

**CITY OF BESSEMER
GOGEBIC COUNTY, MICHIGAN**

**REPORT ON FINANCIAL STATEMENTS
SUPPLEMENTAL INFORMATION
(with required supplementary and additional information)**

June 30, 2013

CITY OF BESSEMER

JUNE 30, 2013

ADMINISTRATION

City Manager Michael Uskiewicz
Clerk/Treasurer James Trudgeon

BOARD MEMBERS

Mayor John Frello
Mayor Pro-Tem Al Gais
Councilwoman Linda Nelson
Councilman Douglas Olsen
Councilwoman Marlene Zaleski

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bessemer as of and for the year then ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 through 13 and 41 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The additional information on pages 44 through 45 are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional information on pages 44 through 45 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 19, 2013 on our consideration of the City of Bessemer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Bessemer's internal control over financial reporting and compliance.

**Rukkila, Negro & Associates,
Certified Public Accountants, PC**

December 19, 2013

City of Bessemer
Management's Discussion and Analysis
June 30, 2013

This section of the City of Bessemer's annual Financial Report presents Management's Discussion and Analysis of the City's financial activities during the fiscal year ended June 30, 2013. The analysis focuses on the City's financial performance as a whole. It is intended to be read as part of the City's financial statements, which immediately follow this section.

Financial Highlights

- The assets of the City of Bessemer exceeded its liabilities at year end by \$3,762,563 (net position). Of this amount, \$726,791 (unrestricted net position) may be used to meet the government's ongoing obligations.
- The City of Bessemer's total net position decreased by \$34,480.
- The City of Bessemer had charges for services of \$707,673 in governmental activities and \$883,347 for business-type activities and \$1,796,710 and \$857,628 in expenses for governmental and business-type activities respectively during the year ended June 30, 2013.
- At the close of the fiscal year, the City of Bessemer's governmental activities funds reported a combined ending net position balance of \$1,358,398. This is a decrease of \$60,692.
- At the end of the current fiscal year, the fund balance for the general fund was \$503,496 or about 34 percent of total general fund expenditures, General fund operating transfers to other funds were \$121,041 in 2013 compared to \$61,248 in the prior year, an increase of \$59,793.

Overview of the Financial Statements

The annual report consists of a series of financial statements including other requirements as follows:

- ▶ Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- ▶ The Government-wide Financial Statements consists of a Statement of Net Position and a Statement of Activities. These provide information about the activities of the City as a whole and represent an overall view of the City's finances.

Statement of Net Position and the Statement of Activities

These statements provide information that help determine how the City is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The City's net position and the changes in the net position during the year are reported by these two statements. Increases or decreases in the City's net position are one way to determine if the financial position of the City is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the City.

Overview of the Financial Statements - (Continued)

There are two kinds of activities in the Statement of Net Position and the Statement of Activities:

Governmental Activities - Most of the City's basic services are reported here, including general administration, fire, public works, and parks and recreation. These activities are financed primarily by property taxes, intergovernmental revenues, and charges for services.

Major Funds: Under GASB Statement 34, the audit focus has shifted from governmental type funds to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the City of Bessemer the General Fund and Major Street Fund meet this requirement.

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller, less active funds. Detailed information about non-major funds can be found after the notes to the financial statements.

Business-Type Activities - Business-type activities represent those activities for which the City charges fees to customers to cover the cost of services. The City's Sewer and Water Funds are business-type funds. Both of which are major funds.

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the City's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.
- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information.
- Other supplementary information provides detailed information about the General Fund, Special Revenue Funds, and Proprietary Funds.

Governmental Funds - The City's basic services are mainly reported in this type of fund, which concentrates on how money goes into and out of those funds and the balances left at year end that are available for spending. Modified accrual accounting is the reporting method used for these funds. These statements provide a short-term view of the City's general governmental operations and the basic services it provides in detail. Information in these statements help determine whether there are more or fewer financial resources that can be spent in the future to finance the City's programs.

Governmental funds are essentially the same as the governmental activities with the exception that internal services are included in governmental activities but not as governmental funds. Governmental funds use a modified accrual basis of accounting and focus on near-term inflows and outflows of spendable resources and on the balances of spendable resources.

In governmental funds, capital outlay and debt principal are reported on the Statement of Revenues, Expenditures and Changes in Fund Balance and depreciation is not recorded. The Balance Sheet for governmental funds does not include any capital assets or long-term debt.

Overview of the Financial Statements - (Continued)

Proprietary Funds - Proprietary funds use a full accrual method of accounting for both government-wide statements and fund level statements. There are two types of proprietary funds.

Enterprise funds are used to report business like activities. In general, these funds charge a fee for their services. The City uses enterprise funds for water and sewer. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. The City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows for proprietary funds. Sewer and Water funds qualify as major funds.

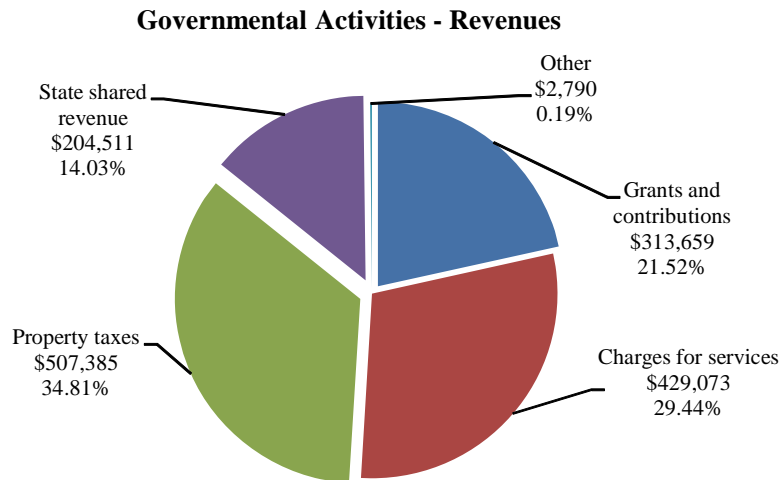
Summary of Net Position

	Governmental Activities		Business-type Activities	
	2013	2012	2013	2012
Assets				
Current and other assets	\$ 650,937	\$ 719,049	\$ 866,519	\$ 853,455
Capital assets- Net of accumulated depreciation	1,358,963	1,210,853	1,613,351	1,607,027
Total Assets	<u>\$ 2,009,900</u>	<u>\$ 1,929,902</u>	<u>\$ 2,479,870</u>	<u>\$ 2,460,482</u>
Liabilities				
Current liabilities	\$ 58,198	\$ 76,569	\$ 75,705	\$ 17,119
Long-term liabilities	593,304	434,243	-	65,410
Total Liabilities	<u>651,502</u>	<u>510,812</u>	<u>75,705</u>	<u>82,529</u>
Net Position				
Net investment in capital assets	845,828	1,018,763	1,613,351	1,607,027
Restricted:				
Streets and highways	14,894	-	-	-
DDA	51,357	-	-	-
Perpetual care	231,777	239,914	-	-
Capital projects	-	-	278,565	287,566
Unrestricted	214,542	160,413	512,249	483,360
Total Net Position	<u>1,358,398</u>	<u>1,419,090</u>	<u>2,404,165</u>	<u>2,377,953</u>
Total Liabilities and Net Position	<u>\$ 2,009,900</u>	<u>\$ 1,929,902</u>	<u>\$ 2,479,870</u>	<u>\$ 2,460,482</u>

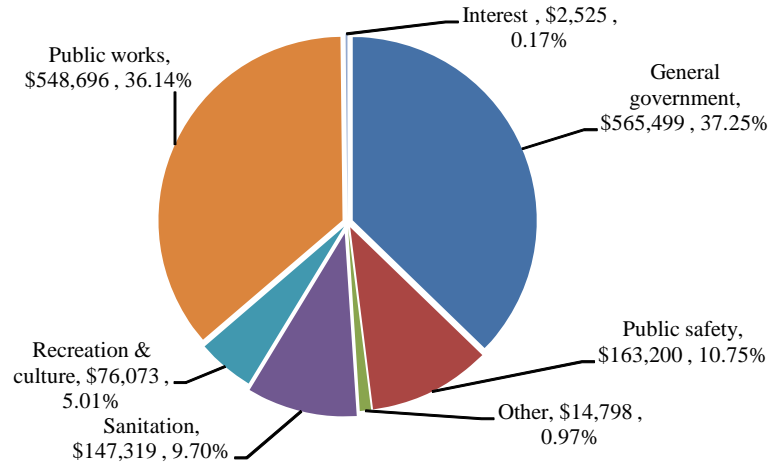
Results of Operations

	Governmental Activities		Business-type Activities	
	2013	2012	2013	2012
<u>Revenues</u>				
Program Revenue:				
Charges for services	\$ 429,073	\$ 447,010	\$ 883,347	\$ 846,602
Grants and contributions	313,659	75,798	-	-
Capital grants and contributions	-	-	-	-
General Revenue:				
Property taxes	507,385	512,272	-	-
State shared revenue	204,511	198,325	-	-
Other	2,790	168	493	1,118
Total Revenue	1,457,418	1,233,573	883,840	847,720
<u>Functions/Program Expenses</u>				
General government	565,499	353,018	-	-
Public safety	163,200	147,023	-	-
Public works	548,696	529,567	857,628	767,138
Sanitation	147,319	138,763	-	-
Recreation and culture	76,073	85,508	-	-
Interest on long-term debt	2,525	19,230	-	-
Other	14,798	-	-	-
Transfers	-	-	-	-
Total Expenses	1,518,110	1,273,109	857,628	767,138
Change in Net Position	(60,692)	(39,536)	26,212	80,582
Net Position - Beginning	1,419,090	1,458,626	2,377,953	2,297,371
Net Position - Ending	<u>\$ 1,358,398</u>	<u>\$ 1,419,090</u>	<u>\$ 2,404,165</u>	<u>\$ 2,377,953</u>

The following two charts highlight the City's governmental activities by revenues and expenses.



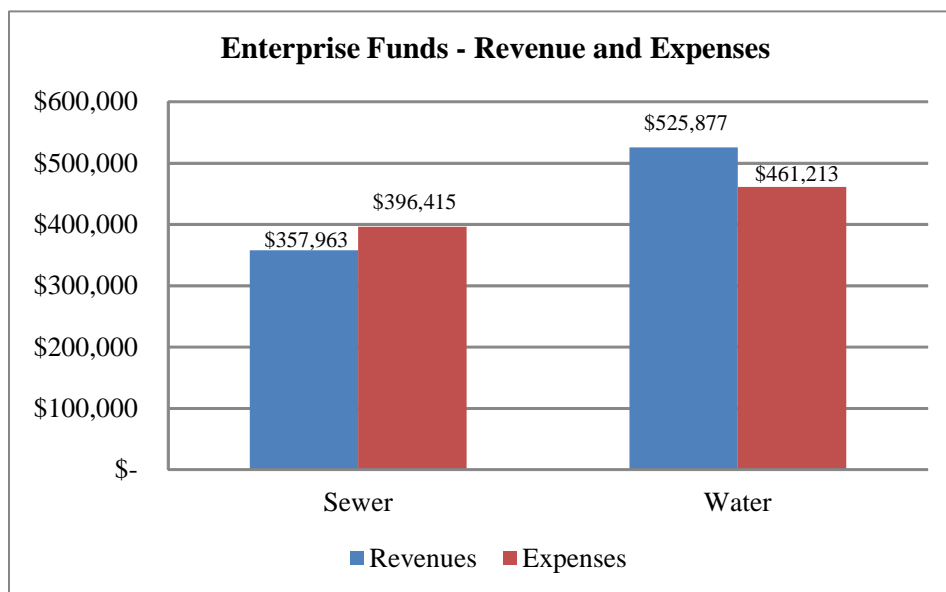
Governmental Activities - Expenditures

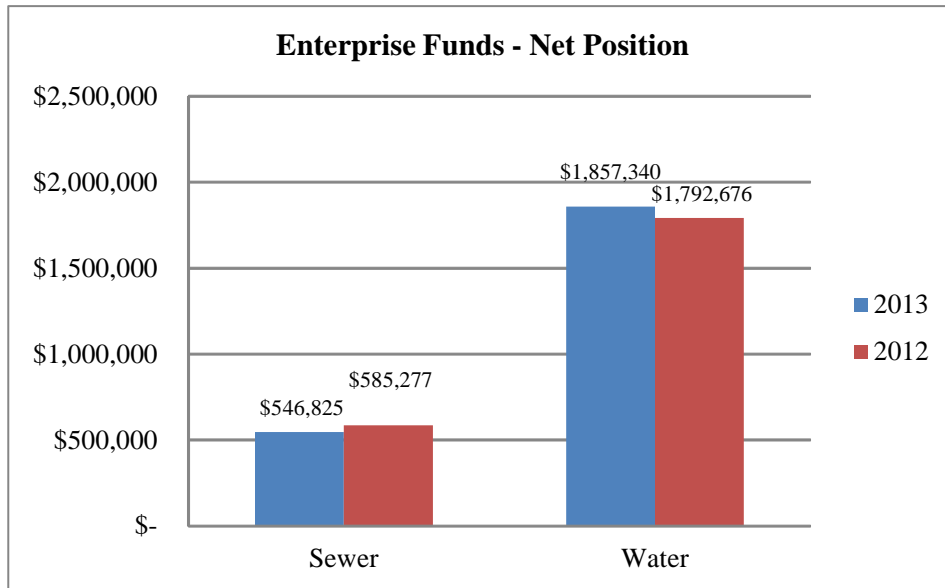


The most significant portions of the revenues for all governmental activities of the City comes from property taxes. The City's operating millage was 17.3564. Charges for services include revenue from garbage collection revenue, equipment rentals, and administrative fees. State revenue represents state shared revenue and funds for the Major and Local Street Funds from the Michigan Transportation Fund.

The general government expenses represent City hall activities. The major and local street expenses are included in the public works area. Contracted sheriff services and fire expenses are included in public safety.

The following two charts highlight the City's business-type activities by revenues and expenses and net position.





Significant Transactions and Changes in Individual Funds

A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

GENERAL FUND	Current Year	Prior Year	Change
Revenues/Transfers	\$ 1,589,704	\$ 1,257,318	\$ 332,386
Expenditures/Transfers	\$ 1,601,813	\$ 1,273,600	\$ 328,213
Fund Balance	\$ 503,496	\$ 515,605	\$ (12,109)

The General Fund saw an increase in revenues and expenditures of \$332,386 and \$328,213, respectfully. The increase in revenue is mainly due to an increase in garbage collection fees, an increase in equipment rental income for excessive snow plowing, an increase in charges to other funds from fringe benefits and administrative costs, money received from the county to tear down structures and donations for the Mary Street Project and proceeds from two loans. The increase in expenditures is due to the combination of pay raises, increase in health insurance premiums, increase in transfers, equipment purchases and repairs, city hall roof repairs and the Today in America production for the City.

SPECIAL REVENUE FUNDS	Current Year	Prior Year	Change
Major Street Fund:			
Revenues/Transfers	\$ 234,445	\$ 193,612	\$ 40,833
Expenditures/Transfers	\$ 254,037	\$ 175,652	\$ 78,385
Fund Balance (Deficit)	\$ 27,985	\$ 61,579	\$ (33,594)
Local Street Fund:			
Revenues/Transfers	\$ 177,773	\$ 152,632	\$ 25,141
Expenditures/Transfers	\$ 197,616	\$ 158,309	\$ 39,307
Fund Balance (Deficit)	\$ 911	\$ 20,754	\$ (19,843)
DDA Fund:			
Revenues/Transfers	\$ 49,532	\$ 52,166	\$ (2,634)
Expenditures/Transfers	\$ 46,452	\$ 78,839	\$ (32,387)
Fund Balance	\$ 51,357	\$ 48,277	\$ 3,080

City of Bessemer
Management's Discussion and Analysis
June 30, 2013

Significant Transactions and Changes in Individual Funds - (Continued)

Major Street Fund - The increase in revenues/transfers of \$40,833 is due to the receipt of metro funds which were applied to the Local Street in the prior year and the Major Street Fund in the current year. Expenses/transfers increased by \$78,385 due to a longer winter and excessive plowing.

Local Street Fund - The increase in revenues/transfers is due to increases in transfers from the general fund to cover plowing costs. The increase in expenses is due to the increase in plowing costs.

ENTERPRISE FUNDS	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Sewer Fund			
Revenues/Transfers	\$ 357,963	\$ 356,162	\$ 1,801
Expenditures/Transfers	\$ 396,415	\$ 386,977	\$ 9,438
Retained Earnings	\$ 546,825	\$ 585,277	\$ (38,452)
Water Fund			
Revenues/Transfers	\$ 525,877	\$ 491,558	\$ 34,319
Expenditures/Transfers	\$ 461,213	\$ 380,161	\$ 81,052
Retained Earnings	\$ 1,837,340	\$ 1,792,676	\$ 44,664

Sewer Fund - There were no significant increases or decreases in the Sewer Fund.

Water Fund - The Water Fund revenues increased because it was the first full year of sales to the Gogebic Range Water Authority. Expenses increased due to increases in fringe benefits and administration costs paid to the General Fund, increases in phone costs, and an increase in wages.

DEBT SERVICE (BUILDING AUTHORITY)	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Revenues/Transfers	\$ -	\$ -	\$ -
Expenditures/Transfers	\$ 9,605	\$ 8,748	\$ 857
Fund Balance	\$ -	\$ -	\$ -

General Fund Budgetary Highlights

During the year ended June 30, 2013, the City amended the budget at various times throughout the year. The amendments were done to cover unbudgeted expenditures. The amendments were mainly required to reconcile actual versus budgeted levels of effort required for various maintenance activities.

Revenue received as a whole was less than what the City had expected. Actual revenue was \$304,792 less than the final amended revenue budget. Expenditures as a whole were less than what the City had expected. Actual expenditures were \$285,124 less than the final amended budget.

Financial Analysis

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, unreserved 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 unassigned fund balances of \$167,321.

The General Fund is the main operating fund of the City. At the end of the current fiscal year, the total fund balance of the General Fund was \$503,496. As a measure of the General Fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Fund balance represents about 34% of total General Fund expenditures.

The fund balance of the City's General Fund decreased by \$12,109 during the fiscal year.

Proprietary Funds: The City's proprietary funds provides the same type of information found in the government-wide financial statements, but in more detail. Fund equity at the end of the year amounted to \$2,404,165.

Capital Assets and Debt Administration

The City's net investment in capital assets for the governmental and business-type activities as of June 30, 2013, amounts to \$2,972,314. Capital asset additions totaling \$298,881 includes fire hall roof repairs, front end loader, grader repairs, vehicle purchases, and street improvements.

Additional information on the City's capital assets can be found starting on page 31 of this report.

Long-term debt: At the end of the current fiscal year, the City had total debt of \$513,135. This total amount is backed by the full faith and credit of the City.

Additional information on the City's long-term debt can be found starting on page 33 of this report.

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need additional information, contact the City Manager at 411 South Sophie Street, Bessemer, Michigan 49911 or call (906) 663-4311.

CITY OF BESSEMER
STATEMENT OF NET POSITION

June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
CURRENT ASSETS:			
Cash	\$ 263,807	\$ 283,555	\$ 547,362
Restricted cash	60,109	-	60,109
Restricted investments	240,567	278,565	519,132
Receivables	41,130	150,243	191,373
Inventories	28,004	68,249	96,253
Prepaid expenses	35,499	-	35,499
Internal balances	(85,907)	85,907	-
Due from other governmental units	67,728	-	67,728
TOTAL CURRENT ASSETS	650,937	866,519	1,517,456
NONCURRENT ASSETS:			
Non-depreciable capital assets	320,899	-	320,899
Depreciable capital assets-Net	1,038,064	1,613,351	2,651,415
TOTAL NONCURRENT ASSETS	1,358,963	1,613,351	2,972,314
TOTAL ASSETS	\$ 2,009,900	\$ 2,479,870	\$ 4,489,770
LIABILITIES:			
Current liabilities:			
Accounts payable and accrued expenses	\$ 58,198	\$ 75,705	\$ 133,903
Noncurrent liabilities:			
Bonds payable, due within one year	61,000	-	61,000
Bonds payable, due in more than one year	452,135	-	452,135
Compensated absences	80,169	-	80,169
TOTAL LIABILITIES	651,502	75,705	727,207
NET POSITION:			
Net investment in capital assets	845,828	1,613,351	2,459,179
Restricted:			
Streets and highways	14,894	-	14,894
DDA	51,357	-	51,357
Perpetual care	231,777	-	231,777
Capital projects	-	278,565	278,565
Unrestricted	214,542	512,249	726,791
	1,358,398	2,404,165	3,762,563
TOTAL LIABILITIES AND NET POSITION	\$ 2,009,900	\$ 2,479,870	\$ 4,489,770

The accompanying notes to financial statements are an integral part of this statement.

CITY OF BESSEMER
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Grants and Contributions Operating	Capital	Governmental	Primary Government Business-Type	Total
Primary government:							
Government activities:							
General government	\$ 565,499	\$ 196,446	\$ -	\$ -	(369,053)	\$ -	(369,053)
Public safety	163,200	-	-	-	(163,200)	-	(163,200)
Public works	548,696	-	303,226	-	(245,470)	-	(245,470)
Sanitation	147,319	173,029	-	-	25,710	-	25,710
Recreation and culture	76,073	-	10,433	-	(65,640)	-	(65,640)
Interest on long-term debt	2,525	-	-	-	(2,525)	-	(2,525)
Other	14,798	59,598	-	-	44,800	-	44,800
Total governmental activities	1,518,110	429,073	313,659	-	(775,378)	-	775,378
Business-type activities:							
Water	461,213	525,530	-	-	-	64,317	64,317
Sewer	396,415	357,817	-	-	-	(38,598)	(38,598)
Total business-type activities	857,628	883,347	-	-	-	(25,719)	(25,719)
Total primary government	\$ 2,375,738	\$ 1,312,420	\$ 313,659	\$ -	(775,378)	25,719	(749,659)
General Revenues:							
Property taxes, levied for general operations					507,385	-	507,385
State shared revenue					204,511	-	204,511
Interest and investment earnings					1,971	493	2,464
Gain on sale of assets					744	-	744
Other					75	-	75
Total general revenues, transfers, and special items					714,686	493	715,179
Change in Net Position					(60,692)	26,212	(34,480)
Net Position - Beginning					1,419,090	2,377,953	3,797,043
Net Position - Ending					\$ 1,358,398	\$ 2,404,165	\$ 3,762,563

The accompanying notes to financial statements are an integral part of this statement.

CITY OF BESSEMER
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013

	<u>Major Governmental Funds</u>		Other	Total Governmental Funds
	General	Major Street	Non-major	
	Fund	Fund	Governmental Funds	
ASSETS:				
Cash and cash equivalents	\$ 189,422	\$ 19,345	\$ 55,040	\$ 263,807
Restricted cash	60,109	-	-	60,109
Restricted investments	240,567	-	-	240,567
Taxes receivable	4,410	-	-	4,410
Accounts receivable	16,068	15,071	5,581	36,720
Due from other funds	24,163	-	-	24,163
Due from governmental units	67,728	-	-	67,728
Inventory	-	14,002	14,002	28,004
Prepaid expenses	35,499	-	-	35,499
TOTAL ASSETS	\$ 637,966	\$ 48,418	\$ 74,623	\$ 761,007
LIABILITIES:				
Accounts payable	\$ 30,728	\$ 62	\$ 861	\$ 31,651
Accrued expenses	17,099	2,664	1,772	21,535
Due to other funds	86,643	3,705	19,722	110,070
TOTAL LIABILITIES	134,470	6,431	22,355	163,256
FUND BALANCES:				
Nonspendable:				
Inventories	-	14,002	14,002	28,004
Prepays	35,499	-	-	35,499
Restricted:				
Perpetual care	231,777	-	-	231,777
Streets and highways	-	27,985	(13,091)	14,894
Program projects	-	-	51,357	51,357
Assigned:				
Capital projects	28,834	-	-	28,834
Subsequent years	40,065	-	-	40,065
Unassigned	167,321	-	-	167,321
	<u>503,496</u>	<u>41,987</u>	<u>52,268</u>	<u>597,751</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 637,966	\$ 48,418	\$ 74,623	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,358,963
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	<u>(598,316)</u>
Net position of governmental activities	<u>\$ 1,358,398</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF BESSEMER
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 2013

	Major Governmental Funds		Other	Total
	General	Major Street	Non-major Governmental Funds	Governmental Funds
Revenues:				
Taxes	\$ 460,521	\$ -	\$ 46,864	\$ 507,385
State revenue	204,511	209,471	93,755	507,737
State grant	1,459	-	-	1,459
Charges for services	667,968	-	-	667,968
Interest	1,822	38	111	1,971
Other revenue	49,423	-	75	49,498
Total revenues	<u>1,385,704</u>	<u>209,509</u>	<u>140,805</u>	<u>1,736,018</u>
Expenditures:				
General government	628,390	65,627	72,663	766,680
Public safety	221,735	-	-	221,735
Public works	385,579	188,410	132,105	706,094
Sanitation	147,319	-	-	147,319
Recreation and culture	76,073	-	-	76,073
Debt service	21,676	-	-	21,676
Other	-	-	48,905	48,905
Total expenditures	<u>1,480,772</u>	<u>254,037</u>	<u>253,673</u>	<u>1,988,482</u>
Excess (deficiency) of revenue over expenditures	<u>(95,068)</u>	<u>(44,528)</u>	<u>(112,868)</u>	<u>(252,464)</u>
Other Financing Sources (Uses)				
Loan Proceeds	204,000	-	-	204,000
Operating transfers in	-	24,936	96,105	121,041
Operating transfers out	<u>(121,041)</u>	<u>-</u>	<u>-</u>	<u>(121,041)</u>
Total other financing sources (uses)	<u>82,959</u>	<u>24,936</u>	<u>96,105</u>	<u>204,000</u>
Net change in fund balance	(12,109)	(19,592)	(16,763)	(48,464)
Fund Balances - Beginning of Year	<u>515,605</u>	<u>61,579</u>	<u>55,029</u>	
Fund Balances - End of Year	<u>\$ 503,496</u>	<u>\$ 41,987</u>	<u>\$ 38,266</u>	

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

Governmental funds do not record depreciation and report capital outlays as expenditures.

This amount represents depreciation and capital outlays. 148,110

Long-term liabilities, including loan proceeds and principal payments, are not due and payable in the current period and therefore are not reported in the funds. (151,045)

Accrued expenses recorded in the statement of activities are not recorded as expenditures in the governmental funds until they are incurred. (9,293)

Change in net position of governmental activities \$ (60,692)

The accompanying notes to financial statements are an integral part of this statement.

CITY OF BESSEMER
ENTERPRISE FUNDS
COMBINING STATEMENT OF NET POSITION
June 30, 2013

	<u>Major Funds</u>		<u>Total</u>
	<u>Sewer Fund</u>	<u>Water Fund</u>	
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 15,856	\$ 267,699	\$ 283,555
Restricted investments	-	278,565	278,565
Accounts receivable	69,873	80,370	150,243
Due from other funds	2,045	114,598	116,643
Inventory	11,651	56,598	68,249
Total current assets	<u>99,425</u>	<u>797,830</u>	<u>897,255</u>
Property, plant, and equipment	946,564	2,152,964	3,099,528
Accumulated depreciation & amortization	(463,212)	(1,022,965)	(1,486,177)
	<u>483,352</u>	<u>1,129,999</u>	<u>1,613,351</u>
TOTAL ASSETS	<u>\$ 582,777</u>	<u>\$ 1,927,829</u>	<u>\$ 2,510,606</u>
LIABILITIES:			
Current assets:			
Accounts payable	\$ 5,425	\$ 66,163	\$ 71,588
Accrued expenses	527	3,590	4,117
Due to other funds	30,000	736	30,736
TOTAL LIABILITIES	<u>35,952</u>	<u>70,489</u>	<u>106,441</u>
NET POSITION:			
Reserved	-	278,565	278,565
Unreserved	546,825	1,578,775	2,125,600
Total net position	<u>546,825</u>	<u>1,857,340</u>	<u>2,404,165</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 582,777</u>	<u>\$ 1,927,829</u>	<u>\$ 2,510,606</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF BESSEMER
ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
Year ended June 30, 2013

	Major Funds		
	Sewer Fund	Water Fund	Total
OPERATING REVENUES:			
Sales and charges for services	\$ 357,817	\$ 525,530	\$ 883,347
TOTAL OPERATING REVENUES	357,817	525,530	883,347
OPERATING EXPENSES:			
General administration	209,946	170,046	379,992
Meter reading	4,119	4,188	8,307
Purchased services	163,458	103,268	266,726
Operations and maintenance	4,118	143,971	148,089
Depreciation	14,774	39,740	54,514
TOTAL OPERATING EXPENSES	396,415	461,213	857,628
OPERATING INCOME (LOSS)	(38,598)	64,317	25,719
NON-OPERATING REVENUES (EXPENSES):			
Interest income	146	347	493
TOTAL NON-OPERATING REVENUES (EXPENSES)	146	347	493
NET INCOME (LOSS)	(38,452)	64,664	26,212
NET POSITION (DEFICIT), BEGINNING OF THE YEAR	585,277	1,792,676	2,377,953
NET POSITION (DEFICIT), END OF YEAR	\$ 546,825	\$ 1,857,340	\$ 2,404,165

The accompanying notes to financial statements are an integral part of this statement.

CITY OF BESSEMER
ENTERPRISE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
Year Ended June 30, 2013

	<u>Sewer System</u>	<u>Water System</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 358,119	\$ 532,335	\$ 890,454
Payments to suppliers	(335,596)	(551,239)	(886,835)
Internal activity - receipts (payments) to other funds	-	-	-
Payments to employees	<u>(14,538)</u>	<u>77,287</u>	<u>62,749</u>
Net cash provided by operating activities	<u>7,985</u>	<u>58,383</u>	<u>66,368</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating subsidies and transfers to other funds	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	<u>(12,350)</u>	<u>(48,487)</u>	<u>(60,837)</u>
Net cash (used) by capital and related financing activities	<u>(12,350)</u>	<u>(48,487)</u>	<u>(60,837)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	<u>146</u>	<u>347</u>	<u>493</u>
Net cash provided by investing activities	<u>146</u>	<u>347</u>	<u>493</u>
Net (decrease) in cash and cash equivalents	(4,219)	10,243	6,024
Balances – beginning of the year	<u>20,075</u>	<u>536,021</u>	<u>556,096</u>
Balances – end of the year	<u>\$ 15,856</u>	<u>\$ 546,264</u>	<u>\$ 562,120</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (38,598)	\$ 64,317	\$ 25,719
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	14,774	39,740	54,514
Change in assets and liabilities			
Receivables, net	302	6,805	7,107
Due to/from other governmental units	14,954	(46,103)	(31,149)
Inventory	1	6,400	6,401
Prepaid expenses	10,600	-	10,600
Accounts and other payables	5,425	(16,366)	(10,941)
Accrued expenses	<u>527</u>	<u>3,590</u>	<u>4,117</u>
Net cash provided by operating activities	<u>\$ 7,985</u>	<u>\$ 58,383</u>	<u>\$ 66,368</u>

CITY OF BESSEMER
POLICE AND FIREMENT RETIREMENT FUND
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2013

ASSETS:

Cash and equivalents	\$	<u>241,683</u>
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NET POSITION:

Held in trust for pension benefits	\$	<u>241,683</u>
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CITY OF BESSEMER
POLICE AND FIREMEN RETIREMENT FUND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year ended June 30, 2013

	<u>2013</u>
ADDITIONS:	
Investment earnings:	\$ <u>4,053</u>
DEDUCTIONS:	
Benefits	24,300
Administration	<u>48</u>
TOTAL DEDUCTIONS	<u>24,348</u>
CHANGE IN NET POSITION	(20,295)
NET POSITION, BEGINNING OF YEAR	<u>261,978</u>
NET POSITION, END OF YEAR	\$ <u>241,683</u>

CITY OF BESSEMER
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

The City of Bessemer, Michigan (the “City”) operates under a Council-Manager form of government as authorized by its charter. The City of Bessemer provides services for public safety, public works, sanitation, recreation, and community development as authorized by its charter.

The accounting policies of the City of Bessemer conform to generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The following is a summary of the more significant policies:

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Bessemer (the primary government) and its component units. The criteria and guidelines of the Governmental Accounting Standards Board Statement Number 14 *The Reporting Entity* are utilized to determine that all applicable entities are included in the combined financial statements of the City. The primary criterion for inclusion is the degree of oversight responsibility over such entities by the City's elected officials. This responsibility includes financial interdependency, selection of governing authority, selection of management, ability to significantly influence operations, and accountability for fiscal matters. Additional criteria that are considered even if there is no significant oversight responsibility are an entity's scope of public service and special financing relationships between a particular agency and the reporting entity. Based on this criteria, the City has no component units.

JOINT VENTURES

Bessemer Area Sewer Authority

The City is a member of the Bessemer Area Sewer Authority (BASA), a joint venture. It has been incorporated by the City of Bessemer and Bessemer Township, both located in Gogebic County, Michigan. The BASA operates under a board of directors consisting of three members, two appointed by the City, and one by Bessemer Township. As a joint venture, the BASA operates independent from the member municipalities and is not considered a component unit of the City. Separate financial statements of the BASA are available at the office of the BASA located at E7840 Stone Rd., Bessemer, Michigan.

A summary of the Authorities financial information for the year ended June 30, 2013 (most recent year audited) shows the following:

Total Assets	\$ 7,997,138
Total Liabilities	\$ 2,034,727
Total Equity	\$ 5,962,411
Total Revenues	\$ 362,704
Total Expenditures	\$ 444,767
Long-Term Debt	\$ 2,015,098

Gogebic Range Water Authority

The City is a member of the Gogebic Range Water Authority (GRWA), a joint venture. It has been incorporated by the Charter Township of Ironwood, Cities of Bessemer and Wakefield, along with the Township of Bessemer and Wakefield, all of Gogebic County. The GRWA operates under a board of directors consisting of eleven members, two appointed by each of the constituent municipalities, and 1 at large member appointed by the board of directors. The GRWA operates independent from the member municipalities and is not considered a component unit of the City. Separate financial statements of the GRWA are available through their representative at P.O. Box 445, Ramsay, Michigan 49959.

CITY OF BESSEMER
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A summary of the Authorities financial information for the year ended June 30, 2013 (most recent year audited) shows the following:

Total Assets	\$ 31,880,152
Total Liabilities	\$ 15,521,860
Total Net Position	\$ 16,358,292
Total Revenues	\$ 4,583,044
Total Expenditures	\$ 1,364,668
Long-Term Debt	\$ 12,815,000

Gogebic Range Solid Waste Management Authority

The City is a member of the Gogebic Range Solid Waste Management Authority (GRSWMA), a joint venture. It has been incorporated by its member municipalities, including the City of Bessemer. The GRSWMA is governed by a Board of Trustees comprised of members from the member municipalities. The GRWSMA operates independent from the member municipalities and is not considered a component unit of the City. Separate financial statements of the GRWSMA are available at the office located at E5917 U.S.2, Ironwood, Michigan 49938.

A summary of the Authorities financial information for the year ended June 30, 2013 (most recent year audited) shows the following:

Total Assets	\$ 1,409,389
Total Liabilities	\$ 549,739
Deferred Inflow of Resurces	\$ 103,056
Total Net Position	\$ 756,594
Total Revenues	\$ 1,166,110
Total Expenditures	\$ 1,183,992
Long-Term Debt	\$ 12,629

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the City and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net position demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the City.

In the government-wide statement of net position, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position are reported in three parts – net investment in capital assets; restricted; and unrestricted net position.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City first utilizes restricted resources to finance qualifying activities.

The government-wide statement of net position reports both the gross and net cost of each of the City's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of net position reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The City does not allocate indirect costs.

The government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

Separate financial statements are provided for governmental funds, Enterprise Funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Major Street Fund- The Major Street Fund accounts for the State of Michigan Public Act 51 monies that are used to construct and maintain major road systems.

Other non-major funds include the Local Street Fund, Downtown Development Authority Fund, and Debt Service (Building Authority).

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPRIETARY FUND TYPES

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary funds principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds included the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The City reports the following proprietary funds:

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Water Fund and Sewer Fund are enterprise type funds.

The City reports the following major proprietary funds:

Sewer Fund- The Sewer Fund records maintenance and operations of the sewer services provided for City residents and is financed primarily through user charges and bonds.

Water Fund- The Water Fund records maintenance and operations of the water system services provided for the City residents and it is primarily financed through user charges and bonds.

FIDUCIARY FUND TYPES

Fiduciary Funds focus on net position and changes in net position. Assets are held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. The Police and Firemen Retirement Fund is the only Fiduciary fund type. Fiduciary Funds are not included in the government-wide statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

Modified Accrual Method - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is done.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Other Accounting Policies

Cash and cash equivalents - Cash and equivalents include amounts in demand deposits and certificates of deposit.

The City reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and No. 40, Deposits and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statues authorizes the City to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The City is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, banker's acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Property Taxes - Property taxes on tax roll properties attach as an enforceable lien on property as of December 31, are levied annually on July 1, and are due on August 15. A one percent (3%) penalty per month is added to the tax liability for taxes not paid by August 15.

The City bills and collects its own property taxes, and those of the local school District, the Intermediate School District, and County. City property tax revenues are recognized when levied to the extent that they result in current receivables.

GASB 63 - The City adopted the provisions of GASB Statement Number 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in the current year. With the implementation of GASB 63 the Statement of Net Assets will become the Statement of Net Position. GASB 63 provides that deferred outflows should be reported in a separate section following assets, and deferred inflows should be reported in a separate section following liabilities. The statement then arrives at net position which includes the net effects of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

GASB 65 - The City adopted the provisions of GASB Statement Number 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, in the current year. GASB 65 clarifies the reporting of deferred outflows of resources and deferred inflows of resources to provide consistency in financial reporting.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance - 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 require to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, laws or regulations of other governments. *Committed fund balance*, if any, is reported from amounts that can be used for specific purposes pursuant to constraints imposed by formal action by the government's highest level of decision making authority, the Council. A formal resolution of the Council is required to establish, modify or rescind a fund balance commitment. The City reports *assigned fund balance* for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund.

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

Receivables and Payables - Activity between funds are reported as "due to/from other funds." All receivables, including property taxes receivables, are shown net of allowance for uncollectables.

Inventory - Inventory is valued at the lower of cost (first-in, first-out) or market. The individual inventory supplies are recorded as an asset when purchased.

Capital Assets - Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

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

Buildings and additions	20-50 years
Vehicles	5-10 years
Furniture and other equipment	5-20 years

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with an activity are included on their balance sheets. Depreciation of all exhaustible capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation is generally reflected over the estimated useful lives using the straight line method.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

CITY OF BESSEMER
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances - Encumbrances are defined as commitments related to unperformed contracts for goods and services. The City does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

Reclassification - Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Requirements for preparing the City's annual budget are outlined in the City Charter. Major procedures in preparing the annual budget are as follows:

1. On or before the 1st Monday in April of each year, the City Manager submits to the City Council an operating budget and capital improvement projections for the ensuing fiscal year.
2. A public hearing on the budget is held not less than one week before the budget's final adoption at such time as the council shall direct.
3. On or before the last day in May, the Council, by resolution, adopts a budget for the ensuing fiscal year.
4. The City Council adopts the budget by activity categories generally the same as those presented in the combined financial statements. All budget amendments and transfers during the fiscal year are approved by the Council. The City Council has the authority to amend the budget when it becomes apparent that deviations in the original budget will occur and the amount of the deviation can be determined. The City maintains and monitors the budget on a line item basis for accounting control purposes. During the year ended June 30, 2013, the City's budget had been amended.
5. The City allows all unencumbered and unexpended appropriations to lapse at year end.

In accordance with the State of Michigan Budgeting and Accounting Act, the City must adopt an annual operating budget for the General and Special Revenue.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for major funds are noted in the required supplementary information section.

NOTE C - CASH

At year-end, the City's cash deposits, checking, savings and certificates of deposit with a maturity of three months or less when acquired, were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the City is as follows:

	Governmental Activities	Business Type Activities	Total Primary Government	Fiduciary Funds
Unrestricted cash	\$ 263,807	\$ 283,555	\$ 547,362	\$ -
Restricted cash	60,109	-	60,109	241,683
Total cash and cash equivalents	<u>323,916</u>	<u>283,555</u>	<u>607,471</u>	<u>241,683</u>
Restricted Investments	240,567	278,565	519,132	-
Total deposits and investments	<u>\$ 564,483</u>	<u>\$ 562,120</u>	<u>\$ 1,126,603</u>	<u>\$ 241,683</u>

CITY OF BESSEMER
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

NOTE C - CASH (Continued)

Interest Rate Risk - In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City’s cash requirements.

Credit Risk - State law limits investments in commercial paper corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of Credit Risk - The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. As of June 30, 2013, \$59,003 of the City’s bank balance of \$815,965 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the City’s name.

Custodial Credit Risk - Investments - For an investment, this 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 will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business.

NOTE D - TRANSFERS AND INTERFUND BALANCES

For the year then ended, interfund transfers consisted of the following:

<u>Fund</u>	<u>Transfer Out</u>	<u>Fund</u>	<u>Transfer In</u>
General	\$ 121,041	Major Street	\$ 24,936
		Local Street	84,000
		DDA	2,500
		Building Authority	9,605
TOTALS	<u>\$ 121,041</u>	TOTALS	<u>\$ 121,041</u>

The transfers from the General Fund and other non-major governmental funds to the Major and Local Street Funds and other non-major governmental funds represents the use of unrestricted resources to finance these programs, in accordance with budgetary authorizations.

CITY OF BESSEMER
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

NOTE D - TRANSFERS AND INTERFUND BALANCES (Continued)

The amounts of interfund receivables and payables at June 30, 2013 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 24,163	General	\$ 86,643
Sewer	2,045	Major	3,705
Water	114,598	Local	19,722
		Sewer	30,000
		Water	736
TOTALS	<u>\$ 140,806</u>	TOTALS	<u>\$ 140,806</u>

Generally, outstanding balances between funds reported as “due to/from other funds” include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end, and other miscellaneous receivables/payable between funds.

NOTE E - RECEIVABLES

The detail of receivables at June 30, 2013 are as follows:

<u>Receivables</u>	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Total Primary Government</u>
Accounts	\$ 16,068	\$ 20,652	\$ 150,243	\$ 186,963
Taxes	4,410	-	-	4,410
Total receivables	<u>\$ 20,478</u>	<u>\$ 20,652</u>	<u>\$ 150,243</u>	<u>\$ 191,373</u>

NOTE F - CAPITAL ASSETS

Capital asset activity of the City’s governmental activities is as follows:

	<u>Balance 6/30/12</u>	<u>Additions</u>	<u>Subtractions</u>	<u>Balance 6/30/13</u>
Capital assets, not being depreciated				
Land	\$ 320,899	\$ -	\$ -	\$ 320,899
Capital assets, being depreciated				
Buildings	875,987	58,535	-	934,522
Equipment	1,400,434	170,792	55,500	1,515,726
Office equipment	32,400	-	-	32,400
Improvements	266,906	8,716	-	275,622
Subtotal	<u>2,575,727</u>	<u>\$ 238,043</u>	<u>\$ 55,500</u>	<u>2,758,270</u>
Accumulated Depreciation				
Buildings	447,275	\$ 20,955	\$ -	468,230
Equipment	1,141,662	55,328	55,500	1,141,490
Office equipment	29,850	340	-	30,190
Improvements	66,986	13,310	-	80,296
Subtotal	<u>1,685,773</u>	<u>\$ 89,933</u>	<u>\$ 55,500</u>	<u>1,720,206</u>
Net depreciable capital assets	<u>889,954</u>			<u>1,038,064</u>
Net capital assets	<u>\$ 1,210,853</u>			<u>\$ 1,358,963</u>

CITY OF BESSEMER
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

NOTE F - CAPITAL ASSETS - (Continued)

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

General Fund	\$	67,823
Building Authority		8,800
Major Streets Fund		10,262
Local Streets Fund		3,048
	\$	<u>89,933</u>

The components of property, plant, and equipment in City proprietary funds at June 30, 2013 are summarized as follows:

	Balance 6/30/12	Additions	Deletions	Balance 6/30/13
SEWER FUND				
Capital assets, not being depreciated				
Construction in progress	\$ -	\$ 12,351	\$ -	\$ 12,351
Capital assets, being depreciated				
Equipment	\$ 34,500	\$ -	\$ -	\$ 34,500
Vehicles	24,632	-	-	24,632
Sewer system	875,081	-	-	875,081
Subtotal	<u>934,213</u>	<u>\$ -</u>	<u>\$ -</u>	<u>934,213</u>
Accumulated depreciation:				
Equipment	\$ 34,500	\$ -	\$ -	\$ 34,500
Vehicles	24,632	-	-	24,632
Sewer system	389,306	14,774	-	404,080
Subtotal	<u>448,438</u>	<u>\$ 14,774</u>	<u>\$ -</u>	<u>463,212</u>
Net depreciable capital assets	<u>\$ 485,775</u>			<u>\$ 471,001</u>
Net capital assets	<u>\$ 485,775</u>			<u>\$ 483,352</u>

	Balance 6/30/12	Additions	Deletions	Balance 6/30/13
WATER FUND				
Capital assets, not being depreciated				
Land	\$ 17,723	\$ -	\$ -	\$ 17,723
Capital assets, being depreciated				
Buildings	\$ 107,500	\$ -	\$ -	\$ 107,500
Equipment	34,148	-	-	34,148
Vehicles	24,632	48,487	9,150	63,969
Water system	1,787,519	-	-	1,787,519
Wells	142,105	-	-	142,105
Subtotal	<u>2,095,904</u>	<u>\$ 48,487</u>	<u>\$ 9,150</u>	<u>2,135,241</u>
Accumulated depreciation:				
Buildings	73,647	\$ 1,273	\$ -	74,920
Equipment	34,148	-	-	34,148
Vehicles	24,632	4,524	9,150	20,006
Water system	787,316	29,206	-	816,522
Wells	72,632	4,737	-	77,369
Subtotal	<u>992,375</u>	<u>\$ 39,740</u>	<u>\$ 9,150</u>	<u>1,022,965</u>
Net depreciable capital assets	<u>1,103,529</u>			<u>1,112,276</u>
Net capital assets	<u>\$ 1,121,252</u>			<u>\$ 1,129,999</u>

CITY OF BESSEMER
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

NOTE G - RESTRICTED ASSETS AND RESERVE FUND/EQUITY BALANCES

The City has restricted cash and investment accounts net of liabilities that are restricted for specific future use as follows:

General Fund	Enterprise Funds
Subsequent years of cost for fire department, library, and sick leave	Water Fund \$ 278,565
Cemetery perpetual care	\$ 231,777
Capital outlay, including road improvements	\$ 28,834

NOTE H - ACCUMULATED UNPAID VACATION AND SICK LEAVE

Fifty percent (50%) of accumulated sick leave and one-hundred percent (100%) of vacation is paid to employees upon retirement.

Accumulated unpaid vacation and sick leave at June 30, 2013 was \$29,896 and \$50,273 respectively.

NOTE I - LONG-TERM DEBT

GOVERNMENTAL ACTIVITIES

2002 Building Authority Bonds: On April 17, 2002, the City of Bessemer Building Authority authorized the issuance of general obligation bonds in the amount of \$145,000 to fund improvements to the City hall. The bond was issued in a single denomination of \$145,000 at an interest rate not to exceed 4.75% per annum with principal amounts payable April 1 and interest payable semi-annually on April 1 and October 1.

Year	Principal	Interest	Total
2013-14	\$ 4,000	\$ 5,320	\$ 9,320
2014-15	4,000	5,130	9,130
2015-16	4,000	4,940	8,940
2016-17	4,000	4,750	8,750
2017-18	4,000	4,560	8,560
2018-19	5,000	4,346	9,346
2019-20	5,000	4,109	9,109
2020-21	5,000	3,871	8,871
2021-22	6,000	3,610	9,610
2022-23	6,000	3,325	9,325
2023-24	6,000	3,040	9,040
2024-25	6,000	2,755	8,755
2025-26	7,000	2,446	9,446
2026-27	7,000	2,114	9,114
2027-28	7,000	1,781	8,781
2028-29	8,000	1,425	9,425
2029-30	8,000	1,045	9,045
2030-31	9,000	641	9,641
2031-32	9,000	214	9,214
TOTALS	\$ 114,000	\$ 59,422	\$ 173,422

CITY OF BESSEMER
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

NOTE I - LONG-TERM DEBT - (Continued)

2007 Downtown Development Bonds: On February 23, 2007, the City of Bessemer Downtown Development Authority authorized the issuance of general obligation bonds in the amount of \$300,000 to fund a blight remediation project. The bond was issued in a single denomination of \$300,000 at an interest rate not to exceed 5.50% per annum with principal amounts payable September 1 and interest payable semi-annually on March 1 and September 1.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013-14	\$ 30,000	\$ 7,500	\$ 37,500
2014-15	35,000	5,550	40,550
2015-16	35,000	3,450	38,450
2016-17	40,000	1,200	41,200
TOTALS	\$ 140,000	\$ 17,700	\$ 157,700

Gogebic Range Bank: On April 14, 2008, the City of Bessemer authorized a note of \$150,000 for the purpose of purchasing a fire truck. The note was issued for \$150,000 at an interest rate of 4.25% per annum through April 14, 2013 on which date the rate dropped to 2.10% through April 14, 2018. Principal and interest amounts are payable April 14.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013-14	\$ 15,000	\$ 1,157	\$ 16,157
2014-15	15,000	842	15,842
2015-16	15,000	527	15,527
2016-17	11,135	212	11,347
TOTALS	\$ 56,135	\$ 2,738	\$ 58,873

City Hall Roof USDA: On August 17, 2012, the City of Bessemer Building Authority authorized the issuance of general obligation bonds in the amount of \$57,000 to fund improvements to the City hall roof. The bond was issued in a single denomination of \$57,000 at an interest rate not to exceed of 3.5% per annum with principal amounts payable August 1 and interest payable semi-annually on February 1 and August 1.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013-14	\$ 3,000	\$ 1,804	\$ 4,804
2014-15	3,000	1,706	4,706
2015-16	3,000	1,609	4,609
2016-17	3,250	1,507	4,757
2017-18	3,250	1,402	4,652
2018-19	3,500	1,292	4,792
2019-20	3,500	1,178	4,678
2020-21	3,750	1,060	4,810
2021-22	3,750	938	4,688
2022-23	4,000	813	4,813
2023-24	4,000	683	4,683
2024-25	4,500	544	5,044
2025-26	4,500	398	4,898
2026-27	5,000	244	5,244
2027-28	5,000	81	5,081
TOTALS	\$ 57,000	\$ 15,259	\$ 72,259

CITY OF BESSEMER
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

NOTE I - LONG-TERM DEBT - (Continued)

Caterpillar Loader: On December 19, 2012, the City of Bessemer Building Authority authorized the issuance of general obligation bonds in the amount of \$147,000 to fund the purchase of a Caterpillar loader. The bond was issued in a single denomination of \$147,000 at an interest rate not to exceed of 3.5% per annum with principal amounts payable January 1 and interest payable semi-annually on January 1 and June 1.

Year	Principal	Interest	Total
2013-14	\$ 9,000	\$ 4,952	\$ 13,952
2014-15	9,000	4,638	13,638
2015-16	9,000	4,323	13,323
2016-17	9,000	4,008	13,008
2017-18	10,000	3,675	13,675
2018-19	10,000	3,325	13,325
2019-20	10,000	2,975	12,975
2020-21	11,000	2,607	13,607
2021-22	11,000	2,223	13,223
2022-23	11,000	1,838	12,838
2023-24	11,000	1,453	12,453
2024-25	12,000	1,050	13,050
2025-26	12,000	630	12,630
2026-27	12,000	210	12,210
	<u>\$ 146,000</u>	<u>\$ 37,907</u>	<u>\$ 183,907</u>

Long-term liabilities activity, as reported in and liquidated through the general fund for the fiscal year ended June 30, 2013, was as follows:

	Balance 6/30/12	Additions	Retired	Balance 6/30/13	Current Maturities
GOVERNMENTAL ACTIVITIES					
2002 Building Authority Bonds	\$ 118,000	\$ -	\$ 4,000	\$ 114,000	\$ 4,000
2007 DDA Bonds	170,000	-	30,000	140,000	30,000
Gogebic Range Bank - Vehicle	74,090	-	17,955	56,135	15,000
USDA- City Hall Roof	-	57,000	-	57,000	3,000
USDA - Equipment	-	147,000	1,000	146,000	9,000
	<u>\$ 362,090</u>	<u>\$ 204,000</u>	<u>\$ 52,955</u>	<u>\$ 513,135</u>	<u>\$ 61,000</u>
Accrued compensated absences	<u>\$ 70,573</u>	<u>\$ 9,596</u>	<u>\$ -</u>	<u>\$ 80,169</u>	

CITY OF BESSEMER
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

NOTE I - LONG-TERM DEBT - (Continued)

The aggregate amount of maturities on long-term debt by fund type is as follows:

GOVERNMENTAL ACTIVITIES

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013-14	\$ 61,000	\$ 20,733	\$ 81,733
2014-15	66,000	17,866	83,866
2015-16	66,000	14,849	80,849
2016-17	67,385	11,677	79,062
2017-18	17,250	9,637	26,887
2018-19	18,500	8,963	27,463
2019-20	18,500	8,262	26,762
2020-21	19,750	7,538	27,288
2021-22	20,750	6,771	27,521
2022-23	21,000	5,976	26,976
2023-24	21,000	5,176	26,176
2024-25	22,500	4,349	26,849
2025-26	23,500	3,474	26,974
2026-27	24,000	2,568	26,568
2027-28	12,000	1,862	13,862
2028-29	8,000	1,425	9,425
2029-30	8,000	1,045	9,045
2030-31	9,000	641	9,641
2031-32	9,000	214	9,214
TOTALS	<u>\$ 513,135</u>	<u>\$ 133,026</u>	<u>\$ 646,161</u>

NOTE J - ENTERPRISE FUNDS

SEGMENT INFORMATION - The City maintains two Enterprise Funds which provide water and sewer services. Segment information for the year ended June 30, 2013 is as follows:

	<u>Sewer</u>	<u>Water</u>
Operating revenues	\$ 357,817	\$ 525,530
Depreciation	\$ 14,774	\$ 39,740
Income (loss) from operations	\$ (38,598)	\$ 64,317
Non-operating revenues	\$ 146	\$ 347
Net Income (loss)	\$ (38,452)	\$ 64,664
Property, plant & equipment		
Additions	\$ 12,351	\$ 48,487
Total assets	\$ 582,777	\$ 1,927,829
Net working capital surplus (deficit)	\$ 63,473	\$ 727,341
Net investment in capital assets	\$ 483,352	\$ 1,129,999
Reserved net position	-	\$ 278,565
Unreserved net position	\$ 546,825	\$ 1,578,775
Total net position	\$ 546,825	\$ 1,857,340

CITY OF BESSEMER
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

NOTE J - ENTERPRISE FUNDS (Continued)

Net cash provided (used) by:			
Operating activities	\$	7,985	\$ 58,383
Noncapital financing activities	\$	-	\$ -
Capital & related financing activities	\$	(12,350)	\$ (48,487)
Investing activities	\$	146	\$ 347
Beginning cash	\$	20,075	\$ 536,021
Ending cash	\$	15,856	\$ 546,264

NOTE L - CONTINGENT LIABILITY

The City is a member of three joint ventures as described in Note A. As a member, the City is contingently liable for its share of the bonds issued by the joint ventures. As of June 30, 2013, the outstanding bonds of the joint ventures are as follows:

	<u>Outstanding</u>	<u>City Portion</u>	
BASA - 1987 bond issue	\$ 995,000	\$ 822,069	(82.62%)
BASA - 1998 bond issue	\$ 997,000	\$ 967,090	(97.00%)
GRWA - 2011A	\$ 1,132,000	\$ 331,902	(29.32%)
GRWA - 2012A	\$ 2,312,000	\$ 1,831,104	(79.20%)
GRWA - 2012E	\$ 2,758,000	\$ 613,655	(22.25%)

NOTE N - PENSION PLAN

Plan Description: The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement system of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917, by calling (800) 767-6377 or at <http://www.mersofmich.com>.

Funding Policy: The City is required to contribute to the plan at an actuarially determined rate. As of July 1, 2012 the rate, as a percent of annual covered payroll, was 15.65%. 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, depending on the MERS contribution program adopted by the City.

Annual Pension Cost: For the year ended June 30, 2013, the City's required and actual pension cost was \$81,114. The annual required contribution percentage was determined as a part of the actuarial valuation on December 31, 2013, using the entry age normal cost method. Significant actuarial assumptions used include a net investment rate of return on assets of 8 percent per year compounded annually, projected salary increases of 4.5 percent per year compounded annually due to inflation, and additional projected salary increases ranging from 0 to 4.5 percent per year depending on an age to reflect merit and longevity. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. Any unfunded actuarial liability is amortized by a level percent of payroll contributions over a period of 30 years.

CITY OF BESSEMER
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

NOTE N - PENSION PLAN - (Continued)

Three-year Trend Information:

	<u>Fiscal Year Ended March 31</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Annual pension cost (APC)	\$ 62,296	\$ 70,151	\$ 81,114
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

	<u>Valuation as of December 31</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Actuarial value of assets	\$1,725,010	\$ 1,693,321	\$ 1,651,364
Actuarial accrued liability (entry age)	\$2,264,595	\$ 2,367,479	\$ 2,476,234
Unfunded actuarial liability (UAAL)	\$ 539,585	\$ 674,158	\$ 824,870
Funded ratio	76%	72%	67%
Covered payroll	\$ 453,522	\$ 495,095	\$ 514,397
UAAL as a percentage of covered payroll	119%	136%	160%

The unfunded actuarial liability of the plan as of December 31, 2012 was \$824,870.

NOTE O - POLICEMEN AND FIRMEN RETIREMENT PLAN

This plan was established and is maintained under the Fire and/or Police Department Pension and Retirement Act, Act 345, P.A. 1937. This plan provides for all past full time policemen and firemen and benefits were vested after 10 years of service. At June 30, 2010, the plan had no unfunded accrued liabilities. In addition, as of December 31, 2010, the plan had assets in excess of accrued liabilities of \$78,271. Since the City's police and fire departments have been terminated, there were no active members at June 30, 2013.

NOTE P - RELATED PARTY TRANSACTIONS

The Bessemer Area Sewage Authority, Gogebic Range Water Authority, and Gogebic Range Solid Waste Management Authority are jointly governed organizations consisting of some members appointed by the City of Bessemer's Council. These entities are not a component unit of the City. Further financial information is detailed in Note A of these financial statements.

NOTE Q - RISK MANAGEMENT

The City 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. The City continues to carry commercial insurance for property, liability, wrongful acts, crime inland marine, and other risks of loss including worker's compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE R - SUBSEQUENT EVENTS

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

On April 12, 2013, the City closed on a Michigan Natural Resources Trust Fund grant in the amount of \$298,780. The project did not begin until after June 30, 2013 and total expenses are expected to be around \$399,000.

On May 17, 2013 a contract was signed with Ruotsala Construction, LLC to provide construction services for the Mary Street Regional Trailhead and Ethnic Commons Project. The Michigan Department of Natural Resources & Environment will provide grant proceeds on a reimbursement basis for up to seventy percent (70%) of project costs. The City is responsible for the remaining thirty percent (30%) of project costs.

CITY OF BESSEMER
REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION
June 30, 2013

CITY OF BESSEMER
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variance Final to Actual
	Original	Final		
REVENUES:				
Taxes	\$ 468,682	\$ 461,021	\$ 460,521	\$ (500)
Licenses and permits	3,000	3,000	2,140	(860)
State sources	202,701	482,160	205,970	(276,190)
Charges for services	663,503	670,231	667,968	(2,263)
Interest	1,750	1,750	1,822	72
Other revenue	25,500	72,334	47,283	(25,051)
TOTAL REVENUE	<u>1,365,136</u>	<u>1,690,496</u>	<u>1,385,704</u>	<u>(304,792)</u>
EXPENDITURES:				
General government	620,952	653,884	628,390	25,494
Public safety	176,703	467,020	221,735	245,285
Public works	421,570	399,420	385,579	13,841
Recreation and culture	78,169	81,058	76,073	-
Sanitation	151,750	148,026	147,319	-
Debt service	44,300	22,180	21,676	504
TOTAL EXPENDITURES	<u>1,493,444</u>	<u>1,771,588</u>	<u>1,480,772</u>	<u>285,124</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(128,308)	(81,092)	(95,068)	(19,668)
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	(126,692)	(122,908)	(121,041)	1,867
Loan proceeds	255,000	204,000	204,000	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>128,308</u>	<u>81,092</u>	<u>82,959</u>	<u>1,867</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	(12,109)	<u>\$ (17,801)</u>
FUND BALANCE - BEGINNING OF YEAR			<u>515,605</u>	
FUND BALANCE - END OF YEAR			<u>\$ 503,496</u>	

CITY OF BESSEMER
MAJOR STREET FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variance Final to Actual
	Original	Final		
REVENUES:				
State sources	\$ 210,955	\$ 222,783	\$ 209,471	\$ (13,312)
Interest	50	50	38	(12)
Other	-	10,892	-	(10,892)
TOTAL REVENUES	<u>211,005</u>	<u>233,725</u>	<u>209,509</u>	<u>(24,216)</u>
EXPENDITURES:				
General government administration	64,558	67,078	65,627	1,451
Highways and streets:				
Construction	-	8,716	8,716	-
State trunkline maintenance	10,773	13,648	12,559	1,089
Routine maintenance	36,695	37,620	39,111	(1,491)
Snow and ice control	98,979	131,599	128,024	3,575
Total highways and streets:	<u>146,447</u>	<u>191,583</u>	<u>188,410</u>	<u>3,173</u>
TOTAL EXPENDITURES	<u>211,005</u>	<u>258,661</u>	<u>254,037</u>	<u>4,624</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(24,936)	(44,528)	19,592
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	24,936	24,936	-
Operating transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>24,936</u>	<u>24,936</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINACING	<u>\$ -</u>	<u>\$ -</u>	(19,592)	<u>\$ 19,592</u>
FUND BALANCE - BEGINNING OF YEAR			<u>61,579</u>	
FUND BALANCE - END OF YEAR			<u>\$ 41,987</u>	

CITY OF BESSEMER
SUPPLEMENTAL FINANCIAL INFORMATION
June 30, 2013

CITY OF BESSEMER
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2013

	<u>Special Revenue</u>		<u>Debt Service</u>		<u>Total</u>
	Downtown		Building		
	<u>Local Street</u>	<u>Development Authority</u>	<u>Authority</u>	<u>Authority</u>	
ASSETS:					
Cash	\$ 2,822	\$ 52,218	\$ -	\$ -	\$ 55,040
Accounts receivables	5,581	-	-	-	5,581
Inventory	14,002	-	-	-	14,002
Total assets	<u>\$ 22,405</u>	<u>\$ 52,218</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,623</u>
LIABILITIES:					
Accounts payable	\$ -	\$ 861	\$ -	\$ -	\$ 861
Accrued expenses	1,772	-	-	-	1,772
Due to other funds	19,722	-	-	-	19,722
Total liabilities	<u>21,494</u>	<u>861</u>	<u>-</u>	<u>-</u>	<u>22,355</u>
FUND EQUITY:					
Restricted:					
Streets and highways	911	-	-	-	911
DDA	-	51,357	-	-	51,357
TOTAL FUND EQUITY	<u>911</u>	<u>51,357</u>	<u>-</u>	<u>-</u>	<u>52,268</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 22,405</u>	<u>\$ 52,218</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,623</u>

CITY OF BESSEMER
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2013

	<u>Special Revenue</u>		<u>Debt Service</u>		<u>Totals</u>
	<u>Local Street</u>	<u>Downtown</u>		<u>Authority</u>	
		<u>Authority</u>	<u>Development</u>		
REVENUES:					
Taxes	\$ -	\$ 46,864	\$ -	\$ -	\$ 46,864
State	93,755	-	-	-	93,755
Interest	18	93	-	-	111
Other revenue	-	75	-	-	75
Total revenues	<u>93,773</u>	<u>47,032</u>	<u>-</u>	<u>-</u>	<u>140,805</u>
EXPENDITURES:					
General government administration	65,511	156	-	-	65,667
Highway and streets:					
Routine maintenance	31,949	-	-	-	31,949
Development	-	6,996	-	-	6,996
Snow and ice control	100,156	-	-	-	100,156
Debt Service:					
Principal	-	30,000	4,000	-	34,000
Interest	-	9,300	5,605	-	14,905
Total expenditures	<u>197,616</u>	<u>46,452</u>	<u>9,605</u>	<u>-</u>	<u>253,673</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>(103,843)</u>	<u>580</u>	<u>(9,605)</u>	<u>-</u>	<u>(112,868)</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in (out)	<u>84,000</u>	<u>2,500</u>	<u>9,605</u>	<u>-</u>	<u>96,105</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER AND OTHER FINANCING USES	<u>(19,843)</u>	<u>3,080</u>	<u>-</u>	<u>-</u>	<u>(16,763)</u>
FUND BALANCE, BEGINNING OF YEAR	<u>20,754</u>	<u>48,277</u>	<u>-</u>	<u>-</u>	<u>69,031</u>
FUND BALANCE, END OF YEAR	<u>\$ 911</u>	<u>\$ 51,357</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,268</u>

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, P C

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the remaining fund information of the City of Bessemer as of and for the year then ended June 30, 2013, which collectively comprise the City of Bessemer's basic financial statements and have issued our report thereon dated December 19, 2013. 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.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2013-1.

Purpose of this Report

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

**Rukkila, Negro & Associates,
Certified Public Accountants, PC**

December 19, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

Instances of Non-compliance

2013-1 - Budget

Condition/Criteria: Public Act 621 of 1978, Section 18 (1) as amended, provides that cities shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City of Bessemer has actual expenditures and budgeted expenditures. The approved budgets of these funds were adopted on an activity and/or program level. During the year ended June 30, 2013, the City of Bessemer incurred expenditures which were in excess of the amounts appropriated as shown within the basic financial statements.

Cause of Condition: Failure to amend the budgets during the year based on the level of expenditures.

Effect: The City of Bessemer is not in compliance with State Law.

Recommendation: The City of Bessemer should control expenditures in each governmental fund so as not to exceed the amounts appropriated. When this is not possible, the budget should be amended accordingly.

View of Responsible Officials: The budget will be closely monitored and budget amendments will be made accordingly.

COMMUNICATION SECTION

RUKKILA | NEGRO AND ASSOCIATES

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COMMUNICATION WITH THOSE IN CHARGE OF GOVERNANCE

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bessemer for the year ended June 30, 2013, and have issued our report thereon dated December 19, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 20, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Bessemer are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2013. We noted no transactions entered into by the City of Bessemer during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements is current judgments. Management's estimate of the useful lives of fixed assets, used to calculate depreciation, is based on the estimated useful lives of certain classes of assets. We evaluated the key factors and assumptions used to develop the useful lives to determine that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 19, 2013.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Bessemer's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the members of the City of Bessemer's Council and is not intended to be and should not be used for any other purpose.

We appreciate your business, thank you.

**Rukkila, Negro & Associates,
Certified Public Accountants, PC**

December 19, 2013

CITY OF BESSEMER
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2013

In planning and performing our audit of the financial statements of the City of Bessemer as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

ADDITIONAL COMMENTS AND RECOMMENDATIONS

During our audit we became aware of an opportunity for strengthening internal controls and operating efficiencies. The following item summarizes our comment and suggestion regarding this matter.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Outstanding checks

The general checking account has numerous outstanding checks over a year old. Under Michigan's Uniform Unclaimed Property Act, every business or government entity that has unclaimed property belonging to owners whose last known address is in Michigan must report and remit the property to the Michigan Department of Treasury, regardless of where they are incorporated or headquartered. In addition, every business or government entity that is incorporated in Michigan must report to the Michigan Department of Treasury abandoned property belonging to owners where there is no known address. We recommend referring to the following website, www.michigan.gov/unclaimedproperty for guidance on reporting unclaimed checks.