483,111

Funded Status and Funding Progress. As of June 30, 2012, the most recent actuarial valuation date, the Plan was four percent funded. The actuarial accrued liability for benefits was \$13,835,906, and the actuarial value of assets was \$582,664, resulting in an unfunded actuarially accrued liability of \$13,253,242. The covered payroll (annual payroll of the active employees covered by the Plan) was \$1,254,497 and the ratio of the UAAL to the covered payroll was 1,057 percent.

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits calculations.

The following simplifying assumptions were made:

Retirement age for active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 55.

Marital status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2006 United States Life Tables for Males and for Females were used.

Turnover - Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on projections by the City's management. An initial rate of 12 percent was used, decreasing to 8 percent by the year 2015.

Health insurance premiums - 2010-11 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate - The expected long-term inflation assumption of 4.0 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2006 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

Payroll growth rate - The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 6.5 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012, was 30 years.

CITY OF MARSHALL, MICHIGAN

Notes to Financial Statements

18. NET ASSETS INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

Following is a summary of net assets invested in capital assets, net of related debt, as presented in the government-wide statement of net assets:

	Governmental Activities	Business-type Activities
Capital assets, net	\$ 16,677,437	\$ 16,012,795
Less: capital related bonds and installment contracts	(3,138,552)	(7,155,000)
Add: unamortized deferred loss on refunding	98,521	56,075
Less: unamortized premium on bonds	(4,831)	(37,181)
Total invested in capital assets, net of related debt	<u>\$ 13,632,575</u>	<u>\$ 8,876,689</u>

19. DIAL-A-RIDE DISCLOSURES

The following disclosures are required by the Michigan Department of Transportation (MDOT) relative to the City's Dial-A-Ride program which is funded by and through MDOT:

Cost Allocation Plans / Eligible Costs

The City's Dial-A-Ride program/fund uses two cost allocation plans in the determination of its reported costs where the methodology has either been specifically approved by the MDOT Bureau of Passenger Transportation (BPT) or is pending such approval:

1. Facility costs are allocated based on actual square footage occupied by the Dial-A-Ride program. (BPT reviewed and approved.)
2. Actual administrative staff wages and fringes are allocated to the Dial-A-Ride program based on applicable objectively measurable output factors such as transaction counts for finance department staff and direct full-time equivalents for administrators. (BPT review and approval pending.)

These cost allocation plans were adhered to in the preparation of the financial statements.

Capital Funds

No capital funds were used during the current fiscal year to pay for operating expenses; however, if they had been such funds would have been deducted for purposes of calculating eligible costs in accordance with MDOT guidelines.

Nonfinancial Data

The methodology used for compiling vehicle mileage is adequate and reliable.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MARSHALL, MICHIGAN

Required Supplementary Information

June 30, 2012

Municipal Employees' Retirement System of Michigan (MERS) Schedule of Funding Progress

Actuarial Valuation Date December 31,	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Unfunded AAL (Overfunded) (UAAL) (2-1)	(4) Funded Ratio (1/2)	(5) Covered Payroll	(6) UAAL as a % of Covered Payroll (3/5)
2003	\$ 20,517,832	\$ 19,935,535	\$ (582,297)	102.9%	\$ 3,839,753	-15.2%
2004	21,006,550	21,189,467	182,917	99.1%	4,102,546	4.5%
2005	21,572,620	23,110,895	1,538,275	93.3%	4,132,958	37.2%
2006	22,495,650	24,022,685	1,527,035	93.6%	4,091,944	37.3%
2007	23,486,337	25,079,823	1,593,486	93.6%	4,224,192	37.7%
2008	23,593,050	26,297,585	2,704,535	89.7%	4,216,281	64.1%
2009	23,384,381	27,106,276	3,721,895	86.3%	4,291,122	86.7%
2010	23,297,013	28,320,967	5,023,954	82.3%	4,121,120	121.9%
2011	22,830,561	29,133,822	6,303,261	78.4%	4,390,462	143.6%

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2007	\$ 171,584	100%
2008	227,379	100%
2009	224,057	100%
2010	247,197	100%
2011	339,409	100%
2012	415,427	100%

CITY OF MARSHALL, MICHIGAN

Required Supplementary Information

June 30, 2012

Other Postemployment Healthcare Benefits (OPEB) Schedule of Funding Progress

Actuarial Valuation Date June 30,	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Unfunded AAL (UAAL) (2-1)	(4) Funded Ratio (1/2)	(5) Covered Payroll	(6) UAAL as a % of Covered Payroll (3/5)
2005	\$ 432,046	\$ 12,935,963	\$ 12,503,917	3.3%	\$ 4,132,958	302.5%
2009	432,046	16,431,481	15,999,435	2.6%	1,407,059	1137.1%
2011	582,664	13,775,992	13,193,328	4.2%	1,239,229	1064.6%
2012	582,664	13,835,906	13,253,242	4.2%	1,254,497	1056.5%

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Annual Actual Contribution	Percentage Contributed	Net OPEB Obligation
2009	\$ 914,127	\$ 512,661	56.08%	\$ 401,466
2010	952,652	558,368	58.61%	804,498
2011	776,921	477,942	61.52%	1,120,040
2012	774,398	427,260	55.17%	1,483,111

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF MARSHALL, MICHIGAN

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2012

			Capital Projects	Permanent	
	Special Revenue	Debt Service	Major Streets	Cemetery	Totals
Assets					
Cash and cash equivalents	\$ 77,702	\$ 16,259	\$ 9,378	\$ 191,167	\$ 294,506
Investments	329,135	-	52,276	517,108	898,519
Accounts receivable	56,164	-	-	1,615	57,779
Due from other governments	84,006	-	-	-	84,006
Inventory	8,051	-	-	-	8,051
Prepaid items	2,185	-	-	-	2,185
Total assets	\$ 557,243	\$ 16,259	\$ 61,654	\$ 709,890	\$ 1,345,046
Liabilities					
Accounts payable	\$ 9,628	\$ -	\$ -	\$ -	\$ 9,628
Accrued liabilities	2,610	-	-	-	2,610
Total liabilities	12,238	-	-	-	12,238
Fund balances					
Nonspendable for:					
Inventory	8,051	-	-	-	8,051
Prepaid items	2,185	-	-	-	2,185
Cemetery perpetual care	-	-	-	477,510	477,510
Restricted for:					
Highways and streets	405,895	-	-	-	405,895
Drug law enforcement	4,798	-	-	-	4,798
Cemetery operations	-	-	-	232,380	232,380
Committed for:					
Highways and streets	-	-	61,654	-	61,654
Special projects	124,076	-	-	-	124,076
Debt service	-	16,259	-	-	16,259
Total fund balances	545,005	16,259	61,654	709,890	1,332,808
Total liabilities and fund balances	\$ 557,243	\$ 16,259	\$ 61,654	\$ 709,890	\$ 1,345,046

CITY OF MARSHALL, MICHIGAN

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance

Nonmajor Governmental Funds
For the Year Ended June 30, 2012

			Capital Projects	Permanent	
	Special Revenue	Debt Service	Major Streets	Cemetery	Totals
Revenues					
Intergovernmental	\$ 803,236	\$ -	\$ -	\$ -	\$ 803,236
Charges for services	-	-	-	13,406	13,406
Investment earnings	821	-	567	7,439	8,827
Other	68,766	-	-	-	68,766
Total revenues	872,823	-	567	20,845	894,235
Expenditures					
Current expenditures:					
General government	219,298	-	-	6,488	225,786
Public safety	20	-	-	-	20
Highways and streets	182,133	-	-	-	182,133
Debt service:					
Principal	170,030	170,000	-	-	340,030
Interest and fiscal charges	15,375	93,250	-	-	108,625
Capital outlay	252,148	-	-	-	252,148
Total expenditures	839,004	263,250	-	6,488	1,108,742
Revenues over (under) expenditures	33,819	(263,250)	567	14,357	(214,507)
Other financing sources (uses)					
Transfers in	168,000	263,250	-	-	431,250
Transfers out	(131,787)	-	-	-	(131,787)
Total other financing sources (uses)	36,213	263,250	-	-	299,463
Net change in fund balances	70,032	-	567	14,357	84,956
Fund balances, beginning of year	474,973	16,259	61,087	695,533	1,247,852
Fund balances, end of year	\$ 545,005	\$ 16,259	\$ 61,654	\$ 709,890	\$ 1,332,808

CITY OF MARSHALL, MICHIGAN

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2012

	Major Street	Local Street	Drug Law Enforcement	Special Projects	Total
Assets					
Cash and cash equivalents	\$ 48,098	\$ 2,477	\$ 4,798	\$ 22,329	\$ 77,702
Investments	143,505	134,189	-	51,441	329,135
Accounts receivable	-	-	-	56,164	56,164
Due from other governments	62,710	21,296	-	-	84,006
Inventory	8,051	-	-	-	8,051
Prepaid items	1,133	1,052	-	-	2,185
Total assets	\$ 263,497	\$ 159,014	\$ 4,798	\$ 129,934	\$ 557,243
Liabilities					
Accounts payable	\$ 330	\$ 3,440	\$ -	\$ 5,858	\$ 9,628
Accrued liabilities	1,447	1,163	-	-	2,610
Total liabilities	1,777	4,603	-	5,858	12,238
Fund balances					
Nonexpendable for:					
Inventory	8,051	-	-	-	8,051
Prepaid items	1,133	1,052	-	-	2,185
Restricted for:					
Highways and streets	252,536	153,359	-	-	405,895
Drug law enforcement	-	-	4,798	-	4,798
Committed for special projects	-	-	-	124,076	124,076
Total fund balances	261,720	154,411	4,798	124,076	545,005
Total liabilities and fund balances	\$ 263,497	\$ 159,014	\$ 4,798	\$ 129,934	\$ 557,243

CITY OF MARSHALL, MICHIGAN

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance

Nonmajor Special Revenue Funds

For the Year Ended June 30, 2012

	Major Street	Local Street	Drug Law Enforcement	Special Projects	Total
Revenues					
Intergovernmental	\$ 398,603	\$ 146,449	\$ -	\$ 258,184	\$ 803,236
Investment earnings	406	698	-	(283)	821
Other	-	-	-	68,766	68,766
Total revenues	399,009	147,147	-	326,667	872,823
Expenditures					
Current expenditures:					
General government	-	-	-	219,298	219,298
Public safety	-	-	20	-	20
Highways and streets	119,038	63,095	-	-	182,133
Debt service:					
Principal	130,000	-	-	40,030	170,030
Interest and fiscal charges	15,375	-	-	-	15,375
Capital outlay	15,082	237,066	-	-	252,148
Total expenditures	279,495	300,161	20	259,328	839,004
Revenues over (under) expenditures	119,514	(153,014)	(20)	67,339	33,819
Other financing sources (uses)					
Transfers in	-	168,000	-	-	168,000
Transfers out	(53,000)	-	-	(78,787)	(131,787)
Total other financing sources (uses)	(53,000)	168,000	-	(78,787)	36,213
Net change in fund balances	66,514	14,986	(20)	(11,448)	70,032
Fund balances, beginning of year	195,206	139,425	4,818	135,524	474,973
Fund balances, end of year	\$ 261,720	\$ 154,411	\$ 4,798	\$ 124,076	\$ 545,005

CITY OF MARSHALL, MICHIGAN

Schedule of Revenues, Expenditures, and Changes in Fund Balance

Final Budget and Actual - Nonmajor Special Revenue Funds

For the Year Ended June 30, 2012

	Major Street Fund		
	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues			
Property taxes	\$ -	\$ -	\$ -
Intergovernmental	354,578	398,603	44,025
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Investment earnings	500	406	(94)
Other	-	-	-
Total revenues	355,078	399,009	43,931
Expenditures			
Current expenditures:			
General government	-	-	-
Public safety	-	-	-
Highways and streets	135,933	119,038	(16,895)
Parks and recreation	-	-	-
Debt service:			
Principal	130,000	130,000	-
Interest and fiscal charges	15,375	15,375	-
Capital outlay	26,500	15,082	(11,418)
Total expenditures	307,808	279,495	(28,313)
Revenues over (under) expenditures	47,270	119,514	72,244
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	(10,000)	(53,000)	(43,000)
Total other financing sources (uses)	(10,000)	(53,000)	(43,000)
Net change in fund balances	37,270	66,514	29,244
Fund balances, beginning of year	185,488	195,206	(9,718)
Fund balances, end of year	\$ 222,758	\$ 261,720	\$ 38,962



Local Street Fund			Drug Law Enforcement Fund		
Final Budget	Actual	Actual Over (Under) Final Budget	Final Budget	Actual	Actual Over (Under) Final Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
115,050	146,449	31,399	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
300	698	398	-	-	-
-	-	-	-	-	-
115,350	147,147	31,797	-	-	-
-	-	-	-	-	-
-	-	-	50	20	(30)
98,846	63,095	(35,751)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
236,000	237,066	1,066	-	-	-
334,846	300,161	(34,685)	50	20	(30)
(219,496)	(153,014)	66,482	(50)	(20)	30
200,000	168,000	(32,000)	-	-	-
-	-	-	-	-	-
200,000	168,000	(32,000)	-	-	-
(19,496)	14,986	34,482	(50)	(20)	30
139,425	139,425	-	4,818	4,818	-
\$ 119,929	\$ 154,411	\$ 34,482	\$ 4,768	\$ 4,798	\$ 30

continued...

CITY OF MARSHALL, MICHIGAN

Schedule of Revenues, Expenditures, and Changes in Fund Balance

Final Budget and Actual - Nonmajor Special Revenue Funds

For the Year Ended June 30, 2012

	Special Projects Fund		
	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues			
Property taxes	\$ -	\$ -	\$ -
Intergovernmental	182,021	258,184	76,163
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Investment earnings	-	(283)	(283)
Other	78,304	68,766	(9,538)
Total revenues	<u>260,325</u>	<u>326,667</u>	<u>66,342</u>
Expenditures			
Current expenditures:			
General government	246,049	219,298	(26,751)
Public safety	-	-	-
Highways and streets	-	-	-
Parks and recreation	-	-	-
Debt service:			
Principal	27,065	40,030	12,965
Interest and fiscal charges	2,841	-	(2,841)
Capital outlay	-	-	-
Total expenditures	<u>275,955</u>	<u>259,328</u>	<u>(16,627)</u>
Revenues over (under) expenditures	<u>(15,630)</u>	<u>67,339</u>	<u>82,969</u>
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	(111,233)	(78,787)	32,446
Total other financing sources (uses)	<u>(111,233)</u>	<u>(78,787)</u>	<u>32,446</u>
Net change in fund balances	<u>(126,863)</u>	<u>(11,448)</u>	<u>115,415</u>
Fund balances, beginning of year	<u>135,524</u>	<u>135,524</u>	<u>-</u>
Fund balances (deficit), end of year	<u>\$ 8,661</u>	<u>\$ 124,076</u>	<u>\$ 115,415</u>

concluded

CITY OF MARSHALL, MICHIGAN

Combining Balance Sheet

Nonmajor Debt Service Funds

June 30, 2012

	Building Authority	1999 Motor Vehicle Highway	Total
Assets			
Cash and cash equivalents	\$ 9,469	\$ 6,790	\$ 16,259
Fund balances			
Committed for debt service	\$ 9,469	\$ 6,790	\$ 16,259

CITY OF MARSHALL, MICHIGAN

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance

Nonmajor Debt Service Funds

For the Year Ended June 30, 2012

	Building Authority	1999 Motor Vehicle Highway	Total
Expenditures			
Debt service:			
Principal retirement	\$ 170,000	\$ -	\$ 170,000
Interest and fiscal charges	93,250	-	93,250
	<hr/>	<hr/>	<hr/>
Total expenditures	263,250	-	263,250
Other financing sources			
Transfers in	263,250	-	263,250
	<hr/>	<hr/>	<hr/>
Net change in fund balances	-	-	-
Fund balances, beginning of year	9,469	6,790	16,259
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	<u>\$ 9,469</u>	<u>\$ 6,790</u>	<u>\$ 16,259</u>

CITY OF MARSHALL, MICHIGAN

Supplemental Schedule of Operating Expenses

Electric, Wastewater, and Water Enterprise Funds

For the Year Ended June 30, 2012

	Electric	Wastewater	Water	Total
Administration				
Personal services	\$ 497,031	\$ 238,572	\$ 250,909	\$ 986,512
Materials and supplies	20,594	8,718	7,455	36,767
Contractual	49,172	11,616	10,845	71,633
Insurance	46,604	20,733	6,642	73,979
Maintenance	327	164	164	655
Administration (city allocated costs)	739,805	43,618	39,628	823,051
Other expense	65,966	8,192	5,936	80,094
Depreciation	7,915	2,367	-	10,282
Total administration expenses	1,427,414	333,980	321,579	2,082,973
Powerhouse				
Personal services	417,750	-	-	417,750
Materials and supplies	112,056	-	-	112,056
Purchased power	8,613,998	-	-	8,613,998
Contractual	81,604	-	-	81,604
Maintenance	331	-	-	331
Other expense	17,294	-	-	17,294
Depreciation	197,610	-	-	197,610
Total powerhouse expenses	9,440,643	-	-	9,440,643
Line distribution				
Personal services	770,693	-	195,034	965,727
Materials and supplies	68,265	-	32,174	100,439
Purchased power	-	-	1,556	1,556
Contractual	38,590	-	2,918	41,508
Maintenance	2,221	-	72	2,293
Other expense	220,220	-	38,357	258,577
Depreciation	304,288	-	272,849	577,137
Total line distribution expenses	1,404,277	-	542,960	1,947,237
Operations				
Personal services	-	283,814	-	283,814
Materials and supplies	-	100,597	-	100,597
Purchased power	-	110,085	-	110,085
Contractual	-	102,866	-	102,866
Maintenance	-	9,685	-	9,685
Other expense	-	36,441	-	36,441
Depreciation	-	285,168	-	285,168
Total operations expenses	-	928,656	-	928,656

continued...

CITY OF MARSHALL, MICHIGAN

Supplemental Schedule of Operating Expenses

Electric, Wastewater, and Water Enterprise Funds

For the Year Ended June 30, 2012

	Electric	Wastewater	Water	Total
Production				
Personal services	\$ -	\$ -	\$ 67,854	\$ 67,854
Materials and supplies	-	-	48,996	48,996
Purchased power	-	-	29,445	29,445
Contractual	-	-	1,066	1,066
Other expense	-	-	4,242	4,242
Depreciation	-	-	4,445	4,445
Total production expenses	-	-	156,048	156,048
Totals				
Personal services	1,685,474	522,386	513,797	2,721,657
Materials and supplies	200,915	109,315	88,625	398,855
Purchased power	8,613,998	110,085	31,001	8,755,084
Contractual	169,366	114,482	14,829	298,677
Insurance	46,604	20,733	6,642	73,979
Maintenance	2,879	9,849	236	12,964
Administration (city allocated costs)	739,805	43,618	39,628	823,051
Other expense	303,480	44,633	48,535	396,648
Depreciation	509,813	287,535	277,294	1,074,642
Total expenses	<u>\$ 12,272,334</u>	<u>\$ 1,262,636</u>	<u>\$ 1,020,587</u>	<u>\$ 14,555,557</u>

concluded

CITY OF MARSHALL, MICHIGAN

Supplemental Schedule of Revenues and Expenses

Dial-A-Ride Transportation Fund
For the Year Ended June 30, 2012

Schedule 1 - for the year ended June 30, 2012	7/1/11 to 9/30/11	10/1/11 to 6/30/12	Total
Local revenues:			
Demand response - farebox (nonurban)	\$ 11,525	\$ 36,190	\$ 47,715
Tax levy	100,131	(244)	99,887
Interest and other income	852	170	1,022
Total local revenues	\$ 112,508	\$ 36,116	\$ 148,624

Schedule 1A - based on a September 30, 2011 year end	10/1/10 to 6/30/11	7/1/11 to 9/30/11	Total
Local revenues:			
Demand response - farebox (nonurban)	\$ 36,803	\$ 11,525	\$ 48,328
Tax levy	(323)	100,131	99,808
Interest and other income	1,583	852	2,435
Total local revenues	\$ 38,063	\$ 112,508	\$ 150,571

Schedule 2A - for the year ended June 30, 2012	7/1/11 to 9/30/11	10/1/11 to 6/30/12	Total
Michigan Department of Transportation -			
Local bus operating (Act 51)	\$ 30,270	\$ 99,567	\$ 129,837
Prior year settlement	-	8,218	8,218
Federal Transit Administration:			
Section 5311 - operating	-	45,220	45,220
Section 5311 - capital	-	64,930	64,930
Farebox, radio and RTAP reimbursements	351	-	351
Prior year settlement	-	2,993	2,993
Total	\$ 30,621	\$ 220,928	\$ 251,549

Schedule 2B - based on a September 30, 2011 year end	10/1/10 to 6/30/11	7/1/11 to 9/30/11	Total
Michigan Department of Transportation:			
Local bus operating (Act 51)	\$ 76,552	\$ 30,270	\$ 106,822
Prior year settlement	-	-	-
Federal Transit Administration:			
Section 5311 - operating	68,048	-	68,048
Section 5311 - capital	-	-	-
Farebox, radio and RTAP reimbursements	16,844	351	17,195
Prior year settlement	-	-	-
Total	\$ 161,444	\$ 30,621	\$ 192,065

continued...

CITY OF MARSHALL, MICHIGAN

Supplemental Schedule of Revenues and Expenses

Dial-A-Ride Transportation Fund
For the Year Ended June 30, 2012

Schedule 3 - Operating and Contract Expenses	Nonurban	Total
Expenses:		
Labor	\$ 195,533	\$ 195,533
Fringe benefits	72,623	72,623
Services	13,508	13,508
Materials and supplies	46,459	46,459
Utilities	616	616
Insurance	4,050	4,050
Taxes and fees	1,548	1,548
Operating leases and rentals	8,979	8,979
Depreciation	42,742	42,742
Total Expenses	\$ 386,058	\$ 386,058

Schedule 3A - Operating Expenses for June 30, 2012 year end	Nonurban		
	7/1/11 to 9/30/11	10/1/11 to 06/30/12	Total
Expenses:			
Labor	\$ 41,879	\$ 153,654	\$ 195,533
Fringe benefits	18,929	53,694	72,623
Services	3,367	10,141	13,508
Materials and supplies	9,438	37,021	46,459
Utilities	152	464	616
Insurance	-	4,050	4,050
Taxes and fees	69	1,479	1,548
Operating leases and rentals	2,245	6,734	8,979
Depreciation	9,400	33,342	42,742
Total Expenses	\$ 85,479	\$ 300,579	\$ 386,058

Schedule 3B - Operating Expenses for September 30, 2011 year end	Nonurban		
	10/1/10 to 6/30/11	7/1/11 to 9/30/11	Total
Expenses:			
Labor	\$ 151,241	\$ 41,879	\$ 193,120
Fringe benefits	50,845	18,929	69,774
Services	28,068	3,367	31,435
Materials and supplies	27,034	9,438	36,472
Utilities	2,417	152	2,569
Insurance	4,453	-	4,453
Taxes and fees	791	69	860
Miscellaneous	451	-	451
Operating leases and rentals	8,297	2,245	10,542
Depreciation	33,638	9,400	43,038
Ineligible costs (prior year settlements)	7,816	-	7,816
Total Expenses	\$ 315,051	\$ 85,479	\$ 400,530

continued...

CITY OF MARSHALL, MICHIGAN

Supplemental Schedule of Revenues and Expenses

Dial-A-Ride Transportation Fund
For the Year Ended June 30, 2012

Schedule 5 - Operating Assistance Calculation for September 30, 2011 year end	Nonurban
Total expenses	<u>\$ 400,530</u>
Less ineligible expenses	
Depreciation	43,038
RTAP	-
Fareboxes	-
Prior year settlements	<u>7,816</u>
Total ineligible expenses per R&E Manual	<u>50,854</u>
Total state eligible expenses	<u><u>\$ 349,676</u></u>
Eligible expenses for state reimbursement	349,676
x Reimbursement percentage	<u>36.99%</u>
State operating assistance	<u><u>\$ 129,345</u></u>
 Total federal eligible expenses	
State eligible expenses (per above)	349,676
Less: additional federal ineligible expenses per A-87 - Audit costs	<u>1,008</u>
Eligible expenses for federal reimbursement	348,668
x Reimbursement percentage	<u>18.5%</u>
Federal operating assistance	<u><u>\$ 64,504</u></u>
	concluded

CITY OF MARSHALL, MICHIGAN

Supplemental Schedule of Revenues and Expenses

Dial-A-Ride Transportation Fund
For the Year Ended June 30, 2012

Schedule 2 - Expenditures of Federal and State Awards	Federal CFDA Number	Grant No./ Authorization Number	Program Award Amount
<u>U.S. Department of Transportation</u>			
Passed-through Michigan Department of Transportation			
Operating Assistance - Section 5311:			
RTAP	20.509	n/a	\$ 351
Capital assistance	20.509	07-0253 / Z8	162,000
Capital assistance	20.509	07-0253 / Z9	95,000
Capital assistance	20.509	07-0253 / Z10	35,000
Operating assistance	20.509	07-0253 / Z7	2,993
Operating assistance (FY 11)	20.509	07-0253 / Z13	60,333
Operating assistance (FY 12)	20.509	12-0128 / P1	67,779
<u>Michigan Department of Transportation</u>			
Operating Assistance - Act 51 Nonurban:			
Operating assistance (FY 12)		2011-0128	121,068
Operating assistance (FY 13)		2012-0128	132,756
Total expenditure of federal and state awards			<u>\$ 677,280</u>

--

	Current Year Revenues				
Total	Federal	State	Settlement	Reported Prior Year	Award Amount Remaining

\$ 351	\$ 351	\$ -	\$ -	\$ -	\$ -
63,404	63,404	-	-	80,003	18,593
1,526	1,526	-	-	85,120	8,354
-	-	-	-	16,520	18,480
2,993	-	-	2,993	-	-
15,084	15,084	-	-	41,795	3,454
30,136	30,136	-	-	-	37,643

30,270	-	30,270	-	90,798	-
99,567	-	99,567	-	-	33,189

<u>\$ 243,331</u>	<u>\$ 110,501</u>	<u>\$ 129,837</u>	<u>\$ 2,993</u>	<u>\$ 314,236</u>	<u>\$ 119,713</u>
-------------------	-------------------	-------------------	-----------------	-------------------	-------------------

CITY OF MARSHALL, MICHIGAN

Dial-A-Ride Transportation Fund

Nonurban Regular Service Revenue Report
For the Year Ended June 30, 2012

Code	Description	Amount
401 :	Farebox Revenue	
40100	Passenger Fares	\$ 48,327
40200	Contract Fares	198
405 :	Charter Service	
40500	Charter Service	365
407 :	NonTrans Revenue	
40799	Other NonTrans Revenue	711
408 :	Local Revenue	
40800	Taxes Levied Directly for/by Transit Agency	99,456
409 :	Local Revenue	
40999	Other Local Contracts & Reimbursements	11
411 :	State Formula and Contracts	
41101	State Operating Assistance	141,442
413 :	Federal Contracts	
41301	Federal Section 5311	52,965
41398	RTAP (RTAP for Supervisor Seminar)	675
414 :	Other Revenue	
41400	Interest Income	1,151
Total revenues:		\$ 345,301

CITY OF MARSHALL, MICHIGAN

Dial-A-Ride Transportation Fund

Nonurban Regular Service Expense Report
For the Year Ended June 30, 2012

Code	Description	Operations	Maintenance	Gen. Admin.	Total
501 :	Labor				
50101	Operators' Salaries & Wages	\$ 129,648	\$ -	\$ -	\$ 129,648
50102	Other Salaries & Wages	-	4,277	8,557	12,834
50103	Dispatchers' Salaries & Wages	56,996	-	-	56,996
502 :	Fringe Benefits				
50200	Other Fringe Benefits	51,946	934	1,515	54,395
50201	Pension	5,971	242	-	6,213
50202	Other Postemployment Benefits	10,291	-	-	10,291
503 :	Services				
50302	Advertising Fees	-	-	898	898
50305	Audit Cost	1,008	-	-	1,008
50399	Other Services	372	-	10,627	10,999
504 :	Materials and Supplies				
50401	Fuel & Lubricants	28,433	-	-	28,433
50402	Tires & Tubes	3,661	774	-	4,435
50499	Other Materials & Supplies	727	13,698	108	14,533
505 :	Utilities				
50500	Utilities	602	-	-	602
506 :	Insurance				
50603	Liability Insurance	4,453	-	-	4,453
507 :	Taxes & Fees				
50700	Taxes & Fees	861	-	-	861

continued...

CITY OF MARSHALL, MICHIGAN

Dial-A-Ride Transportation Fund

Nonurban Regular Service Expense Report
For the Year Ended June 30, 2012

509 : Misc. Expenses					
50902	Travel, Meetings & Training	\$	-	\$	568
					\$ 568
<hr/>					
512 : Operating Leases & Rentals					
51200	Operating Leases & Rentals		7,897	-	2,645
					10,542
<hr/>					
513 : Depreciation					
51300	Depreciation		43,038	-	-
					43,038
<hr/>					
550 : Ineligible Expenses					
55007	Ineligible Depreciation		43,038	-	-
					43,038
55010	Other Ineligible Expense		365	-	-
					365
<hr/>					
574 : Ineligible Expenses					
57402	Ineligible RTAP		-	-	339
					339
<hr/>					
Total expenses:					390,747
Total ineligible expenses:					43,742
Total eligible expenses:					<u>\$ 347,005</u>

concluded

CITY OF MARSHALL, MICHIGAN

Dial-A-Ride Transportation Fund

Nonurban Regular Service Nonfinancial Report
For the Year Ended June 30, 2012

Public Service

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle Hours	8,422	-	-	8,422
611	Vehicle Miles	68,633	-	-	68,633
615	Passengers - Regular	19,594	-	-	19,594
616	Passengers - Elderly	9,348	-	-	9,348
617	Passengers - Persons w/ Disabilities	1,791	-	-	1,791

CITY OF MARSHALL, MICHIGAN

Combining Statement of Net Assets

Internal Service Funds

June 30, 2012

	Data Processing	Motor Pool	Safety	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 55,222	\$ 35,618	\$ -	\$ 90,840
Investments	167,496	649,846	27,755	845,097
Prepaid items	2,865	504	-	3,369
Total current assets	225,583	685,968	27,755	939,306
Noncurrent assets -				
Capital assets, net	54,487	2,205,217	-	2,259,704
Total assets	280,070	2,891,185	27,755	3,199,010
Liabilities				
Current liabilities:				
Accounts payable	12,091	17,446	40	29,577
Accrued payroll	470	2,733	-	3,203
Accrued interest payable	-	10,631	-	10,631
Interfund payable	-	-	905	905
Compensated absences payable	-	629	-	629
Contracts payable, current portion	-	107,727	-	107,727
Total current liabilities	12,561	139,166	945	152,672
Noncurrent liabilities -				
Contracts payable	-	460,920	-	460,920
Total liabilities	12,561	600,086	945	613,592
Net assets				
Invested in capital assets, net of related debt	54,487	1,636,570	-	1,691,057
Unrestricted	213,022	654,529	26,810	894,361
Total net assets	\$ 267,509	\$ 2,291,099	\$ 26,810	\$ 2,585,418

CITY OF MARSHALL, MICHIGAN

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Internal Service Funds

For the Year Ended June 30, 2012

	Data Processing	Motor Pool	Safety	Total
Operating revenues				
Charges for services	\$ 116,292	\$ 654,078	\$ -	\$ 770,370
Other	-	2,087	-	2,087
Total operating revenues	<u>116,292</u>	<u>656,165</u>	<u>-</u>	<u>772,457</u>
Operating expenses				
Personal services	13,576	95,156	3,431	112,163
Materials and supplies	50,892	203,041	1,750	255,683
Contractual	32,158	4,196	3	36,357
Insurance	-	27,392	-	27,392
Maintenance	-	58,653	708	59,361
Other expense	-	35,138	398	35,536
Depreciation	16,044	302,410	-	318,454
Total operating expenses	<u>112,670</u>	<u>725,986</u>	<u>6,290</u>	<u>844,946</u>
Operating income (loss)	<u>3,622</u>	<u>(69,821)</u>	<u>(6,290)</u>	<u>(72,489)</u>
Nonoperating revenues				
Investment earnings	2,247	7,769	408	10,424
Gain on sale of capital assets	-	107,729	-	107,729
Interest expense	-	(10,631)	-	(10,631)
Total nonoperating revenues	<u>2,247</u>	<u>104,867</u>	<u>408</u>	<u>107,522</u>
Change in net assets	<u>5,869</u>	<u>35,046</u>	<u>(5,882)</u>	<u>35,033</u>
Net assets, beginning of year	<u>261,640</u>	<u>2,256,053</u>	<u>32,692</u>	<u>2,550,385</u>
Net assets, end of year	<u>\$ 267,509</u>	<u>\$ 2,291,099</u>	<u>\$ 26,810</u>	<u>\$ 2,585,418</u>

CITY OF MARSHALL, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2012

	Data Processing	Motor Pool	Safety	Total
Cash flows from operating activities				
Receipts from interfund services	\$ 116,292	\$ 656,165	\$ -	\$ 772,457
Payments to suppliers/claimants	(70,832)	(325,414)	(2,267)	(398,513)
Payments to employees	(13,517)	(97,478)	(3,431)	(114,426)
Net cash provided (used) by operating activities	31,943	233,273	(5,698)	259,518
Cash flows from capital and related financing activities				
Cash received on sale of capital assets	-	107,729	-	107,729
Purchase of capital assets	(37,710)	(822,011)	-	(859,721)
Proceeds from installment contract		568,647		568,647
Net cash used in capital and related financing activities	(37,710)	(145,635)	-	(183,345)
Cash flows from investing activities				
Purchase of investments	(2,248)	(277,771)	-	(280,019)
Proceeds from investments	-	-	5,290	5,290
Interest received on investments	2,247	7,769	408	10,424
Net cash provided by investing activities	(1)	(270,002)	5,698	(264,305)
Net change in cash and cash equivalents	(5,768)	(182,364)	-	(188,132)
Cash and cash equivalents, beginning of year	60,990	217,982	-	278,972
Cash and cash equivalents, end of year	\$ 55,222	\$ 35,618	\$ -	\$ 90,840
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 3,622	\$ (69,821)	\$ (6,290)	\$ (72,489)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	16,044	302,410	-	318,454
Changes in assets and liabilities:				
Accounts receivable	-	73	-	73
Prepaid items	2,038	908	-	2,946
Accounts payable	10,180	2,025	40	12,245
Accrued payroll	59	(743)	(121)	(805)
Interfund payable	-	-	673	673
Compensated absences payable	-	(1,579)	-	(1,579)
Net cash provided (used) by operating activities	\$ 31,943	\$ 233,273	\$ (5,698)	\$ 259,518

CITY OF MARSHALL, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2012

	Current Tax	Imprest Payroll	Total
Assets			
Cash and cash equivalents	\$ 3,286	\$ 27,112	\$ 30,398
Delinquent taxes receivable	354,762	-	354,762
Total assets	<u>\$ 358,048</u>	<u>\$ 27,112</u>	<u>\$ 385,160</u>
Liabilities			
Undistributed receipts	<u>\$ 358,048</u>	<u>\$ 27,112</u>	<u>\$ 385,160</u>

CITY OF MARSHALL, MICHIGAN

Statement of Net Assets and Governmental Fund Balance Sheet

Downtown Development Authority Component Unit

June 30, 2012

	Special Revenue	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 40,742	\$ -	\$ 40,742
Investments	206,873	-	206,873
Prepaid items	253	-	253
Restricted cash and cash equivalents	71,797	-	71,797
Total assets	<u>\$ 319,665</u>	<u>-</u>	<u>319,665</u>
Liabilities			
Accounts payable	\$ 4,567	-	4,567
Accrued liabilities	933	-	933
Accrued interest payable	-	2,194	2,194
Long-term liabilities:			
Due within one year	-	35,000	35,000
Due in more than one year	-	500,000	500,000
Total liabilities	<u>5,500</u>	<u>537,194</u>	<u>542,694</u>
Fund balance			
Nonspendable	253	(253)	-
Unassigned	313,912	(313,912)	-
Total fund balance	<u>314,165</u>	<u>(314,165)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 319,665</u>		
Net assets			
Restricted for debt service		71,797	71,797
Unrestricted (deficit)		(294,826)	(294,826)
Total net assets (deficit)		<u>\$ (223,029)</u>	<u>\$ (223,029)</u>

CITY OF MARSHALL, MICHIGAN

Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance Downtown Development Authority Component Unit For the Year Ended June 30, 2012

	Special Revenue	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 207,420	\$ -	\$ 207,420
Investment earnings	2,116	-	2,116
Other	84,796	-	84,796
Total revenues	294,332	-	294,332
Expenditures/expenses			
Community development	173,658	(1,748)	171,910
Debt service:			
Principal	30,000	(30,000)	-
Interest and fiscal charges	29,543	(110)	29,433
Total expenditures/expenses	233,201	(31,858)	201,343
Change in fund balance/net assets	61,131	31,858	92,989
Fund balance, beginning of year	253,034	(569,052)	(316,018)
Fund balance, end of year	\$ 314,165	\$ (537,194)	\$ (223,029)

CITY OF MARSHALL, MICHIGAN

Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual Downtown Development Authority Component Unit Special Revenue Fund For the Year Ended June 30, 2012

	Budget (Original and Final)	Actual	Actual Over (Under) Final Budget
Revenues			
Property taxes	\$ 207,950	207,420	(530)
Investment earnings	2,000	2,116	116
Other	93,741	84,796	(8,945)
Total revenues	<u>303,691</u>	<u>294,332</u>	<u>(9,359)</u>
Expenditures			
Community development	231,901	173,658	(58,243)
Debt service:			
Principal	37,055	30,000	(7,055)
Interest and fiscal charges	29,543	29,543	-
Total expenditures	<u>298,499</u>	<u>233,201</u>	<u>(65,298)</u>
Net change in fund balance	5,192	61,131	55,939
Fund balance, beginning of year	<u>253,034</u>	<u>253,034</u>	<u>-</u>
Fund balance, end of year	<u>\$ 258,226</u>	<u>\$ 314,165</u>	<u>\$ 55,939</u>

CITY OF MARSHALL, MICHIGAN

Statement of Net Assets and Governmental Fund Balance Sheet

Local Development Finance Authority Component Unit

June 30, 2012

	Special Revenue	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 2,158	\$ -	\$ 2,158
Investments	1,655,930	-	1,655,930
Unamortized bond issuance costs	-	34,857	34,857
Restricted cash and cash equivalents	209,813	-	209,813
Capital assets being depreciated, net	-	562,085	562,085
Total assets	<u>\$ 1,867,901</u>	<u>596,942</u>	<u>2,464,843</u>
Liabilities			
Accounts payable	\$ 6,943	-	6,943
Accrued interest payable	-	12,058	12,058
Long-term liabilities:			
Due within one year	-	80,000	80,000
Due in more than one year	-	1,090,000	1,090,000
Total liabilities	6,943	1,182,058	1,189,001
Fund balance			
Unassigned	<u>1,860,958</u>	<u>(1,860,958)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 1,867,901</u>		
Net assets			
Invested in capital assets		562,085	562,085
Restricted for debt service		209,813	209,813
Unrestricted		<u>503,944</u>	<u>503,944</u>
Total net assets		<u>\$ 1,275,842</u>	<u>\$ 1,275,842</u>

CITY OF MARSHALL, MICHIGAN

Statement of Activities and Governmental Fund Revenues,

Expenditures, and Changes in Fund Balance

Local Development Finance Authority Component Unit

For the Year Ended June 30, 2012

	Special Revenue	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 956,110	\$ -	\$ 956,110
Investment earnings	21,245	-	21,245
Other	700	-	700
Total revenues	978,055	-	978,055
Expenditures/expenses			
Community development	353,248	19,966	373,214
Capital outlay	500,000	(500,000)	-
Debt service:			
Principal	25,000	(25,000)	-
Interest and fiscal charges	49,168	2,447	51,615
Total expenditures/expenses	927,416	(502,587)	424,829
Net change in fund balance/net assets	50,639	502,587	553,226
Fund balance, beginning of year	1,810,319	(1,087,703)	722,616
Fund balance, end of year	\$ 1,860,958	\$ (585,116)	\$ 1,275,842

CITY OF MARSHALL, MICHIGAN

Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual

Local Development Finance Authority Component Unit

Special Revenue Fund

For the Year Ended June 30, 2012

	Budget (Original and Final)	Actual	Actual Over (Under) Final Budget
Revenues			
Property taxes	\$ 956,431	956,110	(321)
Investment earnings	21,000	21,245	245
Other	-	700	700
Total revenues	977,431	978,055	624
Expenditures			
Community development	361,123	353,248	(7,875)
Capital outlay	500,000	500,000	-
Debt service:			
Principal	25,000	25,000	-
Interest and fiscal charges	49,168	49,168	-
Total expenditures	935,291	927,416	(7,875)
Net change in fund balance	42,140	50,639	8,499
Fund balance, beginning of year	1,810,319	1,810,319	-
Fund balance, end of year	\$ 1,852,459	\$ 1,860,958	\$ 8,499

CITY OF MARSHALL, MICHIGAN

Statement of Net Assets and Governmental Fund Balance Sheet

Economic Development Corporation Component Unit

June 30, 2012

	Special Revenue	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 857	\$ -	\$ 857
Accounts receivable	8,305	-	8,305
Total assets	<u>\$ 9,162</u>	<u>-</u>	<u>9,162</u>
Liabilities			
Accounts payable	\$ -	-	-
Fund balance			
Unassigned	9,162	(9,162)	-
Total liabilities and fund balance	<u>\$ 9,162</u>		
Net assets			
Unrestricted		<u>\$ 9,042</u>	<u>\$ 9,162</u>

CITY OF MARSHALL, MICHIGAN

Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balances Economic Development Corporation Component Unit For the Year Ended June 30, 2012

	Special Revenue	Adjustments	Statement of Activities
Revenues			
Investment earnings	\$ 120	\$ -	\$ 120
Fund balance, beginning of year	9,042	-	9,042
Fund balances, end of year	<u>\$ 9,162</u>	<u>\$ -</u>	<u>\$ 9,162</u>

CITY OF MARSHALL, MICHIGAN

Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual

Economic Development Corporation Component Unit

Special Revenue Fund

For the Year Ended June 30, 2012

	Budget (Original and Final)	Actual	Actual Over (Under) Final Budget
Revenues			
Investment earnings	\$ -	\$ 120	\$ 120
Fund balance, beginning of year	9,042	9,042	-
Fund balance, end of year	<u>\$ 9,042</u>	<u>\$ 9,162</u>	<u>\$ 120</u>