

City of Southgate, Michigan

**Financial Report
with Supplemental Information
June 30, 2013**

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, 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, 2013 and the related notes to the financial statements, which collectively comprise the City of Southgate, Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

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

Other Matters

Required Supplemental Information

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

Other Information

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 other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will also be issuing a report 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 an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Southgate, Michigan's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 8, 2013

City of Southgate, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Southgate, Michigan's 2013 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, 2013. 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, 2013:

- Property taxes are the City's single largest source of revenue. The City's taxable value for fiscal year 2013 was \$645,885,195, which represents a decrease of \$56,932,656, or 8.8 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 \$653,000 despite significant property tax revenue decreases.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net position 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 position as of June 30, 2013, compared to the prior two years:

| | Governmental Activities | | | | Percent Change |
|----------------------------------|-------------------------|----------------------|----------------------|-------------------|----------------|
| | 2011 | 2012 | 2013 | Change | |
| Other assets | \$ 21,574,992 | \$ 20,305,768 | \$ 19,185,696 | \$ (1,120,072) | -6% |
| Capital assets | 60,768,626 | 60,436,960 | 62,153,839 | 1,716,879 | 3% |
| Total assets | 82,343,618 | 80,742,728 | 81,339,535 | 596,807 | 1% |
| Current liabilities | 5,339,581 | 5,008,615 | 4,764,529 | (244,086) | -5% |
| Long-term liabilities | 20,898,445 | 21,666,735 | 22,277,706 | 610,971 | 3% |
| Total liabilities | 26,238,026 | 26,675,350 | 27,042,235 | 366,885 | 1% |
| Net position: | | | | | |
| Net investment in capital assets | 48,419,370 | 48,964,070 | 51,607,252 | 2,643,182 | 5% |
| Restricted | 13,972,946 | 13,392,996 | 12,456,004 | (936,992) | -7% |
| Unrestricted | (6,286,724) | (8,289,688) | (9,765,956) | (1,476,268) | 18% |
| Total net position | \$ 56,105,592 | \$ 54,067,378 | \$ 54,297,300 | \$ 229,922 | 0% |

| | Business-type Activities | | | | Percent Change |
|----------------------------------|--------------------------|----------------------|----------------------|-------------------|----------------|
| | 2011 | 2012 | 2013 | Change | |
| Other assets | \$ 7,752,743 | \$ 7,375,788 | \$ 7,716,110 | \$ 340,322 | 5% |
| Capital assets | 35,553,047 | 35,411,259 | 35,454,994 | 43,735 | 0% |
| Total assets | 43,305,790 | 42,787,047 | 43,171,104 | 384,057 | 1% |
| Current liabilities | 2,097,709 | 2,168,985 | 1,969,828 | (199,157) | -9% |
| Long-term liabilities | 12,458,410 | 11,586,484 | 11,488,072 | (98,412) | -1% |
| Total liabilities | 14,556,119 | 13,755,469 | 13,457,900 | (297,569) | -2% |
| Net position: | | | | | |
| Net investment in capital assets | 24,756,542 | 24,360,836 | 24,753,922 | 393,086 | 2% |
| Restricted | 4,139,675 | 3,762,255 | 3,808,485 | 46,230 | 1% |
| Unrestricted | (146,546) | 908,487 | 1,150,797 | 242,310 | 27% |
| Total net position | \$ 28,749,671 | \$ 29,031,578 | \$ 29,713,204 | \$ 681,626 | 2% |

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

The City's combined net position increased from approximately \$83.1 million to approximately \$84.0 million, an increase of approximately 1.1 percent from a year ago. As we look at governmental activities separately from the business-type activities, we can see that net position increased slightly by approximately \$230,000 in governmental-type activities and increased by approximately \$682,000 in business-type activities. Business-type activities comprise approximately \$29.7 million of the total net position.

Unrestricted net position, the portion of net position that can be used to finance day-to-day operations, decreased by \$1.5 million for governmental activities. The current level of unrestricted net position for our governmental activities stands at a deficit of \$9.8 million.

Governmental Activities

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

| | Governmental Activities | | | | Percent Change |
|-------------------------------|-------------------------|-----------------------|-------------------|---------------------|-------------------|
| | 2011 | 2012 | 2013 | Change | |
| Revenue | | | | | |
| Program revenue: | | | | | |
| Charges for services | \$ 5,782,968 | \$ 4,874,123 | \$ 5,140,336 | \$ 266,213 | 5% |
| Operating grants | 2,482,767 | 3,255,072 | 3,586,709 | 331,637 | 10% |
| Capital grants | 298,223 | 671,456 | 1,809,553 | 1,138,097 | 169% |
| General revenue: | | | | | |
| Property taxes | 14,147,609 | 13,554,081 | 14,470,409 | 916,328 | 7% |
| State-shared revenue | 2,692,368 | 2,685,979 | 2,635,291 | (50,688) | -2% |
| Investment earnings | 45,532 | 38,421 | 26,620 | (11,801) | -31% |
| Other revenue | - | 38,533 | 48,810 | 10,277 | 27% |
| Total revenue | 25,449,467 | 25,117,665 | 27,717,728 | 2,600,063 | 10% |
| Program Expenses | | | | | |
| General government | 4,516,758 | 4,744,172 | 3,481,879 | (1,262,293) | -27% |
| 28th District Court | 1,372,285 | 1,290,321 | 1,346,190 | 55,869 | 4% |
| Public safety | 10,465,355 | 10,356,854 | 11,677,826 | 1,320,972 | 13% |
| Public works | 7,395,257 | 8,086,855 | 8,212,874 | 126,019 | 2% |
| Recreation and cultural | 2,390,122 | 2,123,392 | 2,258,056 | 134,664 | 6% |
| Interest on long-term debt | 589,639 | 554,285 | 510,981 | (43,304) | -8% |
| Total expenses | 26,729,416 | 27,155,879 | 27,487,806 | 331,927 | 1% |
| Change in Net Position | \$ (1,279,949) | \$ (2,038,214) | \$ 229,922 | \$ 2,268,136 | -111% |

The City's total governmental revenue increased by \$2.6 million from the prior year. The City had an increase in charges for services, operating grants, capital grants, and property tax revenue but decreases in all other categories.

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

Overall, current year expenses increased from the prior year by \$332,000 or 1 percent.

Business-type Activities

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

| | Business-type Activities | | | | Percent |
|--|--------------------------|-------------------|-------------------|-------------------|---------|
| | 2011 | 2012 | 2013 | Change | Change |
| Operating revenue | \$ 6,529,731 | \$ 6,315,403 | \$ 7,040,896 | \$ 725,493 | 11% |
| Operating expenses - Other than depreciation | 5,848,300 | 5,892,059 | 6,176,900 | 284,841 | 5% |
| Depreciation and amortization | 965,294 | 1,069,880 | 1,051,693 | (18,187) | -2% |
| Operating Loss | (283,863) | (646,536) | (187,697) | 458,839 | -71% |
| Property tax revenue | 1,207,667 | 1,162,154 | 1,167,870 | 5,716 | 0% |
| Interest income | 4,647 | 2,606 | 7,605 | 4,999 | 192% |
| Interest expense | 342,082 | 236,317 | 306,152 | 69,835 | 30% |
| Change in Net Position | \$ 586,369 | \$ 281,907 | \$ 681,626 | \$ 399,719 | 142% |

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 \$196,577 while the Golf Course Fund had operating income of \$9,060. Excluding depreciation, the Water and Sewer Fund had an operating gain of \$842,989 while the Golf Course Fund had an operating gain of \$21,187.

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 2013 include the General Fund, the Community Development Block Grant Fund, the Southgate-Wyandotte Operation and Maintenance Fund, the Major Street Fund, and the Street Paving 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 \$10.9 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 expenditures exceeded actual revenue by approximately \$615,000, primarily due to County property tax chargebacks. The City departments overall were over budget by \$210,371. The fire department was over budget primarily due to the fire equipment purchased under the Firefighters' Assistant Grant. Overall, the General Fund's unassigned fund balance decreased by \$33,260 in the current year, from \$902,348 a year ago to \$869,088 at June 30, 2013. This represents a decrease of approximately 0.1 percent of total General Fund expenditures for the current fiscal year.

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 2013, the City had approximately \$97.7 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 2014. We are in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2014 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 Position June 30, 2013

| | Primary Government | | | Component Units |
|---|----------------------|----------------------|----------------------|---------------------|
| | Governmental | Business-type | Total | |
| | Activities | Activities | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 14,699,264 | \$ 495,476 | \$ 15,194,740 | \$ 2,844,535 |
| Receivables - Net (Note 4): | | | | |
| Property taxes receivable | 16,594 | - | 16,594 | - |
| Customer accounts | 1,164,288 | 2,209,780 | 3,374,068 | - |
| Other receivables | 196,825 | - | 196,825 | - |
| Due from other governments | 1,116,625 | - | 1,116,625 | 70,950 |
| Special assessments receivable | 1,097,793 | - | 1,097,793 | - |
| Due from component units (Note 6) | 104,723 | - | 104,723 | - |
| Due from primary government (Note 6) | - | - | - | 2,325 |
| Internal balances (Note 6) | 187,173 | (187,173) | - | - |
| Inventory | - | 23,668 | 23,668 | - |
| Prepaid expenses | 335,610 | 23,037 | 358,647 | 70,166 |
| Restricted assets (Note 8) | - | 3,808,485 | 3,808,485 | - |
| Investment in joint venture (Note 16) | - | 1,342,837 | 1,342,837 | - |
| Net pension asset (Notes 11 and 12) | 266,801 | - | 266,801 | - |
| Capital assets - Net (Note 5): | | | | |
| Assets not subject to depreciation | 3,386,602 | 989,531 | 4,376,133 | - |
| Assets subject to depreciation | 58,767,237 | 34,465,463 | 93,232,700 | 89,494 |
| Total assets | 81,339,535 | 43,171,104 | 124,510,639 | 3,077,470 |
| Liabilities | | | | |
| Accounts payable | 747,114 | 591,663 | 1,338,777 | 39,286 |
| Due to other governmental units | 32,173 | - | 32,173 | - |
| Due to component units (Note 6) | 2,325 | - | 2,325 | - |
| Due to primary government (Note 6) | - | - | - | 104,723 |
| Cash bonds and deposits | 249,097 | - | 249,097 | - |
| Accrued liabilities and other | 852,862 | 105,013 | 957,875 | 758 |
| Unearned revenue (Note 4) | 1,164,288 | - | 1,164,288 | - |
| Noncurrent liabilities (Notes 1 and 7): | | | | |
| Due within one year: | | | | |
| Current portion of compensated absences and other | 830,485 | 56,082 | 886,567 | - |
| Current portion of long-term debt (Note 7) | 886,185 | 1,217,070 | 2,103,255 | - |
| Due in more than one year: | | | | |
| Compensated absences and other - Net of current portion | 1,499,474 | 45,885 | 1,545,359 | - |
| Net retiree healthcare obligation (Notes 13 and 14) | 11,117,830 | 1,958,185 | 13,076,015 | - |
| Long-term debt - Net of current portion | 9,660,402 | 9,484,002 | 19,144,404 | - |
| Total liabilities | 27,042,235 | 13,457,900 | 40,500,135 | 144,767 |
| Net Position | | | | |
| Net investment in capital assets | 51,607,252 | 24,753,922 | 76,361,174 | 89,494 |
| Restricted for: | | | | |
| Street expenses | 6,034,947 | - | 6,034,947 | - |
| Debt service | 261,068 | - | 261,068 | - |
| Capital improvement | 360,007 | 3,808,485 | 4,168,492 | - |
| Police and fire retirement | 145,773 | - | 145,773 | - |
| Southgate/Wyandotte drain operation and maintenance | 4,538,983 | - | 4,538,983 | - |
| Library | 559,966 | - | 559,966 | - |
| Narcotics enforcement | 536,548 | - | 536,548 | - |
| Low-income housing | 9,163 | - | 9,163 | - |
| Community development | 9,549 | - | 9,549 | - |
| Unrestricted | (9,765,956) | 1,150,797 | (8,615,159) | 2,843,209 |
| Total net position | \$ 54,297,300 | \$ 29,713,204 | \$ 84,010,504 | \$ 2,932,703 |

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

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 | \$ 3,481,879 | \$ 978,015 | \$ 596,458 | \$ 11,554 |
| 28th District Court | 1,346,190 | 2,006,227 | 45,274 | - |
| Public safety | 11,677,826 | 68,149 | 552,882 | 1,226,223 |
| Public services | 8,212,874 | 1,812,098 | 1,643,154 | - |
| Recreation and culture: | | | | |
| Library | 616,353 | 4,031 | 21,516 | - |
| Parks and recreation | 752,032 | - | - | - |
| Civic Center, Museum, Historical Comm | 43,352 | - | - | - |
| Rec Other 1 | 844,899 | 271,816 | 727,425 | 571,776 |
| Rec Other 2 | 1,420 | - | - | - |
| Interest on long-term debt | 510,981 | - | - | - |
| Total governmental activities | 27,487,806 | 5,140,336 | 3,586,709 | 1,809,553 |
| Business-type activities: | | | | |
| Water and Sewer | 7,271,921 | 6,769,012 | - | - |
| Golf Course | 262,824 | 271,884 | - | - |
| Total business-type activities | 7,534,745 | 7,040,896 | - | - |
| Total primary government | <u>\$ 35,022,551</u> | <u>\$ 12,181,232</u> | <u>\$ 3,586,709</u> | <u>\$ 1,809,553</u> |
| Component units: | | | | |
| Tax Increment Financing Authority | \$ 765,223 | \$ 200 | \$ - | \$ 50,000 |
| Downtown Development Authority | 535,856 | - | 50,716 | - |
| Southern Michigan Information Alliance | 369,548 | 264,514 | - | 70,000 |
| Total component units | <u>\$ 1,670,627</u> | <u>\$ 264,714</u> | <u>\$ 50,716</u> | <u>\$ 120,000</u> |
| General revenue: | | | | |
| Property taxes | | | | |
| State-shared revenue | | | | |
| Interest income | | | | |
| Other miscellaneous income | | | | |
| Total general revenues | | | | |
| Change in Net Position | | | | |
| Net Position - Beginning of year | | | | |
| Net Position - End of year | | | | |

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

Statement of Activities
Year Ended June 30, 2013

| Net (Expense) Revenue and Changes in Net Position | | | |
|---|-----------------------------|----------------------|---------------------|
| Primary Government | | | |
| Governmental Activities | Business-type Activities | Total | Component Units |
| \$ (1,895,852) | \$ - | \$ (1,895,852) | \$ - |
| 705,311 | - | 705,311 | - |
| (9,830,572) | - | (9,830,572) | - |
| (4,757,622) | - | (4,757,622) | - |
| (590,806) | - | (590,806) | - |
| (752,032) | - | (752,032) | - |
| (43,352) | - | (43,352) | - |
| 726,118 | - | 726,118 | - |
| (1,420) | - | (1,420) | - |
| (510,981) | - | (510,981) | - |
| (16,951,208) | - | (16,951,208) | - |
| - | (502,909) | (502,909) | - |
| - | 9,060 | 9,060 | - |
| - | (493,849) | (493,849) | - |
| (16,951,208) | (493,849) | (17,445,057) | - |
| - | - | - | (715,023) |
| - | - | - | (485,140) |
| - | - | - | (35,034) |
| - | - | - | (1,235,197) |
| 14,470,409 | 1,167,870 | 15,638,279 | 818,022 |
| 2,635,291 | - | 2,635,291 | - |
| 26,620 | 7,605 | 34,225 | 2,924 |
| 48,810 | - | 48,810 | - |
| 17,181,130 | 1,175,475 | 18,356,605 | 820,946 |
| 229,922 | 681,626 | 911,548 | (414,251) |
| 54,067,378 | 29,031,578 | 83,098,956 | 3,346,954 |
| \$ 54,297,300 | \$ 29,713,204 | \$ 84,010,504 | \$ 2,932,703 |

City of Southgate, Michigan

Governmental Funds Balance Sheet June 30, 2013

| | General Fund | Community Development Block Grant Fund | Southgate - Wyandotte Operation and Maintenance Fund | Major Street Fund | Street Paving Fund | Other Nonmajor Governmental Funds | Total |
|---|---------------------|---|--|----------------------|-----------------------|--|----------------------|
| Assets | | | | | | | |
| Cash and investments | \$ 2,669,390 | \$ 66,391 | \$ 3,244,444 | \$ 1,676,140 | \$ 3,154,809 | \$ 3,871,086 | \$ 14,682,260 |
| Receivables - Net (Note 4): | | | | | | | |
| Property taxes | 16,594 | - | - | - | - | - | 16,594 |
| Special assessments | - | - | 1,097,793 | - | - | - | 1,097,793 |
| Customer | - | 1,164,288 | - | - | - | - | 1,164,288 |
| Other | 194,524 | - | - | - | - | 308 | 194,832 |
| Due from other governments | 788,744 | 23,805 | - | 196,601 | - | 107,475 | 1,116,625 |
| Due from component units (Note 6) | 59,667 | - | - | - | - | 45,056 | 104,723 |
| Due from other funds (Note 6) | 158,055 | 61,916 | 1,053 | - | - | 1,198,509 | 1,419,533 |
| Advances to other funds (Note 6) | - | - | - | - | 219,089 | - | 219,089 |
| Prepaid expenses | 139,890 | - | 195,693 | - | - | 27 | 335,610 |
| Total assets | \$ 4,026,864 | \$ 1,316,400 | \$ 4,538,983 | \$ 1,872,741 | \$ 3,373,898 | \$ 5,222,461 | \$ 20,351,347 |
| Liabilities | | | | | | | |
| Accounts payable | \$ 598,008 | \$ 632 | \$ - | \$ 61,657 | \$ 1,784 | \$ 75,710 | \$ 737,791 |
| Due to other governmental units | 32,173 | - | - | - | - | - | 32,173 |
| Due to component units (Note 6) | 2,325 | - | - | - | - | - | 2,325 |
| Due to other funds (Note 6) | 368,778 | 141,931 | - | 1,178,215 | - | 49,525 | 1,738,449 |
| Cash bonds and deposits | 249,097 | - | - | - | - | - | 249,097 |
| Accrued and other liabilities | 412,290 | - | - | - | 22,500 | 5,438 | 440,228 |
| Deferred revenue (Note 4) | 607,931 | 1,164,288 | - | - | - | - | 1,772,219 |
| Total liabilities | 2,270,602 | 1,306,851 | - | 1,239,872 | 24,284 | 130,673 | 4,972,282 |
| Fund Balances | | | | | | | |
| Nonspendable: | | | | | | | |
| Prepays | 139,890 | - | 195,693 | - | - | 27 | 335,610 |
| Long-term receivable | - | - | - | - | 219,089 | - | 219,089 |
| Restricted: | | | | | | | |
| Roads | - | - | - | 632,869 | 3,130,525 | 2,052,464 | 5,815,858 |
| Narcotics enforcement | - | - | - | - | - | 536,548 | 536,548 |
| Debt service | - | - | - | - | - | 261,068 | 261,068 |
| Community development | - | 9,549 | - | - | - | - | 9,549 |
| Unspent property tax proceeds - Police and fire pension | 145,773 | - | - | - | - | - | 145,773 |
| Low-income housing | 9,163 | - | - | - | - | - | 9,163 |
| Southgate-Wyandotte O&M | - | - | 4,343,290 | - | - | - | 4,343,290 |
| Library | - | - | - | - | - | 559,939 | 559,939 |
| District Court capital improvement | - | - | - | - | - | 360,007 | 360,007 |
| Committed (Note 9) | 308,435 | - | - | - | - | 921,321 | 1,229,756 |
| Assigned (Note 9) | 283,913 | - | - | - | - | 400,414 | 684,327 |
| Unassigned | 869,088 | - | - | - | - | - | 869,088 |
| Total fund balances | 1,756,262 | 9,549 | 4,538,983 | 632,869 | 3,349,614 | 5,091,788 | 15,379,065 |
| Total liabilities and fund balances | \$ 4,026,864 | \$ 1,316,400 | \$ 4,538,983 | \$ 1,872,741 | \$ 3,373,898 | \$ 5,222,461 | \$ 20,351,347 |

City of Southgate, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2013

| | |
|---|-----------------------------|
| Fund Balance Reported in Governmental Funds | \$ 15,379,065 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | 62,153,839 |
| Net pension asset is not a financial resource and is not reported in the funds | 266,801 |
| 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 | 607,931 |
| Bonds payable and long-term purchase agreements are not due and payable in the current period and are not reported in the funds | (10,546,587) |
| Accrued interest is not due and payable in the current period and is not reported in the funds | (116,634) |
| 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 | (2,329,959) |
| Net retiree healthcare obligations are not due and payable in the current period and are not reported in the funds | (11,117,830) |
| Internal Service Funds are included as part of governmental activities | <u>674</u> |
| Net Position of Governmental Activities | <u>\$ 54,297,300</u> |

City of Southgate, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2013

| | General Fund | Community Development Block Grant Fund | Southgate - Wyandotte Operation and Maintenance Fund | Major Street Fund | Street Paving Fund | Other Nonmajor Governmental Funds | Total |
|--|---------------------|--|--|--------------------|---------------------|-----------------------------------|---------------------|
| Revenue | | | | | | | |
| Property taxes | \$ 12,354,172 | \$ - | \$ - | \$ - | \$ 1,155,218 | \$ 536,019 | \$ 14,045,409 |
| Special assessments | - | - | 1,297,880 | - | - | - | 1,297,880 |
| Licenses and permits | 605,715 | - | - | - | - | - | 605,715 |
| Federal grants | 1,344,067 | 423,229 | - | - | - | 213,317 | 1,980,613 |
| State sources | 3,712,440 | - | - | 1,187,398 | - | 1,178,864 | 6,078,702 |
| Charges for services | 323,017 | - | - | - | - | 182,308 | 505,325 |
| Fines and forfeitures | 1,825,246 | - | - | - | - | - | 1,825,246 |
| Interest income | 12,412 | 65 | 3,591 | 2,684 | 3,147 | 4,675 | 26,574 |
| Rental income | 645,727 | - | - | - | - | - | 645,727 |
| Other revenue | 155,512 | - | - | - | - | 111,764 | 267,276 |
| Total revenue | 20,978,308 | 423,294 | 1,301,471 | 1,190,082 | 1,158,365 | 2,226,947 | 27,278,467 |
| Expenditures - Current | | | | | | | |
| General government | 4,277,890 | - | - | - | - | 23,578 | 4,301,468 |
| 28th District Court | 1,074,050 | - | - | - | - | - | 1,074,050 |
| Public safety | 10,921,548 | - | - | - | - | 300,108 | 11,221,656 |
| Public services | 4,002,185 | 259,156 | 590,763 | 2,509,777 | 546,734 | 1,025,225 | 8,933,840 |
| Cultural and recreation | 1,136,356 | - | - | - | - | 616,353 | 1,752,709 |
| Capital outlay | - | - | - | - | - | 105,103 | 105,103 |
| Debt service | - | - | - | - | - | 1,341,623 | 1,341,623 |
| Total expenditures | 21,412,029 | 259,156 | 590,763 | 2,509,777 | 546,734 | 3,411,990 | 28,730,449 |
| Excess of Revenue (Under) Over Expenditures | (433,721) | 164,138 | 710,708 | (1,319,695) | 611,631 | (1,185,043) | (1,451,982) |
| Other Financing Sources (Uses) | | | | | | | |
| Transfers in | 87,000 | - | - | - | - | 822,771 | 909,771 |
| Transfers out | (306,775) | - | - | (407,706) | - | (195,290) | (909,771) |
| Net Change in Fund Balances | (653,496) | 164,138 | 710,708 | (1,727,401) | 611,631 | (557,562) | (1,451,982) |
| Fund Balances - Beginning of year | 2,409,758 | (154,589) | 3,828,275 | 2,360,270 | 2,737,983 | 5,649,350 | 16,831,047 |
| Fund Balances - End of year | \$ 1,756,262 | \$ 9,549 | \$ 4,538,983 | \$ 632,869 | \$ 3,349,614 | \$ 5,091,788 | \$15,379,065 |

City of Southgate, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2013

Net Change in Fund Balances - Total Governmental Funds \$ (1,451,982)

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 | 4,238,421 |
| Depreciation expense | (2,521,542) |
| 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) | 426,559 |
| State-shared revenue earned but not received within 60 days of year end is recorded on the statement of activities | 12,657 |
| Change in net pension asset is recorded on the statement of activities | 32,008 |
| 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 statement until it comes due for payments | (1,589,830) |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) | 926,303 |
| Accrued interest payable on governmental debt is recorded in the statement of activities | 15,431 |
| 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 | 141,495 |
| Internal Service Funds are included as part of governmental activities | <u>402</u> |

Change in Net Position of Governmental Activities \$ 229,922

City of Southgate, Michigan

Proprietary Funds Statement of Net Position June 30, 2013

| | Enterprise Funds | | | Governmental Activities |
|---|------------------|-------------|---------------|---|
| | Water and Sewer | Golf Course | Total | Internal Service Fund - Workers' Compensation |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 459,523 | \$ 35,953 | \$ 495,476 | \$ 17,004 |
| Receivables - Net (Note 4) | 2,209,780 | - | 2,209,780 | 1,993 |
| Due from other funds (Note 6) | 33,385 | - | 33,385 | 287,000 |
| Inventory | 23,668 | - | 23,668 | - |
| Prepaid expenses | 21,583 | 1,454 | 23,037 | - |
| Total current assets | 2,747,939 | 37,407 | 2,785,346 | 305,997 |
| Noncurrent assets: | | | | |
| Restricted assets (Note 8) | 3,808,485 | - | 3,808,485 | - |
| Investment in joint ventures (Note 16) | 1,342,837 | - | 1,342,837 | - |
| Capital assets - Net (Note 5) | 34,822,704 | 632,290 | 35,454,994 | - |
| Total noncurrent assets | 39,974,026 | 632,290 | 40,606,316 | - |
| Total assets | 42,721,965 | 669,697 | 43,391,662 | 305,997 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 578,409 | 13,254 | 591,663 | 9,323 |
| Due to other funds (Note 6) | 1,469 | - | 1,469 | - |
| Accrued liabilities and other | 100,883 | 4,130 | 105,013 | 296,000 |
| Current portion of compensated absences (Note 7) | 56,082 | - | 56,082 | - |
| Current portion of long-term debt (Note 7) | 1,213,739 | 3,331 | 1,217,070 | - |
| Total current liabilities | 1,950,582 | 20,715 | 1,971,297 | 305,323 |
| Noncurrent liabilities: | | | | |
| Advances from other funds (Note 6) | - | 219,089 | 219,089 | - |
| Compensated absences - Net of current portion (Note 7) | 45,885 | - | 45,885 | - |
| Net retiree healthcare obligation | 1,958,185 | - | 1,958,185 | - |
| Long-term debt - Net of current portion (Note 7) | 9,477,338 | 6,664 | 9,484,002 | - |
| Total noncurrent liabilities | 11,481,408 | 225,753 | 11,707,161 | - |
| Total liabilities | 13,431,990 | 246,468 | 13,678,458 | 305,323 |
| Net Position | | | | |
| Net investment in capital assets | 24,131,627 | 622,295 | 24,753,922 | - |
| Restricted | 3,808,485 | - | 3,808,485 | - |
| Unrestricted | 1,349,863 | (199,066) | 1,150,797 | 674 |
| Total net position | \$ 29,289,975 | \$ 423,229 | \$ 29,713,204 | \$ 674 |

City of Southgate, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2013

| | Enterprise Funds | | | Governmental Activities |
|--|----------------------|-------------------|----------------------|---|
| | Water and Sewer | Golf Course | Total | Internal Service Fund - Workers' Compensation |
| Operating Revenue | | | | |
| Sale of water | \$ 2,490,816 | \$ - | \$ 2,490,816 | \$ - |
| Sewage disposal charges | 3,348,444 | - | 3,348,444 | - |
| Assessments | 584,152 | - | 584,152 | - |
| Other | 345,600 | - | 345,600 | - |
| Greens fees and miscellaneous | - | 271,884 | 271,884 | - |
| Charges to other funds | - | - | - | 303,993 |
| Total operating revenue | 6,769,012 | 271,884 | 7,040,896 | 303,993 |
| Operating Expenses | | | | |
| Cost of water produced/purchased | 1,793,173 | - | 1,793,173 | - |
| Cost of sewage treatment | 1,202,667 | - | 1,202,667 | - |
| Operation and maintenance | 1,952,421 | 237,007 | 2,189,428 | - |
| Overhead and other | 977,762 | 13,690 | 991,452 | - |
| Contractual services | - | - | - | 303,817 |
| Depreciation | 1,039,566 | 12,127 | 1,051,693 | - |
| Total operating expenses | 6,965,589 | 262,824 | 7,228,413 | 303,817 |
| Operating (Loss) Income | (196,577) | 9,060 | (187,517) | 176 |
| Nonoperating Revenue (Expenses) | | | | |
| Property tax collections - EPA levy | 1,167,870 | - | 1,167,870 | - |
| Investment income | 7,554 | 51 | 7,605 | 46 |
| Interest expense | (306,152) | - | (306,152) | - |
| Total nonoperating revenue | 869,272 | 51 | 869,323 | 46 |
| Change in Net Position | 672,695 | 9,111 | 681,806 | 222 |
| Net Position - Beginning of year | 28,617,280 | 414,118 | 29,031,398 | 452 |
| Net Position - End of year | <u>\$ 29,289,975</u> | <u>\$ 423,229</u> | <u>\$ 29,713,204</u> | <u>\$ 674</u> |
| Net Change in Net Position | | | | |
| Total Enterprise Funds | | | \$ 681,806 | |
| Internal service funds are also included as business-type activities | | | (180) | |
| Change in Net Position of Business-type Activities | | | <u>\$ 681,626</u> | |

City of Southgate, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2013

| | Enterprise Funds | | Governmental Activities |
|---|---------------------|------------------|----------------------------|
| | Water and Sewer | Golf Course | Workers' Compensation |
| Cash Flows from Operating Activities | | | |
| Receipts from customers | \$ 6,658,235 | \$ 271,884 | \$ - |
| Receipts from interfund services and reimbursements | - | 1,791 | 146,993 |
| Payments to suppliers | (4,031,262) | (226,303) | - |
| Payments to employees | (1,614,154) | (18,712) | - |
| Internal activity - Payments to other funds | (115,000) | (10,000) | - |
| Claims paid | - | - | (208,258) |
| Other receipts | - | - | (1,993) |
| Net cash provided by (used in) operating activities | 897,819 | 18,660 | (63,258) |
| Cash Flows from Noncapital Financing Activities - Payments to other funds | - | (5,000) | - |
| Cash Flows from Capital and Related Financing Activities | | | |
| Property taxes (restricted for capital or capital debt) | 1,167,870 | - | - |
| Purchase of capital assets | (265,347) | - | - |
| Principal and interest paid on capital debt | (1,485,584) | - | - |
| Net cash used in capital and related financing activities | (583,061) | - | - |
| Cash Flows from Investing Activities - Interest received on investments | 7,554 | 51 | 46 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 322,312 | 13,711 | (63,212) |
| Cash and Cash Equivalents - Beginning of year | 3,945,696 | 22,242 | 80,216 |
| Cash and Cash Equivalents - End of year | \$ 4,268,008 | \$ 35,953 | \$ 17,004 |
| Balance Sheet Classification of Cash and Cash Equivalents | | | |
| Cash and investments | \$ 459,523 | \$ 35,953 | \$ 17,004 |
| Restricted cash | 3,808,485 | - | - |
| Total cash and cash equivalents | \$ 4,268,008 | \$ 35,953 | \$ 17,004 |
| Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities | | | |
| Operating (loss) income | \$ (196,577) | \$ 9,060 | \$ 176 |
| Adjustments to reconcile operating (loss) income to net cash from operating activities: | | | |
| Depreciation and amortization | 1,039,566 | 12,127 | - |
| Changes in assets and liabilities: | | | |
| Receivables | (110,777) | - | (1,993) |
| Due from other funds | - | 1,791 | (157,000) |
| Inventories | (20,636) | - | - |
| Prepaid and other assets | 56,233 | 4 | - |
| Accounts payable | 112,956 | 5,586 | (441) |
| Due to other funds | - | (10,000) | - |
| Estimated claims liability | - | - | 96,000 |
| Accrued and other liabilities | 17,054 | 92 | - |
| Net cash provided by (used in) operating activities | \$ 897,819 | \$ 18,660 | \$ (63,258) |

Noncash Capital and Related Financing Activities - During the current year, debt was issued on behalf of the City in the amount of \$820,086 for construction related to the Downriver Sewage Disposal System. This activity is administered by Wayne County, Michigan.

During the current year, the Golf Course entered into an installment purchase agreement for equipment in the amount of \$9,995.

City of Southgate, Michigan

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2013

| | Pension and Other Employee Benefit Trust Funds | Agency Funds |
|---|--|--------------|
| Assets | | |
| Cash and cash equivalents | \$ 7,443,563 | \$ 518,085 |
| Investments: | | |
| U.S. government securities | 6,811,070 | - |
| Agency securities | 650,058 | - |
| Stocks and mutual funds | 42,007,837 | - |
| Bonds | 5,707,224 | - |
| Mortgage-backed securities | 225,282 | - |
| Receivables - Employer: | | |
| Accrued interest receivable | 131,930 | - |
| Other receivables | 318,283 | - |
| Prepaid expenses | 117,818 | - |
| | 63,413,065 | \$ 518,085 |
| Liabilities | | |
| Accounts payable | 47,569 | \$ - |
| Due to other governmental units | - | 170,799 |
| Cash bonds and deposits | - | 347,286 |
| Accrued liabilities and other | 210,390 | - |
| | 257,959 | \$ 518,085 |
| Net Position Held in Trust for Pension and Other Employee Benefits | \$ 63,155,106 | |

City of Southgate, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Position Year Ended June 30, 2013

| | Pension and Other Employee Benefit Trust Funds |
|--|--|
| Additions | |
| Investment income: | |
| Interest and dividends | \$ 1,446,820 |
| Net increase in fair value of investments | 3,342,763 |
| Investment-related expenses | (445,629) |
| Net investment income | 4,343,954 |
| Contributions: | |
| Employer | 6,121,062 |
| Employee | 712,264 |
| Total contributions | 6,833,326 |
| Total additions - Net | 11,177,280 |
| Deductions - Benefit payments | 9,827,137 |
| Net Increase in Net Position Held in Trust | 1,350,143 |
| Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year | 61,804,963 |
| Net Position Held in Trust for Pension and Other Employee Benefits - End of year | \$ 63,155,106 |

City of Southgate, Michigan

Component Units Statement of Net Position June 30, 2013

| | Tax Increment Financing Authority | Downtown Development Authority | Southern Michigan Information Alliance | Total |
|--------------------------------------|---|--------------------------------------|---|---------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 2,020,778 | \$ 656,296 | \$ 167,461 | \$ 2,844,535 |
| Due from other governmental units | - | - | 70,950 | 70,950 |
| Due from primary government (Note 6) | - | - | 2,325 | 2,325 |
| Other | - | - | 70,166 | 70,166 |
| Capital assets - Net (Note 5) | - | - | 89,494 | 89,494 |
| Total assets | 2,020,778 | 656,296 | 400,396 | 3,077,470 |
| Liabilities | | | | |
| Accounts payable | 926 | 37,840 | 520 | 39,286 |
| Due to primary government (Note 6) | 4,667 | - | 100,056 | 104,723 |
| Accrued liabilities and other | - | 758 | - | 758 |
| Total liabilities | 5,593 | 38,598 | 100,576 | 144,767 |
| Net Position | | | | |
| Net investment in capital assets | - | - | 89,494 | 89,494 |
| Unrestricted | 2,015,185 | 617,698 | 210,326 | 2,843,209 |
| Total net position | <u>\$ 2,015,185</u> | <u>\$ 617,698</u> | <u>\$ 299,820</u> | <u>\$ 2,932,703</u> |

City of Southgate, Michigan

| Functions/Programs | Program Revenue | | | |
|--|---------------------|----------------------|------------------------------------|----------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Tax Increment Financing Authority - Redevelopment | \$ 765,223 | \$ 200 | \$ - | \$ 50,000 |
| Downtown Development Authority - General government | 535,856 | - | 50,716 | - |
| Southern Michigan Information Alliance - Public safety | 369,548 | 264,514 | - | 70,000 |
| Total component units | \$ 1,670,627 | \$ 264,714 | \$ 50,716 | \$ 120,000 |

General revenue:

Property taxes

Interest income

Total general revenue

Transfers

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2013**

| Net (Expense) Revenue and Changes in Net Position | | | |
|---|--------------------------------------|---|---------------------|
| Tax Increment Financing Authority | Downtown Development Authority | Southern Michigan Information Alliance | Total |
| \$ (715,023) | \$ - | \$ - | \$ (715,023) |
| - | (485,140) | - | (485,140) |
| - | - | (35,034) | (35,034) |
| (715,023) | (485,140) | (35,034) | (1,235,197) |
| 553,597 | 264,425 | - | 818,022 |
| 2,079 | 678 | 167 | 2,924 |
| 555,676 | 265,103 | 167 | 820,946 |
| (5,000) | 5,000 | - | - |
| (164,347) | (215,037) | (34,867) | (414,251) |
| 2,179,532 | 832,735 | 334,687 | 3,346,954 |
| \$ 2,015,185 | \$ 617,698 | \$ 299,820 | \$ 2,932,703 |

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 position.

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 position 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.

Street Paving Fund - The Street Paving Fund consists of operations related to the maintenance and construction of the City's roads.

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.

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

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

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.

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 position 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 2012 tax is levied and collectible on July 1, 2012 and is recognized as revenue in the year ended June 30, 2013, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2012 taxable valuation of the City totaled \$646 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, 2.4326 mills for refuse, 6.5973 mills for Act 345 police and fire retirement, 0.8800 mills for the library's operating purposes, 1.9334 mills for road construction, and 1.9270 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 \$6,570,000 for operations, \$1,577,000 for refuse, \$4,276,000 for police and fire retirement, \$570,000 for the library's operations, \$1,253,000 for road construction, and \$1,249,000 for the EPA judgment levy. In the current year, the City executed a sharing agreement with the Downtown Development Authority (DDA) and Tax Increment Finance Authority (TIFA) in which the DDA and TIFA agreed to forego their allowable capture. In 2013, this amounted to \$91,668 and \$259,627 in foregone captures for the DDA and TIFA, respectively. These amounts are recognized in the General Fund as tax revenue.

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

Assets, Liabilities, and Net Position 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 I - 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 position. 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 I - 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.

New Accounting Standard - In the current year, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB No. 63 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.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2013

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, 2012 | | \$ | (454,110) |
| Current year permit revenue | | | 474,748 |
| Related expenses: | | | |
| Direct costs | \$ | 371,283 | |
| Estimated indirect costs | | 29,736 | 401,019 |
| | | | <u>73,729</u> |
| Current year surplus | | | <u>73,729</u> |
| Cumulative deficit at June 30, 2013 | | \$ | <u>(380,381)</u> |

Note 3 - Deposits and Investments

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

The pension trust 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.

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.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2013

Note 3 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$17,086,000 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 \$2,174,000 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 | \$ 6,811,070 | \$ 5,328,114 | \$ 1,482,956 | \$ - |
| Mortgage-backed securities | 225,282 | 40,584 | 43,098 | 141,600 |
| Corporate bonds | 5,707,224 | 2,226,391 | 3,480,833 | - |
| Federal agencies | 650,058 | - | 226,868 | 423,190 |
| Total | <u>\$ 13,393,634</u> | <u>\$ 7,595,089</u> | <u>\$ 5,233,755</u> | <u>\$ 564,790</u> |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2013

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 | \$ 194,830 | Not rated | N/A |
| Mortgage-backed securities | 30,452 | AAA | Moody's |
| Corporate bonds | 98,356 | Not rated | N/A |
| Corporate bonds | 438,947 | AAA | Moody's |
| Corporate bonds | 472,167 | AA3 | Moody's |
| Corporate bonds | 164,535 | AA2 | Moody's |
| Corporate bonds | 86,746 | AA1 | Moody's |
| Corporate bonds | 687,188 | A3 | Moody's |
| Corporate bonds | 393,559 | A2 | Moody's |
| Corporate bonds | 354,969 | A1 | Moody's |
| Corporate bonds | 459,047 | BAA3 | Moody's |
| Corporate bonds | 1,945,111 | BAA2 | Moody's |
| Corporate bonds | 590,653 | BAA1 | Moody's |
| Corporate bonds | 7,306 | B2 | Moody's |
| Corporate bonds | 8,640 | CAA-3 | Moody's |
| Money market funds | 3,944,826 | AAA | Moody's |
| Total | <u>\$ 9,877,332</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, 2013

Note 4 - Receivables and Deferred Revenue

Receivables as of year end are as follows:

| | Governmental Activities | | | | | | Business-type |
|--------------------------------|-------------------------|--|--|-------------------|-----------------------------------|---|----------------------|
| | General Fund | Community Development Block Grant Fund | Southgate - Wyandotte Operation and Maintenance Fund | Major Street Fund | Other Nonmajor Governmental Funds | Internal Service Fund - Workers' Compensation | Water and Sewer Fund |
| Receivables: | | | | | | | |
| Property taxes receivable | \$ 16,594 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Special assessments receivable | - | - | 1,097,793 | - | - | - | - |
| Customer accounts | - | - | - | - | - | - | 2,276,372 |
| Other receivables | 194,524 | 1,164,288 | - | - | 308 | 1,993 | - |
| Due from other governments | 788,744 | 23,805 | - | 196,601 | 107,475 | - | - |
| Net receivables | <u>\$ 999,862</u> | <u>\$ 1,188,093</u> | <u>\$ 1,097,793</u> | <u>\$ 196,601</u> | <u>\$ 107,783</u> | <u>\$ 1,993</u> | <u>\$ 2,276,372</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 | \$ - | \$ 1,164,288 |
| Other grants and special assessments | 607,931 | - |
| Total | <u>\$ 607,931</u> | <u>\$ 1,164,288</u> |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2013

Note 5 - Capital Assets

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

| | Balance July 1, 2012 | Additions | Disposals | Balance June 30, 2013 |
|--|-------------------------|--------------|-----------|--------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated - | | | | |
| Land | \$ 3,386,602 | \$ - | \$ - | \$ 3,386,602 |
| Capital assets being depreciated: | | | | |
| Infrastructure | 71,113,699 | 3,156,574 | - | 74,433,627 |
| Buildings and improvements | 33,600,583 | 480,098 | - | 34,080,681 |
| Machinery and equipment | 8,547,078 | 329,180 | - | 8,878,080 |
| Vehicles | 3,196,056 | 103,042 | (76,592) | 3,220,684 |
| Land improvements | 2,684,585 | 169,527 | - | 2,690,758 |
| Subtotal | 119,142,001 | 4,238,421 | (76,592) | 123,303,830 |
| Accumulated depreciation: | | | | |
| Infrastructure | 39,986,549 | 1,171,938 | - | 41,698,805 |
| Buildings and improvements | 10,695,818 | 701,883 | - | 11,397,701 |
| Machinery and equipment | 7,780,479 | 305,316 | - | 7,693,037 |
| Vehicles | 2,359,162 | 239,419 | (76,592) | 2,374,429 |
| Land improvements | 1,269,635 | 102,986 | - | 1,372,621 |
| Subtotal | 62,091,643 | 2,521,542 | (76,592) | 64,536,593 |
| Net capital assets being depreciated | 57,050,358 | 1,716,879 | - | 58,767,237 |
| Net capital assets | \$ 60,436,960 | \$ 1,716,879 | \$ - | \$ 62,153,839 |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2013

Note 5 - Capital Assets (Continued)

| | Balance July 1, 2012 | Reclassifications | Additions | Disposals | Balance June 30, 2013 |
|---------------------------------------|-------------------------|-------------------|--------------------|--------------------|--------------------------|
| Business-type Activities | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | \$ 169,445 | \$ - | \$ - | \$ - | \$ 169,445 |
| Construction in progress | 346,083 | (346,083) | 820,086 | - | 820,086 |
| Subtotal | 515,528 | (346,083) | 820,086 | - | 989,531 |
| Capital assets being depreciated: | | | | | |
| Water and sewer lines | 49,855,556 | 346,083 | 131,324 | - | 50,332,963 |
| Buildings and improvements | 938,581 | - | - | - | 938,581 |
| Machinery and equipment | 2,045,684 | - | 144,018 | - | 2,189,702 |
| Vehicles | 1,728,633 | - | - | - | 1,728,633 |
| Land improvements | 631,708 | - | - | - | 631,708 |
| Subtotal | 55,200,162 | 346,083 | 275,342 | - | 55,821,587 |
| Accumulated depreciation: | | | | | |
| Water and sewer lines | 17,316,087 | (21,103) | 848,663 | - | 18,143,647 |
| Buildings and improvements | 424,896 | - | 21,683 | - | 446,579 |
| Machinery and equipment | 822,031 | 67,925 | 94,392 | - | 984,348 |
| Vehicles | 1,446,430 | (23,869) | 67,818 | - | 1,490,379 |
| Land improvements | 294,987 | (22,953) | 19,137 | - | 291,171 |
| Subtotal | 20,304,431 | - | 1,051,693 | - | 21,356,124 |
| Net capital assets being depreciated | 34,895,731 | 346,083 | (776,351) | - | 34,465,463 |
| Net capital assets | <u>\$ 35,411,259</u> | <u>\$ -</u> | <u>\$ 43,735</u> | <u>\$ -</u> | <u>\$ 35,454,994</u> |
| Component Unit Activities | | | | | |
| Capital assets being depreciated: | | | | | |
| Machinery and equipment | \$ 210,903 | \$ - | \$ - | \$ - | \$ 210,903 |
| Vehicles | 14,150 | - | - | (14,150) | - |
| Subtotal | 225,053 | - | - | (14,150) | 210,903 |
| Accumulated depreciation: | | | | | |
| Machinery and equipment | 99,991 | - | 21,418 | - | 121,409 |
| Vehicles | 2,830 | - | - | (2,830) | - |
| Net capital assets being depreciated | 122,232 | - | (21,418) | (11,320) | 89,494 |
| Net capital assets | <u>\$ 122,232</u> | <u>\$ -</u> | <u>\$ (21,418)</u> | <u>\$ (11,320)</u> | <u>\$ 89,494</u> |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2013

Note 5 - Capital Assets (Continued)

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

Governmental activities:

| | |
|-------------------------------|---------------------|
| General government | \$ 550,711 |
| Public safety | 284,465 |
| Public works | 1,130,477 |
| Recreation and culture | 499,405 |
| District Court | 56,484 |
| | <u>56,484</u> |
| Total governmental activities | <u>\$ 2,521,542</u> |

Business-type activities:

| | |
|--------------------------------|---------------------|
| Water and Sewer | \$ 1,039,566 |
| Golf | 12,127 |
| | <u>12,127</u> |
| Total business-type activities | <u>\$ 1,051,693</u> |

Component unit activities - Southeastern Michigan
Information Alliance

\$ 21,418

City of Southgate, Michigan

Notes to Financial Statements June 30, 2013

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 | Community Development Block Grant Fund | \$ 141,931 |
| | Proprietary Fund - Water and Sewer Fund | 1,469 |
| | Other governmental funds | <u>14,655</u> |
| | Total General Fund | 158,055 |
| Community Development Block Grant Fund | General Fund | 37,340 |
| | Other governmental funds | <u>24,576</u> |
| | Total Community Development Block Grant Fund | 61,916 |
| Southgate-Wyandotte Operations and Maintenance Fund | General Fund | 1,053 |
| | General Fund | 10,000 |
| | Major Street Fund | 1,178,215 |
| | Other governmental funds | <u>10,294</u> |
| Total other governmental funds | 1,198,509 | |
| Proprietary Fund - Water and Sewer Fund | General Fund | 33,385 |
| | Internal Service Fund - Workers' Compensation Fund | <u>287,000</u> |
| Total | Total | <u>\$ 1,739,918</u> |
| Advances from/to Other Funds | | |
| Street Paving Fund | Proprietary Fund - Golf Course Fund | <u>\$ 219,089</u> |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2013

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

| Receivable Fund | Payable Fund | Amount |
|---|---|------------|
| Due to/from Primary Government and Component Units | | |
| General Fund | Tax Increment Financing Authority | \$ 4,667 |
| | Southeastern Michigan Information Alliance | 55,000 |
| | Total General Fund | 59,667 |
| Other governmental funds | Southeastern Michigan Information Alliance | 45,056 |
| | Total component units owing to primary government | \$ 104,723 |
| Southeastern Michigan Information Alliance | General Fund | \$ 2,325 |

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:

| Transfers In | Transfers Out | Amount |
|--------------------------|--------------------------------|------------|
| General Fund | Other governmental funds | \$ 87,000 |
| Other governmental funds | General Fund | 306,775 |
| | Major Street Fund | 407,706 |
| | Other governmental funds | 108,290 |
| | Total other governmental funds | 822,771 |
| | Total | \$ 909,771 |

The transfer from the General Fund to other governmental funds represents the transfer of funds for debt service. The transfer into the General Fund from other governmental funds represents the transfer of remaining funds not used for capital projects. The remaining transfers represent transfers of funds for debt service and to finance operations.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2013

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.

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% - | \$75,000 - | | | | | |
| Maturing through 2023 | 4.40% | \$105,000 | \$ 940,000 | \$ - | \$ 70,000 | \$ 870,000 | \$ 75,000 |
| 2005 Ice Arena Building Authority Refunding Bonds: | | | | | | | |
| Original issue: \$2,815,000 | 3.3% - | \$225,000 - | | | | | |
| Maturing through 2021 | 4.4% | \$295,000 | 2,305,000 | - | 215,000 | 2,090,000 | 225,000 |
| Less deferred amount of refunding | | | (117,000) | - | (13,000) | (104,000) | (13,000) |
| 2002 Recreation Facility Building Authority - Partially refunded: | | | | | | | |
| Original issue: \$9,995,000 | | \$25,000 - | | | | | |
| Maturing through 2015 | 4.5% | \$380,000 | 1,205,000 | - | 25,000 | 1,180,000 | 25,000 |
| 2002 Recreation Facility Building Authority Refunding Bonds: | | | | | | | |
| Original issue: \$6,665,000 | 3.5% - | \$380,000 - | | | | | |
| Maturing through 2026 | 4.5% | \$685,000 | 6,175,000 | - | 360,000 | 5,815,000 | 380,000 |
| Less deferred amount of refunding | | | (220,500) | - | (15,750) | (204,750) | (15,750) |
| 2000 Michigan Transportation Fund installment purchase agreement: | | | | | | | |
| Original issue: \$695,000 | | | | | | | |
| Maturing through 2014 | 6.0% | \$75,000 | 225,000 | - | 75,000 | 150,000 | 75,000 |
| 2003 police computer system installment purchase agreement: | | | | | | | |
| Original issue: \$700,000 | | | | | | | |
| Maturing through 2013 | | | 78,985 | - | 78,985 | - | - |
| Parking lot improvements installment purchase agreement: | | | | | | | |
| Original issue: \$649,500 | | | | | | | |
| Maturing through 2018 | 5.17% | \$43,300 | 216,500 | - | 43,300 | 173,200 | 43,300 |
| 28th District Court expansion installment purchase agreement: | | | | | | | |
| Original issue: \$950,000 | | \$71,494 - | | | | | |
| Maturing through 2018 | 4.35% | \$81,236 | 446,955 | - | 68,523 | 378,432 | 71,494 |
| 2006 City Hall heating/cooling capital lease: | | | | | | | |
| Original issue: \$313,000 | | \$20,141 - | | | | | |
| Maturing through 2021 | 4.98% | \$28,522 | 217,950 | - | 19,245 | 198,705 | 20,141 |
| Total bonds payable | | | 11,472,890 | - | 926,303 | 10,546,587 | 886,185 |
| Compensated absences | | | 2,371,454 | 573,185 | 714,680 | 2,229,959 | 780,485 |
| Self-insurance claims | | | 100,000 | 38,253 | 38,253 | 100,000 | 50,000 |
| Total governmental activities | | | \$ 13,944,344 | \$ 611,438 | \$ 1,679,236 | \$ 12,876,546 | \$ 1,716,670 |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2013

Note 7 - Long-term Debt (Continued)

| | Interest Rate Ranges | Principal Maturity Ranges | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|-------------------------|---------------------------------|----------------------|-------------------|---------------------|----------------------|------------------------|
| Business-type Activities | | | | | | | |
| General obligation bonds - | | | | | | | |
| Sewage Disposal System Bonds (28 issues): | | | | | | | |
| Original issue: \$18,742,353 | 2.0% - | \$882,456 - | | | | | |
| Maturing through 2033 | 5.45% | \$1,031,270 | \$ 10,738,595 | \$ 820,086 | \$ 1,152,980 | \$ 10,405,701 | \$ 1,195,435 |
| Tank rehabilitation bonds - | | | | | | | |
| Original issue: \$423,640 | | \$18,304 - | | | | | |
| Maturing through 2027 | 8.9% | \$31,751 | 311,828 | - | 26,452 | 285,376 | 18,304 |
| 2013 Golf Course Irrigation Controller installment purchase agreement | | | | | | | |
| Original issue: \$9,995 | | | | | | | |
| Maturing through 2015 | 0% | \$3,331 | - | 9,995 | - | 9,995 | 3,331 |
| Total bonds payable | | | 11,050,423 | 830,081 | 1,179,432 | 10,701,072 | 1,217,070 |
| Compensated absences | | | 98,949 | 42,632 | 39,614 | 101,967 | 56,082 |
| Total business-type activities | | | <u>\$ 11,149,372</u> | <u>\$ 872,713</u> | <u>\$ 1,219,046</u> | <u>\$ 10,803,039</u> | <u>\$ 1,273,152</u> |

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 and compensated absences):

| Years Ending June 30 | Governmental Activities | | | Business-type Activities | | |
|-------------------------|-------------------------|---------------------|----------------------|--------------------------|---------------------|----------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2014 | \$ 886,185 | \$ 455,682 | \$ 1,341,867 | \$ 1,217,070 | \$ 315,589 | \$ 1,532,659 |
| 2015 | 920,322 | 415,395 | 1,335,717 | 1,299,254 | 195,379 | 1,494,633 |
| 2016 | 884,645 | 376,908 | 1,261,553 | 1,237,430 | 167,074 | 1,404,504 |
| 2017 | 924,166 | 339,469 | 1,263,635 | 1,177,967 | 130,960 | 1,308,927 |
| 2018 | 914,773 | 299,861 | 1,214,634 | 1,194,015 | 111,010 | 1,305,025 |
| 2019-2023 | 4,078,662 | 943,996 | 5,022,658 | 2,571,101 | 373,651 | 2,944,752 |
| 2024-2028 | 1,937,834 | 171,743 | 2,109,577 | 1,675,925 | 106,541 | 1,782,466 |
| 2029-2033 | - | - | - | 328,310 | 351,187 | 679,497 |
| Total | <u>\$ 10,546,587</u> | <u>\$ 3,003,054</u> | <u>\$ 13,549,641</u> | <u>\$ 10,701,072</u> | <u>\$ 1,751,391</u> | <u>\$ 12,452,463</u> |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2013

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, 2013 consist of the following:

| | |
|---|---------------------|
| User fee - Cash and certificates of deposit | \$ 1,618,769 |
| Wayne County Sewage Disposal System bonds - Assets held at the County for future debt payments | <u>2,189,716</u> |
| Total restricted net position | <u>\$ 3,808,485</u> |

Net position in the amount of \$3,808,485 has 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.

Note 9 - Fund Balance Constraints

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

| | <u>General Fund</u> | <u>Capital Projects Funds</u> |
|---|---------------------|-----------------------------------|
| Fund Balances | | |
| Committed: | | |
| County property tax chargebacks/MTT settlements | \$ 289,000 | \$ - |
| Computer software acquisition | 19,435 | - |
| Police cars | - | 446,205 |
| Property acquisition | - | 115,116 |
| Fire rescue equipment | - | 10,000 |
| Fire pumper | - | 350,000 |
| Total committed | <u>308,435</u> | <u>921,321</u> |
| Assigned: | | |
| Workers' compensation | 203,913 | - |
| Severance reserve | 80,000 | - |
| Capital projects | - | 400,414 |
| Total assigned | <u>283,913</u> | <u>400,414</u> |
| Total fund balances | <u>\$ 592,348</u> | <u>\$ 1,321,735</u> |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2013

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.

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:

| | 2013 | 2012 |
|---|-------------------|-------------------|
| Unpaid claims - Beginning of year | \$ 300,000 | \$ 300,000 |
| Incurred claims, including claims incurred but not reported | 282,851 | 154,258 |
| Claim payments | <u>(186,851)</u> | <u>(154,258)</u> |
| Unpaid claims - End of year | <u>\$ 396,000</u> | <u>\$ 300,000</u> |

Recorded in the accrued and other liabilities of the Workers' Compensation Fund is a liability for \$296,000 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, 2012, the date of the most recent actuarial valuation, membership consisted of 84 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, as well as 52 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.

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

The obligation to contribute to and maintain the system 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.

Annual Pension Cost and Net Pension Asset - For the year ended June 30, 2013, the plan had the following activity:

| | |
|--|-------------------|
| Annual required contribution | \$ (875,326) |
| Interest on net pension asset | 11,298 |
| Adjustment to annual required contribution | <u>(7,165)</u> |
| Annual pension cost (APC) | (871,193) |
| Contributions made | <u>891,753</u> |
| Increase in net pension asset | 20,560 |
| Net pension asset - Beginning of year | <u>144,087</u> |
| Net pension asset - End of year | <u>\$ 164,647</u> |

For the year ended June 30, 2013, the City's annual pension cost of \$871,193 for the plan was exceeded by the City's actual contribution of \$891,753. The annual required contribution was determined as part of an actuarial valuation at June 30, 2011, 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 24 years.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2013

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

Three-year Trend Information

| | Fiscal Year Ended June 30 | | |
|-------------------------------|---------------------------|------------|------------|
| | 2013 | 2012 | 2011 |
| Annual pension cost (APC) | \$ 871,193 | \$ 674,227 | \$ 764,078 |
| Percentage of APC contributed | 102.4 % | 100.8 % | 99.4 % |
| Net pension asset | \$ 164,647 | \$ 144,087 | \$ 138,631 |

| | Actuarial Valuation as of June 30 | | |
|--|-----------------------------------|---------------|---------------|
| | 2012 | 2011 | 2010 |
| Actuarial value of assets | \$ 18,758,778 | \$ 20,244,184 | \$ 21,880,800 |
| Actuarial accrued liability (AAL) (entry age) | \$ 29,113,709 | \$ 29,545,014 | \$ 28,957,167 |
| Unfunded AAL (UAAL) | \$ 10,354,931 | \$ 9,300,830 | \$ 7,076,367 |
| Funded ratio | 64.4 % | 68.5 % | 75.6 % |
| Covered payroll | \$ 2,603,112 | \$ 2,994,723 | \$ 3,327,059 |
| UAAL as a percentage of covered payroll | 397.8 % | 310.6 % | 212.7 % |

Reserves - As of June 30, 2013, the plan's legally required reserves have been fully funded as follows:

| | |
|---------------------------------------|--------------|
| Reserves for employees' contributions | \$ 3,431,582 |
| Reserves for retired benefit payments | 15,087,660 |

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, 2012, the date of the most recent actuarial valuation, membership consisted of 87 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, as well as 67 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.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2013

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

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.

Annual Pension Cost and Net Pension Obligation

| | |
|--|--------------------------|
| Annual required contribution | \$ (2,358,835) |
| Interest on net pension asset | 6,803 |
| Adjustment to annual required contribution | <u>(10,685)</u> |
| Annual pension cost (APC) | (2,362,717) |
| Contributions made | <u>2,374,165</u> |
| Increase in net pension asset | 11,448 |
| Net pension asset - Beginning of year | <u>90,706</u> |
| Net pension asset - End of year | <u><u>\$ 102,154</u></u> |

For the year ended June 30, 2013, the City's annual pension cost of \$2,362,717 for the plan was exceeded by the City's actual contribution of \$2,374,165. The annual required contribution was determined as part of an actuarial valuation at June 30, 2011, 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 14 years.

Three-year Trend Information

| | Fiscal Year Ended June 30 | | |
|-------------------------------|---------------------------|--------------|--------------|
| | 2013 | 2012 | 2011 |
| Annual pension cost (APC) | \$ 2,362,717 | \$ 1,826,569 | \$ 1,481,169 |
| Percentage of APC contributed | 100.5 % | 86.4 % | 105.2 % |
| Net pension asset | \$ 102,154 | \$ 90,706 | \$ 338,152 |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2013

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

| | Fiscal Year Ended June 30 | | |
|--|---------------------------|---------------|---------------|
| | 2012 | 2011 | 2010 |
| Actuarial value of assets | \$ 40,675,521 | \$ 42,616,916 | \$ 43,827,980 |
| Actuarial accrued liability (AAL) (entry age) | \$ 64,233,512 | \$ 63,999,867 | \$ 61,186,413 |
| Unfunded AAL (UAAL) | \$ 23,557,991 | \$ 21,382,951 | \$ 17,358,433 |
| Funded ratio | 63.3 % | 66.6 % | 71.6 % |
| Covered payroll | \$ 4,889,791 | \$ 4,922,456 | \$ 4,884,554 |
| UAAL as a percentage of covered payroll | 481.8 % | 434.4 % | 355.4 % |

Reserves - As of June 30, 2013, the plan's legally required reserves have been fully funded as follows:

| | |
|---------------------------------------|--------------|
| Reserves for employees' contributions | \$ 5,420,110 |
| Reserves for retired benefit payments | 35,646,769 |

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, 2011, the date of the most recent actuarial valuation, 64 general retirees are eligible. In addition, 58 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, 2013, the City made payments for postemployment health benefit premiums for current general retirees in the age adjusted amount of \$963,778, which was paid from governmental funds.

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

Funding Progress - For the year ended June 30, 2013, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2011. 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) | \$ 2,427,465 |
| Interest on the prior year's net OPEB obligation | 373,350 |
| Less adjustment to the annual required contribution | <u>(488,425)</u> |
| Annual OPEB cost | 2,312,390 |
| Amounts contributed: | |
| Payments of current premiums - Age adjusted | (963,778) |
| Advance funding | <u>(75,000)</u> |
| Increase in net OPEB obligation | 1,273,612 |
| OPEB obligation - Beginning of year | <u>6,788,176</u> |
| OPEB obligation - End of year | <u>\$ 8,061,788</u> |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2013

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 |
| 6/30/13 | 6/30/11 | 2,427,465 | 42.8 | 8,061,788 |

The funding progress of the plan is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial 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 |
| 6/30/11 | 2,242,636 | 26,947,800 | 24,705,164 | 8.3 | 3,701,170 | 667.5 |

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, 2011 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 9.00 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, 2013 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, 2011, the date of the most recent actuarial valuation, 81 police and fire retirees are eligible. In addition, 64 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, 2013, the City made payments for postemployment health benefit premiums for current police and fire retirees in the age adjusted amount of \$1,816,366, 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, 2013

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

Funding Progress - For the year ended June 30, 2013, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2011. 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) | \$ 2,350,185 |
| Interest on the prior year's net OPEB obligation | 242,424 |
| Less adjustment to the annual required contribution | <u>(169,717)</u> |
| Annual OPEB cost | 2,422,892 |
| Amounts contributed: | |
| Payments of current premiums | - |
| Advance funding | <u>(1,816,366)</u> |
| Increase in net OPEB obligation | 606,526 |
| OPEB obligation - Beginning of year | <u>4,407,701</u> |
| OPEB obligation - End of year | <u>\$ 5,014,227</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 |
| 6/30/13 | 6/30/11 | 2,350,185 | 77.3 | 5,014,227 |

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

City of Southgate, Michigan

Notes to Financial Statements June 30, 2013

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

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 |
| 6/30/11 | 1,212,227 | 37,133,343 | 35,921,116 | 3.3 | 4,894,111 | 734.0 |

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, 2011 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 nine 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, 2013 was 30 years.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2013

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 Position | | | | | |
| Investments | \$ 18,167,813 | \$ 41,178,485 | \$ 2,336,803 | \$ 1,161,933 | \$ 62,845,034 |
| Other assets | 351,429 | 98,784 | - | 117,818 | 568,031 |
| Liabilities | - | 210,390 | - | 47,569 | 257,959 |
| Net position | <u>\$ 18,519,242</u> | <u>\$ 41,066,879</u> | <u>\$ 2,336,803</u> | <u>\$ 1,232,182</u> | <u>\$ 63,155,106</u> |
| Statement of Changes in Net Position | | | | | |
| Investment income | \$ 1,476,759 | \$ 2,864,114 | \$ 2,208 | \$ 873 | \$ 4,343,954 |
| Contributions | 1,216,245 | 2,721,978 | 1,057,237 | 1,837,866 | 6,833,326 |
| Benefit payments | 2,186,514 | 4,856,561 | 965,278 | 1,818,784 | 9,827,137 |
| Net change in net position | <u>\$ 506,490</u> | <u>\$ 729,531</u> | <u>\$ 94,167</u> | <u>\$ 19,955</u> | <u>\$ 1,350,143</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 \$590,763 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 \$1,342,837 at June 30, 2013. During the year, the City paid \$1,146,456 for operations of the system and \$1,471,286 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 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. GASB 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. GASB Statement No. 65 will be implemented in the City's 2013-2014 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, 2013

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|--|---------------------|---------------------|---------------------|---------------------------------|
| Revenue | | | | |
| Property taxes | \$ 12,741,708 | \$ 12,741,708 | \$ 12,354,172 | \$ (387,536) |
| Reimbursements from other funds | 1,663,379 | 1,663,379 | 1,392,341 | (271,038) |
| Licenses and permits | 428,000 | 428,000 | 605,715 | 177,715 |
| Federal grants | 638,000 | 638,000 | 547,667 | (90,333) |
| State sources | 2,836,014 | 2,836,014 | 2,902,614 | 66,600 |
| Charges for services | 709,816 | 709,816 | 323,017 | (386,799) |
| Fines and forfeitures | 1,366,000 | 1,366,000 | 1,825,246 | 459,246 |
| Interest income | 10,000 | 10,000 | 12,153 | 2,153 |
| Rental income | 623,000 | 623,000 | 645,727 | 22,727 |
| Other revenue | 153,000 | 153,000 | 155,512 | 2,512 |
| Total revenue | 21,168,917 | 21,168,917 | 20,764,164 | (404,753) |
| Expenditures - Current | | | | |
| General government: | | | | |
| City Council | 112,496 | 112,496 | 72,833 | 39,663 |
| Executive | 218,309 | 218,309 | 216,539 | 1,770 |
| Finance | 390,192 | 390,192 | 395,227 | (5,035) |
| Treasurer | 202,303 | 202,303 | 199,495 | 2,808 |
| Assessor | 170,204 | 170,204 | 174,521 | (4,317) |
| Clerk | 131,424 | 131,424 | 128,693 | 2,731 |
| Elections | 41,796 | 41,796 | 31,363 | 10,433 |
| Attorney | 157,500 | 157,500 | 157,404 | 96 |
| Nondepartmental | 3,346,636 | 3,346,636 | 3,968,406 | (621,770) |
| Total general government | 4,770,860 | 4,770,860 | 5,344,481 | (573,621) |
| 28th District Court | 1,089,738 | 1,089,738 | 1,074,050 | 15,688 |
| Public safety: | | | | |
| Police | 5,992,028 | 5,992,028 | 5,932,555 | 59,473 |
| Fire | 3,505,456 | 3,505,456 | 3,620,709 | (115,253) |
| Emergency preparedness | 6,350 | 6,350 | 3,207 | 3,143 |
| Building inspections and related | 283,574 | 283,574 | 362,906 | (79,332) |
| Police and Fire Civil Service Commission | 14,000 | 14,000 | 7,279 | 6,721 |
| Total public safety | 9,801,408 | 9,801,408 | 9,926,656 | (125,248) |
| Public works: | | | | |
| Public services | 1,890,486 | 1,890,486 | 1,777,753 | 112,733 |
| Sanitation | 1,666,000 | 1,666,000 | 1,659,504 | 6,496 |
| Planning | 12,000 | 12,000 | 8,377 | 3,623 |
| City garage | 580,637 | 580,637 | 556,551 | 24,086 |
| Total public works | 4,149,123 | 4,149,123 | 4,002,185 | 146,938 |
| Recreation and culture: | | | | |
| Recreation | 185,423 | 185,423 | 140,698 | 44,725 |
| Civic Center | 504,651 | 504,651 | 318,098 | 186,553 |
| Senior Citizen Center | 83,320 | 83,320 | 64,806 | 18,514 |
| Cultural Commission | 2,500 | 2,500 | 1,420 | 1,080 |
| Total recreation and culture | 775,894 | 775,894 | 525,022 | 250,872 |
| Transfers to other funds | 581,775 | 581,775 | 506,775 | 75,000 |
| Total expenditures | 21,168,798 | 21,168,798 | 21,379,169 | (210,371) |
| Net Change in Fund Balance | 119 | 119 | (615,005) | (615,124) |
| Fund Balance - Beginning of year | 2,383,354 | 2,383,354 | 2,383,354 | - |
| Fund Balance - End of year | \$ 2,383,473 | \$ 2,383,473 | \$ 1,768,349 | \$ (615,124) |

City of Southgate, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Street Fund Year Ended June 30, 2013

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|---|---------------------|---------------------|-------------------|------------------------------------|
| Revenue | | | | |
| State-shared revenue | \$ 1,142,432 | \$ 1,142,432 | \$ 1,187,398 | \$ 44,966 |
| Interest income | 2,000 | 2,000 | 2,684 | 684 |
| Total revenue | 1,144,432 | 1,144,432 | 1,190,082 | 45,650 |
| Expenditures - Current | | | | |
| Public works | 1,945,000 | 1,945,000 | 2,509,777 | (564,777) |
| Transfers to other funds | 371,352 | 371,352 | 407,706 | (36,354) |
| Total expenditures | 2,316,352 | 2,316,352 | 2,917,483 | (601,131) |
| Net Change in Fund Balance | (1,171,920) | (1,171,920) | (1,727,401) | (555,481) |
| Fund Balance - Beginning of year | 2,360,270 | 2,360,270 | 2,360,270 | - |
| Fund Balance - End of year | \$ 1,188,350 | \$ 1,188,350 | \$ 632,869 | \$ (555,481) |

City of Southgate, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Street Paving Fund Year Ended June 30, 2013

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|--|---------------------|---------------------|---------------------|------------------------------------|
| Revenue | | | | |
| Property taxes | \$ 1,171,735 | \$ 1,171,735 | \$ 1,155,218 | \$ (16,517) |
| Interest income | 2,000 | 2,000 | 3,147 | 1,147 |
| Total revenue | 1,173,735 | 1,173,735 | 1,158,365 | (15,370) |
| Expenditures - Current - Public works | 1,115,000 | 1,115,000 | 546,734 | 568,266 |
| Net Change in Fund Balance | 58,735 | 58,735 | 611,631 | 552,896 |
| Fund Balance - Beginning of year | 2,737,983 | 2,737,983 | 2,737,983 | - |
| Fund Balance - End of year | <u>\$ 2,796,718</u> | <u>\$ 2,796,718</u> | <u>\$ 3,349,614</u> | <u>\$ 552,896</u> |

City of Southgate, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Southgate-Wyandotte Operation and Maintenance Fund Year Ended June 30, 2013

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|--|---------------------|---------------------|---------------------|------------------------------------|
| Revenue | | | | |
| Special assessments | \$ 1,241,000 | \$ 1,241,000 | \$ 1,297,880 | \$ 56,880 |
| Interest income | - | - | 3,591 | 3,591 |
| Total revenue | 1,241,000 | 1,241,000 | 1,301,471 | 60,471 |
| Expenditures - Current - Public works | 3,103,036 | 3,103,036 | 590,763 | 2,512,273 |
| Net Change in Fund Balance | (1,862,036) | (1,862,036) | 710,708 | 2,572,744 |
| Fund Balance - Beginning of year | 3,828,275 | 3,828,275 | 3,828,275 | - |
| Fund Balance - End of year | <u>\$ 1,966,239</u> | <u>\$ 1,966,239</u> | <u>\$ 4,538,983</u> | <u>\$ 2,572,744</u> |

City of Southgate, Michigan

Required Supplemental Information Municipal Employees' Retirement System Year Ended June 30, 2013

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 |
| 6/30/12 | 18,759,000 | 29,114,000 | 10,355,000 | 64.4 | 2,603,000 | 397.8 |

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 |
| 6/30/13 | 6/30/12 | 875,326 | 101.9 |

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 dollar |
| Remaining amortization period | 24 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, 2013

The schedule of funding progress is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial 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 |
| 6/30/12 | 40,676,000 | 64,234,000 | 23,558,000 | 63.3 | 4,890,000 | 481.8 |

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 |
| 6/30/13 | 6/30/12 | 2,358,835 | 100.6 |

* 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 | 14 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, 2013

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, 2013 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, 2013

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.

Certain grant revenue has been budgeted net of the related grant expenditures.

- The Community Development Block Grant Fund has 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 | \$ 20,978,308 | \$ 21,412,029 | \$ (433,721) |
| Operating transfers budgeted as revenue and expenditures | 87,000 | 506,775 | (419,775) |
| Grant revenue budgeted net of related grant expenditures | (1,606,226) | (1,606,226) | - |
| Reimbursements from other funds | 1,305,341 | 1,305,341 | - |
| Severance Reserve Fund budgeted separately from the General Fund | (259) | (238,750) | 238,491 |
| | <u>\$ 20,764,164</u> | <u>\$ 21,379,169</u> | <u>\$ (615,005)</u> |
| Amounts per budget statement | | | |

City of Southgate, Michigan

Note to Required Supplemental Information (Continued) June 30, 2013

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:

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|----------------------------------|---------------|---------------|-----------------|
| General Fund: | | | |
| General government: | | | |
| Finance | \$ 390,192 | \$ 395,227 | \$ (5,035) |
| Assessor | 170,204 | 174,521 | (4,317) |
| Nondepartmental | 3,346,636 | 3,968,406 | (621,770) |
| Public safety: | | | |
| Fire | 3,505,456 | 3,620,709 | (115,253) |
| Building inspections and related | 283,574 | 362,906 | (79,332) |
| Major Street Fund: | | | |
| Public works | 1,945,000 | 2,509,777 | (564,777) |
| Transfers to other funds | 371,352 | 407,706 | (36,354) |

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 Fund | Narcotics Enforcement | Library | SCI 541 Bond | Michigan Transportation Bond | Southgate - Wyandotte Drain |
| Assets | | | | | | |
| Cash and investments | \$ 820,215 | \$ 588,158 | \$ 586,151 | \$ 4,962 | \$ 118,357 | \$ 58,294 |
| Receivables - Net | 75,461 | - | 18,324 | - | - | - |
| Due from component units | - | - | - | - | - | - |
| Due from other funds | 1,156,880 | - | 10,000 | - | - | - |
| Prepaid expenses | - | - | 27 | - | - | - |
| Total assets | <u>\$2,052,556</u> | <u>\$ 588,158</u> | <u>\$ 614,502</u> | <u>\$ 4,962</u> | <u>\$ 118,357</u> | <u>\$ 58,294</u> |
| Liabilities and Fund Balances | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 92 | \$ 51,096 | \$ 24,522 | \$ - | \$ - | \$ - |
| Due to other funds | - | 514 | 24,576 | - | 10,294 | - |
| Accrued liabilities and other | - | - | 5,438 | - | - | - |
| Total liabilities | 92 | 51,610 | 54,536 | - | 10,294 | - |
| Fund Balances | | | | | | |
| Nonspendable - Prepays | - | - | 27 | - | - | - |
| Restricted: | | | | | | |
| Roads | 2,052,464 | - | - | - | - | - |
| Narcotics enforcement | - | 536,548 | - | - | - | - |
| Debt service | - | - | - | 4,962 | 108,063 | 58,294 |
| Library | - | - | 559,939 | - | - | - |
| District court capital improvement | - | - | - | - | - | - |
| Committed | - | - | - | - | - | - |
| Assigned | - | - | - | - | - | - |
| Total fund balances | <u>2,052,464</u> | <u>536,548</u> | <u>559,966</u> | <u>4,962</u> | <u>108,063</u> | <u>58,294</u> |
| Total liabilities and fund balances | <u>\$2,052,556</u> | <u>\$ 588,158</u> | <u>\$ 614,502</u> | <u>\$ 4,962</u> | <u>\$ 118,357</u> | <u>\$ 58,294</u> |

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013**

| Debt Service | Capital Projects Funds | | | | Total |
|------------------|------------------------|------------------|-------------------|---------------------|-------|
| Funds | Capital | Drake Street | District Court | Nonmajor | |
| Building | Improvement | Construction | Capital | Governmental | |
| Authority | Fund | Fund | Improvement | Funds | |
| Fund | Fund | Fund | Improvement | Funds | |
| \$ 79,455 | \$ 1,219,161 | \$ 50,324 | \$ 346,009 | \$ 3,871,086 | |
| - | - | - | 13,998 | 107,783 | |
| - | 45,056 | - | - | 45,056 | |
| 10,294 | 21,335 | - | - | 1,198,509 | |
| - | - | - | - | 27 | |
| \$ 89,749 | \$ 1,285,552 | \$ 50,324 | \$ 360,007 | \$ 5,222,461 | |
| | | | | | |
| \$ - | \$ - | \$ - | \$ - | \$ 75,710 | |
| - | 14,141 | - | - | 49,525 | |
| - | - | - | - | 5,438 | |
| - | 14,141 | - | - | 130,673 | |
| - | - | - | - | 27 | |
| - | - | - | - | 2,052,464 | |
| - | - | - | - | 536,548 | |
| 89,749 | - | - | - | 261,068 | |
| - | - | - | - | 559,939 | |
| - | - | - | 360,007 | 360,007 | |
| - | 921,321 | - | - | 921,321 | |
| - | 350,090 | 50,324 | - | 400,414 | |
| 89,749 | 1,271,411 | 50,324 | 360,007 | 5,091,788 | |
| \$ 89,749 | \$ 1,285,552 | \$ 50,324 | \$ 360,007 | \$ 5,222,461 | |

City of Southgate, Michigan

| | Special Revenue Funds | | | Debt Service Funds | | |
|--|-----------------------|--------------------------|-------------------|--------------------|------------------------------------|-----------------------------------|
| | Local Street Fund | Narcotics Enforcement | Library | SCI 541 Bond | Michigan Transportation Bond | Southgate - Wyandotte Drain |
| Revenue | | | | | | |
| Property taxes | \$ - | \$ - | \$ 536,019 | \$ - | \$ - | \$ - |
| Federal grants | - | 213,317 | - | - | - | - |
| State sources | 455,756 | 3,368 | 21,516 | - | - | - |
| Charges for services | - | - | - | - | - | - |
| Interest income | 1,048 | 704 | 842 | 5 | 72 | 66 |
| Other revenue | - | 48,810 | 57,435 | - | - | - |
| Total revenue | 456,804 | 266,199 | 615,812 | 5 | 72 | 66 |
| Expenditures - Current | | | | | | |
| General government | - | - | 521 | - | - | 8,057 |
| Public safety | - | 300,108 | - | - | - | - |
| Public works | 1,025,225 | - | - | - | - | - |
| Recreation and culture - Library | - | - | 616,353 | - | - | - |
| Capital outlay | - | - | - | - | - | - |
| Debt service: | | | | | | |
| Principal | - | - | - | - | 75,000 | - |
| Interest on long-term debt | - | - | - | - | 10,744 | - |
| Total expenditures | 1,025,225 | 300,108 | 616,874 | - | 85,744 | 8,057 |
| Excess of Revenue (Under) Over Expenditures | (568,421) | (33,909) | (1,062) | 5 | (85,672) | (7,991) |
| Other Financing Sources (Uses) | | | | | | |
| Transfers in | 321,962 | - | - | - | 85,744 | - |
| Transfers out | - | - | (108,290) | - | - | - |
| Total other financing sources (uses) | 321,962 | - | (108,290) | - | 85,744 | - |
| Net Change in Fund Balances | (246,459) | (33,909) | (109,352) | 5 | 72 | (7,991) |
| Fund Balances - Beginning of year | 2,298,923 | 570,457 | 669,318 | 4,957 | 107,991 | 66,285 |
| Fund Balances - End of year | \$ 2,052,464 | \$ 536,548 | \$ 559,966 | \$ 4,962 | \$ 108,063 | \$ 58,294 |

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in
Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2013

| Debt Service Funds | Capital Projects Fund | | | Total |
|----------------------------|--------------------------------|--------------------------------------|--|-----------------------------------|
| Building Authority Fund | Capital Improvement Fund | Drake Street Construction Fund | District Court Capital Improvement | Nonmajor Governmental Funds |
| \$ - | \$ - | \$ - | \$ - | \$ 536,019 |
| - | - | - | - | 213,317 |
| 698,224 | - | - | - | 1,178,864 |
| - | - | 1,617 | 180,691 | 182,308 |
| 141 | 1,297 | 183 | 317 | 4,675 |
| - | 5,519 | - | - | 111,764 |
| <u>698,365</u> | <u>6,816</u> | <u>1,800</u> | <u>181,008</u> | <u>2,226,947</u> |
| - | 15,000 | - | - | 23,578 |
| - | - | - | - | 300,108 |
| - | - | - | - | 1,025,225 |
| - | - | - | - | 616,353 |
| - | 105,103 | - | - | 105,103 |
| 670,000 | - | - | 111,823 | 856,823 |
| 443,539 | - | - | 30,517 | 484,800 |
| <u>1,113,539</u> | <u>120,103</u> | <u>-</u> | <u>142,340</u> | <u>3,411,990</u> |
| (415,174) | (113,287) | 1,800 | 38,668 | (1,185,043) |
| 415,065 | - | - | - | 822,771 |
| - | - | (87,000) | - | (195,290) |
| <u>415,065</u> | <u>-</u> | <u>(87,000)</u> | <u>-</u> | <u>627,481</u> |
| (109) | (113,287) | (85,200) | 38,668 | (557,562) |
| 89,858 | 1,384,698 | 135,524 | 321,339 | 5,649,350 |
| <u>\$ 89,749</u> | <u>\$ 1,271,411</u> | <u>\$ 50,324</u> | <u>\$ 360,007</u> | <u>\$ 5,091,788</u> |

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 | \$ 999,889 | \$ 2,944,938 | \$ 1,161,933 | \$ 2,336,803 | \$ 7,443,563 |
| Investments: | | | | | |
| U.S. government securities | 2,896,371 | 3,914,699 | - | - | 6,811,070 |
| Agency securities | 314,938 | 335,120 | - | - | 650,058 |
| Stocks and mutual funds | 11,424,383 | 30,583,454 | - | - | 42,007,837 |
| Bonds | 2,461,196 | 3,246,028 | - | - | 5,707,224 |
| Mortgages | 71,036 | 154,246 | - | - | 225,282 |
| Receivables: | | | | | |
| Accrued interest receivable | 57,384 | 74,546 | - | - | 131,930 |
| Other receivables | 294,045 | 24,238 | - | - | 318,283 |
| Prepaid expenses | - | - | 117,818 | - | 117,818 |
| Total assets | 18,519,242 | 41,277,269 | 1,279,751 | 2,336,803 | 63,413,065 |
| Liabilities | | | | | |
| Accounts payable | - | - | 47,569 | - | 47,569 |
| Due to other governmental units | - | - | - | - | - |
| Cash bonds and deposits | - | - | - | - | - |
| Accrued liabilities and other | - | 210,390 | - | - | 210,390 |
| Total liabilities | - | 210,390 | 47,569 | - | 257,959 |
| Net Position Held in Trust for Pension and Other Employee Benefits | \$ 18,519,242 | \$ 41,066,879 | \$ 1,232,182 | \$ 2,336,803 | \$ 63,155,106 |

Other Supplemental Information
Fiduciary Funds
Combining Statement of Fiduciary Net Position
Year Ended June 30, 2013

| Agency Funds | | | |
|-------------------|---------------------------|-------------------|-----------------------|
| Tax Collection | Senior Citizens' Trust | Escrow Fund | Total Agency Funds |
| \$ 170,799 | \$ 54,741 | \$ 292,545 | \$ 518,085 |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| \$ 170,799 | \$ 54,741 | \$ 292,545 | \$ 518,085 |
| \$ - | \$ - | \$ - | \$ - |
| 170,799 | - | - | 170,799 |
| - | 54,741 | 292,545 | 347,286 |
| - | - | - | - |
| \$ 170,799 | \$ 54,741 | \$ 292,545 | \$ 518,085 |

City of Southgate, Michigan

Other Supplemental Information Fiduciary Funds Combining Statement of Changes in Fiduciary Net Position Fiduciary Funds Year Ended June 30, 2013

| | 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 | \$ 611,889 | \$ 831,850 | \$ 873 | \$ 2,208 | \$ 1,446,820 |
| Net increase in fair value of investments | 1,030,253 | 2,312,510 | - | - | 3,342,763 |
| Investment-related expenses | (165,383) | (280,246) | - | - | (445,629) |
| Net investment income | 1,476,759 | 2,864,114 | 873 | 2,208 | 4,343,954 |
| Contributions: | | | | | |
| Employer | 891,753 | 2,374,165 | 1,816,366 | 1,038,778 | 6,121,062 |
| Employee | 324,492 | 347,813 | 21,500 | 18,459 | 712,264 |
| Net contributions | 1,216,245 | 2,721,978 | 1,837,866 | 1,057,237 | 6,833,326 |
| Total additions - Net | 2,693,004 | 5,586,092 | 1,838,739 | 1,059,445 | 11,177,280 |
| Deductions - Benefit payments | 2,186,514 | 4,856,561 | 1,818,784 | 965,278 | 9,827,137 |
| Net Increase in Net Position Held in Trust | 506,490 | 729,531 | 19,955 | 94,167 | 1,350,143 |
| Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year | 18,012,752 | 40,337,348 | 1,212,227 | 2,242,636 | 61,804,963 |
| Net Position Held in Trust for Pension and Other Employee Benefits - End of year | <u>\$ 18,519,242</u> | <u>\$ 41,066,879</u> | <u>\$ 1,232,182</u> | <u>\$ 2,336,803</u> | <u>\$ 63,155,106</u> |