

City of Southgate, Michigan

**Financial Report
with Supplemental Information
June 30, 2012**

City of Southgate, Michigan

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Independent Auditor's Report

To the Honorable Mayor
and Members of the City Council
City of Southgate, Michigan

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

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

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

To the Honorable Mayor
and Members of the City Council
City of Southgate, Michigan

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified on pages 57-58, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2012 on our consideration of the City of Southgate, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Morse, PLLC

October 29, 2012

City of Southgate, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Southgate, Michigan's 2012 annual report is presented in conformity with the requirements of GASB No. 34. This annual report consists of a discussion and analysis of the City of Southgate, Michigan's (the "City") financial performance. This provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2012:

- Property taxes are the City's single largest source of revenue. The City's taxable value for fiscal year 2012 was \$702,817,851, which represents a decrease of \$86,481,462, or 11.0 percent.
- The City closely monitors discretionary spending by performing periodic budget adjustments. As a result, fund balance in the General Fund only decreased by approximately \$202,000 despite significant property tax revenue decreases.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following tables show, in a condensed format, the net assets as of June 30, 2012, compared to the prior two years:

	Governmental Activities				Percent Change
	2010	2011	2012	Change	
Other assets	\$ 20,890,912	\$ 21,574,992	\$ 20,305,768	\$ (1,269,224)	-6%
Capital assets	60,981,214	60,768,626	60,436,960	(331,666)	-1%
Total assets	81,872,126	82,343,618	80,742,728	(1,600,890)	-2%
Current liabilities	4,822,081	5,339,581	5,008,615	(330,966)	-6%
Long-term liabilities	19,664,504	20,898,445	21,666,735	768,290	4%
Total liabilities	24,486,585	26,238,026	26,675,350	437,324	2%
Net assets:					
Invested in capital assets -					
Net of related debt	47,796,560	48,419,370	48,964,070	544,700	1%
Restricted	13,205,053	13,972,946	13,392,996	(579,950)	-4%
Unrestricted	(3,616,072)	(6,286,724)	(8,289,688)	(2,002,964)	32%
Total net assets	\$ 57,385,541	\$ 56,105,592	\$ 54,067,378	\$ (2,038,214)	-4%
	Business-type Activities				Percent Change
	2010	2011	2012	Change	
Other assets	\$ 7,914,090	\$ 7,752,743	\$ 7,599,877	\$ (152,866)	-2%
Capital assets	35,227,572	35,553,047	35,411,259	(141,788)	0%
Total assets	43,141,662	43,305,790	43,011,136	(294,654)	-1%
Current liabilities	1,786,197	2,097,709	2,168,985	71,276	3%
Long-term liabilities	13,192,163	12,458,410	11,810,573	(647,837)	-5%
Total liabilities	14,978,360	14,556,119	13,979,558	(576,561)	-4%
Net assets:					
Invested in capital assets -					
Net of related debt	22,167,036	24,756,542	24,360,836	(395,706)	-2%
Restricted	4,739,457	4,139,675	3,762,255	(377,420)	-9%
Unrestricted	1,256,809	(146,546)	908,487	1,055,033	-720%
Total net assets	\$ 28,163,302	\$ 28,749,671	\$ 29,031,578	\$ 281,907	1%

The City's combined net assets decreased 2.0 percent from a year ago, decreasing from about \$84.9 million to about \$83.1 million. As we look at governmental activities separately from the business-type activities, we can see that net assets decreased by approximately \$2.0 million in governmental-type activities and increased by approximately \$282,000 in business-type activities. Business-type activities comprise about \$29.0 million of the total net assets.

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

Unrestricted net assets, the portion of net assets that can be used to finance day-to-day operations, decreased by \$2.0 million for governmental activities. The current level of unrestricted net assets for our governmental activities stands at a deficit of \$8.3 million.

Governmental Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior two years:

	Governmental Activities				Percent Change
	2010	2011	2012	Change	
Revenue					
Program revenue:					
Charges for services	\$ 5,895,170	\$ 5,782,968	\$ 4,874,123	\$ (908,845)	-16%
Operating grants	2,602,699	2,482,767	3,255,072	772,305	31%
Capital grants	94,087	298,223	671,456	373,233	125%
General revenue:					
Property taxes	15,220,063	14,147,609	13,554,081	(593,528)	-4%
State-shared revenue	2,712,323	2,692,368	2,685,979	(6,389)	0%
Investment earnings	139,186	45,532	38,421	(7,111)	-16%
Other revenue	-	-	38,533	38,533	100%
Total revenue	26,663,528	25,449,467	25,117,665	(331,802)	-1%
Program Expenses					
General government	4,815,951	4,516,758	4,744,172	227,414	5%
28th District Court	1,540,625	1,372,285	1,290,321	(81,964)	-6%
Public safety	10,809,401	10,465,355	10,408,497	(56,858)	-1%
Public works	8,257,760	7,395,257	8,035,212	639,955	9%
Recreation and cultural	2,000,822	2,390,122	2,123,392	(266,730)	-11%
Interest on long-term debt	610,835	589,639	554,285	(35,354)	-6%
Total expenses	28,035,394	26,729,416	27,155,879	426,463	2%
Change in Net Assets	\$ (1,371,866)	\$ (1,279,949)	\$ (2,038,214)	\$ (758,265)	59%

The City's total governmental revenue decreased by \$331,802 from the prior year. The City had an increase in operating and capital grants but decreases in all other categories.

Overall, current year expenses increased from the prior year by \$426,463 or 2 percent. The increase was primarily the result of increases in healthcare costs.

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior two years:

	Business-type Activities				Percent
	2010	2011	2012	Change	Change
Operating revenue	\$ 6,053,797	\$ 6,529,731	\$ 6,315,403	\$ (214,328)	-3%
Operating expenses - Other than depreciation	5,765,976	5,848,300	5,892,059	43,759	1%
Depreciation and amortization	<u>981,166</u>	<u>965,294</u>	<u>1,069,880</u>	<u>104,586</u>	11%
Operating Loss	(693,345)	(283,863)	(646,536)	392,673	128%
Property tax revenue	985,299	1,207,667	1,162,154	(45,513)	-4%
Interest income	35,443	4,647	2,606	(2,041)	-44%
Interest expense	<u>345,392</u>	<u>342,082</u>	<u>236,317</u>	<u>(105,765)</u>	-31%
Change in Net Assets	<u>\$ (17,995)</u>	<u>\$ 586,369</u>	<u>\$ 281,907</u>	<u>\$ (304,462)</u>	-52%

The City's business-type activities consist of the Water and Sewer Fund and the Golf Course Fund. We provide water to residents from the Detroit water system. We also provide sewage treatment through the Wayne County downriver sewage disposal system. In the Golf Course Fund, the two biggest factors affecting business are weather and the economy. Since January 2012, the club house has been under new management and the City continues to focus on improving the operating results of the golf course. In the current year, the Water and Sewer Fund had an operating loss of \$592,162 while the Golf Course Fund had an operating loss of \$54,427. Excluding depreciation, the Water and Sewer Fund had an operating gain of \$435,876 while the Golf Course Fund had an operating loss of \$12,585.

The City's Funds

The analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2012 include the General Fund, the Community Development Block Grant Fund, the Southgate-Wyandotte Operation and Maintenance Fund, and the Major Street Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$8.9 million in the current year. The budget in the General Fund is basically a "maintenance" budget, which means it increases modestly from year to year.

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

During the current year, actual revenue was more than the budgeted amount by \$279,146 primarily due to state-shared revenue exceeding the budgeted amount. The City departments overall were over budget by \$202,072. Overall, the General Fund's fund balance decreased by \$202,451 in the current year, from \$2,585,805 a year ago to \$2,383,354 at June 30, 2012.

Capital Asset and Debt Administration

The City continues to collect a dedicated millage approved by the voters in November 2001 for improvements to streets in conjunction with a five-year improvement plan.

At the end of 2012, the City had approximately \$96.0 million (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines as well as roads within the City.

Economic Factors and Next Year's Budgets and Rates

Because of the impact of Proposal A, the City needs to continue to watch its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions.

We anticipate that the water and sewer rates will have to increase somewhat in 2013. We are in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2013 to discuss the need for such an increase.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we invite you to contact the administration offices at City Hall.

City of Southgate, Michigan

Statement of Net Assets June 30, 2012

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 16,272,324	\$ 237,769	\$ 16,510,093	\$ 3,167,356
Receivables - Net (Note 4)	3,436,917	2,099,003	5,535,920	144,744
Due from component units (Note 6)	64,723	-	64,723	-
Due from primary government (Note 6)	-	-	-	10,025
Internal balances	(75,707)	75,707	-	-
Inventory	-	3,032	3,032	-
Prepaid expenses and other assets	148,629	23,063	171,692	93,554
Restricted assets (Note 8)	-	3,762,255	3,762,255	-
Investment in joint ventures (Note 16)	-	1,399,048	1,399,048	-
Net pension asset (Notes 11 and 12)	234,793	-	234,793	-
Capital assets - Net (Note 5):				
Assets not subject to depreciation	3,386,602	515,528	3,902,130	-
Assets subject to depreciation	57,050,358	34,895,731	91,946,089	122,232
Advances to other funds (Note 6)	224,089	-	224,089	-
Total assets	80,742,728	43,011,136	123,753,864	3,537,911
Liabilities				
Accounts payable	813,041	763,429	1,576,470	15,476
Due to other governmental units	32,172	-	32,172	-
Due to component units (Note 6)	10,025	-	10,025	-
Due to primary government (Note 6)	-	-	-	64,723
Cash bonds and deposits	248,816	-	248,816	-
Accrued liabilities and other	964,434	174,791	1,139,225	758
Deferred revenue (Note 4)	1,134,518	-	1,134,518	110,000
Noncurrent liabilities (Notes 1 and 7):				
Due within one year:				
Current portion of compensated absences and other	880,009	54,422	934,431	-
Current portion of long-term debt (Note 7)	925,600	1,176,343	2,101,943	-
Due in more than one year:				
Compensated absences and other - Net of current portion	1,591,445	44,527	1,635,972	-
Advances from other funds (Note 6)	-	224,089	224,089	-
Net retiree healthcare obligation (Notes 13 and 14)	9,528,000	1,667,877	11,195,877	-
Long-term debt - Net of current portion	10,547,290	9,874,080	20,421,370	-
Total liabilities	26,675,350	13,979,558	40,654,908	190,957
Net Assets				
Invested in capital assets - Net of related debt	48,964,070	24,360,836	73,324,906	122,232
Restricted for:				
Street expenses	7,397,176	-	7,397,176	-
Debt service	269,091	2,231,932	2,501,023	-
Capital improvement	321,339	1,530,323	1,851,662	-
Police and fire retirement	328,177	-	328,177	-
Southgate/Wyandotte drain operation and maintenance	3,828,275	-	3,828,275	-
Library	669,318	-	669,318	-
Narcotics enforcement	570,457	-	570,457	-
Low-income housing	9,163	-	9,163	-
Unrestricted	(8,289,688)	908,487	(7,381,201)	3,224,722
Total net assets	\$ 54,067,378	\$ 29,031,578	\$ 83,098,956	\$ 3,346,954

City of Southgate, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 4,744,172	\$ 936,534	\$ 283,235	\$ 505,614
District court	1,290,321	1,759,113	56,593	-
Public safety	10,408,497	99,324	529,549	165,842
Public services	8,035,212	1,500,515	1,622,309	-
Recreation and culture	2,123,392	578,637	763,386	-
Interest on long-term debt	554,285	-	-	-
Total governmental activities	27,155,879	4,874,123	3,255,072	671,456
Business-type activities:				
Water and sewer	6,816,537	5,988,111	-	-
Golf Course	381,719	327,292	-	-
Total business-type activities	7,198,256	6,315,403	-	-
Total primary government	<u>\$ 34,354,135</u>	<u>\$ 11,189,526</u>	<u>\$ 3,255,072</u>	<u>\$ 671,456</u>
Component units:				
Tax Increment Financing Authority	\$ 970,972	\$ -	\$ -	\$ 100,000
Downtown Development Authority	916,134	-	196,804	-
Southeastern Michigan Information Alliance	443,759	451,953	-	-
Total component units	<u>\$ 2,330,865</u>	<u>\$ 451,953</u>	<u>\$ 196,804</u>	<u>\$ 100,000</u>
General revenue:				
Property taxes				
State-shared revenue				
Investment income				
Other miscellaneous income				
Total general revenue				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

**Statement of Activities
Year Ended June 30, 2012**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (3,018,789)	\$ -	\$ (3,018,789)	\$ -
525,385	-	525,385	-
(9,613,782)	-	(9,613,782)	-
(4,912,388)	-	(4,912,388)	-
(781,369)	-	(781,369)	-
(554,285)	-	(554,285)	-
(18,355,228)	-	(18,355,228)	-
-	(828,426)	(828,426)	-
-	(54,427)	(54,427)	-
-	(882,853)	(882,853)	-
(18,355,228)	(882,853)	(19,238,081)	-
-	-	-	(870,972)
-	-	-	(719,330)
-	-	-	8,194
-	-	-	(1,582,108)
13,554,081	1,162,154	14,716,235	1,037,496
2,685,979	-	2,685,979	-
38,421	2,606	41,027	3,311
38,533	-	38,533	-
16,317,014	1,164,760	17,481,774	1,040,807
(2,038,214)	281,907	(1,756,307)	(541,301)
56,105,592	28,749,671	84,855,263	3,888,255
\$ 54,067,378	\$ 29,031,578	\$ 83,098,956	\$ 3,346,954

City of Southgate, Michigan

Governmental Funds Balance Sheet June 30, 2012

	General Fund	Community Development Block Grant Fund	Southgate - Wyandotte Operation and Maintenance Fund	Major Street Fund	Other Nonmajor Governmental Funds	Total
Assets						
Cash and investments (Note 3)	\$ 3,002,477	\$ 57,865	\$ 2,777,100	\$ 3,029,734	\$ 7,357,019	\$ 16,224,195
Receivables - Net (Note 4):						
Property taxes	25,528	-	-	-	1,563	27,091
Special assessments	-	-	1,050,422	-	4,449	1,054,871
Customer	-	1,129,082	-	-	-	1,129,082
Other	201,976	-	-	-	-	201,976
Due from other governmental units	581,917	158,611	-	193,933	89,436	1,023,897
Due from component units (Note 6)	4,667	-	-	-	60,056	64,723
Due from other funds (Note 6)	257,750	37,340	1,053	-	872,421	1,168,564
Prepaid expenses and other assets	145,428	1,153	-	-	2,048	148,629
Advances to other funds (Note 6)	-	-	-	-	224,089	224,089
Total assets	\$ 4,219,743	\$ 1,384,051	\$ 3,828,575	\$ 3,223,667	\$ 8,611,081	\$ 21,267,117
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 467,891	\$ 19,321	\$ 300	\$ 7,145	\$ 192,525	\$ 687,182
Due to other governmental units	32,172	-	-	-	-	32,172
Due to component units (Note 6)	10,025	-	-	-	-	10,025
Due to other funds (Note 6)	213,569	231,626	-	856,252	20,824	1,322,271
Cash bonds and deposits	248,816	-	-	-	-	248,816
Accrued and other liabilities	401,813	-	-	-	5,556	407,369
Deferred revenue (Note 4)	435,699	1,287,693	-	-	4,843	1,728,235
Total liabilities	1,809,985	1,538,640	300	863,397	223,748	4,436,070
Fund Balances						
Nonspendable:						
Prepays	145,428	-	-	-	2,048	147,476
Long-term receivable	-	-	-	-	224,089	224,089
Restricted:						
Roads	-	-	-	2,360,270	4,812,817	7,173,087
Narcotics enforcement	-	-	-	-	570,457	570,457
Debt service	-	-	-	-	269,091	269,091
Unspent property tax proceeds -						
Police and fire pension	328,177	-	-	-	-	328,177
Low-income housing	9,163	-	-	-	-	9,163
Southgate-Wyandotte O&M	-	-	3,828,275	-	-	3,828,275
Library	-	-	-	-	669,318	669,318
District Court capital improvement	-	-	-	-	321,339	321,339
Committed (Note 9)	732,719	-	-	-	1,024,473	1,757,192
Assigned (Note 9)	291,923	-	-	-	493,701	785,624
Unassigned	902,348	(154,589)	-	-	-	747,759
Total fund balances	2,409,758	(154,589)	3,828,275	2,360,270	8,387,333	16,831,047
Total liabilities and fund balances	\$ 4,219,743	\$ 1,384,051	\$ 3,828,575	\$ 3,223,667	\$ 8,611,081	\$ 21,267,117

City of Southgate, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets June 30, 2012

Fund Balance Reported in Governmental Funds	\$ 16,831,047
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	60,436,960
Net pension asset is not a financial resource and is not reported in the funds	234,793
Grant revenue and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds	593,717
Bonds payable and long-term purchase agreements are not due and payable in the current period and are not reported in the funds	(11,472,890)
Accrued interest is not due and payable in the current period and is not reported in the funds	(132,065)
Employee compensated absences and other long-term liabilities are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(2,896,456)
Net retiree healthcare obligations are not due and payable in the current period and are not reported in the funds	(9,528,000)
A portion of Internal Service Funds is included as part of governmental activities	<u>272</u>
Net Assets of Governmental Activities	<u>\$ 54,067,378</u>

City of Southgate, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2012

	General Fund	Community Development Block Grant Fund	Southgate - Wyandotte Operation and Maintenance Fund	Major Street Fund	Other Nonmajor Governmental Funds	Total
Revenue						
Property taxes	\$ 11,810,007	\$ -	\$ -	\$ -	\$ 1,869,074	\$ 13,679,081
Special assessments	-	-	1,072,529	-	-	1,072,529
Licenses and permits	496,467	-	-	-	-	496,467
Federal grants	374,777	107,078	-	-	322,256	804,111
State sources	2,933,144	-	-	1,168,186	1,150,483	5,251,813
Charges for services	735,929	-	-	-	168,738	904,667
Fines and forfeitures	1,591,132	-	-	-	-	1,591,132
Interest income	16,104	22	4,758	4,767	12,655	38,306
Rental income	661,762	-	-	-	-	661,762
Other revenue	121,560	-	-	-	63,939	185,499
Total revenue	18,740,882	107,100	1,077,287	1,172,953	3,587,145	24,685,367
Expenditures - Current						
General government	3,720,784	-	-	-	23,176	3,743,960
28th District Court	1,011,158	-	-	-	-	1,011,158
Public safety	8,925,360	-	-	-	382,713	9,308,073
Public services	4,147,625	219,825	955,903	1,011,853	2,315,111	8,650,317
Cultural and recreation	828,812	-	-	-	474,600	1,303,412
Capital outlay	-	-	-	-	58,187	58,187
Debt service	-	-	-	-	1,328,185	1,328,185
Total expenditures	18,633,739	219,825	955,903	1,011,853	4,581,972	25,403,292
Excess of Revenue Over (Under) Expenditures	107,143	(112,725)	121,384	161,100	(994,827)	(717,925)
Other Financing Sources (Uses)						
Transfers in	-	-	-	-	771,774	771,774
Transfers out	(308,915)	-	-	(352,259)	(110,600)	(771,774)
Net Change in Fund Balances	(201,772)	(112,725)	121,384	(191,159)	(333,653)	(717,925)
Fund Balances (Deficit) - Beginning of year	2,611,530	(41,864)	3,706,891	2,551,429	8,720,986	17,548,972
Fund Balances (Deficit) - End of year	\$ 2,409,758	\$ (154,589)	\$ 3,828,275	\$ 2,360,270	\$ 8,387,333	\$ 16,831,047

City of Southgate, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds \$ (717,925)

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

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	2,565,137
Depreciation expense	(2,896,803)
Net change in revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	(9,583)
State-shared revenue earned but not received within 60 days of year end is recorded on the statement of activities	(49,909)
Change in the net pension asset is recorded on the statement of activities	(241,990)
Increase in net retiree healthcare obligation reported in the statement of activities does not require the use of current resources, and therefore is not reported in the fund statements until it comes due for payments	(1,964,065)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	876,366
Accrued interest payable on governmental debt is recorded in the statement of activities	10,056
Decreases in accumulated employee sick and vacation pay, as well as estimated general liability claims, reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment	390,304
Internal Service Funds are also included as part of governmental activities	198

Change in Net Assets of Governmental Activities \$ (2,038,214)

City of Southgate, Michigan

Proprietary Funds Statement of Net Assets June 30, 2012

	Enterprise Funds			Governmental Activities
	Water and Sewer	Golf Course	Total	Internal Service Fund - Workers' Compensation
Assets				
Current assets:				
Cash and cash equivalents	\$ 183,441	\$ 22,242	\$ 205,683	\$ 80,216
Receivables - Net (Note 4)	2,099,003	-	2,099,003	-
Due from other funds (Note 6)	33,385	1,791	35,176	130,000
Inventory	3,032	-	3,032	-
Prepaid expenses and other assets	21,605	1,458	23,063	-
Total current assets	<u>2,340,466</u>	<u>25,491</u>	<u>2,365,957</u>	<u>210,216</u>
Noncurrent assets:				
Restricted assets (Note 8)	3,762,255	-	3,762,255	-
Investment in joint ventures (Note 16)	1,399,048	-	1,399,048	-
Capital assets - Net (Note 5)	34,776,837	634,422	35,411,259	-
Total noncurrent assets	<u>39,938,140</u>	<u>634,422</u>	<u>40,572,562</u>	<u>-</u>
Total assets	<u>42,278,606</u>	<u>659,913</u>	<u>42,938,519</u>	<u>210,216</u>
Liabilities				
Current liabilities:				
Accounts payable	755,761	7,668	763,429	9,764
Due to other funds (Note 6)	1,469	10,000	11,469	-
Accrued and other liabilities	86,847	4,038	90,885	200,000
Current portion of compensated absences (Note 7)	54,422	-	54,422	-
Current portion of long-term debt (Note 7)	1,176,343	-	1,176,343	-
Total current liabilities	<u>2,074,842</u>	<u>21,706</u>	<u>2,096,548</u>	<u>209,764</u>
Noncurrent liabilities:				
Compensated absences - Net of current portion (Note 7)	44,527	-	44,527	-
Advances from other funds (Note 6)	-	224,089	224,089	-
Net retiree healthcare obligation	1,667,877	-	1,667,877	-
Long-term debt - Net of current portion (Note 7)	9,874,080	-	9,874,080	-
Total noncurrent liabilities	<u>11,586,484</u>	<u>224,089</u>	<u>11,810,573</u>	<u>-</u>
Total liabilities	<u>13,661,326</u>	<u>245,795</u>	<u>13,907,121</u>	<u>209,764</u>
Net Assets				
Invested in capital assets - Net of related debt	23,726,414	634,422	24,360,836	-
Restricted	3,762,255	-	3,762,255	-
Unrestricted	1,128,611	(220,304)	908,307	452
Total net assets	<u>\$ 28,617,280</u>	<u>\$ 414,118</u>	29,031,398	<u>\$ 452</u>

Amounts reported for business-type activities in the statement of net assets are different because a portion of the internal service fund is included as business-type activities

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Net Assets of Business-type Activities

\$ 29,031,578

City of Southgate, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2012

	Enterprise Funds			Governmental Activities
	Water and Sewer	Golf Course	Total	Internal Service Fund - Workers' Compensation
Operating Revenue				
Sale of water	\$ 2,262,266	\$ -	\$ 2,262,266	\$ -
Sewage disposal charges	2,907,992	-	2,907,992	-
Assessments	599,519	-	599,519	-
Other	218,334	-	218,334	-
Greens fees and miscellaneous	-	327,292	327,292	-
Charges to other funds	-	-	-	195,000
Total operating revenue	5,988,111	327,292	6,315,403	195,000
Operating Expenses				
Cost of water produced/purchased	1,653,739	-	1,653,739	-
Cost of sewage treatment	1,215,251	-	1,215,251	-
Operation and maintenance	1,709,093	316,284	2,025,377	-
Overhead and other	974,152	23,593	997,745	-
Contractual services	-	-	-	194,864
Depreciation	1,028,038	41,842	1,069,880	-
Total operating expenses	6,580,273	381,719	6,961,992	194,864
Operating (Loss) Income	(592,162)	(54,427)	(646,589)	136
Nonoperating Revenue (Expenses)				
Property tax collections - EPA levy	1,162,154	-	1,162,154	-
Investment income	2,475	54	2,529	192
Interest expense	(236,317)	-	(236,317)	-
Total nonoperating revenue	928,312	54	928,366	192
Change in Net Assets	336,150	(54,373)	281,777	328
Net Assets - Beginning of year	28,281,130	468,491	28,749,621	124
Net Assets - End of year	\$ 28,617,280	\$ 414,118	\$ 29,031,398	\$ 452
Net Change in Net Assets				
Total enterprise funds			\$ 281,777	
Internal service funds are also included as business-type activities			130	
Change in Net Assets of Business-type Activities			\$ 281,907	

City of Southgate, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2012

	Enterprise Funds		Governmental
	Water and	Golf Course	Activities
	Sewer		Workers' Compensation
Cash Flows from Operating Activities			
Receipts from customers	\$ 6,115,857	\$ 327,292	\$ -
Receipts from interfund services and reimbursements	-	-	70,000
Payments to suppliers	(3,899,120)	(300,967)	-
Payments to employees	(1,493,798)	(50,687)	-
Internal activity - Payments to other funds	(125,079)	8,209	-
Claims paid	-	-	(192,193)
	<u>597,860</u>	<u>(16,153)</u>	<u>(122,193)</u>
Net cash provided by (used in) operating activities			
Cash Flows from Capital and Related Financing Activities			
Property taxes (restricted for capital or capital debt)	1,162,154	-	-
Purchase of capital assets	(673,472)	-	-
Principal and interest paid on capital debt	(1,382,603)	-	-
	<u>(893,921)</u>	<u>-</u>	<u>-</u>
Net cash used in capital and related financing activities			
Cash Flows from Investing Activities - Interest received on investments	2,475	54	192
Net Decrease in Cash and Cash Equivalents	(293,586)	(16,099)	(122,001)
Cash and Cash Equivalents - Beginning of year	4,239,282	38,341	202,217
Cash and Cash Equivalents - End of year	<u>\$ 3,945,696</u>	<u>\$ 22,242</u>	<u>\$ 80,216</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 183,441	\$ 22,242	\$ 80,216
Restricted cash	3,762,255	-	-
	<u>\$ 3,945,696</u>	<u>\$ 22,242</u>	<u>\$ 80,216</u>
Total cash and cash equivalents			
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities			
Operating (loss) income	\$ (592,162)	\$ (54,427)	\$ 136
Adjustments to reconcile operating (loss) income to net cash from operating activities:			
Depreciation and amortization	1,028,038	41,842	-
Changes in assets and liabilities:			
Receivables	127,746	-	-
Due from other funds	-	(1,791)	(125,000)
Prepaid and other assets	(291,848)	352	-
Accounts payable	376,673	(10,933)	-
Due to other funds	(79)	10,000	-
Estimated claims liability	-	-	2,671
Accrued and other liabilities	(50,508)	(1,196)	-
	<u>\$ 597,860</u>	<u>\$ (16,153)</u>	<u>\$ (122,193)</u>
Net cash provided by (used in) operating activities			

Noncash Capital and Related Financing Activities - During the current year, debt was issued on behalf of the City in the amount of \$254,620 for construction related to the Downriver Sewage Disposal System. This activity is administered by Wayne County, Michigan.

City of Southgate, Michigan

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2012

	Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 7,036,583	\$ 809,856
Investments:		
U.S. government securities	5,134,690	-
Agency securities	1,958,460	-
Stocks and mutual funds	39,577,346	-
Bonds	7,374,171	-
Mortgage-backed securities	301,685	-
Receivables - Employer:		
Accrued interest receivable	141,282	-
Other receivables	221,498	-
Prepaid expenses and other assets	105,881	-
	61,851,596	\$ 809,856
Liabilities		
Accounts payable	46,633	\$ -
Due to other governmental units	-	522,547
Cash bonds and deposits	-	287,309
	46,633	\$ 809,856
Net Assets Held in Trust for Pension and Other Employee Benefits	\$ 61,804,963	

City of Southgate, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2012

	Pension and Other Employee Benefit Trust Funds
Additions	
Investment income:	
Interest and dividends	\$ 1,542,174
Net decrease in fair value of investments	(1,697,757)
Investment-related expenses	(418,345)
Net investment income	(573,928)
Contributions:	
Employer	4,729,933
Employee	712,165
Total contributions	5,442,098
Total additions - Net	4,868,170
Deductions - Benefit payments	9,739,565
Net Decrease in Net Assets Held in Trust	(4,871,395)
Net Assets Held in Trust for Pension and Other Employee Benefits - Beginning of year	66,676,358
Net Assets Held in Trust for Pension and Other Employee Benefits - End of year	\$ 61,804,963

City of Southgate, Michigan

Component Units Statement of Net Assets June 30, 2012

	Tax Increment Financing Authority	Downtown Development Authority	Southeastern Michigan Information Alliance	Total
Assets				
Cash and cash equivalents	\$ 2,194,991	\$ 826,857	\$ 145,508	\$ 3,167,356
Due from other governmental units	-	-	144,744	144,744
Due from primary government (Note 6)	-	-	10,025	10,025
Other	-	-	93,554	93,554
Capital assets - Net (Note 5)	-	11,320	110,912	122,232
Total assets	2,194,991	838,177	504,743	3,537,911
Liabilities				
Accounts payable	10,792	4,684	-	15,476
Due to primary government (Note 6)	4,667	-	60,056	64,723
Accrued liabilities and other	-	758	-	758
Deferred revenue	-	-	110,000	110,000
Total liabilities	15,459	5,442	170,056	190,957
Net Assets				
Invested in capital assets - Net of related debt	-	11,320	110,912	122,232
Unrestricted	2,179,532	821,415	223,775	3,224,722
Total net assets	<u>\$ 2,179,532</u>	<u>\$ 832,735</u>	<u>\$ 334,687</u>	<u>\$ 3,346,954</u>

City of Southgate, Michigan

	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Tax Increment Financing Authority - Redevelopment	\$ 970,972	\$ -	\$ -	\$ 100,000
Downtown Development Authority - General government	916,134	-	196,804	-
Southeastern Michigan Information Alliance - Public safety	443,759	451,953	-	-
Total component units	<u>\$ 2,330,865</u>	<u>\$ 451,953</u>	<u>\$ 196,804</u>	<u>\$ 100,000</u>

General revenue:

Property taxes

Interest income

Total general revenue

Transfers

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2012**

Net (Expense) Revenue and Changes in Net Assets			
Tax Increment Financing Authority	Downtown Development Authority	Southern Michigan Information Alliance	Total
\$ (870,972)	\$ -	\$ -	\$ (870,972)
-	(719,330)	-	(719,330)
-	-	8,194	8,194
(870,972)	(719,330)	8,194	(1,582,108)
815,315	222,181	-	1,037,496
1,964	1,175	172	3,311
817,279	223,356	172	1,040,807
(5,000)	5,000	-	-
(58,693)	(490,974)	8,366	(541,301)
2,238,225	1,323,709	326,321	3,888,255
\$ 2,179,532	\$ 832,735	\$ 334,687	\$ 3,346,954

Note I - Nature of Business and Significant Accounting Policies

The accounting policies of the City of Southgate, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Southgate:

Reporting Entity

The City of Southgate is governed by an elected mayor and elected seven-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are separate legal entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Blended Component Units - The City of Southgate Building Authority (the "Building Authority") is governed by a board that is appointed by the mayor and approved by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings. The City is involved in the purchase, by lease contract, of recreation facilities and related improvements and a library building addition from the Building Authority. Building Authority operations consist of the issuance and repayment of debt and the construction of facilities. The financial statements of the Building Authority are consolidated with the financial statements of the City as follows:

- a. The assets of the Building Authority held for payment of outstanding bond issues are reported in the Debt Service Funds.
- b. Fixed assets (completed construction projects) and remaining amounts due on bonds issued by the Building Authority are reported in the governmental activities statement of net assets.

Discretely Presented Component Units - The Tax Increment Financing Authority's (the "Authority") governing body, which consists of 11 individuals, is appointed by the mayor and approved by the City Council. In addition, the Authority's budget is subject to approval by the City Council.

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

Note I - Nature of Business and Significant Accounting Policies (Continued)

The Southeastern Michigan Information Alliance (the "SMIA") was created to enhance public safety through the sharing of technology and information resources to support the public safety services of the member communities. The SMIA's governing body consists of one representative appointed by each governmental unit who is a member of SMIA. In addition, the SMIA's budget is subject to approval by the City.

Jointly Governed Organization - Jointly governed organizations are discussed in Note 16.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note I - Nature of Business and Significant Accounting Policies (Continued)

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 City considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Revenue is recognized in the accounting period in which it becomes susceptible to accrual - that is, when it becomes both measurable and available to finance expenditures of the fiscal period. Property taxes, state-shared revenue, and interest 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.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

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

Community Development Block Grant Fund - The Community Development Block Grant Fund accounts for community development grants and rehabilitation lien activity.

Southgate-Wyandotte Operations and Maintenance Fund - The Southgate-Wyandotte Operations and Maintenance Fund accounts for the resources from special assessments that are restricted for the operation and maintenance of the Southgate-Wyandotte Drainage District.

Major Street Fund - The Major Street Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the major street portion of the City's street network. Financing is provided by the City's share of state gas and weight taxes and interest on investments.

The City reports the following major proprietary funds:

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

Golf Course Fund - The Golf Course Fund accounts for the activities of the clubhouse operations and golf course operations.

Note I - Nature of Business and Significant Accounting Policies (Continued)

Additionally, the City reports the following internal service and fiduciary activities:

Internal Service Fund - The Internal Service Fund accounts for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, mainly on a cost-reimbursement basis.

Pension and Other Employee Benefit Trust Funds - The Pension and Other Employee Benefit Trust Funds account for the activities of the Policemen and Firemen and Municipal Employees' Retirement Systems and their related retiree healthcare funds, which accumulate resources for pension benefit payments and postemployment healthcare costs to qualified police and fire and municipal retirees.

Agency Funds - Agency Funds account for assets held by the City for individuals, organizations, other governments, or other funds. They are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When an expense is incurred for purposes for which both restricted and unrestricted net assets or fund balance are available, the City's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the City's policy to spend funds in this order: committed, assigned, and unassigned.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for water and sewer sales and greens fees. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include 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.

Property Tax Revenue

Property tax receivables are shown as net of allowance for uncollectible amounts. Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1 of the following year. These taxes are due without penalty during the period from July 1 through August 31 with the final collection date of February 28 before they are added to the county tax rolls.

The City's 2011 tax is levied and collectible on July 1, 2011 and is recognized as revenue in the year ended June 30, 2012, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2011 taxable valuation of the City totaled \$703 million, a portion of which is captured by the Downtown Development Authority and the Tax Increment Finance Authority, on which ad valorem taxes levied consisted of 10.1366 mills for the City's operating purposes, 1.990 mills for refuse, 4.7999 mills for Act 345 police and fire retirement, 0.8800 mills for the library's operating purposes, 1.9334 mills for road construction, and 1.6317 mills for the EPA judgment levy. Prior to the Downtown Development Authority and Tax Increment Finance Authority tax captures, the ad valorem taxes levied raised approximately \$7,111,000 for operations, \$1,396,000 for refuse, \$3,367,000 for police and fire retirement, \$617,000 for the library's operations, \$1,356,000 for road construction, and \$1,143,000 for the EPA judgment levy. These amounts are recognized in the respective General, Special Revenue, Water and Sewer, and Debt Service Funds financial statements as taxes receivable - current or as tax revenue.

Note I - Nature of Business and Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. To the extent that cash from various funds has been pooled, pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - A portion of the water and sewer user fee has been restricted by ordinance to be used solely for the purpose of making capital improvements in the City's water and sewer system. In addition, restricted assets result from the establishment of debt reserves related to Wayne County Sewage Disposal System bonds.

Capital Assets - Capital assets, which include property, plant, equipment, intangible assets, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was capitalized as part of the cost of assets under construction.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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

Infrastructure	30-50 years
Water and sewer distribution systems	50-75 years
Buildings and building improvements	50 years
Vehicles	5-10 years
Equipment and machinery	10-20 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Employees may receive payment of the accumulated sick leave and vacation balance at the rate determined by union contracts, which vary from unit to unit. All vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Pension and Other Postemployment Benefit Costs - The City offers both pension and healthcare benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the City Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the City Council.
- **Assigned:** Intent to spend resources on specific purposes expressed by the governing body or finance director, who is authorized by resolution approved by the governing body to make assignments
- **Unassigned:** Amounts that can be used for any purpose

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2012

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation, to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Cumulative deficit at July 1, 2011		\$	(551,104)
Current year permit revenue			420,490
Related expenses:			
Direct costs	\$	295,865	
Estimated indirect costs		<u>27,631</u>	323,496
Current year surplus			<u>96,994</u>
Cumulative deficit at June 30, 2012		\$	<u>(454,110)</u>

Fund Deficit - The City has accumulated a fund deficit in the Community Development Block Grant Fund in the amount of \$154,589. The deficit is a result of federal reimbursement of eligible costs not being received within 60 days of the year end. The City expects to use future grant funding to eliminate the deficit.

Note 3 - Deposits and Investments

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

The pension trust funds and retiree healthcare funds are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2012

Note 3 - Deposits and Investments (Continued)

The City has designated one bank for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized under the state statutory authority as listed above.

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$22,475,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component units do not have a deposit policy for custodial credit risk. At year end, the component units had approximately \$2,514,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The component units believe that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the component units evaluate each financial institution with which they deposit funds and assess the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

At year end, the City had the following investments and maturities:

<u>Fiduciary Funds</u>	<u>Fair Value</u>	<u>Less than 5 Years</u>	<u>5 to 15 Years</u>	<u>Over 15 Years</u>
U.S. Treasury notes	\$ 5,134,690	\$ 2,993,552	\$ 2,141,138	\$ -
Mortgage-backed securities	301,685	-	221,447	80,238
Corporate bonds	7,374,171	3,511,049	3,863,122	-
Federal agencies	1,958,460	463,292	312,538	1,182,630
Total	<u>\$ 14,769,006</u>	<u>\$ 6,967,893</u>	<u>\$ 6,538,245</u>	<u>\$ 1,262,868</u>

City of Southgate, Michigan

Notes to Financial Statements June 30, 2012

Note 3 - Deposits and Investments (Continued)

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

Investment	Fair Value	Rating	Rating Organization
Fiduciary Funds			
Mortgage-backed securities	\$ 221,447	Not rated	
Mortgage-backed securities	80,238	AAA	Moody's
Corporate bonds	344,645	Not rated	
Corporate bonds	1,485,885	AAA	Moody's
Corporate bonds	356,137	AA3	Moody's
Corporate bonds	349,906	AA2	Moody's
Corporate bonds	41,375	AA1	Moody's
Corporate bonds	819,169	A3	Moody's
Corporate bonds	493,803	A2	Moody's
Corporate bonds	343,701	A1	Moody's
Corporate bonds	443,479	BAA3	Moody's
Corporate bonds	1,659,901	BAA2	Moody's
Corporate bonds	1,036,170	BAA1	Moody's
Money market funds	3,802,310	AAA	Moody's
Total	<u>\$ 11,478,166</u>		

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

City of Southgate, Michigan

Notes to Financial Statements June 30, 2012

Note 4 - Receivables and Deferred Revenue

Receivables as of year end are as follows:

	Governmental Activities						Business-type Activities	
	General Fund	Community Development Block Grant Fund	Southgate - Wyandotte Operation and Maintenance Fund	Major Street Fund	Other Nonmajor Governmental Funds	Total	Water and Sewer Fund	Total
Receivables:								
Property taxes receivable	\$ 25,528	\$ -	\$ -	\$ -	\$ 1,563	\$ 27,091	\$ -	\$ -
Special assessments receivable	-	-	1,050,422	-	4,449	1,054,871	-	-
Receivables from sales to customers on account	-	-	-	-	-	-	2,099,003	2,099,003
Other receivables	201,976	1,129,082	-	-	-	1,331,058	-	-
Due from other governmental units	581,917	158,611	-	193,933	89,436	1,023,897	-	-
Net receivables	<u>\$ 809,421</u>	<u>\$ 1,287,693</u>	<u>\$ 1,050,422</u>	<u>\$ 193,933</u>	<u>\$ 95,448</u>	<u>\$3,436,917</u>	<u>\$ 2,099,003</u>	<u>\$2,099,003</u>

The City has not recorded an allowance for potential uncollectible amounts related to the receivables discussed above because management deems all receivables to be collectible.

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Governmental Funds	
	Unavailable	Unearned
Community Development Block Grant - Liens and grants	\$ 158,611	\$ 1,129,082
Other grants and special assessments	435,106	5,436
Total	<u>\$ 593,717</u>	<u>\$ 1,134,518</u>

City of Southgate, Michigan

Notes to Financial Statements June 30, 2012

Note 5 - Capital Assets

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

	Balance July 1, 2011	Additions	Disposals	Balance June 30, 2012
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 3,386,602	\$ -	\$ -	\$ 3,386,602
Capital assets being depreciated:				
Infrastructure	69,272,792	1,840,907	-	71,113,699
Buildings and improvements	33,447,307	153,276	-	33,600,583
Machinery and equipment	8,383,501	163,577	-	8,547,078
Vehicles	3,170,792	25,264	-	3,196,056
Land improvements	2,302,472	382,113	-	2,684,585
Subtotal	116,576,864	2,565,137	-	119,142,001
Accumulated depreciation:				
Infrastructure	38,560,007	1,426,542	-	39,986,549
Buildings and improvements	10,001,030	694,788	-	10,695,818
Machinery and equipment	7,285,859	494,620	-	7,780,479
Vehicles	2,187,346	171,816	-	2,359,162
Land improvements	1,160,598	109,037	-	1,269,635
Subtotal	59,194,840	2,896,803	-	62,091,643
Net capital assets being depreciated	57,382,024	(331,666)	-	57,050,358
Net capital assets	\$ 60,768,626	\$ (331,666)	\$ -	\$ 60,436,960

City of Southgate, Michigan

Notes to Financial Statements June 30, 2012

Note 5 - Capital Assets (Continued)

	Balance July 1, 2011	Additions	Disposals	Balance June 30, 2012
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 169,445	\$ -	\$ -	\$ 169,445
Construction in progress	1,098	346,083	(1,098)	346,083
Subtotal	170,543	346,083	(1,098)	515,528
Capital assets being depreciated:				
Water and sewer lines	49,711,510	144,046	-	49,855,556
Buildings and improvements	938,581	-	-	938,581
Machinery and equipment	1,713,860	331,824	-	2,045,684
Vehicles	1,621,396	107,237	-	1,728,633
Land improvements	631,708	-	-	631,708
Subtotal	54,617,055	583,107	-	55,200,162
Accumulated depreciation:				
Water and sewer lines	16,448,509	867,578	-	17,316,087
Buildings and improvements	397,079	27,817	-	424,896
Machinery and equipment	762,405	59,626	-	822,031
Vehicles	1,357,547	88,883	-	1,446,430
Land improvements	269,011	25,976	-	294,987
Subtotal	19,234,551	1,069,880	-	20,304,431
Net capital assets being depreciated	35,382,504	(486,773)	-	34,895,731
Net capital assets	<u>\$ 35,553,047</u>	<u>\$ (140,690)</u>	<u>\$ (1,098)</u>	<u>\$ 35,411,259</u>
Component Unit Activities				
Capital assets being depreciated:				
Machinery and equipment	\$ 210,903	\$ -	\$ -	\$ 210,903
Vehicles	14,150	-	-	14,150
Subtotal	225,053	-	-	225,053
Accumulated depreciation:				
Machinery and equipment	78,901	21,090	-	99,991
Vehicles	-	2,830	-	2,830
Net capital assets being depreciated	146,152	(23,920)	-	122,232
Net capital assets	<u>\$ 146,152</u>	<u>\$ (23,920)</u>	<u>\$ -</u>	<u>\$ 122,232</u>

City of Southgate, Michigan

Notes to Financial Statements June 30, 2012

Note 5 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 1,304,852
Public safety	338,492
Public works	555,687
Recreation and culture	634,732
District Court	<u>63,040</u>
Total governmental activities	<u>\$ 2,896,803</u>

Business-type activities:

Water and Sewer	\$ 1,028,038
Golf	<u>41,842</u>
Total business-type activities	<u>\$ 1,069,880</u>

Component unit activities:

Downtown Development Authority	\$ 2,830
Southeastern Michigan Information Alliance	<u>21,090</u>
Total component unit activities	<u>\$ 23,920</u>

City of Southgate, Michigan

Notes to Financial Statements June 30, 2012

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Proprietary Fund - Water and Sewer Fund	\$ 1,469
	Proprietary Fund - Golf Course Fund	10,000
	Community Development Block Grant Fund	231,626
	Other governmental funds	14,655
	Total General Fund	257,750
Community Development Block Grant Fund	General Fund	37,340
Southgate-Wyandotte Operations and Maintenance Fund	General Fund	1,053
Other governmental funds	General Fund	10,000
	Major Street Fund	856,252
	Other governmental funds	6,169
	Total other governmental funds	872,421
Proprietary Fund - Water and Sewer Fund	General Fund	33,385
Proprietary Fund - Golf Course Fund	General Fund	1,791
Internal Service Fund - Workers' Compensation Fund	General Fund	130,000
	Total	\$ 1,333,740
Receivable Fund	Payable Fund	Amount
Advances from/to Other Funds		
Street Paving Fund	Proprietary Fund - Golf Course Fund	\$ 224,089
Receivable Fund	Payable Fund	Amount
Due to/from Primary Government and Component Units		
General Fund	Tax Increment Financing Authority	\$ 4,667
Other governmental funds	Southeastern Michigan Information Alliance	60,056
	Total component units owing to primary government	\$ 64,723
Southeastern Michigan Information Alliance	General Fund	\$ 10,025

City of Southgate, Michigan

Notes to Financial Statements June 30, 2012

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

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

The advance from the Street Paving Fund to the Golf Course Fund was to assist in the financing of the golf course operations.

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Other governmental funds	General Fund	\$ 308,915
	Major Street Fund	352,259
	Other governmental funds	<u>110,600</u>
	Total	<u>\$ 771,774</u>

The transfer from the General Fund to other governmental funds represents the transfer of funds for debt service. The remaining transfers represent transfers of funds for debt service and to finance operations.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements and capital leases are also general obligations of the City.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2012

Note 7 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligations:							
Library Building Authority Refunding Bonds:							
Original issue: \$1,515,000	3.05% -	\$70,000 -					
Maturing through 2023	4.40%	\$105,000	\$ 1,010,000	\$ -	\$ 70,000	\$ 940,000	\$ 70,000
2005 Ice Arena Building Authority Refunding Bonds:							
Original issue: \$2,815,000	3.3% -	\$215,000 -					
Maturing through 2021	4.4%	\$295,000	2,515,000	-	210,000	2,305,000	215,000
Less deferred amount of refunding			(130,000)	-	(13,000)	(117,000)	(13,000)
2002 Recreation Facility Building Authority - Partially refunded:							
Original issue: \$9,995,000		\$25,000 -					
Maturing through 2015	4.5%	\$380,000	1,230,000	-	25,000	1,205,000	25,000
2002 Recreation Facility Building Authority Refunding Bonds:							
Original issue: \$6,665,000	3.5% -	\$360,000 -					
Maturing through 2026	4.5%	\$685,000	6,520,000	-	345,000	6,175,000	360,000
Less deferred amount of refunding			(236,250)	-	(15,750)	(220,500)	(15,750)
2000 Michigan Transportation Fund installment purchase agreement:							
Original issue: \$695,000							
Maturing through 2014	6.0%	\$75,000	275,000	-	50,000	225,000	75,000
2003 police computer system installment purchase agreement:							
Original issue: \$700,000		\$78,985 -					
Maturing through 2013	3.19%	\$79,084	156,899	-	77,914	78,985	78,985
Parking lot improvements installment purchase agreement:							
Original issue: \$649,500							
Maturing through 2018	5.17%	\$43,300	259,800	-	43,300	216,500	43,300
28th District Court expansion installment purchase agreement:							
Original issue: \$950,000		\$67,820 -					
Maturing through 2018	4.35%	\$81,236	512,547	-	65,592	446,955	67,820
2006 City Hall heating/cooling capital lease:							
Original issue: \$313,000		\$19,245 -					
Maturing through 2021	4.98%	\$28,522	236,260	-	18,310	217,950	19,245
Total bonds payable			12,349,256	-	876,366	11,472,890	925,600
Compensated absences			2,716,634	904,457	1,249,637	2,371,454	830,009
Self-insurance claims			100,000	47,127	47,127	100,000	50,000
Total governmental activities			\$ 15,165,890	\$ 951,584	\$ 2,173,130	\$ 13,944,344	\$ 1,805,609
Business-type Activities							
General obligation bonds -							
Sewage Disposal System Bonds (27 issues):							
Original issue: \$17,922,267	2.0% -	\$882,456 -					
Maturing through 2022	5.45%	\$1,031,270	\$ 11,614,761	\$ 254,620	\$ 1,130,786	\$ 10,738,595	\$ 1,158,098
Tank rehabilitation bonds -							
Original issue: \$423,640		\$18,245 -					
Maturing through 2027	8.9%	\$31,751	327,328	-	15,500	311,828	18,245
Total bonds payable			11,942,089	254,620	1,146,286	11,050,423	1,176,343
Compensated absences			92,776	6,173	-	98,949	54,422
Total business-type activities			\$ 12,034,865	\$ 260,793	\$ 1,146,286	\$ 11,149,372	\$ 1,230,765

City of Southgate, Michigan

Notes to Financial Statements June 30, 2012

Note 7 - Long-term Debt (Continued)

The Building Authority bonds represent the financing to construct the Fun and Fitness Center, ice arena, and library expansion. The assets of the Tax Increment Financing Authority district have been pledged for repayment of the Fun and Fitness Center debt.

Annual debt service requirements to maturity for the above obligations are as follows (other than self-insurance claims, compensated absences, and deferred charges on refunding of bonds):

Years Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 925,600	\$ 496,906	\$ 1,422,506	\$ 1,176,343	\$ 233,869	\$ 1,410,212
2014	904,935	455,682	1,360,617	1,248,560	208,511	1,457,071
2015	939,072	415,395	1,354,467	1,248,915	170,220	1,419,135
2016	903,395	376,908	1,280,303	1,185,843	143,089	1,328,932
2017	924,166	339,469	1,263,635	1,128,463	108,182	1,236,645
2018-2022	4,243,722	1,127,075	5,370,797	3,139,580	349,747	3,489,327
2023-2027	2,632,000	289,234	2,921,234	1,357,977	79,250	1,437,227
2028-2032	-	-	-	564,742	22,789	587,531
Total	<u>\$ 11,472,890</u>	<u>\$ 3,500,669</u>	<u>\$ 14,973,559</u>	<u>\$ 11,050,423</u>	<u>\$ 1,315,657</u>	<u>\$ 12,366,080</u>

Note 8 - Restricted Assets

Enterprise Funds

A portion of the water and sewer user fee has been restricted by ordinance to be used solely for the purpose of making capital improvements in the City's water and sewer system. In addition, restricted assets result from the establishment of debt reserves related to Wayne County Sewage Disposal System bonds. The restricted assets at June 30, 2012 consist of the following:

User fee - Cash and certificates of deposit	\$ 1,530,323
Wayne County Sewage Disposal System bonds - Assets held at the County for future debt payments	<u>2,231,932</u>
Total restricted net assets	<u>\$ 3,762,255</u>

Net assets in the amount of \$3,762,255 have been restricted. This amount represents restricted assets arising from the water and sewer public improvement, program user charge, as well as unspent property tax collections remitted to the County for future debt service payments on the Wayne County bonds noted above.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2012

Note 9 - Fund Balance Constraints

The detail of the committed and assigned components of fund balance is as follows:

Fund Balances	Capital	
	<u>General Fund</u>	<u>Projects Funds</u>
Committed:		
County property tax chargebacks	\$ 675,000	\$ -
Workers' compensation	38,284	-
Computer software acquisition	19,435	-
Police cars	-	522,357
Property acquisition	-	115,116
Fire rescue equipment	-	37,000
Fire pumper	-	350,000
Total committed	<u>732,719</u>	<u>1,024,473</u>
Assigned:		
County property tax chargebacks	75,000	-
Workers' compensation	140,519	-
Severance reserve	76,404	-
Capital projects	-	493,701
Total assigned	<u>291,923</u>	<u>493,701</u>
Total fund balances	<u>\$ 1,024,642</u>	<u>\$ 1,518,174</u>

Note 10 - Risk Management

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

City of Southgate, Michigan

Notes to Financial Statements June 30, 2012

Note 10 - Risk Management (Continued)

The City estimates the liability for general liability and workers' compensation claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	2012	2011
Unpaid claims - Beginning of year	\$ 300,000	\$ 200,000
Incurred claims, including claims incurred but not reported	154,258	218,501
Claim payments	<u>(154,258)</u>	<u>(118,501)</u>
Unpaid claims - End of year	<u>\$ 300,000</u>	<u>\$ 300,000</u>

Recorded in the accrued and other liabilities of the Workers' Compensation Fund is a liability for \$200,000 related to workers' compensation claims. The remaining amount of unpaid claims liability is recorded as long-term debt.

Note 11 - Defined Benefit Pension Plan - Municipal Employees

Plan Description - The City contributes to the Municipal Employees' Retirement System, a single-employer defined benefit pension plan covering general City employees. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2011, the date of the most recent actuarial valuation, membership consisted of 80 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, as well as 58 current active employees. The plan does not issue a separate financial report.

Funding Policy - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the systems for these employees was established by City ordinances and negotiations with the City's collective bargaining units. The Municipal Employees' Retirement System requires a contribution from the employees of 4.5 percent of annual salary for members hired prior to July 1, 1991 and 3 percent of annual salary for members hired on or after July 1, 1991 up to the Social Security wage base plus 5 percent of annual salary in excess of the Social Security wage base. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2012

Note 11 - Defined Benefit Pension Plan - Municipal Employees (Continued)

Annual Pension Cost and Net Pension Asset - For the year ended June 30, 2012, the plan had the following activity:

Annual required contribution	\$ (680,346)
Interest on net pension asset	11,062
Adjustment to annual required contribution	<u>(5,606)</u>
Annual pension cost (APC)	(674,890)
Contributions made	<u>680,346</u>
Increase in net pension asset	5,456
Net pension asset - Beginning of year	<u>138,631</u>
Net pension asset - End of year	<u>\$ 144,087</u>

For the year ended June 30, 2012, the City's annual pension cost of \$674,227 for the plan was exceeded by the City's actual contribution of \$680,346. The annual required contribution was determined as part of an actuarial valuation at June 30, 2010, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, and (b) projected salary increases of 4.5 percent to 14 percent per year. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 20 years.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2012	2011	2010
Annual pension cost (APC)	\$ 674,227	\$ 764,078	\$ 886,980
Percentage of APC contributed	100.8 %	99.4 %	99.6 %
Net pension asset	\$ 144,087	\$ 138,631	\$ 143,568

City of Southgate, Michigan

Notes to Financial Statements June 30, 2012

Note 11 - Defined Benefit Pension Plan - Municipal Employees (Continued)

	Actuarial Valuation as of June 30		
	2011	2010	2009
Actuarial value of assets	\$ 20,244,184	\$ 21,880,800	\$ 22,672,096
Actuarial accrued liability (AAL) (entry age)	\$ 29,545,014	\$ 28,957,167	\$ 28,192,432
Unfunded AAL (UAAL)	\$ 9,300,830	\$ 7,076,367	\$ 5,520,336
Funded ratio	68.5 %	75.6 %	80.4 %
Covered payroll	\$ 2,994,723	\$ 3,327,059	\$ 3,663,211
UAAL as a percentage of covered payroll	310.6 %	212.7 %	150.7 %

Reserves - As of June 30, 2011, the plan's legally required reserves have been fully funded as follows:

Reserves for employees' contributions	\$ 2,931,217
Reserves for retired benefit payments	15,081,536

Note 12 - Defined Benefit Pension Plan - Policemen and Firemen

Plan Description - The City contributes to the Policemen and Firemen Retirement System, a single-employer defined benefit pension plan covering certain police and fire personnel. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2011, the date of the most recent actuarial valuation, membership consisted of 86 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, as well as 64 current active employees. The plan does not issue a separate financial report.

Funding Policy - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the systems for these employees was established by City ordinances, State statute (P.A. 345), and negotiations with the City's collective bargaining units. The Policemen and Firemen Retirement System requires contributions from the employees of 5 percent for policemen and firemen and 7.5 percent for command officers hired before January 1, 1981. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Note 12 - Defined Benefit Pension Plan - Policemen and Firemen (Continued)

Annual Pension Cost and Net Pension Obligation

Annual required contribution	\$ (1,813,622)
Interest on net pension asset	25,361
Adjustment to annual required contribution	<u>(38,308)</u>
Annual pension cost (APC)	(1,826,569)
Contributions made	<u>1,579,123</u>
Decrease in net pension asset	(247,446)
Net pension asset - Beginning of year	<u>338,152</u>
Net pension asset - End of year	<u><u>\$ 90,706</u></u>

For the year ended June 30, 2012, the City's annual pension cost of \$1,826,569 for the plan exceeded the City's actual contribution of \$1,579,123. The annual required contribution was determined as part of an actuarial valuation at June 30, 2010, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, and (b) projected salary increases of 4.7 percent to 8.3 percent per year. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 15 years.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2012	2011	2010
Annual pension cost (APC)	\$ 1,826,569	\$ 1,481,169	\$ 1,183,093
Percentage of APC contributed	86.4 %	105.2 %	100.5 %
Net pension asset	\$ 90,706	\$ 338,152	\$ 260,667

City of Southgate, Michigan

Notes to Financial Statements June 30, 2012

Note 12 - Defined Benefit Pension Plan - Policemen and Firemen (Continued)

	Fiscal Year Ended June 30		
	2011	2010	2009
Actuarial value of assets	\$ 42,616,916	\$ 43,827,980	\$ 45,271,102
Actuarial accrued liability (AAL) (entry age)	\$ 63,999,867	\$ 61,186,413	\$ 58,953,581
Unfunded AAL (UAAL)	\$ 21,382,951	\$ 17,358,433	\$ 13,682,479
Funded ratio	66.6 %	71.6 %	76.8 %
Covered payroll	\$ 4,922,456	\$ 4,884,554	\$ 5,847,595
UAAL as a percentage of covered payroll	434.4 %	355.4 %	234.0 %

Reserves - As of June 30, 2012, the plan's legally required reserves have been fully funded as follows:

Reserves for employees' contributions	\$ 4,785,186
Reserves for retired benefit payments	35,552,164

Note 13 - Other Postemployment Benefits - Municipal Employees

Plan Description - The City provides health care and life insurance benefits to all full-time employees upon retirement, in accordance with labor contracts. As of June 30, 2009, the date of the most recent actuarial valuation, 64 general retirees are eligible. In addition, 76 active general employees may be entitled to benefits upon retirement.

The City has established a Municipal Employees' Retiree Health Care Fund to prefund the liability for postemployment benefits related to employees covered under the Municipal Employees' Retirement System. This is a single employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions.

Funding Policy - The collective bargaining agreements do not require a contribution from employees. Retiree healthcare costs are recognized when paid by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended June 30, 2012, the City made payments for postemployment health benefit premiums for current general retirees in the age adjusted amount of \$829,088, which was paid from governmental funds.

Note 13 - Other Postemployment Benefits - Municipal Employees (Continued)

Funding Progress - For the year ended June 30, 2012, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2009. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 2,368,796
Interest on the prior year's net OPEB obligation	298,054
Less adjustment to the annual required contribution	<u>(412,995)</u>
Annual OPEB cost	2,253,855
Amounts contributed:	
Payments of current premiums - Age adjusted	(829,088)
Advance funding	<u>(85,000)</u>
Increase in net OPEB obligation	1,339,767
OPEB obligation - Beginning of year	<u>5,448,409</u>
OPEB obligation - End of year	<u>\$ 6,788,176</u>

City of Southgate, Michigan

Notes to Financial Statements June 30, 2012

Note 13 - Other Postemployment Benefits - Municipal Employees (Continued)

Employer contributions and annual OPEB cost data for the current and preceding years are as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Employer Contributions Percentage of ARC Contributed	Net OPEB Obligation
6/30/09	6/30/07	\$ 2,855,905	32.6 %	\$ 1,923,964
6/30/10	6/30/07	2,858,040	32.2	3,845,798
6/30/11	6/30/09	2,370,630	30.8	5,448,409
6/30/12	6/30/09	2,368,796	37.1	6,788,176

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/07	\$ 1,825,915	\$ 28,213,483	\$ 26,387,568	6.5 %	\$ 3,785,239	697.1 %
6/30/09	2,089,606	24,924,637	22,835,031	8.4	3,678,407	620.8

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

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

Note 13 - Other Postemployment Benefits - Municipal Employees (Continued)

In the June 30, 2009 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 10 years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized on a dollar amount for all covered members. The remaining amortization period at June 30, 2012 was 30 years.

Note 14 - Other Postemployment Benefits - Police and Fire

Plan Description - The City provides health care and life insurance benefits to all full-time employees upon retirement, in accordance with labor contracts. As of June 30, 2009, the date of the most recent actuarial valuation, 72 police and fire retirees are eligible. In addition, 66 active police and fire employees may be entitled to benefits upon retirement.

The healthcare benefit activity related to the employees covered under the Policemen and Firemen Retirement System is recorded in the Act 345 Health Insurance Fund. This is a single employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions.

Funding Policy - The collective bargaining agreements do not require a contribution from employees. Retiree healthcare costs are recognized when paid by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended June 30, 2012, the City made payments for postemployment health benefit premiums for current police and fire retirees in the age adjusted amount of \$1,676,955, which was paid from the Act 345 Health Insurance Fund, which is reported in this financial statement as a Pension and Other Employee Benefit Trust Fund type.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2012

Note 14 - Other Postemployment Benefits - Police and Fire (Continued)

Funding Progress - For the year ended June 30, 2012, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2009. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 2,348,689
Interest on the prior year's net OPEB obligation	195,620
Less adjustment to the annual required contribution	<u>(136,951)</u>
Annual OPEB cost	2,407,358
Amounts contributed:	
Payments of current premiums	-
Advance funding	<u>(1,556,376)</u>
Increase in net OPEB obligation	850,982
OPEB obligation - Beginning of year	<u>3,556,719</u>
OPEB obligation - End of year	<u>\$ 4,407,701</u>

Employer contributions and annual OPEB cost data for the current and preceding years were as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Employer Contributions Percentage of ARC Contributed	Net OPEB Obligation
6/30/09	6/30/07	\$ 2,536,970	54.0 %	\$ 1,167,823
6/30/10	6/30/07	2,651,134	48.1	2,563,064
6/30/11	6/30/09	2,287,952	58.4	3,556,719
6/30/12	6/30/09	2,348,689	66.3	4,407,701

* The required contribution is expressed to the City as a percentage of payroll.

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/07	\$ 1,619,079	\$ 38,113,126	\$ 36,494,047	4.2 %	\$ 5,759,174	633.7 %
6/30/09	1,520,115	35,298,507	33,778,392	4.3	4,884,554	691.5

Note 14 - Other Postemployment Benefits - Police and Fire (Continued)

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

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

In the June 30, 2009 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 10 years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012 was 30 years.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2012

Note 15 - Pension and Other Employee Benefit Trust Funds

The following are condensed financial statements for the individual pension plans and postemployment healthcare plans:

	Municipal Employees' Retirement System	Policemen and Firemen Retirement System	Municipal Employees' Retiree Health Care	Act 345 Health Insurance	Total
Statement of Net Assets					
Investments	\$ 17,892,893	\$ 40,255,929	\$ 1,061,616	\$ 2,172,497	\$ 61,382,935
Other assets	129,106	109,093	160,323	70,139	468,661
Liabilities	9,247	27,674	9,712	-	46,633
Net assets	<u>\$ 18,012,752</u>	<u>\$ 40,337,348</u>	<u>\$ 1,212,227</u>	<u>\$ 2,242,636</u>	<u>\$ 61,804,963</u>
Statement of Changes in Net Assets					
Investment income	\$ (438,720)	\$ 278,751	\$ 1,202	\$ 3,184	\$ (155,583)
Contributions	970,441	1,922,497	1,591,322	957,838	5,442,098
Benefit payments	2,370,442	4,839,548	1,693,787	835,788	9,739,565
Other deductions	129,779	288,566	-	-	418,345
Net change in net assets	<u>\$ (1,968,500)</u>	<u>\$ (2,926,866)</u>	<u>\$ (101,263)</u>	<u>\$ 125,234</u>	<u>\$ (4,871,395)</u>

Note 16 - Joint Ventures

Southgate-Wyandotte Drainage District

The City is a member of the Southgate-Wyandotte Drainage District, a joint venture with the City of Wyandotte that provides drainage services to the residents of Southgate and Wyandotte. The venture is administered by the Wayne County Drainage Board. The City paid \$954,863 to Wayne County during the year for operation and maintenance.

The City of Southgate does not have an explicit equitable interest in the venture. The operations of the fund will be financed through assessments to the participating cities, Wayne County, and the State of Michigan. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Downriver Sewage Disposal System

The City, along with 12 other communities, jointly participates in the Downriver Sewage Disposal System. The City's share of capital assets, restricted assets (for debt service), and related debt is recorded in the Water and Sewer Fund as "investment in joint ventures," and was \$1,399,048 at June 30, 2012. During the year, the City paid \$1,239,565 for operations of the system and \$1,382,603 for debt service.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Financial statements for both joint ventures can be obtained from the County of Wayne's administrative offices at 415 Clifford, Detroit, MI 48226.

Note 17 - Upcoming Accounting Pronouncements

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement addresses financial reporting related to service concession arrangements which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (whether a government or nongovernment) in which the transferor conveys to an operator the right and relation obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from third parties. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2013 fiscal year.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the Statement also clarifies the reporting of equity interests in legally separate organizations. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2013 fiscal year.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2013 fiscal year.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement will be effective for the City's 2013 fiscal year. The Statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This Statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this Statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

Note 17 - Upcoming Accounting Pronouncements (Continued)

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented in the City's 2014 fiscal year.

In June 2012, GASB Statement No. 67, *Financial Reporting for Pension Plans*, was issued by the Governmental Accounting Standards Board. This new standard, which replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, establishes standards for financial reporting that outline the basic framework for separately issued pension plan financial reports and specifies the required approach to measuring the liability of employer and certain nonemployer contributing entities, about which information is required to be disclosed. GASB Statement No. 67 is required to be adopted for years beginning after June 15, 2013. For the City of Southgate, this standard will be adopted for the year ending June 30, 2014.

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

Required Supplemental Information

City of Southgate, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2012

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 12,023,712	\$ 12,023,712	\$ 11,810,007	\$ (213,705)
Reimbursements from other funds	1,562,244	1,639,244	1,414,228	(225,016)
Licenses and permits	384,400	384,400	496,467	112,067
Federal grants	231,900	287,507	374,777	87,270
State-shared revenue and grants	2,456,638	2,456,638	2,933,144	476,506
Charges for services	879,775	879,775	735,929	(143,846)
Fines and forfeitures	1,446,000	1,531,000	1,591,132	60,132
Investment income	11,000	11,000	14,416	3,416
Rental income	540,000	540,000	661,762	121,762
Other revenue	121,000	121,000	121,560	560
Total revenue	19,656,669	19,874,276	20,153,422	279,146
Expenditures - Current				
General government:				
City Council	105,683	105,683	110,121	(4,438)
Executive	216,166	216,166	216,818	(652)
Finance	366,211	366,211	366,942	(731)
Treasurer	246,308	221,308	185,675	35,633
Assessor	151,676	176,676	158,814	17,862
Clerk	126,721	133,721	129,698	4,023
Elections	34,568	34,568	39,207	(4,639)
Attorney	157,600	138,700	141,383	(2,683)
Nondepartmental	3,165,956	3,165,956	3,435,345	(269,389)
Total general government	4,570,889	4,558,989	4,784,003	(225,014)
28th District Court	985,724	1,062,456	1,011,158	51,298
Public safety:				
Police	5,695,607	5,695,607	5,529,204	166,403
Fire	2,977,078	3,032,685	3,099,157	(66,472)
Emergency preparedness	6,350	6,350	1,587	4,763
Building inspections and related	259,067	254,067	280,230	(26,163)
Police and Fire Civil Service Commission	6,500	14,000	15,182	(1,182)
Total public safety	8,944,602	9,002,709	8,925,360	77,349
Public works:				
Public services	1,758,716	1,800,716	1,895,800	(95,084)
Sanitation	1,700,461	1,658,461	1,654,199	4,262
Planning	10,000	15,000	15,635	(635)
City garage	536,896	555,796	581,991	(26,195)
Total public works	4,006,073	4,029,973	4,147,625	(117,652)
Recreation and culture:				
Recreation	225,383	210,883	179,740	31,143
Civic Center	656,480	656,480	591,096	65,384
Senior Citizen Center	95,496	95,496	55,811	39,685
Cultural Commission	2,900	2,900	2,165	735
Total recreation and culture	980,259	965,759	828,812	136,947
Transfers to other funds	533,915	533,915	658,915	(125,000)
Total expenditures	20,021,462	20,153,801	20,355,873	(202,072)
Net Change in Fund Balance	(364,793)	(279,525)	(202,451)	77,074
Fund Balance - Beginning of year	2,585,805	2,585,805	2,585,805	-
Fund Balance - End of year	\$ 2,221,012	\$ 2,306,280	\$ 2,383,354	\$ 77,074

City of Southgate, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Street Fund Year Ended June 30, 2012

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue	\$ 1,072,542	\$ 1,072,542	\$ 1,168,186	\$ 95,644
Interest income	2,500	2,500	4,767	2,267
Total revenue	1,075,042	1,075,042	1,172,953	97,911
Expenditures - Current				
Public works	665,000	665,000	1,011,853	(346,853)
Transfers to other funds	332,273	332,273	352,259	(19,986)
Total expenditures	997,273	997,273	1,364,112	(366,839)
Net Change in Fund Balance	77,769	77,769	(191,159)	(268,928)
Fund Balance - Beginning of year	2,551,429	2,551,429	2,551,429	-
Fund Balance - End of year	<u>\$ 2,629,198</u>	<u>\$ 2,629,198</u>	<u>\$ 2,360,270</u>	<u>\$ (268,928)</u>

City of Southgate, Michigan

Required Supplemental Information Municipal Employees' Retirement System Year Ended June 30, 2012

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/06	\$ 22,100,000	\$ 25,900,000	\$ 3,800,000	85.3	\$ 3,700,000	102.7
6/30/07	23,100,000	27,700,000	4,600,000	83.4	3,700,000	124.3
6/30/08	23,400,000	28,000,000	4,600,000	83.6	3,800,000	121.1
6/30/09	22,700,000	28,200,000	5,500,000	80.5	3,700,000	148.6
6/30/10	21,881,000	28,957,000	7,076,000	75.6	3,678,000	192.4
6/30/11	20,244,000	29,545,000	9,301,000	68.5	2,995,000	310.6

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
6/30/07	6/30/06	\$ 747,469	100.0
6/30/08	6/30/07	767,755	100.0
6/30/09	6/30/08	889,043	100.0
6/30/10	6/30/09	862,425	100.0
6/30/11	6/30/10	759,141	100.0
6/30/12	6/30/11	680,346	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2011, the latest actuarial valuation, follows:

Amortization method	Level dollar
Remaining amortization period	20 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	4.5% - 14.0%
*Includes inflation at	4.5%
Cost of living adjustments	Not applicable

City of Southgate, Michigan

Required Supplemental Information Policemen and Firemen Retirement System Year Ended June 30, 2012

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/06	\$ 46,600,000	\$ 56,800,000	\$ 10,200,000	82.0	\$ 5,300,000	192.5
6/30/07	49,200,000	59,100,000	9,900,000	83.2	5,400,000	183.3
6/30/08	50,400,000	57,200,000	6,800,000	88.1	5,800,000	117.2
6/30/09	45,300,000	59,000,000	13,700,000	76.8	5,800,000	236.2
6/30/10	43,828,000	61,186,000	17,358,000	71.6	4,885,000	355.3
6/30/11	42,617,000	64,000,000	21,383,000	66.6	4,922,000	434.4

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
6/30/07	6/30/06	\$ 1,881,109	94.8
6/30/08	6/30/07	1,811,563	97.9
6/30/09	6/30/08	1,833,567	94.6
6/30/10	6/30/09	1,175,192	101.2
6/30/11	6/30/10	1,472,204	105.2
6/30/12	6/30/11	1,813,622	86.4

* The required contribution is expressed to the City as a percentage of payroll.

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

Amortization method	Level percent of payroll
Remaining amortization period	15 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	80% / 120% corridor
Investment rate of return*	7.5%
Projected salary increases*	4.7% - 8.3%
*Includes inflation at	4.5%
Cost of living adjustments	Not applicable

City of Southgate, Michigan

Note to Required Supplemental Information Year Ended June 30, 2012

Note - Budgetary Information

Budgetary Information - The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

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

1. On or before 90 days prior to the commencement of the fiscal and budget year (July 1), the mayor shall prepare and submit to the Council a complete itemized proposed budget for the next fiscal year.
2. A public hearing on the budget shall be held before its final adoption, at such time and place as the Council shall direct, and notice of such public hearing shall be published at least one month in advance thereof by the clerk.
3. The Council shall, on or before 30 days prior to the commencement of the next fiscal year, adopt a budget for the ensuing fiscal year.

Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2011 has not been calculated. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenue and expenditures, including budget variances, for the General Fund is presented as required supplemental information.

City of Southgate, Michigan

Note to Required Supplemental Information (Continued) June 30, 2012

Note - Budgetary Information (Continued)

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."
- Reimbursements from other funds have been included in revenue, rather than as a reduction of general government nondepartmental expenditures.
- The Community Development Block Grant and Southgate-Wyandotte Operation and Maintenance Funds have not been budgeted on a fiscal year basis consistent with the City, and therefore the financial activity has been omitted from the required supplemental information.

A reconciliation of the budgetary comparison schedule to the fund-based statement of changes in fund balance is as follows:

	<u>Total Revenue</u>	<u>Total Expenditures</u>	<u>Change in Fund Balance</u>
General Fund			
Amounts per operating statement	\$ 18,754,460	\$ 18,633,739	\$ 120,721
Operating transfers budgeted as revenue and expenditures	-	508,915	(508,915)
Reimbursements from other funds	1,414,228	1,414,228	-
Severance Reserve Fund budgeted separately from the General Fund	(1,688)	(201,009)	199,321
Amounts per budget statement	<u>\$ 20,167,000</u>	<u>\$ 20,355,873</u>	<u>\$ (188,873)</u>

City of Southgate, Michigan

Note to Required Supplemental Information (Continued) June 30, 2012

Note - Budgetary Information (Continued)

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

	Budget	Actual	Variance
General Fund:			
General government:			
City Council	\$ 105,683	\$ 110,121	\$ (4,438)
Executive	216,166	216,818	(652)
Finance	366,211	366,942	(731)
Elections	34,568	39,207	(4,639)
Attorney	138,700	141,383	(2,683)
Nondepartmental	3,165,956	3,435,345	(269,389)
Public safety:			
Fire	3,032,685	3,099,157	(66,472)
Building inspections and related	254,067	280,230	(26,163)
Police and fire civil service commission	14,000	15,182	(1,182)
Public works:			
Public services	1,800,716	1,895,800	(95,084)
Planning	15,000	15,635	(635)
City garage	555,796	581,991	(26,195)
Transfers to other funds	533,915	658,915	(125,000)
Major Street Fund:			
Public works	665,000	1,011,853	(346,853)
Transfers to other funds	332,408	352,259	(19,851)

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

Other Supplemental Information

City of Southgate, Michigan

	Special Revenue Funds				Debt Service Funds	
	Local Street	Narcotics Enforcement	Street Paving Fund	Library	SCI 541 Bond	Michigan Transportation Bond
Assets						
Cash and investments	\$ 1,488,882	\$ 623,742	\$ 2,528,546	\$ 688,692	\$ 4,957	\$ 114,160
Receivables - Net	74,500	-	1,042	521	-	-
Due from component units	-	-	-	-	-	-
Due from other funds	834,917	-	-	10,000	-	-
Prepaid expenses and other assets	-	-	-	-	-	-
Advances to other funds	-	-	224,089	-	-	-
Total assets	\$2,398,299	\$ 623,742	\$2,753,677	\$ 699,213	\$ 4,957	\$ 114,160
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 99,376	\$ 52,771	\$ 15,694	\$ 24,339	\$ -	\$ -
Due to other funds	-	514	-	-	-	6,169
Accrued liabilities and other	-	-	-	5,556	-	-
Deferred revenue	-	-	-	-	-	-
Total liabilities	99,376	53,285	15,694	29,895	-	6,169
Fund Balances						
Nonspendable:						
Prepays	-	-	-	-	-	-
Long-term receivable	-	-	224,089	-	-	-
Restricted:						
Roads	2,298,923	-	2,513,894	-	-	-
Narcotics enforcement	-	570,457	-	-	-	-
Debt service	-	-	-	-	4,957	107,991
Library	-	-	-	669,318	-	-
District court capital improvement	-	-	-	-	-	-
Committed (Note 9)	-	-	-	-	-	-
Assigned (Note 9)	-	-	-	-	-	-
Total fund balances	2,298,923	570,457	2,737,983	669,318	4,957	107,991
Total liabilities and fund balances	\$2,398,299	\$ 623,742	\$2,753,677	\$ 699,213	\$ 4,957	\$ 114,160

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012**

Debt Service Funds		Capital Projects Funds			Total
Southgate - Wyandotte Drain	Building Authority Fund	Capital Improvement Fund	Drake Street Construction Fund	District Court Capital Improvement	Nonmajor Governmental Funds
\$ 66,630	\$ 83,689	\$ 1,315,400	\$ 135,918	\$ 306,403	\$ 7,357,019
-	-	-	4,449	14,936	95,448
-	-	60,056	-	-	60,056
-	6,169	21,335	-	-	872,421
-	-	2,048	-	-	2,048
-	-	-	-	-	224,089
\$ 66,630	\$ 89,858	\$ 1,398,839	\$ 140,367	\$ 321,339	\$ 8,611,081
\$ 345	\$ -	\$ -	\$ -	\$ -	\$ 192,525
-	-	14,141	-	-	20,824
-	-	-	-	-	5,556
-	-	-	4,843	-	4,843
345	-	14,141	4,843	-	223,748
-	-	2,048	-	-	2,048
-	-	-	-	-	224,089
-	-	-	-	-	4,812,817
-	-	-	-	-	570,457
66,285	89,858	-	-	-	269,091
-	-	-	-	-	669,318
-	-	-	-	321,339	321,339
-	-	1,024,473	-	-	1,024,473
-	-	358,177	135,524	-	493,701
66,285	89,858	1,384,698	135,524	321,339	8,387,333
\$ 66,630	\$ 89,858	\$ 1,398,839	\$ 140,367	\$ 321,339	\$ 8,611,081

City of Southgate, Michigan

	Special Revenue Funds			
	Local Street	Narcotics Enforcement	Street Paving Fund	Library
Revenue				
Property taxes	\$ -	\$ -	\$ 1,284,454	\$ 584,620
Federal grants	-	322,256	-	-
State sources	449,484	1,350	-	-
Charges for services	-	-	-	-
Investment income	3,080	1,026	3,583	1,223
Other revenue	-	-	-	22,789
Total revenue	452,564	324,632	1,288,037	608,632
Expenditures - Current				
General government	-	-	-	-
Public safety	-	382,713	-	-
Public works	1,383,208	-	931,903	-
Recreation and culture - Library	-	-	-	474,600
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest on long-term debt	-	-	-	-
Total expenditures	1,383,208	382,713	931,903	474,600
Excess of Revenue (Under) Over Expenditures	(930,644)	(58,081)	356,134	134,032
Other Financing Sources (Uses)				
Transfers in	288,121	-	-	-
Transfers out	-	-	-	(110,600)
Total other financing sources (uses)	288,121	-	-	(110,600)
Net Change in Fund Balances	(642,523)	(58,081)	356,134	23,432
Fund Balances - Beginning of year	2,941,446	628,538	2,381,849	645,886
Fund Balances - End of year	\$ 2,298,923	\$ 570,457	\$ 2,737,983	\$ 669,318

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in
Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2012

SCI 541 Bond	Debt Service Funds			Capital Projects Fund			Total Nonmajor Governmental Funds
	Michigan Transportation Bond	Southgate - Wyandotte Drain	Building Authority Fund	Capital Improvement Fund	Drake Street Construction Fund	District Court Capital Improvement	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,869,074
-	-	-	-	-	-	-	322,256
-	-	-	699,649	-	-	-	1,150,483
-	-	-	-	-	1,357	167,381	168,738
8	169	108	815	1,924	316	403	12,655
-	-	-	-	41,150	-	-	63,939
8	169	108	700,464	43,074	1,673	167,784	3,587,145
-	-	20,220	500	2,456	-	-	23,176
-	-	-	-	-	-	-	382,713
-	-	-	-	-	-	-	2,315,111
-	-	-	-	-	-	-	474,600
-	-	-	-	58,187	-	-	58,187
-	50,000	-	650,000	-	-	108,892	808,892
-	14,138	-	469,413	-	-	35,742	519,293
-	64,138	20,220	1,119,913	60,643	-	144,634	4,581,972
8	(63,969)	(20,112)	(419,449)	(17,569)	1,673	23,150	(994,827)
-	64,138	-	419,515	-	-	-	771,774
-	-	-	-	-	-	-	(110,600)
-	64,138	-	419,515	-	-	-	661,174
8	169	(20,112)	66	(17,569)	1,673	23,150	(333,653)
4,949	107,822	86,397	89,792	1,402,267	133,851	298,189	8,720,986
\$ 4,957	\$ 107,991	\$ 66,285	\$ 89,858	\$ 1,384,698	\$ 135,524	\$ 321,339	\$ 8,387,333

City of Southgate, Michigan

	Pension Trust Funds				
	Municipal Employees' Retirement System	Policemen and Firemen Retirement System	Act 345 Health Insurance	Municipal Employees' Retiree Health Care	Total Pension Trust Funds
Assets					
Cash and cash equivalents	\$ 1,146,242	\$ 2,656,228	\$ 1,061,616	\$ 2,172,497	\$ 7,036,583
Investments:					
U.S. government securities	2,378,124	2,756,566	-	-	5,134,690
Agency securities	814,835	1,143,625	-	-	1,958,460
Stocks and mutual funds	10,446,826	29,130,520	-	-	39,577,346
Bonds	2,964,047	4,410,124	-	-	7,374,171
Mortgages	142,819	158,866	-	-	301,685
Receivables:					
Accrued interest receivable	55,574	85,708	-	-	141,282
Other receivables	73,532	23,385	54,442	70,139	221,498
Prepaid expenses and other assets	-	-	105,881	-	105,881
Total assets	18,021,999	40,365,022	1,221,939	2,242,636	61,851,596
Liabilities					
Accounts payable	9,247	27,674	9,712	-	46,633
Due to other governmental units	-	-	-	-	-
Cash bonds and deposits	-	-	-	-	-
Total liabilities	9,247	27,674	9,712	-	46,633
Net Assets Held in Trust for Pension and Other Employee Benefits	\$ 18,012,752	\$ 40,337,348	\$ 1,212,227	\$ 2,242,636	\$ 61,804,963

Other Supplemental Information
Combining Statement of Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2012

Agency Funds			
Tax Collection	Senior Citizens' Trust	Escrow Fund	Total Agency Funds
\$ 522,547	\$ 57,283	\$ 230,026	\$ 809,856
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
\$ 522,547	\$ 57,283	\$ 230,026	\$ 809,856
\$ -	\$ -	\$ -	\$ -
522,547	-	-	522,547
-	57,283	230,026	287,309
\$ 522,547	\$ 57,283	\$ 230,026	\$ 809,856

City of Southgate, Michigan

Other Supplemental Information Combining Statement of Changes in Fiduciary Net Assets Fiduciary Funds Year Ended June 30, 2012

	Municipal Employees' Retirement System	Policemen and Firemen Retirement System	Act 345 Health Insurance	Municipal Employees' Retiree Health Care	Total
Additions					
Investment income:					
Interest and dividends	\$ 806,041	\$ 731,747	\$ 1,202	\$ 3,184	\$ 1,542,174
Net decrease in fair value of investments	(1,244,761)	(452,996)	-	-	(1,697,757)
Investment-related expenses	(129,779)	(288,566)	-	-	(418,345)
Net investment income	(568,499)	(9,815)	1,202	3,184	(573,928)
Contributions:					
Employer	680,346	1,579,123	1,556,376	914,088	4,729,933
Employee	290,095	343,374	34,946	43,750	712,165
Net contributions	970,441	1,922,497	1,591,322	957,838	5,442,098
Total additions - Net	401,942	1,912,682	1,592,524	961,022	4,868,170
Deductions - Benefit payments	2,370,442	4,839,548	1,693,787	835,788	9,739,565
Net (Decrease) Increase in Net Assets Held in Trust	(1,968,500)	(2,926,866)	(101,263)	125,234	(4,871,395)
Net Assets Held in Trust for Pension and Other Employee Benefits - Beginning of year	19,981,252	43,264,214	1,313,490	2,117,402	66,676,358
Net Assets Held in Trust for Pension and Other Employee Benefits - End of year	\$ 18,012,752	\$ 40,337,348	\$ 1,212,227	\$ 2,242,636	\$ 61,804,963