

# **City of Southgate, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2014**

# City of Southgate, Michigan

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# 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, 2014, 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.

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

### **Opinions**

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, 2014 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.

### **Emphasis of Matter**

As discussed in Note 1 to the basic financial statements, in 2014, the City adopted the new accounting guidance of GASB No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred inflows and outflows of resources, certain items that were previously reported as assets and liabilities. Our opinion is not modified with respect to this matter.

### **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, investment returns, changes in the City net pension liability and related ratios, and City contributions, retiree healthcare 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.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2014 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.

*Alante & Morse, PLLC*

October 6, 2014

# **City of Southgate, Michigan**

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## **Management's Discussion and Analysis**

Our discussion and analysis of the City of Southgate, Michigan's 2014 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, 2014. 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, 2014:

- Property taxes are the City's single largest source of revenue. The City's taxable value for fiscal year 2014 was \$650,238,050, which represents an increase of \$4,352,855, or 0.6 percent.
- The City closely monitors discretionary spending by performing periodic budget adjustments. As a result, fund balance in the General Fund increased by \$196,054.

### **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, 2014, compared to the prior two years:

	Governmental Activities				Percent Change
	2012	2013	2014	Change	
Other assets	\$ 20,305,768	\$ 19,185,696	\$ 19,172,060	\$ (13,636)	0%
Capital assets	60,436,960	62,153,839	63,725,522	1,571,683	3%
Total assets	80,742,728	81,339,535	82,897,582	1,558,047	2%
Deferred outflows of resources	337,500	308,750	280,000	(28,750)	-9%
Current liabilities	5,037,115	4,793,279	5,809,790	1,016,511	21%
Long-term liabilities	21,975,735	22,557,706	23,438,494	880,788	4%
Total liabilities	27,012,850	27,350,985	29,248,284	1,897,299	7%
Net position:					
Net investment in capital assets	48,964,070	51,607,252	53,785,207	2,177,955	4%
Restricted	13,392,996	12,456,004	11,163,920	(1,292,084)	-10%
Unrestricted	(8,289,688)	(9,765,956)	(11,019,829)	(1,253,873)	13%
Total net position	<b>\$ 54,067,378</b>	<b>\$ 54,297,300</b>	<b>\$ 53,929,298</b>	<b>\$ (368,002)</b>	-1%

	Business-type Activities				Percent Change
	2012	2013	2014	Change	
Other assets	\$ 7,375,788	\$ 7,716,110	\$ 7,197,700	\$ (518,410)	-7%
Capital assets	35,411,259	35,454,994	35,070,692	(384,302)	-1%
Total assets	42,787,047	43,171,104	42,268,392	(902,712)	-2%
Current liabilities	2,168,985	1,969,828	1,900,151	(69,677)	-4%
Long-term liabilities	11,586,484	11,488,072	10,575,402	(912,670)	-8%
Total liabilities	13,755,469	13,457,900	12,475,553	(982,347)	-7%
Net position:					
Net investment in capital assets	24,360,836	24,753,922	25,436,258	682,336	3%
Restricted	3,762,255	3,808,485	3,350,214	(458,271)	-12%
Unrestricted	908,487	1,150,797	1,006,367	(144,430)	-13%
Total net position	<b>\$ 29,031,578</b>	<b>\$ 29,713,204</b>	<b>\$ 29,792,839</b>	<b>\$ 79,635</b>	0%



# City of Southgate, Michigan

## Management's Discussion and Analysis (Continued)

The City's combined net position decreased from approximately \$84.0 million to approximately \$83.7 million, a decrease of approximately 0.3 percent from a year ago. As we look at governmental activities separately from the business-type activities, we can see that net position decreased by approximately \$368,000 in governmental activities. Last fiscal year, the net position of the governmental activities increased by \$229,922. The year-over-year change is primarily the result of program expenses decreasing by \$437,390 and revenue decreasing by \$1,035,314. The majority of the revenue decline was the result of fewer operating and capital grants in fiscal year 2014, partially offset by increases in property tax revenue and state-shared revenue.

Business-type activities net position increased by approximately \$80,000. Business-type activities comprise approximately \$29.8 million of the total net position. Last fiscal year, the net position of the business-type activities increased by \$681,626. The year-over-year change is primarily due to a reduction in operating revenue of \$128,729 and an increase in operating expenses and depreciation of \$494,458. The operating revenue decline is the result of less water being used and subsequently billed to the customers. The operating expenses increased primarily due to increased costs of water and sewage disposal services.

Unrestricted net position, the portion of net position that can be used to finance day-to-day operations, decreased by \$1.2 million for governmental activities. The current level of unrestricted net position for our governmental activities stands at a deficit of \$11.0 million. Restricted net position for business-type activities totaled \$3,350,214 at June 30, 2014 and decreased by 12 percent from the prior year. Restricted net position reported in governmental activities has limits on its use that are externally imposed by restrictions such as enabling legislation. These resources can only be used for the specific purpose for which they were intended, such as expenditures for the Southgate/Wyandotte drain operation and maintenance, library services, debt service, and narcotics enforcement.

# City of Southgate, Michigan

## Management's Discussion and Analysis (Continued)

### 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
	2012	2013	2014	Change	Change
<b>Revenue</b>					
Program revenue:					
Charges for services	\$ 4,874,123	\$ 5,140,336	\$ 5,337,045	\$ 196,709	4%
Operating grants	3,255,072	3,586,709	3,026,887	(559,822)	-16%
Capital grants	671,456	1,809,553	657,265	(1,152,288)	-64%
General revenue:					
Property taxes	13,554,081	14,470,409	14,741,605	271,196	2%
State-shared revenue	2,685,979	2,635,291	2,858,396	223,105	8%
Investment earnings	38,421	26,620	8,973	(17,647)	-66%
Other revenue	38,533	48,810	52,243	3,433	7%
Total revenue	25,117,665	27,717,728	26,682,414	(1,035,314)	-4%
<b>Program Expenses</b>					
General government	4,744,172	3,481,879	4,778,353	1,296,474	37%
28th District Court	1,290,321	1,346,190	1,334,668	(11,522)	-1%
Public safety	10,356,854	11,677,826	11,218,914	(458,912)	-4%
Public works	8,086,855	8,212,874	7,333,457	(879,417)	-11%
Recreation and cultural	2,123,392	2,258,056	1,906,669	(351,387)	-16%
Interest on long-term debt	554,285	510,981	478,355	(32,626)	-6%
Total expenses	27,155,879	27,487,806	27,050,416	(437,390)	-2%
<b>Change in Net Position</b>	<b><u>\$ (2,038,214)</u></b>	<b><u>\$ 229,922</u></b>	<b><u>\$ (368,002)</u></b>	<b><u>\$ (597,924)</u></b>	<b>-260%</b>

The City's total governmental revenue decreased by approximately \$1,035,000 from the prior year, largely due to the decrease in capital and operating grants received in fiscal year 2014. The City had increases in charges for services, property tax revenue, and state-shared revenue but decreases in all other categories.

# City of Southgate, Michigan

## Management's Discussion and Analysis (Continued)

Overall, current year expenses decreased from the prior year by approximately \$437,000 or 2 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
	2012	2013	2014	Change	Change
Operating revenue	\$ 6,315,403	\$ 7,040,896	\$ 6,912,167	\$ (128,729)	-2%
Operating expenses - Other than depreciation	5,892,059	6,176,900	6,597,040	420,140	7%
Depreciation and amortization	1,069,880	1,051,693	1,126,011	74,318	7%
<b>Operating Loss</b>	<b>(646,536)</b>	<b>(187,697)</b>	<b>(810,884)</b>	<b>(623,187)</b>	<b>332%</b>
Property tax revenue	1,162,154	1,167,870	1,171,785	3,915	0%
Interest income	2,606	7,605	8,357	752	10%
Interest expense	236,317	306,152	289,623	(16,529)	-5%
<b>Change in Net Position</b>	<b>\$ 281,907</b>	<b>\$ 681,626</b>	<b>\$ 79,635</b>	<b>\$ (601,991)</b>	<b>-88%</b>

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 \$785,290 while the Golf Course Fund had an operating loss of \$25,594. Excluding depreciation, the Water and Sewer Fund had an operating gain of \$306,192 while the Golf Course Fund had an operating gain of \$8,935.

### The City's Funds

The analysis of the City's major funds begins on page 15, 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 2014 include the General Fund, the Community Development Block Grant Fund, and the Southgate-Wyandotte Operation and Maintenance Fund.

# City of Southgate, Michigan

## Management's Discussion and Analysis (Continued)

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$10.4 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. The fund balance of the City's General Fund represents 13.9 percent, or \$1,952,316, of total governmental fund balances. The General Fund's fund balance, which includes the Severance Reserve Fund, increased by \$196,054 from the prior year. The increase was largely attributed to a more favorable year for the City related to workers' compensation, for which the City is self-insured, resulting in \$182,000 less being transferred from the General Fund to the Workers' Compensation Fund as compared to the prior year.

Fund balance of the Community Development Block Grant Fund decreased \$34,247 from the prior year. The decrease is entirely due to timing of the reimbursement to the City. The entire decrease in fund balance will be collected by the City in fiscal year 2015.

Fund balance of the Southgate-Wyandotte Operation and Maintenance Fund decreased \$297,425 from the prior year. The decrease is due to construction work performed in fiscal year 2014 related to the Plum Avenue sanitary relief sewer project.

### **General Fund Budgetary Highlights**

During the current year, actual revenue exceeded actual expenditures by \$44,819. The City departments overall were over budget by \$96,685. The fire department was over budget primarily due to an additional contribution made into the Policemen and Firemen Retirement System. The public services department was over budget primarily due to grant expenditures during the year that are offset by grant revenue. Overall, the General Fund's unassigned fund balance increased by \$29,385 in the current year, from \$869,088 a year ago to \$898,473 at June 30, 2014. This represents an increase of approximately 0.3 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 2014, the City had approximately \$98.8 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. Additional information on the City's capital assets can be found in Note 4 of this report.

The City's total indebtedness as of June 30, 2014 was \$19.6 million. Of this amount, \$9.6 million represents the City's portion of Wayne County bonds related to the Downriver Sewage Disposal System. Additional information on the City's long-term debt can be found in Note 6 of this report.

# **City of Southgate, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **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 2015. We are in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2015 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, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 14,689,641	\$ 678,227	\$ 15,367,868	\$ 2,450,336
Receivables - Net:				
Property taxes receivable	4,031	-	4,031	-
Customer accounts	1,247,225	2,055,560	3,302,785	-
Other receivables	245,907	-	245,907	-
Due from other governmental units	904,707	5,868	910,575	66,013
Special assessments receivable	1,241,135	-	1,241,135	-
Due from component units (Note 5)	45,056	-	45,056	-
Due from primary government (Note 5)	-	-	-	950
Internal balances (Note 5)	204,089	(204,089)	-	-
Inventory	-	23,279	23,279	-
Prepaid expenses	159,091	22,197	181,288	46,778
Restricted assets (Note 7)	-	3,350,214	3,350,214	-
Investment in joint venture (Note 20)	-	1,266,444	1,266,444	-
Net pension asset	431,178	-	431,178	-
Capital assets - Net (Note 4):				
Assets not subject to depreciation	3,386,602	361,317	3,747,919	-
Assets subject to depreciation	60,338,920	34,709,375	95,048,295	68,053
Total assets	82,897,582	42,268,392	125,165,974	2,632,130
<b>Deferred Outflows of Resources -</b>				
Deferred charges on refunding	280,000	-	280,000	-
<b>Liabilities</b>				
Accounts payable	1,482,153	533,183	2,015,336	226,838
Due to other governmental units	39,672	-	39,672	-
Due to component units (Note 5)	950	-	950	-
Due to primary government (Note 5)	-	-	-	45,056
Cash bonds and deposits	237,065	-	237,065	-
Accrued liabilities and other	981,629	114,529	1,096,158	910
Unearned revenue	1,247,225	-	1,247,225	-
Noncurrent liabilities (Note 6):				
Due within one year:				
Current portion of compensated absences and other	872,632	55,877	928,509	-
Current portion of long-term debt	948,464	1,196,562	2,145,026	-
Due in more than one year:				
Compensated absences and other - Net of current portion	1,577,747	45,718	1,623,465	-
Net retiree healthcare obligation (Notes 17 and 18)	12,868,896	2,091,812	14,960,708	-
Long-term debt - Net of current portion	8,991,851	8,437,872	17,429,723	-
Total liabilities	29,248,284	12,475,553	41,723,837	272,804

# City of Southgate, Michigan

## Statement of Net Position (Continued) June 30, 2014

	Primary Government			Component Unions
	Governmental Activities	Business-type Activities	Total	
<b>Net Position</b>				
Net investment in capital assets	\$ 53,785,207	\$ 25,436,258	\$ 79,221,465	\$ 68,053
Restricted for:				
Street expenses	5,206,973	-	5,206,973	-
Debt service	254,725	-	254,725	-
Capital improvement	215,277	3,350,214	3,565,491	-
Police and fire retirement	8,578	-	8,578	-
Southgate/Wyandotte drain operation and maintenance	4,502,010	-	4,502,010	-
Library	556,798	-	556,798	-
Narcotics enforcement	406,666	-	406,666	-
Low-income housing	9,163	-	9,163	-
Community development	3,730	-	3,730	-
Unrestricted	(11,019,829)	1,006,367	(10,013,462)	2,291,273
Total net position	<u>\$ 53,929,298</u>	<u>\$ 29,792,839</u>	<u>\$ 83,722,137</u>	<u>\$ 2,359,326</u>

# City of Southgate, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
Governmental activities:				
General government	\$ 4,778,353	\$ 1,014,663	\$ 172,397	\$ -
28th District Court	1,334,668	1,762,225	45,724	-
Public safety	11,218,914	73,707	324,873	546,879
Public services	7,333,457	1,881,054	1,744,913	-
Recreation and culture	1,906,669	605,396	738,980	110,386
Interest on long-term debt	478,355	-	-	-
Total governmental activities	27,050,416	5,337,045	3,026,887	657,265
Business-type activities:				
Water and Sewer	7,719,337	6,644,424	-	-
Golf Course	293,337	267,743	-	-
Total business-type activities	8,012,674	6,912,167	-	-
Total primary government	<b>\$ 35,063,090</b>	<b>\$ 12,249,212</b>	<b>\$ 3,026,887</b>	<b>\$ 657,265</b>
<b>Component units:</b>				
Tax Increment Financing Authority	\$ 741,391	\$ 400	\$ -	\$ -
Downtown Development Authority	251,769	-	58,030	-
Southern Michigan Information Alliance	444,888	270,858	-	55,000
Total component units	<b>\$ 1,438,048</b>	<b>\$ 271,258</b>	<b>\$ 58,030</b>	<b>\$ 55,000</b>
General revenue:				
Property taxes				
State-shared revenue				
Investment income				
Other miscellaneous income				
Total general revenues				
<b>Change in Net Position</b>				
<b>Net Position - Beginning of year</b>				
<b>Net Position - End of year</b>				



**Statement of Activities  
Year Ended June 30, 2014**

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (3,591,293)	\$ -	\$ (3,591,293)	\$ -
473,281	-	473,281	-
(10,273,455)	-	(10,273,455)	-
(3,707,490)	-	(3,707,490)	-
(451,907)	-	(451,907)	-
(478,355)	-	(478,355)	-
(18,029,219)	-	(18,029,219)	-
-	(1,074,913)	(1,074,913)	-
-	(25,594)	(25,594)	-
-	(1,100,507)	(1,100,507)	-
(18,029,219)	(1,100,507)	(19,129,726)	-
-	-	-	(740,991)
-	-	-	(193,739)
-	-	-	(119,030)
-	-	-	(1,053,760)
14,741,605	1,171,785	15,913,390	479,175
2,858,396	-	2,858,396	-
8,973	8,357	17,330	1,208
52,243	-	52,243	-
17,661,217	1,180,142	18,841,359	480,383
(368,002)	79,635	(288,367)	(573,377)
54,297,300	29,713,204	84,010,504	2,932,703
<b>\$ 53,929,298</b>	<b>\$ 29,792,839</b>	<b>\$ 83,722,137</b>	<b>\$ 2,359,326</b>

# City of Southgate, Michigan

## Governmental Funds Balance Sheet June 30, 2014

	General Fund	Community Development Block Grant Fund	Southgate - Wyandotte Operation and Maintenance Fund	Other Nonmajor Governmental Funds	Total
<b>Assets</b>					
Cash and investments	\$ 3,057,698	\$ 46,444	\$ 3,308,973	\$ 8,253,640	\$ 14,666,755
Receivables - Net:					
Property taxes	4,031	-	-	-	4,031
Special assessments	-	-	1,241,135	-	1,241,135
Customer	-	1,247,225	-	-	1,247,225
Other	225,309	-	-	20,598	245,907
Due from other governments	649,622	67,647	-	187,438	904,707
Due from component units (Note 5)	-	-	-	45,056	45,056
Due from other funds (Note 5)	147,071	37,340	-	-	184,411
Advances to other funds (Note 5)	-	-	-	204,089	204,089
Prepaid expenses	157,667	-	-	1,424	159,091
<b>Total assets</b>	<b>\$ 4,241,398</b>	<b>\$ 1,398,656</b>	<b>\$ 4,550,108</b>	<b>\$ 8,712,245</b>	<b>\$ 18,902,407</b>
<b>Liabilities</b>					
Accounts payable	\$ 564,922	\$ 630	\$ 48,098	\$ 855,924	\$ 1,469,574
Due to other governmental units	39,672	-	-	-	39,672
Due to component units (Note 5)	950	-	-	-	950
Due to other funds (Note 5)	239,340	147,071	-	-	386,411
Cash bonds and deposits	237,065	-	-	-	237,065
Accrued and other liabilities	679,827	-	-	27,698	707,525
Unearned revenue	-	1,247,225	-	-	1,247,225
<b>Total liabilities</b>	<b>1,761,776</b>	<b>1,394,926</b>	<b>48,098</b>	<b>883,622</b>	<b>4,088,422</b>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue - State sources	486,126	-	-	-	486,126
Unavailable revenue - Special assessments	31,497	-	260,452	-	291,949
Unavailable revenue - Grants	9,683	28,428	-	-	38,111
<b>Total deferred inflows of resources</b>	<b>527,306</b>	<b>28,428</b>	<b>260,452</b>	<b>-</b>	<b>816,186</b>

# City of Southgate, Michigan

## Governmental Funds Balance Sheet (Continued) June 30, 2014

	General Fund	Community Development Block Grant Fund	Southgate - Wyandotte Operation and Maintenance Fund	Other Nonmajor Governmental Funds	Total
<b>Fund Balances</b>					
Nonspendable:					
Prepays	\$ 157,667	\$ -	\$ -	\$ 1,424	\$ 159,091
Long-term receivable	-	-	-	204,089	204,089
Restricted:					
Roads	-	-	-	5,002,884	5,002,884
Narcotics enforcement	-	-	-	406,666	406,666
Debt service	-	-	-	254,725	254,725
Unspent property tax proceeds - Police and fire pension	8,578	-	-	-	8,578
Low-income housing	9,163	-	-	-	9,163
Southgate-Wyandotte O&M	-	-	4,241,558	-	4,241,558
Library	-	-	-	555,374	555,374
District Court capital improvement	-	-	-	215,277	215,277
Committed (Note 8)	308,435	-	-	921,321	1,229,756
Assigned (Note 8)	570,000	-	-	266,863	836,863
Unassigned	898,473	(24,698)	-	-	873,775
Total fund balances	<u>1,952,316</u>	<u>(24,698)</u>	<u>4,241,558</u>	<u>7,828,623</u>	<u>13,997,799</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,241,398</u>	<u>\$ 1,398,656</u>	<u>\$ 4,550,108</u>	<u>\$ 8,712,245</u>	<u>\$ 18,902,407</u>

# City of Southgate, Michigan

## Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position Year Ended June 30, 2014

<b>Fund Balance Reported in Governmental Funds</b>	\$ 13,997,799
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	63,725,522
Net pension asset is not a financial resource and is not reported in the funds	431,178
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	816,186
Bonds payable and long-term purchase agreements are not due and payable in the current period and are not reported in the funds	(9,940,315)
Deferred charges on bond refundings are amortized over the related bond terms, and are not reported in the funds	280,000
Accrued interest is not due and payable in the current period and is not reported in the funds	(109,104)
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	(2,450,379)
Net retiree healthcare obligations are not due and payable in the current period and are not reported in the funds	(12,868,896)
Internal service funds are included as part of governmental activities	<u>47,307</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 53,929,298</u></b>

# City of Southgate, Michigan

## Governmental Funds

### Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2014

	General Fund	Community Development Block Grant Fund	Southgate - Wyandotte Operation and Maintenance Fund	Other Nonmajor Governmental Funds	Total
<b>Revenue</b>					
Property taxes	\$ 13,011,345	\$ -	\$ -	\$ 1,730,260	\$ 14,741,605
Special assessments	-	-	1,121,864	-	1,121,864
Licenses and permits	510,667	-	-	-	510,667
Federal grants	640,086	182,965	-	146,206	969,257
State sources	3,092,746	-	-	1,821,638	4,914,384
Charges for services	749,932	-	-	156,203	906,135
Fines and forfeitures	1,605,837	-	-	-	1,605,837
Interest income	3,689	24	1,701	3,547	8,961
Rental income	682,048	-	-	-	682,048
Other revenue	215,014	-	-	800,919	1,015,933
<b>Total revenue</b>	<b>20,511,364</b>	<b>182,989</b>	<b>1,123,565</b>	<b>4,658,773</b>	<b>26,476,691</b>
<b>Expenditures - Current</b>					
General government	4,389,891	-	-	6,696	4,396,587
28th District Court	1,003,624	-	-	-	1,003,624
Public safety	10,358,945	-	-	327,870	10,686,815
Public services	3,672,984	217,236	1,420,990	3,734,607	9,045,817
Cultural and recreation	631,323	-	-	497,798	1,129,121
Capital outlay	-	-	-	253,499	253,499
Debt service	-	-	-	1,342,494	1,342,494
<b>Total expenditures</b>	<b>20,056,767</b>	<b>217,236</b>	<b>1,420,990</b>	<b>6,162,964</b>	<b>27,857,957</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>454,597</b>	<b>(34,247)</b>	<b>(297,425)</b>	<b>(1,504,191)</b>	<b>(1,381,266)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	50,232	-	-	756,520	806,752
Transfers out	(308,775)	-	-	(497,977)	(806,752)
<b>Net Change in Fund Balances</b>	<b>196,054</b>	<b>(34,247)</b>	<b>(297,425)</b>	<b>(1,245,648)</b>	<b>(1,381,266)</b>
<b>Fund Balances - Beginning of year</b>	<b>1,756,262</b>	<b>9,549</b>	<b>4,538,983</b>	<b>9,074,271</b>	<b>15,379,065</b>
<b>Fund Balances - End of year</b>	<b>\$ 1,952,316</b>	<b>\$ (24,698)</b>	<b>\$ 4,241,558</b>	<b>\$ 7,828,623</b>	<b>\$ 13,997,799</b>

# 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, 2014**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ (1,381,266)</b>
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	4,661,516
Depreciation expense	(3,087,289)
Net book value of assets disposed of	(2,544)
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)	185,937
State-shared revenue earned but not received within 60 days of year end is recorded on the statement of activities	22,318
Change in net pension asset is recorded on the statement of activities	164,377
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	(1,751,066)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statements of activities (where it reduces long-term debt)	915,022
Amortization of the deferred charges on bond refunding balance is recorded in the statement of activities	(28,750)
Change in accrued interest payable on governmental debt is recorded in the statement of activities	7,530
Increase 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	(120,420)
Internal service funds are included as part of governmental activities	<u>46,633</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u><u>\$ (368,002)</u></u></b>

# City of Southgate, Michigan

## Proprietary Funds Statement of Net Position June 30, 2014

	Enterprise Funds			Governmental Activities
	Water and Sewer	Golf Course	Total	Internal Service Fund - Workers' Compensation
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 654,563	\$ 23,664	\$ 678,227	\$ 22,886
Receivables:				
Receivables from sales to customers on account	2,055,560	-	2,055,560	-
Due from other governmental units	5,868	-	5,868	-
Due from other funds (Note 5)	-	-	-	202,000
Inventory	23,279	-	23,279	-
Prepaid expenses	20,986	1,211	22,197	-
Total current assets	2,760,256	24,875	2,785,131	224,886
Noncurrent assets:				
Restricted assets (Note 7)	3,350,214	-	3,350,214	-
Investment in joint ventures (Note 20)	1,266,444	-	1,266,444	-
Capital assets - Net (Note 4)	34,472,931	597,761	35,070,692	-
Total noncurrent assets	39,089,589	597,761	39,687,350	-
Total assets	41,849,845	622,636	42,472,481	224,886
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	522,880	10,303	533,183	12,579
Accrued liabilities and other	110,601	3,928	114,529	165,000
Current portion of compensated absences (Note 6)	55,877	-	55,877	-
Current portion of long-term debt (Note 6)	1,193,231	3,331	1,196,562	-
Total current liabilities	1,882,589	17,562	1,900,151	177,579
Noncurrent liabilities:				
Advances from other funds (Note 5)	-	204,089	204,089	-
Compensated absences - Net of current portion (Note 6)	45,718	-	45,718	-
Net retiree healthcare obligation	2,091,812	-	2,091,812	-
Long-term debt - Net of current portion (Note 6)	8,434,539	3,333	8,437,872	-
Total noncurrent liabilities	10,572,069	207,422	10,779,491	-
Total liabilities	12,454,658	224,984	12,679,642	177,579
<b>Net Position</b>				
Net investment in capital assets	24,845,161	591,097	25,436,258	-
Restricted	3,350,214	-	3,350,214	-
Unrestricted	1,199,812	(193,445)	1,006,367	47,307
Total net position	<u>\$ 29,395,187</u>	<u>\$ 397,652</u>	<u>\$ 29,792,839</u>	<u>\$ 47,307</u>

# City of Southgate, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2014

	Enterprise Funds			Governmental Activities
	Water and Sewer	Golf Course	Total	Internal Service Fund - Workers' Compensation
<b>Operating Revenue</b>				
Sale of water	\$ 2,406,145	\$ -	\$ 2,406,145	\$ -
Sewage disposal charges	3,313,415	-	3,313,415	-
Assessments	547,490	-	547,490	-
Other	377,374	-	377,374	-
Greens fees and miscellaneous	-	267,743	267,743	-
Charges to other funds	-	-	-	120,000
Total operating revenue	6,644,424	267,743	6,912,167	120,000
<b>Operating Expenses</b>				
Cost of water produced/purchased	1,821,845	-	1,821,845	-
Cost of sewage treatment	1,394,249	-	1,394,249	-
Operation and maintenance	2,274,743	239,582	2,514,325	-
Overhead and other	847,395	19,226	866,621	-
Contractual services	-	-	-	73,379
Depreciation	1,091,482	34,529	1,126,011	-
Total operating expenses	7,429,714	293,337	7,723,051	73,379
<b>Operating (Loss) Income</b>	(785,290)	(25,594)	(810,884)	46,621
<b>Nonoperating Revenue (Expenses)</b>				
Property tax collections - EPA levy	1,171,785	-	1,171,785	-
Investment income	8,340	17	8,357	12
Interest expense	(289,623)	-	(289,623)	-
Total nonoperating revenue	890,502	17	890,519	12
<b>Change in Net Position</b>	105,212	(25,577)	79,635	46,633
<b>Net Position - Beginning of year</b>	29,289,975	423,229	29,713,204	674
<b>Net Position - End of year</b>	<u>\$ 29,395,187</u>	<u>\$ 397,652</u>	<u>\$ 29,792,839</u>	<u>\$ 47,307</u>



# City of Southgate, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2014

	Enterprise Funds		Governmental Activities
	Water and Sewer	Golf Course	Workers' Compensation
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 6,792,776	\$ 267,743	\$ -
Receipts from interfund services and reimbursements	33,385	-	205,000
Payments to suppliers	(4,784,827)	(243,862)	-
Payments to employees	(1,273,582)	(17,856)	-
Internal activity - Payments to other funds	(116,469)	-	-
Claims paid	-	-	(201,123)
Other receipts	-	-	1,993
Net cash provided by operating activities	651,283	6,025	5,870
<b>Cash Flows from Noncapital Financing Activities</b> - Payments to other funds	-	(15,000)	-
<b>Cash Flows from Capital and Related Financing Activities</b>			
Property taxes (restricted for capital or capital debt)	1,171,785	-	-
Purchase of capital assets	(549,837)	-	-
Principal and interest paid on capital debt	(1,544,802)	(3,331)	-
Net cash used in capital and related financing activities	(922,854)	(3,331)	-
<b>Cash Flows from Investing Activities</b> - Interest received on investments	8,340	17	12
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(263,231)	(12,289)	5,882
<b>Cash and Cash Equivalents</b> - Beginning of year	4,268,008	35,953	17,004
<b>Cash and Cash Equivalents</b> - End of year	<b>\$ 4,004,777</b>	<b>\$ 23,664</b>	<b>\$ 22,886</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>			
Cash and investments	\$ 654,563	\$ 23,664	\$ 22,886
Restricted cash	3,350,214	-	-
Total cash and cash equivalents	<b>\$ 4,004,777</b>	<b>\$ 23,664</b>	<b>\$ 22,886</b>
<b>Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities</b>			
Operating (loss) income	\$ (785,290)	\$ (25,594)	\$ 46,621
Adjustments to reconcile operating (loss) income to net cash from operating activities:			
Depreciation and amortization	1,091,482	34,529	-
Changes in assets and liabilities:			
Receivables	148,352	-	1,993
Due from other funds	33,385	-	85,000
Inventories	389	-	-
Prepaid and other assets	76,990	243	-
Accounts payable	(55,529)	(2,951)	3,256
Due to other funds	(1,469)	-	-
Estimated claims liability	-	-	(131,000)
Accrued and other liabilities	142,973	(202)	-
Net cash provided by operating activities	<b>\$ 651,283</b>	<b>\$ 6,025</b>	<b>\$ 5,870</b>

**Noncash Capital and Related Financing Activities** - During the current year, debt was issued on behalf of the City in the amount of \$191,872 for construction related to the Downriver Sewage Disposal System. This activity is administered by Wayne County, Michigan.

# City of Southgate, Michigan

## Fiduciary Funds Statement of Fiduciary Net Position June 30, 2014

	Pension and Other Employee Benefit Trust Funds	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 6,614,060	\$ 452,943
Investments:		
U.S. government securities	5,900	-
Stocks and mutual funds	62,529,188	-
Mortgage-backed securities	62,859	-
Receivables:		
Accrued interest receivable	44,560	-
Other receivables	475,225	-
Prepaid expenses	46,080	-
	69,777,872	\$ 452,943
<b>Liabilities</b>		
Accounts payable	329,592	\$ -
Due to other governmental units	-	144,643
Cash bonds and deposits	-	308,300
	329,592	\$ 452,943
<b>Net Position Held in Trust for Pension and Other Employee Benefits</b>	<b>\$ 69,448,280</b>	

# City of Southgate, Michigan

## Fiduciary Funds Statement of Changes in Fiduciary Net Position Year Ended June 30, 2014

	Pension and Other Employee Benefit Trust Funds
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 1,434,767
Net increase in fair value of investments	7,804,074
Investment-related expenses	(402,922)
Net investment income	8,835,919
Contributions:	
Employer	6,420,326
Employee	691,093
Total contributions	7,111,419
Total additions - Net	15,947,338
<b>Deductions</b> - Benefit payments	9,654,164
<b>Net Increase in Net Position Held in Trust</b>	6,293,174
<b>Net Position Held in Trust for Pension and Other Employee Benefits -</b> Beginning of year	63,155,106
<b>Net Position Held in Trust for Pension and Other Employee Benefits -</b> End of year	<u><u>\$ 69,448,280</u></u>

# City of Southgate, Michigan

## Component Units Statement of Net Position June 30, 2014

	Tax Increment Financing Authority	Downtown Development Authority	Southern Michigan Information Alliance	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 1,766,504	\$ 639,727	\$ 44,105	\$ 2,450,336
Due from other governmental units	-	-	66,013	66,013
Due from primary government (Note 5)	-	-	950	950
Other	-	-	46,778	46,778
Capital assets - Net (Note 4)	-	-	68,053	68,053
Total assets	1,766,504	639,727	225,899	2,632,130
<b>Liabilities</b>				
Accounts payable	108,441	118,397	-	226,838
Due to primary government (Note 5)	-	-	45,056	45,056
Accrued liabilities and other	-	910	-	910
Total liabilities	108,441	119,307	45,056	272,804
<b>Net Position</b>				
Net investment in capital assets	-	-	68,053	68,053
Unrestricted	1,658,063	520,420	112,790	2,291,273
Total net position	<u>\$ 1,658,063</u>	<u>\$ 520,420</u>	<u>\$ 180,843</u>	<u>\$ 2,359,326</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	\$ 741,391	\$ 400	\$ -	\$ -
Downtown Development Authority - General government	251,769	-	58,030	-
Southern Michigan Information Alliance - Public safety	444,888	270,858	-	55,000
<b>Total component units</b>	<b>\$ 1,438,048</b>	<b>\$ 271,258</b>	<b>\$ 58,030</b>	<b>\$ 55,000</b>

General revenue:

Property taxes

Investment 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, 2014**

Net (Expense) Revenue and Changes in Net Position			
Tax Increment Financing Authority	Downtown Development Authority	Southern Michigan Information Alliance	Total
\$ (740,991)	\$ -	\$ -	\$ (740,991)
-	(193,739)	-	(193,739)
-	-	(119,030)	(119,030)
(740,991)	(193,739)	(119,030)	(1,053,760)
387,983	91,192	-	479,175
886	269	53	1,208
388,869	91,461	53	480,383
(5,000)	5,000	-	-
(357,122)	(97,278)	(118,977)	(573,377)
2,015,185	617,698	299,820	2,932,703
<b>\$ 1,658,063</b>	<b>\$ 520,420</b>	<b>\$ 180,843</b>	<b>\$ 2,359,326</b>

### **Note I - Summary of Significant Accounting Policies**

The following is a summary of the significant accounting policies used by the City of Southgate, Michigan:

#### **Reporting Entity**

The City of Southgate, Michigan is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City'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 City (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 the 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 following component units are presented discretely from the City:

**Tax Increment Financing Authority** - 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.

**Downtown Development Authority** - 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 - Summary of Significant Accounting Policies (Continued)**

Southeastern Michigan Information Alliance - 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, SMIA's budget is subject to approval by the City.

**Jointly Governed Organization** - Jointly governed organizations are discussed in Note 20.

#### **Accounting and Reporting Principles**

The City follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Government Accounting Standards Board.

#### **Report Presentation**

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. 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. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenues 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. The statements also present a schedule reconciling these amounts to the modified accrual based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenues are reported instead as general revenue.

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's component units' functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.



### **Note I - Summary of Significant Accounting Policies (Continued)**

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.

#### **Basis of Accounting**

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare related costs, or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenues are not recognized until they are collected, or collected soon enough after the end of the year that they are available to pay for obligations outstanding at the end of the year. For this purpose, the City considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, certain state-shared revenue, special assessments, and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with deferred inflows of resources.

Proprietary funds, fiduciary funds, and component units use the economic resources measurement focus and the full accrual basis of accounting. 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.

#### **Fund Accounting**

The City accounts for its various activities in several different funds in order to demonstrate accountability for how we have spent certain resources; separate funds allow us to show the particular expenditures for which specific revenues were used. The various funds are aggregated into three broad fund types:

### Note I - Summary of Significant Accounting Policies (Continued)

**Governmental funds** include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, and capital project funds. The City reports the following funds as “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.

**Proprietary funds** include enterprise funds, (which provide goods or services to users in exchange for charges or fees) and internal service funds (which provide goods or services to other funds of the City). The City reports the following funds as “major” enterprise funds:

- **Water and Sewer Fund** - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.
- **Golf Course Fund** - The Golf Course Fund accounts for the activities of the clubhouse operations and golf course operations.

**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.

**Fiduciary funds** include amounts held in a fiduciary capacity for others. These amounts will not be used to operate our government's programs. Activities that are reported as fiduciary include:

- **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.

### **Note I - Summary of Significant Accounting Policies (Continued)**

Interfund activity: During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

#### **Specific Balances and Transactions**

**Cash, Cash Equivalents, 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 the balance for the principal.

**Receivables** - 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.

### Note I - Summary of Significant Accounting Policies (Continued)

**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.

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

Capital Asset Class	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

**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 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 expensed at the time they are incurred. 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.

### Note I - Summary of Significant Accounting Policies (Continued)

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category. The deferred inflows of resources related to unavailable revenue is only reported in the governmental fund balance sheet. The governmental funds report unavailable revenues from three sources: grants, state-shared revenue, and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**Net Position Flow Assumption** - Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**Fund Balance Flow Assumption** - Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

### Note I - Summary of Significant Accounting Policies (Continued)

**Fund Balance Policies** - Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The City Council has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**Property Tax Revenue** - 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 2013 tax is levied and collectible on July 1, 2013 and is recognized as revenue in the year ended June 30, 2014, when the proceeds of the levy are budgeted and available for the financing of operations.

### **Note I - Summary of Significant Accounting Policies (Continued)**

The 2013 taxable valuation of the City totaled \$650 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, 6.9730 mills for Act 345 police and fire retirement, 0.8800 mills for the library's operating purposes, 1.9334 mills for road construction, and 1.7660 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 \$6,548,000 for operations, \$1,572,000 for refuse, \$4,505,000 for police and fire retirement, \$569,000 for the library's operations, \$1,249,000 for road construction, and \$1,140,000 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 2014, this amounted to \$104,550 and \$287,147 in foregone captures for the DDA and TIFA, respectively. These amounts are recognized in the General Fund as tax revenue

**Pension and Other Postemployment Benefit Costs** - The City offers both pension and retiree 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.

**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.

### Note I - Summary of Significant Accounting Policies (Continued)

**Proprietary Funds Operating Classification** - 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.

**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 Statement (GASB) No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead classify them as deferred inflows of resources or deferred outflows of resources.

As a result of implementing this statement, the state-shared revenue, grant revenue, and special assessments previously recorded as a liability in the General Fund, Community Development Block Grant Fund, and Southgate-Wyandotte Operation and Maintenance Fund, respectively, have been recorded as a deferred inflow of resources in the amounts of \$527,306, \$28,428, and \$260,452, respectively. Additionally, the deferred charges on refunding have been recorded as deferred outflows of resources in the amount of \$280,000 on the government-wide financial statements.



# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2014

### 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, 2013		\$	(380,381)
Current year permit revenue			410,859
Related expenses:			
Direct costs	\$	343,815	
Estimated indirect costs		<u>30,054</u>	<u>373,869</u>
Current year surplus			<u>36,990</u>
Cumulative deficit at June 30, 2014		\$	<u><u>(343,391)</u></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 two banks 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, 2014

### 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 and its component units had approximately \$18,406,000 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 City's component units have certain cash, deposits, and investments that are maintained in pooled accounts of the City; therefore, the amount of insured deposits specific to the component units' deposits cannot be determined.

The component units also maintain separate cash accounts from the City's pooled cash account. At year end, the component units had approximately \$84,000 of bank deposits, all of which were insured.

**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:

Fiduciary Funds	Fair Value	Less than 5 Years	5 to 15 Years	Over 15 Years
Mortgage-backed securities	\$ 62,859	\$ -	\$ 2,202	\$ 60,657
Federal agencies	5,900	-	-	5,900
Total	<u>\$ 68,759</u>	<u>\$ -</u>	<u>\$ 2,202</u>	<u>\$ 66,557</u>

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2014

### 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:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
<b>Fiduciary Funds</b>			
Mortgage-backed securities	\$ 62,859	Not rated	N/A
Money market funds	<u>3,067,456</u>	AAA	Moody's
Total	<u>\$ 3,130,315</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, 2014

### Note 4 - Capital Assets

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

	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 3,386,602	\$ -	\$ -	\$ 3,386,602
Capital assets being depreciated:				
Infrastructure	74,433,627	3,800,335	-	78,233,962
Buildings and improvements	34,080,681	317,553	-	34,398,234
Machinery and equipment	8,878,080	20,878	(19,000)	8,879,958
Vehicles	3,220,684	522,750	(149,672)	3,593,762
Land improvements	2,690,758	-	-	2,690,758
Subtotal	123,303,830	4,661,516	(168,672)	127,796,674
Accumulated depreciation:				
Infrastructure	41,698,805	1,771,081	-	43,469,886
Buildings and improvements	11,397,701	709,871	-	12,107,572
Machinery and equipment	7,693,037	251,901	(19,000)	7,925,938
Vehicles	2,374,429	244,709	(147,128)	2,472,010
Land improvements	1,372,621	109,727	-	1,482,348
Subtotal	64,536,593	3,087,289	(166,128)	67,457,754
Net capital assets being depreciated	58,767,237	1,574,227	(2,544)	60,338,920
Net capital assets	\$ 62,153,839	\$ 1,574,227	\$ (2,544)	\$ 63,725,522

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2014

### Note 4 - Capital Assets (Continued)

	Balance July 1, 2013	Reclassifications	Additions	Disposals	Balance June 30, 2014
<b>Business-type Activities</b>					
Capital assets not being depreciated:					
depreciated:					
Land	\$ 169,445	\$ -	\$ -	\$ -	\$ 169,445
Construction in progress	820,086	(820,086)	191,872	-	191,872
Subtotal	989,531	(820,086)	191,872	-	361,317
Capital assets being depreciated:					
Water and sewer lines	50,332,963	820,086	460,751	-	51,613,800
Buildings and improvements	938,581	-	-	-	938,581
Machinery and equipment	2,189,702	-	23,422	-	2,213,124
Vehicles	1,728,633	-	65,664	-	1,794,297
Land improvements	631,708	-	-	-	631,708
Subtotal	55,821,587	820,086	549,837	-	57,191,510
Accumulated depreciation:					
Water and sewer lines	18,143,647	-	900,457	-	19,044,104
Buildings and improvements	446,579	-	21,683	-	468,262
Machinery and equipment	984,348	-	121,137	-	1,105,485
Vehicles	1,490,379	-	63,597	-	1,553,976
Land improvements	291,171	-	19,137	-	310,308
Subtotal	21,356,124	-	1,126,011	-	22,482,135
Net capital assets being depreciated	34,465,463	820,086	(576,174)	-	34,709,375
Net capital assets	<u>\$ 35,454,994</u>	<u>\$ -</u>	<u>\$ (384,302)</u>	<u>\$ -</u>	<u>\$ 35,070,692</u>
<b>Component Unit Activities</b>					
Capital assets being depreciated -					
Machinery and equipment	\$ 210,903	\$ -	\$ -	\$ -	\$ 210,903
Accumulated depreciation -					
Machinery and equipment	121,409	-	21,441	-	142,850
Net capital assets	<u>\$ 89,494</u>	<u>\$ -</u>	<u>\$ (21,441)</u>	<u>\$ -</u>	<u>\$ 68,053</u>

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

Governmental activities:

General government	\$ 767,577
Public safety	330,731
Public works	1,341,685
Recreation and culture	585,662
District Court	61,634
Total governmental activities	<u>\$ 3,087,289</u>

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2014

### Note 4 - Capital Assets (Continued)

Business-type activities:	
Water and Sewer	\$ 1,091,482
Golf	<u>34,529</u>
Total business-type activities	<u>\$ 1,126,011</u>
Component unit activities - Southeastern Michigan Information Alliance	<u>\$ 21,441</u>

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Community Development Block Grant Fund	\$ 147,071
Community Development Block Grant Fund	General Fund	37,340
Internal Service Fund - Workers' Compensation Fund	General Fund	<u>202,000</u>
	Total	<u>\$ 386,411</u>
Receivable Fund	Payable Fund	Amount
<b>Advances from/to Other Funds</b>		
Nonmajor governmental funds	Proprietary Fund - Golf Course Fund	<u>\$ 204,089</u>
Receivable Fund	Payable Fund	Amount
<b>Due to/from Primary Government and Component Units</b>		
Nonmajor governmental funds	Southeastern Michigan Information Alliance	\$ 45,056
Southeastern Michigan Information Alliance	General Fund	950

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.

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2014

### Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

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

Transfers In	Transfers Out	Amount
General Fund	Nonmajor governmental funds	\$ 50,232
Nonmajor governmental funds	General Fund	308,775
	Nonmajor governmental funds	<u>447,745</u>
	Total nonmajor governmental funds	<u>756,520</u>
	Total	<u><u>\$ 806,752</u></u>

The transfer from the General Fund to nonmajor governmental funds represents the transfer of funds for debt service. The transfer into the General Fund from nonmajor 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.

### Note 6 - Long-term Debt

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

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2014

### Note 6 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
General obligations:							
Library Building Authority Refunding Bonds:							
Original issue: \$1,515,000	3.05% -	\$75,000 -					
Maturing through 2023	4.40%	\$105,000	\$ 870,000	\$ -	\$ 75,000	\$ 795,000	\$ 75,000
2005 Ice Arena Building Authority Refunding Bonds:							
Original issue: \$2,815,000	3.3% -	\$235,000 -					
Maturing through 2021	4.4%	\$295,000	2,090,000	-	225,000	1,865,000	235,000
2002 Recreation Facility Building Authority - Partially refunded:							
Original issue: \$9,995,000							
Maturing through 2015	4.5%	\$145,000	525,000	-	380,000	145,000	145,000
2002 Recreation Facility Building Authority Refunding Bonds:							
Original issue: \$6,665,000	3.5% -	\$280,000 -					
Maturing through 2026	4.5%	\$685,000	6,470,000	-	25,000	6,445,000	280,000
2000 Michigan Transportation Fund installment purchase agreement:							
Original issue: \$695,000							
Maturing through 2014	6.0%	\$75,000	150,000	-	75,000	75,000	75,000
Parking lot improvements installment purchase agreement:							
Original issue: \$649,500							
Maturing through 2018	5.17%	\$43,300	173,200	-	43,300	129,900	43,300
28th District Court expansion installment purchase agreement:							
Original issue: \$950,000		\$73,992 -					
Maturing through 2018	4.35%	\$81,236	378,432	-	71,497	306,935	73,992
2006 City Hall heating/cooling capital lease:							
Original issue: \$313,000		\$21,172 -					
Maturing through 2021	4.98%	\$28,522	198,705	-	20,225	178,480	21,172
Total bonds payable			10,855,337	-	915,022	9,940,315	948,464
Compensated absences			2,229,959	608,563	488,143	2,350,379	822,632
Self-insurance claims			100,000	39,337	39,337	100,000	50,000
Total governmental activities			\$ 13,185,296	\$ 647,900	\$ 1,442,502	\$ 12,390,694	\$ 1,821,096



# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2014

### Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type Activities</b>							
General obligation bonds -							
Sewage Disposal System Bonds (26 issues):							
Original issue: \$18,742,353	2.0% -	\$882,456 -					
Maturing through 2033	5.45%	\$1,031,270	\$ 10,405,701	\$ 191,872	\$ 1,236,875	\$ 9,360,698	\$ 1,174,306
Tank rehabilitation bonds -							
Original issue: \$423,640		\$18,925 -					
Maturing through 2027	8.9%	\$31,751	285,376	-	18,304	267,072	18,925
2013 Golf Course Irrigation Controller installment purchase agreement							
Original issue: \$9,995			9,995	-	3,331	6,664	3,331
Maturing through 2015	0%	\$3,331					
Total bonds payable			10,701,072	191,872	1,258,510	9,634,434	1,196,562
Compensated absences			101,967	43,675	44,047	101,595	55,877
Total business-type activities			<u>\$ 10,803,039</u>	<u>\$ 235,547</u>	<u>\$ 1,302,557</u>	<u>\$ 9,736,029</u>	<u>\$ 1,252,439</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
2015	\$ 948,464	\$ 416,003	\$ 1,364,467	\$ 1,196,562	\$ 196,553	\$ 1,393,115
2016	913,395	376,908	1,290,303	1,275,841	168,304	1,444,145
2017	952,916	339,469	1,292,385	1,225,200	131,352	1,356,552
2018	943,429	299,955	1,243,384	1,194,570	110,547	1,305,117
2019	900,823	262,689	1,163,512	1,017,967	70,572	1,088,539
2020-2024	3,931,288	767,012	4,698,300	1,878,261	333,669	2,211,930
2025-2029	1,350,000	86,126	1,436,126	1,542,050	125,615	1,667,665
2030-2034	-	-	-	303,983	188,866	492,849
Total	<u>\$ 9,940,315</u>	<u>\$ 2,548,162</u>	<u>\$ 12,488,477</u>	<u>\$ 9,634,434</u>	<u>\$ 1,325,478</u>	<u>\$ 10,959,912</u>

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2014

### Note 7 - 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, 2014 consist of the following:

User fee - Cash and certificates of deposit	\$ 1,205,836
Wayne County Sewage Disposal System bonds - Assets held at the County for future debt payments	<u>2,144,378</u>
Total restricted net position	<u>\$ 3,350,214</u>

Net position in the amount of \$3,350,214 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.

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2014

### Note 8 - 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>
<b>Fund Balances</b>		
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	260,000	-
Severance reserve	190,000	-
Future working capital	120,000	-
Capital projects	-	266,863
Total assigned	<u>570,000</u>	<u>266,863</u>
Total committed and assigned fund balances	<u>\$ 878,435</u>	<u>\$ 1,188,184</u>

### Note 9 - Risk Management

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

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2014

### Note 9 - Risk Management (Continued)

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

	<u>2014</u>	<u>2013</u>
Unpaid claims - Beginning of year	\$ 396,000	\$ 300,000
Incurred claims, including claims incurred but not reported	52,305	282,851
Claim payments	<u>(183,305)</u>	<u>(186,851)</u>
Unpaid claims - End of year	<u>\$ 265,000</u>	<u>\$ 396,000</u>

Recorded in the accrued and other liabilities of the Workers' Compensation Fund is a liability for \$165,000 related to workers' compensation claims. The remaining amount of unpaid claims liability is recorded as long-term debt.

### Note 10 - Pension Plans Description

#### Municipal Employees' Retirement System

**Plan Administration** - The Municipal Employees Retirement Board administers the Municipal Employees' Retirement System - a single employer defined benefit pension plan that provides pensions for all full-time municipal employees of the City. Benefit terms have been established by contractual agreements between the City and the various employee union representation; amendments are subject to the same process.

Management of the Plan is vested in the Retirement Board, which consists of five members: the Mayor, or a resident of the City designated by the Mayor; a member of City Council to be selected by City Council; a resident who is an elector of the City, appointed by Council, and who is not eligible to participate in the Retirement System as a member; and two members of the Retirement System elected by plan members.

**Plan Membership** - At June 30, 2014, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	88
Inactive plan members entitled to but not yet receiving benefits	5
Active plan members	<u>47</u>
Total	<u>140</u>

The Municipal Employees Retirement System is closed to new hires after July 2, 2011.

### Note 10 - Pension Plans Description (Continued)

**Benefits Provided** - The Pension Plan provides retirement, disability, and death benefits. Benefit terms are established by City ordinances and negotiations with the City's collective bargaining units and may be amended through negotiations with the City's collective bargaining units.

**Contributions** - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the Retirement Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by City ordinances and negotiations with the City's collective bargaining units. For the year ended June 30, 2014, the average active member contribution rate was 12 percent of annual pay, and the City's average contribution rate was 35 percent of annual payroll.

#### Policemen and Firemen Retirement System

**Plan Administration** - The Policemen and Firemen Retirement Board administers the Policemen and Firemen Retirement System - a single employer defined benefit pension plan that provides pensions for certain police and fire personnel. Benefit terms have been established by contractual agreements between the City and the various employee union representation; amendments are subject to the same process.

Management of the Plan is vested in the Retirement Board, which consists of five members: the Mayor, or a resident of the City designated by the Mayor; a member of City Council to be selected by City Council; a resident who is an elector of the City, appointed by Council, and who is not eligible to participate in the Retirement System as a member; and two members of the Retirement System elected by plan members.

**Plan Membership** - At June 30, 2014, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	88
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	<u>69</u>
Total	<u><u>160</u></u>

**Benefits Provided** - The Pension Plan provides retirement, disability, and death benefits. Benefit terms are established by City ordinances and negotiations with the City's collective bargaining units and may be amended through negotiations with the City's collective bargaining units.

### Note 10 - Pension Plans Description (Continued)

**Contributions** - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the Retirement Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by City ordinances and negotiations with the City's collective bargaining units. For the year ended June 30, 2014, the average active member contribution rate was 6.45 percent of annual pay, and the City's average contribution rate was 52.60 percent of annual payroll.

### Note 11 - Pension Plan Reserves

#### Municipal Employees' Retirement System

In accordance with Plan documents, the following reserves are required to be set aside within the pension plan:

The retiree reserve is to be computed annually by the actuary as the present value of estimated benefit payments for all current retirees. The amounts reserved may be used solely to pay monthly retiree benefit payments.

The employee reserve is credited as employee contributions are received throughout the year; the Plan maintains a record of the amount contributed by each employee, and credits interest annually at a rate of 6 percent. For any employee who terminates before vesting in the pension plan, their balance is returned to them; for those who stay until retirement, the balance is transferred into the retiree reserve.

The employer reserve account is used to account for the residual net position balance in the pension plan after funding the above two reserves.

The balances of the reserve accounts at June 30, 2014 are as follows:

	<u>Required Reserve</u>	<u>Amount Funded</u>
Retiree reserve	\$ 27,150,409	\$ 17,349,451
Employee reserve	\$ 2,511,486	\$ 2,511,486
Employer reserve	N/A	\$ -

#### Policemen and Firemen Retirement System

In accordance with Plan documents, the following reserves are required to be set aside within the pension plan:

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2014

### Note 11 - Pension Plan Reserves (Continued)

The retiree reserve is to be computed annually by the actuary as the present value of estimated benefit payments for all current retirees. The amounts reserved may be used solely to pay monthly retiree benefit payments.

The employee reserve is credited as employee contributions are received throughout the year; the Plan maintains a record of the amount contributed by each employee, and credits interest annually at a rate of 2 percent. For any employee who terminates before vesting in the pension plan, their balance is returned to them; for those who stay until retirement, the balance is transferred into the retiree reserve.

The employer reserve account is used to account for the residual net position balance in the pension plan after funding the above two reserves.

The balances of the reserve accounts at June 30, 2014 are as follows:

	<u>Required Reserve</u>	<u>Amount Funded</u>
Retiree reserve	\$ 62,730,384	\$ 42,010,143
Employee reserve	\$ 3,911,214	\$ 3,911,214
Employer reserve	N/A	\$ -

### Note 12 - Pension Plan Investments - Policy and Rate of Return

#### Municipal Employees' Retirement System

**Investment Policy** - The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Retirement Board by a majority vote of its members. It is the policy of the Retirement Board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the board's adopted asset allocation policy as of June 30, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>
Global equities	44%
Long/short equities	5%
Public REITs	10%
Fixed income	28%
Real assets	10%
Cash	3%

### Note 12 - Pension Plan Investments - Policy and Rate of Return (Continued)

**Rate of Return** - For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 13.44 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

#### Policemen and Firemen Retirement System

**Investment Policy** - The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Retirement Board by a majority vote of its members. It is the policy of the Retirement Board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the board's adopted asset allocation policy as of June 30, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>
Global equities	55%
Domestic fixed income	38%
Real assets (commodities)	3%
Cash and cash equivalents	4%

**Rate of Return** - For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 15.76 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.



# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2014

### Note 13 - City Pension Cost and Related Asset - Municipal Employees

The pension plan does not issue a separate financial report.

#### Annual Pension Cost and Net Pension Asset

Annual required contribution	\$ (882,147)
Interest on net pension asset	15,687
Adjustment to annual required contribution	<u>(12,179)</u>
Annual pension cost (APC)	(878,639)
Contributions made	882,147
Change in estimate of annual pension cost	<u>44,517</u>
Increase in net pension asset	48,025
Net pension asset - Beginning of year	<u>164,647</u>
Net pension asset - End of year	<u>\$ 212,672</u>

**Annual Pension Cost** - For the year ended June 30, 2014, the City's annual pension cost of \$878,639 for the plan was exceeded by the City's actual contribution of \$882,147 and a change in the estimate of the prior years' annual pension cost of \$44,517. The pension cost for the three most recent years is as follows:

	Fiscal Year Ended June 30		
	2014	2013	2012
Annual pension cost (APC)	\$ 878,639	\$ 871,193	\$ 674,227
Percentage of APC contributed	105.4%	102.4%	101.8%
Net pension asset	212,672	164,647	144,087

**Funding Status and Funding Progress** - As of June 30, 2013, the most recent actuarial valuation date, the plan was 65 percent funded. The actuarial accrued liability for benefits was \$29,495,953, and the actuarial value of assets was \$19,106,433, resulting in an unfunded actuarial accrued liability of \$10,389,520. The covered payroll (annual payroll to active employees covered by the plan) was \$2,428,924, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 427.7 percent.

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

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2014

### Note 13 - City Pension Cost and Related Asset - Municipal Employees (Continued)

**Actuarial Methods and Assumptions** - The annual required contribution was determined as part of an actuarial valuation at June 30, 2012, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.5 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 23 years.

### Note 14 - City Pension Cost and Related Asset - Policemen and Firemen

The pension plan does not issue a separate financial report.

#### Annual Pension Cost and Net Pension Asset

Annual required contribution	\$ (2,649,082)
Interest on net pension asset	16,600
Adjustment to annual required contribution	<u>(19,421)</u>
Annual pension cost (APC)	(2,651,903)
Contributions made	2,649,082
Change in estimate of annual pension cost	<u>119,173</u>
Increase in net pension asset	116,352
Net pension asset - Beginning of year	<u>102,154</u>
Net pension asset - End of year	<u><u>\$ 218,506</u></u>

**Annual Pension Cost** - For the year ended June 30, 2014, the City's annual pension cost of \$2,651,903 for the plan was exceeded by the City's actual contribution of \$2,649,082 and a change in the estimate of the prior years' annual pension cost of \$119,173. The pension cost for the three most recent years is as follows:

	Fiscal Year Ended June 30		
	2014	2013	2012
Annual pension cost (APC)	\$ 2,651,903	\$ 2,362,717	\$ 1,826,569
Percentage of APC contributed	104.4 %	100.5 %	86.4 %
Net pension asset	218,506	102,154	90,706

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2014

### Note 14 - City Pension Cost and Related Asset - Policemen and Firemen (Continued)

**Funding Status and Funding Progress** - As of June 30, 2013, the most recent actuarial valuation date, the plan was 63.7 percent funded. The actuarial accrued liability for benefits was \$65,718,329, and the actuarial value of assets was \$41,888,768, resulting in an unfunded actuarial accrued liability of \$23,829,561. The covered payroll (annual payroll to active employees covered by the plan) was \$4,966,288, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 479.8 percent.

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

**Actuarial Methods and Assumptions** - The annual required contribution was determined as part of an actuarial valuation at June 30, 2013, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.5 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. 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 13 years.

### Note 15 - Net Pension Liability of the City - Municipal Employees

The City reports pension expense based on funding requirements, as directed by GASB 27. Beginning next year, the City will adopt GASB 68 which will require the measurement of pension expense as it is earned, rather than as it is funded. The net pension liability of the City has been measured as of June 30, 2014 and is composed of the following:

The components of the net pension liability of the City at June 30, 2014, were as follows:

Total pension liability	\$ 29,661,895
Plan fiduciary net position	<u>(19,860,938)</u>
City's net position liability	<u>\$ 9,800,957</u>
Plan fiduciary net position as a percentage of the total pension liability	67.0 %

### **Note 15 - Net Pension Liability of the City - Municipal Employees (Continued)**

**Actuarial Assumptions** - The total pension liability was determined by an actuarial valuation as of June 30, 2013, which used update procedures to roll forward the estimated liability to June 30, 2014. The valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4.5 %	
Salary increases	4.5 - 14 %	Including inflation
Investment rate of return	7.5 %	Net of pension plan investment expense, including inflation

Mortality rates were based on the 1994 Group Annuity Mortality Table (post-retirement disabled mortality is set forward 10 years).

**Discount Rate** - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

#### **Projected Cash Flows**

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2014

### Note 15 - Net Pension Liability of the City - Municipal Employees (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2014 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table.

Asset Class	Long-term Expected Real Rate of Return
Domestic equity	9.80%
International equity	9.70%
Emerging markets equity	9.90%
Investment grade U.S. fixed income	4.30%
High yield fixed income	7.80%
International fixed income	4.50%
Gold	6.10%
Cash	2.70%

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the City, calculated using the discount rate of 7.5 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net pension liability of the City	\$ 12,900,857	\$ 9,800,957	\$ 7,160,605

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2014

### Note 16 - Net Pension Liability of the City - Policemen and Firemen

The City reports pension expense based on funding requirements, as directed by GASB 27. Beginning next year, the City will adopt GASB 68 which will require the measurement of pension expense as it is earned, rather than as it is funded. The net pension liability of the City has been measured as of June 30, 2014 and is composed of the following:

The components of the net pension liability of the City at June 30, 2014, were as follows:

Total pension liability	\$ 66,641,598
Plan fiduciary net position	<u>(45,921,357)</u>
City's net position liability	20,720,241

Plan fiduciary net position as a percentage of the total pension liability	68.9 %
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**Actuarial Assumptions** - The total pension liability was determined by an actuarial valuation as of June 30, 2013, which used to update procedures to roll forward the estimated liability to June 30, 2014. The valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4.50 %
Salary increases	4.7 - 8.3 % Average, including inflation
Investment rate of return	7.50 % Net of pension plan investment expense, including inflation

Mortality rates were based on 90 percent of the 1983 Group Annuity Mortality Table.

**Discount Rate** - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

### Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2014

### Note 16 - Net Pension Liability of the City - Policemen and Firemen (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2014 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table.

Asset Class	Long-term Expected Real Rate of Return
Domestic equity	9.80%
International equity	9.70%
Emerging markets equity	9.90%
Investment grade U.S. fixed income	4.30%
High yield fixed income	7.80%
International fixed income	4.50%
Gold	6.10%
Cash	2.70%

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the City, calculated using the discount rate of 7.5 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net pension liability of the City	\$ 27,887,286	\$ 20,720,241	\$ 15,194,221

### Note 17 - 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, 2014, the City made payments for postemployment health benefit premiums for current general retirees in the age adjusted amount of \$1,050,097, which was paid from governmental funds.

**Funding Progress** - For the year ended June 30, 2014, 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)	\$ 2,426,703
Interest on the prior year's net OPEB obligation	443,398
Less adjustment to the annual required contribution	<u>(590,066)</u>
Annual OPEB cost	2,280,035
Amounts contributed:	
Payments of current premiums - Age adjusted	(1,050,097)
Advance funding	<u>(75,000)</u>
Increase in net OPEB obligation	1,154,938
OPEB obligation - Beginning of year	<u>8,061,788</u>
OPEB obligation - End of year	<u>\$ 9,216,726</u>



# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2014

### Note 17 - 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
6/30/10	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
6/30/14	6/30/11	2,426,703	46.3	9,216,726

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 17 - 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, 2014 was 25 years.

### **Note 18 - Other Postemployment Benefits - Police and Fire**

**Plan Description** - The City provides healthcare 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, 2014, the City made payments for postemployment health benefit premiums for current police and fire retirees in the age adjusted amount of \$1,764,000, 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, 2014

### Note 18 - Other Postemployment Benefits - Police and Fire (Continued)

**Funding Progress** - For the year ended June 30, 2014, 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)	\$ 2,411,044
Interest on the prior year's net OPEB obligation	275,782
Less adjustment to the annual required contribution	<u>(193,071)</u>
Annual OPEB cost	2,493,755
Amounts contributed:	
Payments of current premiums	-
Advance funding	<u>(1,764,000)</u>
Increase in net OPEB obligation	729,755
OPEB obligation - Beginning of year	<u>5,014,227</u>
OPEB obligation - End of year	<u>\$ 5,743,982</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
6/30/10	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
6/30/14	6/30/11	2,411,044	73.2	5,743,982

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

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2014

### Note 18 - 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, 2014 was 30 years.

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2014

### Note 19 - 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
<b>Statement of Net Position</b>					
Investments	\$ 19,914,730	\$ 45,750,673	\$ 2,408,565	\$ 1,138,039	\$ 69,212,007
Other assets	33,188	379,703	12,227	140,747	565,865
Liabilities	86,980	209,019	1,500	32,093	329,592
Net position	<u>\$ 19,860,938</u>	<u>\$ 45,921,357</u>	<u>\$ 2,419,292</u>	<u>\$ 1,246,693</u>	<u>\$ 69,448,280</u>
<b>Statement of Changes in Net Position</b>					
Investment income	\$ 2,418,590	\$ 6,412,966	\$ 2,682	\$ 1,681	\$ 8,835,919
Contributions	1,187,937	3,009,035	1,139,780	1,774,667	7,111,419
Benefit payments	2,264,831	4,567,523	1,059,973	1,761,837	9,654,164
Net change in net position	<u>\$ 1,341,696</u>	<u>\$ 4,854,478</u>	<u>\$ 82,489</u>	<u>\$ 14,511</u>	<u>\$ 6,293,174</u>

### Note 20 - 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 \$790,618 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 \$1,266,444 at June 30, 2014. During the year, the City paid \$1,317,856 for operations of the system and \$1,525,971 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 21 - Upcoming Accounting Pronouncements**

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**

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# City of Southgate, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 13,057,536	\$ 13,115,536	\$ 13,011,345	\$ (104,191)
Reimbursements from other funds	1,518,243	1,518,243	1,346,832	(171,411)
Licenses and permits	499,100	499,100	510,667	11,567
Federal grants	570,919	570,919	640,086	69,167
State sources	2,963,796	2,963,796	3,092,746	128,950
Charges for services	702,171	702,171	749,932	47,761
Fines and forfeitures	1,615,500	1,615,500	1,605,837	(9,663)
Interest income	10,000	10,000	3,635	(6,365)
Rental income	617,108	617,108	682,048	64,940
Other revenue	154,500	154,500	215,014	60,514
<b>Total revenue</b>	<b>21,708,873</b>	<b>21,766,873</b>	<b>21,858,142</b>	<b>91,269</b>
<b>Expenditures - Current</b>				
General government:				
City Council	37,590	37,590	28,991	8,599
Executive	220,051	220,051	227,973	(7,922)
Finance	408,346	408,346	405,323	3,023
Treasurer	202,985	202,985	195,757	7,228
Assessor	173,526	161,526	173,853	(12,327)
Clerk	144,046	144,046	141,249	2,797
Elections	22,500	22,500	20,058	2,442
Attorney	157,400	151,400	151,404	(4)
Nondepartmental	3,539,413	3,564,413	3,584,843	(20,430)
<b>Total general government</b>	<b>4,905,857</b>	<b>4,912,857</b>	<b>4,929,451</b>	<b>(16,594)</b>
28th District Court	1,065,847	1,027,847	1,003,624	24,223
Public safety:				
Police	6,134,433	6,134,433	6,019,971	114,462
Fire	3,877,293	3,907,293	4,004,296	(97,003)
Emergency preparedness	6,350	6,350	895	5,455
Building inspections and related	337,588	337,588	332,005	5,583
Police and Fire Civil Service Commission	7,000	7,000	1,778	5,222
<b>Total public safety</b>	<b>10,362,664</b>	<b>10,392,664</b>	<b>10,358,945</b>	<b>33,719</b>
Public works:				
Public services	1,853,854	1,977,854	2,083,578	(105,724)
Sanitation	1,666,000	1,666,000	1,711,991	(45,991)
Planning	10,000	10,000	11,810	(1,810)
City garage	580,844	555,844	549,058	6,786
<b>Total public works</b>	<b>4,110,698</b>	<b>4,209,698</b>	<b>4,356,437</b>	<b>(146,739)</b>
Recreation and culture:				
Recreation	599,521	559,521	568,935	(9,414)
Senior Citizen Center	79,108	79,108	60,489	18,619
Cultural Commission	1,400	1,400	1,899	(499)
<b>Total recreation and culture</b>	<b>680,029</b>	<b>640,029</b>	<b>631,323</b>	<b>8,706</b>
Transfers to other funds	583,775	583,775	583,775	-
<b>Total expenditures</b>	<b>21,708,870</b>	<b>21,766,870</b>	<b>21,863,555</b>	<b>(96,685)</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>3</b>	<b>3</b>	<b>(5,413)</b>	<b>(5,416)</b>
<b>Other Financing Sources -</b>				
Transfers in	-	-	50,232	50,232
<b>Net Change in Fund Balance</b>	<b>3</b>	<b>3</b>	<b>44,819</b>	<b>44,816</b>
<b>Fund Balance - Beginning of year</b>	<b>1,768,349</b>	<b>1,768,349</b>	<b>1,768,349</b>	<b>-</b>
<b>Fund Balance - End of year</b>	<b>\$ 1,768,352</b>	<b>\$ 1,768,352</b>	<b>\$ 1,813,168</b>	<b>\$ 44,816</b>



# City of Southgate, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Southgate-Wyandotte Operation and Maintenance Fund Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Special assessments	\$ 1,241,000	\$ 1,241,000	\$ 1,121,864	\$ (119,136)
Interest income	-	-	1,701	1,701
Total revenue	1,241,000	1,241,000	1,123,565	(117,435)
<b>Expenditures - Current - Public works</b>	3,103,036	3,103,036	1,420,990	1,682,046
<b>Net Change in Fund Balance</b>	(1,862,036)	(1,862,036)	(297,425)	1,564,611
<b>Fund Balance - Beginning of year</b>	4,538,983	4,538,983	4,538,983	-
<b>Fund Balance - End of year</b>	<u>\$ 2,676,947</u>	<u>\$ 2,676,947</u>	<u>\$ 4,241,558</u>	<u>\$ 1,564,611</u>

# City of Southgate, Michigan

## Required Supplemental Information Municipal Employees' Retirement System Schedule of Funding Progress Year Ended June 30, 2014

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
6/30/08	\$ 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
6/30/13	19,106,000	29,496,000	10,390,000	64.8	2,429,000	427.7

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2013, the latest actuarial valuation, follows:

Amortization method	Level dollar
Remaining amortization period	23 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 Municipal Employees' Retirement System Schedule of Investment Returns Last Ten Fiscal Years

	2014	2013*	2012*	2011*	2010*	2009*	2008*	2007*	2006*	2005*
Annual money-weighted rate of return, net of investment expense	13.4 %	- %	- %	- %	- %	- %	- %	- %	- %	- %

\* GASB 67 was implemented for FYE June 30, 2014 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.

# City of Southgate, Michigan

## Required Supplemental Information Municipal Employees' Retirement System Schedule of Changes in the City Net Pension Liability and Related Ratios Last Ten Fiscal Years

	2014	2013*	2012*	2011*	2010*	2009*	2008*	2007*	2006*	2005*
<b>Total Pension Liability</b>										
Service cost	\$ 452,058	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	2,132,671	-	-	-	-	-	-	-	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	-	-	-	-	-	-	-	-	-	-
Changes in assumptions	-	-	-	-	-	-	-	-	-	-
Benefit payments, including refunds:	<u>(2,264,831)</u>	-	-	-	-	-	-	-	-	-
Net change in total pension liability	319,898	-	-	-	-	-	-	-	-	-
Total pension liability - Beginning of year	<u>29,341,997</u>	-	-	-	-	-	-	-	-	-
Total pension liability - End of year	<u>\$29,661,895</u>	<u>\$29,341,997</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Plan Fiduciary Net Position</b>										
Contributions - Employer	\$ 882,147	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions - Member	305,790	-	-	-	-	-	-	-	-	-
Net investment income	2,418,590	-	-	-	-	-	-	-	-	-
Administrative expenses	-	-	-	-	-	-	-	-	-	-
Benefit payments, including refunds	(2,264,831)	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Net change in plan fiduciary net position	1,341,696	-	-	-	-	-	-	-	-	-
Plan fiduciary net position - Beginning of year	<u>18,519,242</u>	-	-	-	-	-	-	-	-	-
Plan fiduciary net position - End of year	<u>\$19,860,938</u>	<u>\$18,519,242</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>City's Net Pension Liability - Ending</b>	<u>\$ 9,800,957</u>	<u>\$10,822,755</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Plan Fiduciary Net Position as a % of Total Pension Liability</b>	66.96 %	63.12 %	- %	- %	- %	- %	- %	- %	- %	- %
<b>Covered Employee Payroll</b>	\$ 2,501,902	\$ 2,429,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>City's Net Pension Liability as a % of Covered Employee Payroll</b>	391.7 %	445.6 %	- %	- %	- %	- %	- %	- %	- %	- %

\* GASB 67 was implemented for FYE June 30, 2014 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.

# City of Southgate, Michigan

## Required Supplemental Information Municipal Employees' Retirement System Schedule of City Contributions Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	\$ 882,147	\$ 875,326	\$ 680,346	\$ 759,141	\$ 862,425	\$ 889,043	\$ 767,755	\$ 747,469	\$ 719,367	\$ 501,299
Contributions in relation to the actuarially determined contribution	882,147	891,193	680,346	759,141	862,425	889,043	767,755	747,469	719,367	501,299
<b>Contribution Deficiency (Excess)</b>	<b>\$ -</b>	<b>\$ (15,867)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Covered Employee Payroll</b>	<b>\$ 2,501,902</b>	<b>\$ 2,603,000</b>	<b>\$ 2,995,000</b>	<b>\$ 3,678,000</b>	<b>\$ 3,700,000</b>	<b>\$ 3,800,000</b>	<b>\$ 3,700,000</b>	<b>\$ 3,700,000</b>	<b>\$ 4,000,000</b>	<b>\$ 4,100,000</b>
<b>Contributions as a Percentage of Covered Employee Payroll</b>	<b>35.3 %</b>	<b>34.2 %</b>	<b>22.7 %</b>	<b>20.6 %</b>	<b>23.3 %</b>	<b>23.4 %</b>	<b>20.8 %</b>	<b>20.2 %</b>	<b>18.0 %</b>	<b>12.2 %</b>

### Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation Date	Actuarially determined contribution rates are calculated as of June 30 each year, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.
Methods and assumptions used to determine contribution rates	
Actuarial cost method	Entry-age actuarial cost method
Amortization method	Level Dollar
Remaining amortization period	23 years
Asset valuation method	4-year smoothed market
Inflation	4.5%
Salary increases	4.5% - 14.0% including inflation
Investment rate of return	7.5% (net of investment and administrative expenses)
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2007 valuation.
Mortality	1994 Group Annuity Mortality Table (post-retirement disabled mortality is set forward 10 years).
Other information	None

# City of Southgate, Michigan

## Required Supplemental Information Policemen and Firemen Retirement System Schedule of Funding Progress Year Ended June 30, 2014

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
6/30/08	\$ 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
6/30/13	41,889,000	65,718,000	23,829,000	63.7	4,966,000	479.8

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2013, 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

## Required Supplemental Information Policemen and Firemen Retirement System Schedule of Investment Returns Last Ten Fiscal Years

	2014	2013*	2012*	2011*	2010*	2009*	2008*	2007*	2006*	2005*
Annual money-weighted rate of return, net of investment expense	16.00 %	- %	- %	- %	- %	- %	- %	- %	- %	- %

\* GASB 67 was implemented for FYE June 30, 2014 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.

# City of Southgate, Michigan

## Required Supplemental Information Policemen and Firemen Retirement System Schedule of Changes in the City Net Pension Liability and Related Ratios Last Ten Fiscal Years

	2014	2013	2012*	2011*	2010*	2009*	2008*	2007*	2006*	2005*
<b>Total Pension Liability</b>										
Service cost	\$ 1,058,512	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	4,771,821	-	-	-	-	-	-	-	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	-	-	-	-	-	-	-	-	-	-
Changes in assumptions	-	-	-	-	-	-	-	-	-	-
Benefit payments, including refunds	(4,567,523)	-	-	-	-	-	-	-	-	-
Net change in total pension liability	1,262,810	-	-	-	-	-	-	-	-	-
Total pension liability - Beginning of year	65,378,788	-	-	-	-	-	-	-	-	-
Total pension liability - End of year	<u>\$66,641,598</u>	<u>\$65,378,788</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Plan Fiduciary Net Position</b>										
Contributions - Employer	\$ 2,649,082	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions - Member	359,953	-	-	-	-	-	-	-	-	-
Net investment income	6,412,966	-	-	-	-	-	-	-	-	-
Administrative expenses	-	-	-	-	-	-	-	-	-	-
Benefit payments, including refunds	(4,567,523)	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Net change in plan fiduciary net position	4,854,478	-	-	-	-	-	-	-	-	-
Plan fiduciary net position - Beginning of year	41,066,879	-	-	-	-	-	-	-	-	-
Plan fiduciary net position - End of year	<u>\$45,921,357</u>	<u>\$41,066,879</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>City's Net Pension Liability - Ending</b>	<u>\$20,720,241</u>	<u>\$24,311,909</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Plan Fiduciary Net Position as a % of Total Pension Liability</b>	68.91 %	62.81 %	- %	- %	- %	- %	- %	- %	- %	- %
<b>Covered Employee Payroll</b>	\$ 4,708,305	\$ 4,966,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>City's Net Pension Liability as a % of Covered Employee Payroll</b>	440.1 %	489.6 %	- %	- %	- %	- %	- %	- %	- %	- %

\* GASB 67 was implemented for FYE June 30, 2014 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.



# City of Southgate, Michigan

## Required Supplemental Information Policemen and Firemen Retirement System Schedule of City Contributions Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	\$ 2,649,082	\$ 2,358,835	\$ 1,813,622	\$ 1,472,204	\$ 1,175,192	\$ 1,833,567	\$ 1,811,563	\$ 1,881,109	\$ 1,567,124	\$ 1,110,060
Contributions in relation to the actuarially determined contribution	<u>2,768,255</u>	<u>2,374,165</u>	<u>1,579,123</u>	<u>1,558,654</u>	<u>1,188,890</u>	<u>1,733,854</u>	<u>1,773,329</u>	<u>1,783,439</u>	<u>1,567,124</u>	<u>1,110,060</u>
<b>Contribution Deficiency (Excess)</b>	<u>\$ (119,173)</u>	<u>\$ (15,330)</u>	<u>\$ 234,499</u>	<u>\$ (86,450)</u>	<u>\$ (13,698)</u>	<u>\$ 99,713</u>	<u>\$ 38,234</u>	<u>\$ 97,670</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Covered Employee Payroll</b>	\$ 4,708,305	\$ 4,966,288	\$ 4,889,791	\$ 4,922,456	\$ 4,884,554	\$ 5,759,174	\$ 5,438,968	\$ 5,281,801	\$ 5,200,000	\$ 5,100,000
<b>Contributions as a Percentage of Covered Employee Payroll</b>	58.8 %	47.8 %	32.3 %	31.7 %	24.3 %	30.1 %	32.6 %	33.8 %	30.1 %	21.8 %

### Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation Date	Actuarially determined contribution rates are calculated as of June 30 each year, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.
Methods and assumptions used to determine contribution rates	
Actuarial cost method	Entry-age actuarial cost method
Amortization method	Level Dollar
Remaining amortization period	13 years
Asset valuation method	4-year smoothed market
Inflation	4.5%
Salary increases	4.7% - 8.3% including inflation
Investment rate of return	7.5% (net of investment and administrative expenses)
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	90% of the 1983 Group Annuity Mortality Table.
Other information	None

# City of Southgate, Michigan

## Required Supplemental Information Municipal Employees' Retiree Healthcare System Schedules of Funding Progress and Employer Contributions Year Ended June 30, 2014

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
6/30/07	\$ 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

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
6/30/09	6/30/07	\$ 2,855,905	32.6
6/30/10	6/30/07	2,858,040	32.2
6/30/11	6/30/09	2,370,630	30.8
6/30/12	6/30/09	2,368,796	37.1
6/30/13	6/30/11	2,427,465	42.8
6/30/14	6/30/11	2,426,703	47.6

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2013, the latest actuarial valuation, follows:

Amortization method	Level dollar
Amortization period (perpetual)	25 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	5.5%
Projected salary increases	4.5% - 14%
*Includes inflation at	4.5%
Cost of living adjustments	None

# City of Southgate, Michigan

## Required Supplemental Information Policemen and Firemen Retiree Healthcare System Schedules of Funding Progress and Employer Contributions Year Ended June 30, 2014

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
6/30/07	\$ 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

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
6/30/09	6/30/07	\$ 2,536,970	54.0
6/30/10	6/30/07	2,651,134	48.1
6/30/11	6/30/09	2,287,952	58.4
6/30/12	6/30/09	2,348,689	66.3
6/30/13	6/30/11	2,350,185	77.3
6/30/14	6/30/11	2,411,044	73.2

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2013, the latest actuarial valuation, follows:

Amortization method	Level percent
Amortization period (perpetual)	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	5.5%
Projected salary increases	4.66% - 8.34%
*Includes inflation at	4.5%
Cost of living adjustments	None

# City of Southgate, Michigan

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## Note to Required Supplemental Information Year Ended June 30, 2014

### 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, 2014 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, 2014

### Note - Budgetary Information (Continued)

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

- Operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."
- Reimbursements from other funds have been included in revenue, rather than as a reduction of general government nondepartmental expenditures.
- The Community Development Block Grant 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	\$ 20,511,364	\$ 20,056,767	\$ 454,597
Operating transfers budgeted as revenue and expenditures	-	508,775	(508,775)
Reimbursements from other funds	1,346,832	1,346,832	-
Severance Reserve Fund budgeted separately from the General Fund	(54)	(48,819)	48,765
Amounts per budget statement	<u>\$ 21,858,142</u>	<u>\$ 21,863,555</u>	<u>\$ (5,413)</u>

# City of Southgate, Michigan

## Note to Required Supplemental Information (Continued) June 30, 2014

### 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:			
Executive	\$ 220,051	\$ 227,973	\$ (7,922)
Assessor	161,526	173,853	(12,327)
Attorney	151,400	151,404	(4)
Nondepartmental	3,564,413	3,584,843	(20,430)
Public safety - Fire	3,907,293	4,004,296	(97,003)
Public works:			
Sanitation	1,666,000	1,711,991	(45,991)
Planning	10,000	11,810	(1,810)
Public services	1,977,854	2,083,578	(105,724)
Recreation and culture:			
Recreation	559,521	568,935	(9,414)
Cultural commission	1,400	1,899	(499)

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

## **Other Supplemental Information**

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# City of Southgate, Michigan

	Special Revenue Funds					Debt Service
						Funds
	Major Street Fund	Local Street Fund	Street Paving Fund	Narcotics Enforcement	Library	SCI 541 Bond
<b>Assets</b>						
Cash and investments	\$ 697,414	\$ 2,345,493	\$ 2,641,288	\$ 430,585	\$ 537,519	\$ 4,963
Receivables - Net	125,295	40,226	-	-	30,726	-
Due from component units	-	-	-	-	-	-
Advances to other funds	-	-	204,089	-	-	-
Prepaid expenses and other assets	-	-	-	-	1,424	-
<b>Total assets</b>	<b>\$ 822,709</b>	<b>\$ 2,385,719</b>	<b>\$ 2,845,377</b>	<b>\$ 430,585</b>	<b>\$ 569,669</b>	<b>\$ 4,963</b>
<b>Liabilities</b>						
Accounts payable	\$ 19,998	\$ 16,139	\$ 788,195	\$ 23,919	\$ 7,673	\$ -
Accrued liabilities and other	-	-	22,500	-	5,198	-
<b>Total liabilities</b>	<b>19,998</b>	<b>16,139</b>	<b>810,695</b>	<b>23,919</b>	<b>12,871</b>	<b>-</b>
<b>Fund Balances</b>						
Nonspendable:						
Prepays	-	-	-	-	1,424	-
Long-term receivable	-	-	204,089	-	-	-
Restricted:						
Roads	802,711	2,369,580	1,830,593	-	-	-
Narcotics enforcement	-	-	-	406,666	-	-
Debt service	-	-	-	-	-	4,963
Library	-	-	-	-	555,374	-
District court capital improvement	-	-	-	-	-	-
Committed	-	-	-	-	-	-
Assigned	-	-	-	-	-	-
<b>Total fund balances</b>	<b>802,711</b>	<b>2,369,580</b>	<b>2,034,682</b>	<b>406,666</b>	<b>556,798</b>	<b>4,963</b>
<b>Total liabilities and fund balances</b>	<b>\$ 822,709</b>	<b>\$ 2,385,719</b>	<b>\$ 2,845,377</b>	<b>\$ 430,585</b>	<b>\$ 569,669</b>	<b>\$ 4,963</b>



**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2014**

Debt Service Funds			Capital Projects Funds			Total
Michigan Transportation Bond	Southgate - Wyandotte Drain	Building Authority Fund	Capital Improvement Fund	Drake Street Construction Fund	District Court Capital Improvement	Nonmajor Governmental Funds
\$ 108,103	\$ 51,727	\$ 89,932	\$ 1,143,128	\$ -	\$ 203,488	\$ 8,253,640
-	-	-	-	-	11,789	208,036
-	-	-	45,056	-	-	45,056
-	-	-	-	-	-	204,089
-	-	-	-	-	-	1,424
<b>\$ 108,103</b>	<b>\$ 51,727</b>	<b>\$ 89,932</b>	<b>\$ 1,188,184</b>	<b>\$ -</b>	<b>\$ 215,277</b>	<b>\$ 8,712,245</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 855,924
-	-	-	-	-	-	27,698
-	-	-	-	-	-	883,622
-	-	-	-	-	-	1,424
-	-	-	-	-	-	204,089
-	-	-	-	-	-	5,002,884
-	-	-	-	-	-	406,666
108,103	51,727	89,932	-	-	-	254,725
-	-	-	-	-	-	555,374
-	-	-	-	-	215,277	215,277
-	-	-	921,321	-	-	921,321
-	-	-	266,863	-	-	266,863
108,103	51,727	89,932	1,188,184	-	215,277	7,828,623
<b>\$ 108,103</b>	<b>\$ 51,727</b>	<b>\$ 89,932</b>	<b>\$ 1,188,184</b>	<b>\$ -</b>	<b>\$ 215,277</b>	<b>\$ 8,712,245</b>

# City of Southgate, Michigan

	Special Revenue Funds				
	Major Street Fund	Local Street Fund	Street Paving Fund	Narcotics Enforcement	Library
<b>Revenue</b>					
Property taxes	\$ -	\$ -	\$ 1,189,068	\$ -	\$ 541,192
Federal grants	-	-	-	146,206	-
State sources	1,274,652	470,261	-	51,509	25,216
Charges for services	-	-	-	-	-
Investment income	365	611	1,285	273	284
Other revenue	-	52,029	-	-	38,918
<b>Total revenue</b>	<b>1,275,017</b>	<b>522,901</b>	<b>1,190,353</b>	<b>197,988</b>	<b>605,610</b>
<b>Expenditures - Current</b>					
General government	-	-	-	-	-
Public safety	-	-	-	327,870	-
Public works	768,410	460,912	2,505,285	-	-
Recreation and culture - Library	-	-	-	-	497,798
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest on long-term debt	-	-	-	-	-
<b>Total expenditures</b>	<b>768,410</b>	<b>460,912</b>	<b>2,505,285</b>	<b>327,870</b>	<b>497,798</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>506,607</b>	<b>61,989</b>	<b>(1,314,932)</b>	<b>(129,882)</b>	<b>107,812</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	255,127	-	-	-
Transfers out	(336,765)	-	-	-	(110,980)
<b>Total other financing sources (uses)</b>	<b>(336,765)</b>	<b>255,127</b>	<b>-</b>	<b>-</b>	<b>(110,980)</b>
<b>Net Change in Fund Balances</b>	<b>169,842</b>	<b>317,116</b>	<b>(1,314,932)</b>	<b>(129,882)</b>	<b>(3,168)</b>
<b>Fund Balances - Beginning of year</b>	<b>632,869</b>	<b>2,052,464</b>	<b>3,349,614</b>	<b>536,548</b>	<b>559,966</b>
<b>Fund Balances - End of year</b>	<b>\$ 802,711</b>	<b>\$ 2,369,580</b>	<b>\$ 2,034,682</b>	<b>\$ 406,666</b>	<b>\$ 556,798</b>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes in**  
**Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2014**

Debt Service Funds				Capital Projects Fund			Total
SCI 541 Bond	Michigan Transportation Bond	Southgate - Wyandotte Drain	Building Authority Fund	Capital Improvement Fund	Drake Street Construction Fund	District Court Capital Improvement	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,730,260
-	-	-	-	-	-	-	146,206
-	-	-	-	-	-	-	1,821,638
-	-	-	-	-	-	156,203	156,203
1	40	20	33	529	17	89	3,547
-	-	-	701,099	8,873	-	-	800,919
1	40	20	701,132	9,402	17	156,292	4,658,773
-	-	6,587	-	-	109	-	6,696
-	-	-	-	-	-	-	327,870
-	-	-	-	-	-	-	3,734,607
-	-	-	-	-	-	-	497,798
-	-	-	-	92,629	-	160,870	253,499
-	75,000	-	705,000	-	-	114,797	894,797
-	6,638	-	415,704	-	-	25,355	447,697
-	81,638	6,587	1,120,704	92,629	109	301,022	6,162,964
1	(81,598)	(6,567)	(419,572)	(83,227)	(92)	(144,730)	(1,504,191)
-	81,638	-	419,755	-	-	-	756,520
-	-	-	-	-	(50,232)	-	(497,977)
-	81,638	-	419,755	-	(50,232)	-	258,543
1	40	(6,567)	183	(83,227)	(50,324)	(144,730)	(1,245,648)
4,962	108,063	58,294	89,749	1,271,411	50,324	360,007	9,074,271
<b>\$ 4,963</b>	<b>\$ 108,103</b>	<b>\$ 51,727</b>	<b>\$ 89,932</b>	<b>\$ 1,188,184</b>	<b>\$ -</b>	<b>\$ 215,277</b>	<b>\$ 7,828,623</b>

# City of Southgate, Michigan

	Pension Trust Funds				
	Municipal Employees' Retirement System	Policemen and Firemen Retirement System	Municipal Employees' Retiree Health Care	Act 345 Health Insurance	Total Pension Trust Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 788,488	\$ 2,278,968	\$ 2,408,565	\$ 1,138,039	\$ 6,614,060
Investments:					
U.S. government securities	-	5,900	-	-	5,900
Stocks and mutual funds	19,126,242	43,402,946	-	-	62,529,188
Mortgage-backed securities	-	62,859	-	-	62,859
Receivables:					
Accrued interest receivable	11,503	33,057	-	-	44,560
Other receivables	21,685	346,646	12,227	94,667	475,225
Prepaid expenses	-	-	-	46,080	46,080
Total assets	19,947,918	46,130,376	2,420,792	1,278,786	69,777,872
<b>Liabilities</b>					
Accounts payable	86,980	209,019	1,500	32,093	329,592
Due to other governmental units	-	-	-	-	-
Cash bonds and deposits	-	-	-	-	-
Total liabilities	86,980	209,019	1,500	32,093	329,592
<b>Net Position Held in Trust for Pension and Other Employee Benefits</b>	<b>\$ 19,860,938</b>	<b>\$ 45,921,357</b>	<b>\$ 2,419,292</b>	<b>\$ 1,246,693</b>	<b>\$ 69,448,280</b>

**Other Supplemental Information**  
**Fiduciary Funds**  
**Combining Statement of Fiduciary Net Position**  
**Year Ended June 30, 2014**

Agency Funds

Tax Collection	Senior Citizens' Trust	Escrow Fund	Total Agency Funds
\$ 144,643	\$ 55,096	\$ 253,204	\$ 452,943
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<b>\$ 144,643</b>	<b>\$ 55,096</b>	<b>\$ 253,204</b>	<b>\$ 452,943</b>
\$ -	\$ -	\$ -	\$ -
144,643	-	-	144,643
-	55,096	253,204	308,300
<b>\$ 144,643</b>	<b>\$ 55,096</b>	<b>\$ 253,204</b>	<b>\$ 452,943</b>

# City of Southgate, Michigan

## Other Supplemental Information Fiduciary Funds Combining Statement of Changes in Fiduciary Net Position Fiduciary Funds Year Ended June 30, 2014

	Municipal Employees' Retirement System	Policemen and Firemen Retirement System	Act 345 Health Insurance	Municipal Employees' Retiree Health Care	Total
<b>Additions</b>					
Investment income:					
Interest and dividends	\$ 442,516	\$ 987,888	\$ 1,681	\$ 2,682	\$ 1,434,767
Net increase in fair value of investments	2,106,281	5,697,793	-	-	7,804,074
Investment-related expenses	(130,207)	(272,715)	-	-	(402,922)
Net investment income	2,418,590	6,412,966	1,681	2,682	8,835,919
Contributions:					
Employer	882,147	2,649,082	1,764,000	1,125,097	6,420,326
Employee	305,790	359,953	10,667	14,683	691,093
Net contributions	1,187,937	3,009,035	1,774,667	1,139,780	7,111,419
Total additions - Net	3,606,527	9,422,001	1,776,348	1,142,462	15,947,338
<b>Deductions - Benefit payments</b>	2,264,831	4,567,523	1,761,837	1,059,973	9,654,164
<b>Net Increase in Net Position Held in Trust</b>	1,341,696	4,854,478	14,511	82,489	6,293,174
<b>Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year</b>	18,519,242	41,066,879	1,232,182	2,336,803	63,155,106
<b>Net Position Held in Trust for Pension and Other Employee Benefits - End of year</b>	<b>\$ 19,860,938</b>	<b>\$ 45,921,357</b>	<b>\$ 1,246,693</b>	<b>\$ 2,419,292</b>	<b>\$ 69,448,280</b>