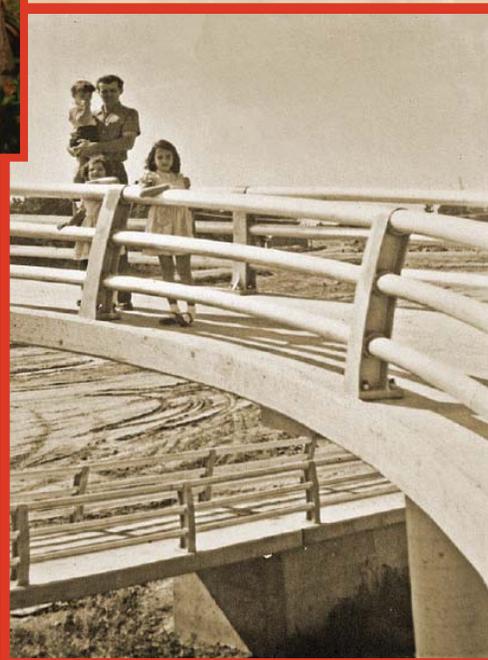
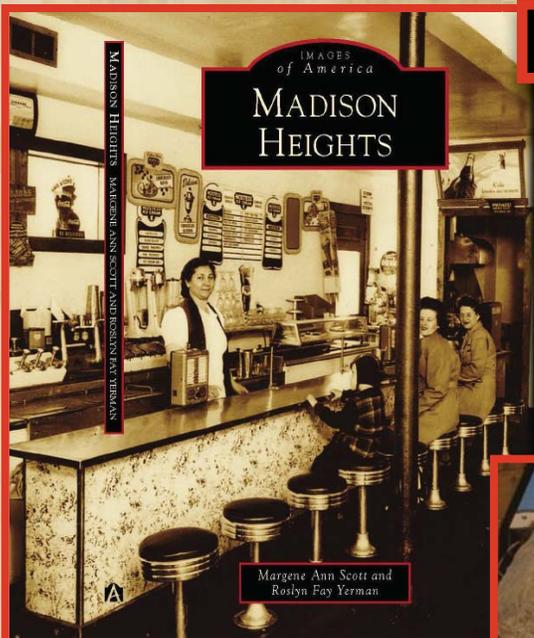




City of Madison Heights

Michigan

Connecting the past to the future



Annual Financial Report

For Fiscal Year Ended June 30, 2013



**View the
FY 2012-13 Annual Financial Audit
on the Web at
www.madison-heights.org**

The cover photos reflect the theme of bringing the past into the future as the City looks forward to the publishing of the Arcadia Publishing book entitled *Images of America - Madison Heights*, currently in production and planned for release in early February 2014.

Left to right - Top row:

Arcadia Book Cover: Antonina Bucciarelli (also known as "Mrs. B") waits on patrons in her popular restaurant, the Madison Drive-In, later nicknamed The Loop. (Courtesy of Teresa (Bucciarelli) Hoskins and the late Angelina (Bucciarelli) Joyce)

City Hall: Former City offices in the City -Township Hall at 26305 John R. (Courtesy of Madison Heights Historical Commission.)

Middle: Current City seal mounted in front of the Peter J. Connors Department of Public Services Building at 801 Ajax Drive. (Courtesy of City of Madison Heights.)

Left to right - Bottom row:

Early Fire Station. (Courtesy of City of Madison Heights.)

I-75 Construction: Ralph Merkel and his children watch the construction of I-75 from the newly constructed overpass on Gardenia in 1963. (Courtesy of Mary Merkel.)

City of Madison Heights, Michigan

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City of Madison Heights, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison Heights, Michigan as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the City of Madison Heights, 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 opinions.

Opinions

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

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, retirement system schedules of funding progress, and the major fund 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 Madison Heights, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The accompanying 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 accompanying other supplemental information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2013 on our consideration of the City of Madison Heights, 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 Madison Heights, Michigan's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 22, 2013

City of Madison Heights, Michigan

Management's Discussion and Analysis

This discussion and analysis provides a narrative overview of the financial activities of the City of Madison Heights, Michigan (the "City") as of and for fiscal year ended June 30, 2013 (fiscal year 2013). This introduction is designed to assist readers in interpreting and analyzing the City's basic financial statements and financial activities based upon currently known facts, decisions, and conditions. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2013:

- The City's General Fund was budgeted to use \$1,884,850 in fund balance during the current fiscal year; however, at June 30, 2013, fund balance decreased \$1,497,845. This difference occurred due to the following events that differed from the amended budget:
 - The City received an MMRMA distribution of \$436,450, of which \$240,046 was allocated to the General Fund. The amount of the distribution, or even if a distribution would be made, was not known until the end of the budget year and was not included in the budget.
 - Court revenues came in 19.5 percent less than budgeted at \$1,531,200. This is a result of fewer tickets, both civil infractions and misdemeanors. The Police Department has filled several vacant police officer positions during the last fiscal year and staff is in the process of being fully trained. We anticipate ticket levels to increase in the coming fiscal year as the department becomes fully staffed. This reduction in revenues was partially offset by reduced court expenditures of \$84,600 during the year.
 - Ambulance fees were recorded \$133,000 higher than budget due to an accounting practice change. In past fiscal years, the City recognized ambulance revenue when the revenue was received. This fiscal year ambulance revenue included an adjustment for the money that had been earned and was expected to be received soon after the fiscal year (60 days).
- The City's Major Streets Fund has increased fund balance at June 30, 2013 by \$736,352. This money is being set aside for future major road maintenance projects, the majority of which are budgeted for in fiscal year 2014 when the fund is anticipated to use \$564,730 of fund balance. This use of fund balance will complete the John R Sectional - 10 Mile to 11 Mile, Northbound I-75 Service Drive from Dallas to Lincoln, and Whitcomb Sectional project from Dequindre to Barrington.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

- The City's Local Streets Fund has decreased fund balance at June 30, 2013 by \$217,465. This reduction is due to reduced property tax income and the planned increased construction projects. As the second Proposal "R" residential road project 10-year period continues to progress, expenditures will exceed revenue due to timing of scheduled projects. The fund balance is restricted for the City's Proposal R long-term capital improvement projects and Act 51 road projects to provide funding for these planned projects.
- The City's total net position was \$69.2 million for governmental activities (all funds excluding water and sewer and fiduciary funds) at June 30, 2013. This reflects an increase in governmental activities net position of \$2.0 million, or 3.0 percent, from fiscal year 2012. Of this amount, \$8.6 million is considered unrestricted, down from \$9.4 million unrestricted at June 30, 2012, which means the City may use or designate this amount to meet ongoing and future obligations.
- During the fiscal year, the City's governmental activities received \$28.7 million in program and general revenue, which is a decrease of \$700,000 from fiscal year 2012. The primary reason for the drop was a decrease in taxable value leading to a reduction of \$918,000 in property tax revenue.
- Total governmental activity program expenses for the year were \$26.7 million or a decrease of \$286,000, or 1.1 percent, when compared to fiscal year 2012.
- The City has one business-type activity - the Water and Sewer Fund. Revenue is generated through charges to customers for commercial and residential water and sewer usage. Total revenue received was \$12.3 million, resulting in an increase in current assets of \$1.8 million for fiscal year 2013. This was a planned increase to continue to rebuild the fund's depleted cash reserves.
- The total net position for the business-type activities is \$27.7 million as of June 30, 2013. This total is an increase of approximately \$2.8 million, or 11.2 percent, over June 30, 2012. Of this amount, \$7.4 million is unrestricted, of which \$5.6 million is cash and will be used to meet future obligations of the business-type activity.

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 of Madison Heights, Michigan on a government-wide basis. They are designed to present a longer-term view of the City's finances. The fund-based financial statements follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. The fund-based financial statements also report the City's operations in more detail than the government-wide financial statements.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

The City of Madison Heights as a Whole

The net position of the City represents the difference between the City's total assets and total liabilities. Changes in the net position can be a useful tool for governments to measure their performance over time. At the end of fiscal year 2013, the City's total net position increased 5.2 percent from a year ago, increasing from \$92.2 million to \$97.0 million. At June 30, 2013, this net position is categorized as those which are invested in capital assets net of related debt (76.0 percent or \$73.7 million), restricted for specific uses (7.5 percent or \$7.2 million), and those which are unrestricted (16.5 percent or \$16.0 million).

The City's net position of \$73.7 million that is invested in capital assets net of related debt reflects its investment in capital assets such as land and buildings, less any related debt used to acquire those assets that is still outstanding. Since the City uses these assets to provide services to the citizens, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other revenue sources, since the capital assets themselves cannot be liquidated to satisfy these liabilities.

The City's restricted net position of approximately \$7.2 million is subject to bond covenant restrictions or other legal or regulatory requirements. The remaining portion of the City's net position of approximately \$16.0 million is unrestricted, but assigned to meet ongoing obligations. It is important to note that unrestricted net position is up from 2012 by approximately \$859,000.

A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$2.0 million in net position during fiscal year 2013. Unrestricted net position has decreased by \$852,000 from June 30, 2012. Relative to changes in fund balance for governmental activities, the General Fund had a decrease of approximately \$1.5 million. The City's General Fund was budgeted to use \$1.9 million of fund balance during the current fiscal year. This difference occurred due to following events and staff and Council decisions:

- The City received an MMRMA distribution of \$436,450, of which \$240,046 was allocated to the General Fund. The amount of the distribution, or even if a distribution would be made, was not known until the end of the budget year and was not included in the budget.
- Court revenues came in 19.5 percent less than budgeted at \$1,531,200. This is a result of fewer tickets, both civil infractions and misdemeanors. The police department has filled several vacant police officer positions during the last fiscal year and staff is in the process of being fully trained. We anticipate ticket levels to increase in the coming fiscal year as the department becomes fully staffed. This reduction in revenues was partially offset by reduced court expenditures of \$84,600 during the year.
- Ambulance fees were recorded \$133,000 higher than budgeted due to an accounting practice change. In past fiscal years, the City recognized ambulance revenue when the revenue was received. This fiscal year ambulance revenue included an adjustment for the money that had been earned and was expected to be received soon after the fiscal year (60 days).

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

The City's Local Streets Fund has decreased fund balance at June 30, 2013 by \$217,465. This reduction is due to reduced property tax income and the planned increased construction projects. As the second Proposal "R" residential road project 10-year period continues to progress, expenditures will exceed revenue due to timing of scheduled projects. The fund balance is restricted for the City's Proposal R long-term capital improvement projects and Act 51 road projects to provide funding for these planned projects.

The City's Major Streets Fund has increased fund balance at June 30, 2013 by \$736,352. This money is being set aside for future major road maintenance projects, the majority of which are budgeted for in fiscal year 2014 when the fund is anticipated to use \$564,730 of fund balance. This use of fund balance will complete the John R Sectional - 10 Mile to 11 Mile, Northbound I-75 Service Drive from Dallas to Lincoln, and the Whitcomb Sectional project from Dequindre to Barrington.

The City's Revolving Fund, which is specific to capital improvement projects, experienced a decrease in fund balance of \$42,493. This increase was due to timing of the special assessment sidewalk construction projects which are completed after fiscal year end.

The following table shows a comparison of net position (in thousands of dollars) as of June 30, 2013 and 2012:

	Governmental Activities		Business-type Activities		Total	
	As of June 30					
	2013	2012	2013	2012	2013	2012
Assets						
Current assets	\$ 15,874	\$ 17,708	\$ 9,112	\$ 7,330	\$ 24,986	\$ 25,038
Noncurrent assets:						
Capital assets	57,249	55,225	29,843	29,503	87,092	84,728
Other	5,884	4,626	184	185	6,068	4,811
Total assets	79,007	77,559	39,139	37,018	118,146	114,577
Liabilities						
Current liabilities	4,428	4,808	1,759	1,841	6,187	6,649
Long-term liabilities	5,333	5,511	9,653	10,232	14,986	15,743
Total liabilities	9,761	10,319	11,412	12,073	21,173	22,392
Net Position						
Net investment in capital assets	53,439	51,195	20,300	19,229	73,739	70,424
Restricted	7,244	6,630	-	-	7,244	6,630
Unrestricted	8,563	9,415	7,427	5,716	15,990	15,131
Total net position	<u>\$ 69,246</u>	<u>\$ 67,240</u>	<u>\$ 27,727</u>	<u>\$ 24,945</u>	<u>\$ 96,973</u>	<u>\$ 92,185</u>

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

As shown in the following table (in thousands of dollars), the City's revenue for its government activities decreased approximately \$731,000 from the prior fiscal year. Property taxes were down 4.7 percent, or \$918,000, over last year due to a decrease in overall taxable value. Investment earnings were down \$106,000 directly related to the need to adjust investments to market value rising interest rates which affect bond prices differently based on the time until a bond matures and the principal is paid to the City. Grants also decreased from the prior year by \$130,000, which is directly related to the end of the federal funding for the Medicare early retirement program and the Michigan Public Service Commission (MPSC) improvement grants. At June 30, 2013, over 48 percent of the City's investments were in fixed-income investments such as bonds. These decreases were offset by increases in charges for services (\$58,000), state-shared revenues (\$63,000), franchise fees (\$212,000), and miscellaneous other revenue (\$90,000).

Program expenses decreased 1.1 percent from the previous fiscal year. This decrease resulted from the disbursement of reserves from the liability insurance vendor which reduced the liability premium expenses, savings through vacant positions, and a differential in planned versus actual expenditures for capital improvements and purchases. General government expenses decreased 20.7 percent from the previous fiscal year while public works expenses increased 32.6 percent. The differences were primarily driven by the allocation of advance funding retiree healthcare contributions.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year Ended June 30					
	2012-2013	2011-2012	2012-2013	2011-2012	2012-2013	2011-2012
Revenue						
Program revenue:						
Charges for services	\$ 3,577	\$ 3,519	\$ 12,328	\$ 11,285	\$ 15,905	\$ 14,804
Operating grants	2,448	2,463	-	-	2,448	2,463
Capital grants and contributions	445	560	-	-	445	560
General revenue:						
Property taxes	18,455	19,373	-	-	18,455	19,373
State-shared revenue	2,755	2,692	-	-	2,755	2,692
Unrestricted investment earnings	65	171	4	12	69	183
Franchise fees	570	358	-	-	570	358
Other	356	266	-	-	356	266
Gain on sale of capital assets	-	-	4	17	4	17
Total revenue	28,671	29,402	12,336	11,314	41,007	40,716
Program Expenses						
General government	4,387	5,537	-	-	4,387	5,537
Public safety	13,147	13,094	-	-	13,147	13,094
Public works	4,217	3,180	-	-	4,217	3,180
Solid waste	1,984	2,001	-	-	1,984	2,001
Community development	1,261	1,556	-	-	1,261	1,556
Recreation	1,499	1,429	-	-	1,499	1,429
Interest on long-term debt	170	154	-	-	170	154
Water and sewer	-	-	9,554	9,242	9,554	9,242
Total program expenses	26,665	26,951	9,554	9,242	36,219	36,193
Change in Net Position	\$ 2,006	\$ 2,451	\$ 2,782	\$ 2,072	\$ 4,788	\$ 4,523

During the year, the City continued to meet and exceed the actuarial required contributions for the defined benefit pension systems. This is important for the City because future taxpayers should not be required to fund pension benefit payments for benefits that were earned now.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water, which is purchased from the City of Detroit and distributed to all of its residents and businesses. The water rate charged by the Detroit water and sewerage department for water for fiscal year 2012-2013 was decreased by 16.1 percent. This decrease was offset by an increase in the fixed monthly charge of 35.5 percent. The City provides sewage treatment to all residential and businesses using the Southeast Oakland County Sewage Disposal System. In fiscal year 2013, there was a rate increase for sewage treatment of 4.1 percent. Additionally, the City incurred an increase of 2.96 percent for flat storm water charges attributable to the George W. Kuhn Drain sewage retention and treatment facility. The rate adjustments noted above, combined with the need to build cash reserve for the system, resulted in a 6.9 percent rate increase effective for bills on or after July 1, 2012. This rate adjustment increased the average water and sewer bill for a City resident from \$150.18 per quarter to \$160.30 per quarter. The Water and Sewer Fund had a \$2.8 million increase in its net position; this is due to increased user revenue during fiscal year 2013. Revenue from user charges increased 9.2 percent, or \$1,043,000, as a result of consumption and rate increases. Operating expenses increased by 3.4 percent, or \$312,000, as a result of increased contracted water supplier and sewage processor rates and the return to replacing water mains in coordination with the Proposal "R-2" neighborhood road maintenance projects.

General Fund Budgetary Highlights

During the fiscal year, the City administration and City Council monitor and amend the original budget adopted by the City due to changes in the projected revenue and unanticipated events that occur during the year.

The City experienced a decrease in total property tax revenue of 4.7 percent compared to 2012. To combat the negative pressure on revenue from dropping taxable values and the continued uncertainty of state funding levels, the City continues a hiring freeze/analysis as well as program reduction measures to reduce cost and add efficiencies to departmental operations.

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets, net of related debt, for its governmental and business-type activities as of June 30, 2013 amounts to \$87,091,555, net of accumulated depreciation. This is a net increase (additions less disposals and depreciation) of \$2,363,306 or 2.8 percent from last fiscal year. The following summarizes the City's capital assets, net of depreciation, as of June 30, 2013 and 2012:

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 2,552,990	\$ 2,552,990	\$ 164,413	\$ 164,413	\$ 2,717,403	\$ 2,717,403
Infrastructure	37,768,521	36,018,315	25,144,271	24,898,865	62,912,792	60,917,180
Buildings and improvements	11,538,666	11,798,538	4,275,554	4,190,727	15,814,220	15,989,265
Land improvements	1,514,366	1,452,556	-	-	1,514,366	1,452,556
Construction in progress	1,806,394	1,399,817	-	-	1,806,394	1,399,817
Other assets	624,283	611,668	258,320	248,740	882,603	860,408
Vehicles	1,443,777	1,391,620	-	-	1,443,777	1,391,620
Total	\$ 57,248,997	\$ 55,225,504	\$ 29,842,558	\$ 29,502,745	\$ 87,091,555	\$ 84,728,249

Major capital asset additions during the fiscal year included the following:

- In combination with an Oakland County Federal Aid Task Force Funding Committee award, in partnership with Oakland County, the City completed sectional concrete repair on John R, I I Mile, Campbell, I3 Mile, Whitcomb, and industrial roads.
- Year 10 of the sidewalk program included an area bounded by I3 Mile Rd., I-75, Whitcomb, and Dequindre.
- Several road construction projects were completed, including reconstruction of Lenox from Baxter to Sprague, Hampden from Farnum Intersection, University Lenox to Hampden, Brettonwoods from Gardenia to Farnum, Forest from Hampden to Brettonwoods and Hampden intersection, Gardenia from Hampden to Dartmouth and Parker from east of the Sealcoat to John R, and Proposal R maintenance and repair.
- The purchase of four patrol vehicles, one dump truck, one maintenance pickup, one senior transportation van, and one maintenance van
- Parking lot improvements at Rosie's Park
- Water main replacement of Hampden from I I Mile to Andover and Palmer from I I Mile to the dead end

Note 4 to the financial statements contains additional information regarding capital assets, including the depreciation expense charged during the year.

Long-term Debt

At June 30, 2013, the City had \$13,520,767 in outstanding debt. Of this amount, \$3,810,000 related to general obligation bonds for the fire station construction, \$1,305,000 general obligation bonds for the automated water meter reading system, while the remaining \$8,405,767 is related to the City's portion of the George W. Kuhn (GWK) drain debt.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

The City's bonded debt position as June 30, 2013 and 2012 is summarized below and is more fully explained in Note 6 - Long-term debt:

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
General obligation	<u>\$ 3,810,000</u>	<u>\$ 4,050,000</u>	<u>\$ 9,710,767</u>	<u>\$ 10,442,657</u>	<u>\$ 13,520,767</u>	<u>\$ 14,492,657</u>

The decrease in the City's debt in fiscal year 2013 reflects the scheduled payments made and the fact that the governmental general obligation bonds were refinanced during the year.

The City's latest reevaluation of the government bond rating occurred in January 2013 when S&P upgraded the City's rating from A+/Negative to A+/Stable due to strong financial management despite continued losses to property tax revenue from tax base declines.

The majority of Water and Sewer Fund debt is related to the GWK drain. These bonds are issued for the George W. Kuhn Drain District and applied on a percentage basis to each member community. The City of Madison Heights, Michigan is responsible for approximately 10.5 percent of each issue.

In August 2010, the City issued general obligation limited tax bonds for a fixed network water meter reading system in the amount of \$1.5 million, payable over 15 years, for the purchase and installation of a transmitter on every water meter and 10 antennas to allow daily non-manned readings. The bond and interest payments are paid from the Water and Sewer Fund with \$1.3 million principal remaining.

Economic Factors and Next Year's Budgets and Rates

The conditions of the state and local economies were key factors considered in the preparation of the City's fiscal year 2013-2014 budget. Below is a synopsis of significant issues that were weighed in the budget process:

- Funding for the liability related to future retirement healthcare expenditures and pension cost
- Continued decrease in property tax-related revenues
- Increases in healthcare-related expenses including current retiree health care

Request for Information

This financial report is designed to give our citizens, taxpayers, customers, and investors with a general overview of the City's finances. Questions concerning any information in this report may be sent to the assistant city manager of administrative services, City of Madison Heights, 300 West 13 Mile Rd., Madison Heights, MI 48071 or submitted through the City's website at www.madison-heights.org.

City of Madison Heights, Michigan

Statement of Net Position June 30, 2013

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments	\$ 13,237,150	\$ 5,644,647	\$ 18,881,797	\$ 460,581
Receivables:				
Receivables from sales to customers on account	-	3,378,359	3,378,359	-
Accounts receivable	808,920	-	808,920	47,616
Due from other governmental units	867,106	-	867,106	-
Special assessments receivable - Current	127,400	-	127,400	-
Inventories	-	56,775	56,775	-
Prepaid items and deposits	833,518	32,520	866,038	-
Restricted assets (Note 1)	-	168,310	168,310	-
Net other postemployment and pension benefit asset (Notes 8 and 9)	4,417,445	16,000	4,433,445	-
Capital assets (Note 4):				
Nondepreciable	4,359,384	164,413	4,523,797	-
Depreciable	52,889,613	29,678,145	82,567,758	754,915
Special assessments receivable - Long term	1,264,098	-	1,264,098	-
Property taxes receivable - Long term	202,777	-	202,777	-
Total assets	79,007,411	39,139,169	118,146,580	1,263,112
Liabilities				
Accounts payable	1,119,665	709,912	1,829,577	18,754
Due to other governmental units	3,198	-	3,198	-
Refundable deposits, bonds, etc.	-	113,488	113,488	-
Accrued liabilities and other	1,619,920	114,996	1,734,916	3,761
Due to police and fire retirement and other postemployment benefit trust funds	345,336	-	345,336	-
Noncurrent liabilities:				
Due within one year:				
Employee compensated absences - Current portion (Note 6)	464,078	67,535	531,613	-
Provision for insurance claims (Note 7)	575,652	-	575,652	-
Long-term debt - Due within one year (Note 6)	300,000	753,208	1,053,208	-
Due in more than one year:				
Employee compensated absences - Net of current portion (Note 6)	1,823,405	5,167	1,828,572	-
Net other postemployment benefit obligations (Note 9)	-	689,746	689,746	-
Long-term debt (Note 6)	3,510,000	8,957,559	12,467,559	-
Total liabilities	9,761,254	11,411,611	21,172,865	22,515

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

City of Madison Heights, Michigan

Statement of Net Position (Continued) June 30, 2013

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Net Position				
Net investment in capital assets	\$ 53,438,997	\$ 20,300,101	\$ 73,739,098	\$ 754,915
Restricted for:				
Vehicles	598,755	-	598,755	-
Major and Local Streets Funds - Construction and operations	5,742,505	-	5,742,505	-
Community improvement	2,250	-	2,250	-
Drug enforcement	64,336	-	64,336	-
Park Improvement and Maintenance Fund - Parks maintenance	633,599	-	633,599	-
Neighborhood Stabilization Fund	329	-	329	-
Library	201,897	-	201,897	-
Housing assistance program	-	-	-	235,590
Housing disabled voucher program	-	-	-	201,132
Unrestricted	8,563,489	7,427,457	15,990,946	48,960
Total net position	\$ 69,246,157	\$ 27,727,558	\$ 96,973,715	\$ 1,240,597

City of Madison Heights, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 4,386,688	\$ 1,776,824	\$ 116,406	\$ -
Public safety	13,147,153	703,094	183,593	43,966
Public works	4,216,723	75,656	1,759,873	400,789
Solid waste and recycling	1,984,438	9,232	-	-
Community and economic development	1,261,301	751,678	318,940	-
Recreation and culture	1,498,855	260,066	69,116	-
Interest on long-term debt	169,639	-	-	-
Total governmental activities	26,664,797	3,576,550	2,447,928	444,755
Business-type activities - Water and sewer	9,553,886	12,328,310	-	-
Total primary government	<u>\$ 36,218,683</u>	<u>\$ 15,904,860</u>	<u>\$ 2,447,928</u>	<u>\$ 444,755</u>
Component units:				
Housing Commission	\$ 1,434,781	\$ -	\$ 1,282,208	\$ -
Downtown Development Authority	94,071	-	-	-
Total component units	<u>\$ 1,528,852</u>	<u>\$ -</u>	<u>\$ 1,282,208</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue				
Unrestricted investment earnings				
Franchise taxes				
Miscellaneous				
Gain on sale of fixed assets				
Total general revenue				
Change in Net Position				
Net Position - Beginning of year				
Net Position - End of year				

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

Net (Expense) Revenue and Changes in Net Position			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (2,493,458)	\$ -	\$ (2,493,458)	\$ -
(12,216,500)	-	(12,216,500)	-
(1,980,405)	-	(1,980,405)	-
(1,975,206)	-	(1,975,206)	-
(190,683)	-	(190,683)	-
(1,169,673)	-	(1,169,673)	-
(169,639)	-	(169,639)	-
(20,195,564)	-	(20,195,564)	-
-	2,774,424	2,774,424	-
(20,195,564)	2,774,424	(17,421,140)	-
-	-	-	(152,573)
-	-	-	(94,071)
-	-	-	(246,644)
18,454,651	-	18,454,651	78,734
2,754,703	-	2,754,703	-
65,112	4,107	69,219	-
570,240	-	570,240	-
356,378	-	356,378	19,259
-	4,043	4,043	-
22,201,084	8,150	22,209,234	97,993
2,005,520	2,782,574	4,788,094	(148,651)
67,240,637	24,944,984	92,185,621	1,389,248
\$ 69,246,157	\$ 27,727,558	\$ 96,973,715	\$ 1,240,597

City of Madison Heights, Michigan

Governmental Funds Balance Sheet June 30, 2013

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund	Nonmajor Funds	Total
Assets						
Cash and investments (Note 2)	\$ 5,891,647	\$ 1,328,946	\$ 4,005,624	\$ 1,292,898	\$ 718,035	\$ 13,237,150
Receivables (Note 3):						
Special assessments receivable	-	-	-	1,391,498	-	1,391,498
Accounts receivable	1,008,996	1,201	1,387	-	113	1,011,697
Due from other governmental units	554,286	203,340	77,440	-	32,040	867,106
Due from other funds	4,000	-	-	-	-	4,000
Advances to other funds (Note 5)	-	-	482,135	-	-	482,135
Prepaid expenses and other assets	809,818	10,629	12,958	-	113	833,518
Total assets	\$ 8,268,747	\$ 1,544,116	\$ 4,579,544	\$ 2,684,396	\$ 750,301	\$ 17,827,104
Liabilities						
Accounts payable	\$ 810,553	\$ 235,535	\$ 37,396	\$ 5,966	\$ 30,215	\$ 1,119,665
Due to other governmental units	3,198	-	-	-	-	3,198
Due to other funds	-	-	-	-	4,000	4,000
Advances from other funds (Note 5)	-	-	-	482,135	-	482,135
Accrued liabilities and other	1,484,059	12,608	95,616	-	15,572	1,607,855
Deferred revenue (Note 3)	202,777	-	-	1,264,098	-	1,466,875
Due to police and fire retirement and other postemployment benefit trust funds	345,336	-	-	-	-	345,336
Total liabilities	2,845,923	248,143	133,012	1,752,199	49,787	5,029,064
Fund Balances						
Nonspendable (Note 13)	809,818	10,629	495,093	-	113	1,315,653
Restricted (Note 13)	800,652	1,285,344	3,951,439	-	700,401	6,737,836
Assigned (Note 13)	3,812,354	-	-	932,197	-	4,744,551
Total fund balances	5,422,824	1,295,973	4,446,532	932,197	700,514	12,798,040
Total liabilities and fund balances	\$ 8,268,747	\$ 1,544,116	\$ 4,579,544	\$ 2,684,396	\$ 750,301	\$ 17,827,104

City of Madison Heights, Michigan

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

Fund Balance Reported in Governmental Funds	\$ 12,798,040
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	57,248,997
Net pension and OPEB assets (funding in excess of actuarial requirements) are not current financial resources and are not reported in the funds	4,417,445
Special assessments and property tax 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	1,466,875
Bonds payable are not due and payable in the current period and are not reported in the funds	(3,810,000)
Accrued interest is not due and payable in the current period and is not reported in the funds	(12,065)
Employee compensated absences 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	(2,287,483)
Provisions for self-insured claims do not present a claim on current financial resources and are not reported as fund liabilities	(575,652)
Net Position of Governmental Activities	<u>\$ 69,246,157</u>

City of Madison Heights, Michigan

Governmental Funds

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

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund	Nonmajor Funds	Total
Revenue						
Property taxes	\$ 16,467,524	\$ -	\$ 1,569,883	\$ -	\$ 429,239	\$ 18,466,646
Licenses and permits	833,181	-	-	-	-	833,181
Federal sources	134,286	-	-	-	477,333	611,619
Intergovernmental	2,855,332	1,292,164	467,709	-	43,966	4,659,171
Charges for services	2,088,535	-	-	-	-	2,088,535
Fines and forfeitures	1,531,203	-	-	-	-	1,531,203
Investment income	19,728	1,302	72	1,024	(2,129)	19,997
Rental income	-	-	-	-	1,500	1,500
Other revenue:						
Special assessments	-	-	-	545,442	-	545,442
Local donations	55,588	-	-	-	-	55,588
Cable franchise fees	570,240	-	-	-	-	570,240
Other miscellaneous income	365,385	-	-	-	-	365,385
Total revenue	24,921,002	1,293,466	2,037,664	546,466	949,909	29,748,507
Expenditures						
Current:						
General government	5,792,396	-	-	-	-	5,792,396
Public safety	13,336,819	-	-	-	178,333	13,515,152
Public works	2,843,971	-	-	25,000	-	2,868,971
Community and economic development	938,268	581,921	576,413	-	316,676	2,413,278
Recreation and culture	1,688,912	-	-	-	17,264	1,706,176
Capital outlay	-	1,869,193	2,022,831	494,844	97,277	4,484,145
Debt administration	-	-	-	-	458,341	458,341
Total expenditures	24,600,366	2,451,114	2,599,244	519,844	1,067,891	31,238,459
Excess of Revenue Over (Under) Expenditures	320,636	(1,157,648)	(561,580)	26,622	(117,982)	(1,489,952)
Other Financing Sources (Uses)						
Face value of debt issue	-	-	-	-	3,810,000	3,810,000
Proceeds from sale of capital assets	36,819	-	-	-	-	36,819
Transfers in (Note 5)	339,955	2,069,000	344,115	-	26,255	2,779,325
Transfers out (Note 5)	(2,195,255)	(175,000)	-	(69,115)	(339,955)	(2,779,325)
Payment to bond refunding escrow agent	-	-	-	-	(3,810,000)	(3,810,000)
Total other financing (uses) sources	(1,818,481)	1,894,000	344,115	(69,115)	(313,700)	36,819
Net Change in Fund Balances	(1,497,845)	736,352	(217,465)	(42,493)	(431,682)	(1,453,133)
Fund Balances - Beginning of year	6,920,669	559,621	4,663,997	974,690	1,132,196	14,251,173
Fund Balances - End of year	<u>\$ 5,422,824</u>	<u>\$ 1,295,973</u>	<u>\$ 4,446,532</u>	<u>\$ 932,197</u>	<u>\$ 700,514</u>	<u>\$ 12,798,040</u>

City of Madison Heights, Michigan

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

Net Change in Fund Balances - Total Governmental Funds	\$ (1,453,133)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are capitalized and expense is recorded over their estimated useful lives through depreciation	4,978,092
Statement of activities records depreciation on capital assets	(2,888,048)
The reduction in the carrying value of assets sold or disposed of is accounted for in the statement of activities, but not in the governmental funds	(66,551)
Governmental funds do not report prefunding contributions to other postemployment and pension benefits trust funds as an asset; in the statement of activities, contributions in excess of the actuarial recommended contribution are recorded as an asset	1,390,188
Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position	(3,810,000)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	4,050,000
Interest expense is recorded in the statement of activities when a liability is incurred; it is report in the governmental funds only when payment is due	13,702
Special assessment revenue is recorded in the statement of activities when the assessed project is substantially complete and property tax revenue is recorded in the statement of activities when earned; revenue is not reported in the funds until receivables are collected or collectible within 60 days of year end	(111,846)
Net changes in accumulated employee sick and vacation pay are recorded when the obligations are earned in the statement of activities	(57,483)
Changes in provision for self-insurance claims (net of related deposits) reported in the statement of activities do not require the use of current resources and therefore are not reported in the governmental funds until they come due for payment	(39,401)
Change in Net Position of Governmental Activities	<u>\$ 2,005,520</u>

City of Madison Heights, Michigan

Proprietary Fund Statement of Net Position June 30, 2013

	<u>Water and Sewer Fund</u>
Assets	
Current assets:	
Cash and investments (Note 2)	\$ 5,644,647
Accounts receivable	3,378,359
Inventories	56,775
Prepaid items and deposits	<u>32,520</u>
Total current assets	9,112,301
Noncurrent assets:	
Restricted assets (Note 1)	168,310
Net pension asset (Note 8)	16,000
Capital assets (Note 4):	
Nondepreciable	164,413
Depreciable	<u>29,678,145</u>
Total noncurrent assets	<u>30,026,868</u>
Total assets	39,139,169
Liabilities	
Current liabilities:	
Accounts payable	709,912
Refundable deposits, bonds, etc.	113,488
Accrued liabilities and other	114,996
Employee compensated absences - Current portion (Note 6)	67,535
Long-term debt - Due within one year (Note 6)	<u>753,208</u>
Total current liabilities	1,759,139
Noncurrent liabilities:	
Employee compensated absences - Net of current portion (Note 6)	5,167
Net other postemployment benefit obligations (Note 9)	689,746
Long-term debt (Note 6)	<u>8,957,559</u>
Total noncurrent liabilities	<u>9,652,472</u>
Total liabilities	<u>11,411,611</u>
Net Position	
Net investment in capital assets	20,300,101
Unrestricted	<u>7,427,457</u>
Total net position	<u>\$ 27,727,558</u>

City of Madison Heights, Michigan

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

	<u>Water and Sewer Fund</u>
Operating Revenue	
Sale of water	\$ 5,433,147
Sewage disposal charges	6,830,508
Other charges for service	35,105
Charges to other funds	<u>29,550</u>
Total operating revenue	12,328,310
Operating Expenses	
Cost of water	1,557,259
Cost of sewage disposal	3,984,995
Water system maintenance	1,139,947
General services building	355,740
Sewer system maintenance	184,870
General administration	1,216,928
Depreciation	<u>825,717</u>
Total operating expenses	<u>9,265,456</u>
Operating Income	3,062,854
Nonoperating Revenue (Expenses)	
Interest and other income	4,107
Interest expense	(288,430)
Gain on sale of assets	<u>4,043</u>
Total nonoperating expenses	<u>(280,280)</u>
Change in Net Position	2,782,574
Net Position - Beginning of year	<u>24,944,984</u>
Net Position - End of year	<u><u>\$ 27,727,558</u></u>

City of Madison Heights, Michigan

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

	Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 11,995,638
Receipts from interfund services and reimbursements	29,550
Payments to suppliers	(7,745,514)
Payments to employees	(656,061)
	3,623,613
Cash Flows from Capital and Related Financing Activities	
Proceeds from sales of capital assets	5,875
Purchase of capital assets	(1,167,362)
Principal and interest paid on capital debt	(1,024,464)
	(2,185,951)
Cash Flows from Investing Activities - Income on investments	18,911
Net Increase in Cash and Cash Equivalents	1,456,573
Cash and Cash Equivalents - Beginning of year	4,188,074
Cash and Cash Equivalents - End of year	\$ 5,644,647
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 3,062,854
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	825,717
Changes in assets and liabilities:	
Receivables	(303,122)
Inventories	(17,829)
Prepaid and other assets	(18,977)
Accounts payable	(92,533)
Accrued and other liabilities	167,503
	3,623,613
Net cash provided by operating activities	\$ 3,623,613

City of Madison Heights, Michigan

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2013

	Police and Fire Retirement and OPEB	Agency Funds
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents (Note 2)	\$ 1,480,929	\$ 46,211
Investments (Note 2):		
Corporate obligations	9,590,860	-
U.S. government securities	7,751,278	-
Federal agency securities	1,358,448	96,528
Common stock	9,909,691	-
Oakland County interlocal agreement pool	-	87,677
Small cap mutual funds	23,530,685	-
Municipal bonds	-	85,817
Money market	-	11,007
Accrued interest receivable and other	193,125	-
Due from the City's General Fund	481,889	-
	<u>54,296,905</u>	<u>\$ 327,240</u>
Total assets		
Liabilities		
Accounts payable	-	\$ 41,268
Prepaid taxes	-	9,733
Cash bonds and deposits	-	276,239
	<u>-</u>	<u>\$ 327,240</u>
Total liabilities		
Net Position Held in Trust for Pension and Other Employee Benefits	<u>\$ 54,296,905</u>	

City of Madison Heights, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Position - Police and Fire Retirement and Other Postemployment Benefits Year Ended June 30, 2013

	Police and Fire Retirement and OPEB
Additions	
Investment income (loss):	
Interest and dividends	\$ 1,523,563
Net increase in fair value of investments	2,222,036
Less investment expenses	(225,340)
Net investment income	3,520,259
Contributions:	
Employer	4,414,692
Employee	534,290
Total contributions	4,948,982
Total additions	8,469,241
Deductions	
Benefit payments	6,157,095
Refunds of contributions	365,515
Administrative expenses	194,158
Total deductions	6,716,768
Net Increase in Net Position Held in Trust	1,752,473
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	52,544,432
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	\$ 54,296,905

City of Madison Heights, Michigan

Component Units Statement of Net Position June 30, 2013

	Housing Commission	Downtown Development Authority	Total
Assets			
Cash and investments (Note 2)	\$ 458,372	\$ 2,209	\$ 460,581
Receivables	-	47,616	47,616
Capital assets (Note 4)	-	754,915	754,915
Total assets	458,372	804,740	1,263,112
Liabilities			
Accounts payable	17,889	865	18,754
Accrued liabilities and other	3,761	-	3,761
Total liabilities	21,650	865	22,515
Net Position			
Net investment in capital assets	-	754,915	754,915
Restricted:			
Housing assistance program	235,590	-	235,590
Housing disabled voucher program	201,132	-	201,132
Unrestricted	-	48,960	48,960
Total net position	<u>\$ 436,722</u>	<u>\$ 803,875</u>	<u>\$ 1,240,597</u>

City of Madison Heights, Michigan

	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Housing Commission	\$ 1,434,781	\$ -	\$ 1,282,208	\$ -
Downtown Development Authority	94,071	-	-	-
Total component units	<u>\$ 1,528,852</u>	<u>\$ -</u>	<u>\$ 1,282,208</u>	<u>\$ -</u>

General revenue:
 Property taxes
 Miscellaneous

Total general revenue

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

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

<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Housing Commission</u>	<u>Downtown Development Authority</u>	<u>Total</u>
\$ (152,573)	\$ -	\$ (152,573)
-	(94,071)	(94,071)
(152,573)	(94,071)	(246,644)
-	78,734	78,734
16,409	2,850	19,259
16,409	81,584	97,993
(136,164)	(12,487)	(148,651)
572,886	816,362	1,389,248
\$ 436,722	\$ 803,875	\$ 1,240,597

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note I - Summary of Significant Accounting Policies

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

Reporting Entity

The City is governed by an elected mayor and six-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government (see discussion below for description).

The Madison Heights Municipal Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as a blended component unit because its primary purpose is to finance and construct the City's public buildings. The Authority was inactive during the current fiscal year.

Discretely Presented Component Units

Housing Commission

The Housing Commission provides low-income families with the opportunity to receive federally subsidized rent payments. The funds are obtained through the U.S. Department of Housing and Urban Development. The Housing Commission serves approximately 260 families. The Housing Commission's governing body consists of five individuals selected by the City Council. In addition, the Housing Commission's budget is subject to approval by the City Council. There are no separately issued financial statements.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note I - Summary of Significant Accounting Policies (Continued)

Downtown Development Authority

The Downtown Development Authority (the "DDA") was established to correct and prevent stagnation and deterioration within the south-end commercial business district. The DDA has established boundaries that include property abutting John R Road from Gardenia to 10 Mile Road and 11 Mile Road from Interstate 75 to Lorenz. The properties are primarily zoned and used for commercial and industrial purposes. The DDA's goal is to eliminate blighting influences and undertake projects that will encourage new businesses to locate and existing businesses to remain in the area. The DDA is developing programs to solicit commitment and investment from business owners to make improvements on private property that will serve the public purpose of enhancing the district. Revenue is provided through the capture of incremental taxes on properties within the district. The DDA's governing body, which consists of the mayor and 8 to 12 individuals, is selected by the City Council. In addition, the DDA's budget is subject to approval by the City Council. There are no separately issued financial statements.

Brownfield Redevelopment Authority

The Brownfield Redevelopment Authority (the "Authority") was created to identify and assist in the redevelopment of abandoned, underutilized, or contaminated parcels of property located in Madison Heights. The Authority's governing body, which consists of 9 to 13 individuals, is comprised of the Downtown Development Authority's board members and the mayor. Currently, the Authority is in the preliminary stages of development and activities are nonfinancial in nature. Additionally, the Authority's budget, once adopted, will be subject to approval by the City Council. There are no separately issued financial statements. The Authority was inactive during the current fiscal year.

Government-wide and Fund Financial Statements

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

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note I - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note I - Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental funds:

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

Major Streets Fund - The Major Streets Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the major streets portion of the City's street network. Financing is provided by contributions from the General Fund and the City's share of state gas and weight taxes, grants, interest on investments, and maintenance reimbursements from Oakland and Macomb County Road Commissions.

Local Streets Fund - The Local Streets Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the local streets portion of the City's street network. Financing is provided by the City's share of gas and weight taxes, transfers from other funds, proceeds of a special 2 mill property tax levy (prior to reduction under Headlee, for neighborhood road improvements), and interest income.

Revolving Fund - The Revolving Fund's purpose is to record revenue and related project expenditures for special assessment districts that are not funded by bond issues.

The City also reports its major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City financed primarily by user charges. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, billing, and collection.

Additionally, the City reports the following nonmajor governmental and fiduciary funds:

Community Improvement Fund Program - The Community Improvement Fund Program (C.I.P.) is a federally funded division of the Community Development Department. It is charged with the administration of the City's block grant program. Block grant funds are used for such projects as the Home Chore Program, code enforcement, minor home repair, barrier-free improvements, and other similar projects that benefit low- and moderate-income residents. In addition, C.I.P. provides assistance to low-income families in securing low-interest and/or deferred home improvement loans.

Forfeiture Fund - The Forfeiture Fund is used to account for revenue generated by drug forfeitures and expenditures related to the enforcement of drug laws per Public Act 251 of 1982.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note I - Summary of Significant Accounting Policies (Continued)

Park Improvement and Maintenance Fund - The Park Improvement and Maintenance Fund accounts for revenue and expenses related to operating and maintaining the City's parks system.

Neighborhood Stabilization Fund - The Neighborhood Stabilization Fund is a federally funded division of the Community Development Block Grant Program through Title III of the Housing and Economic Recovery Act of 2008, H.R. 3221. This program is designed to assist local governments in the improvement of abandoned and foreclosed properties and neighborhoods.

Police and Fire Retirement Fund - The Police and Fire Retirement Fund special revenue fund previously received property tax revenue from a special levy for police and fire retirement expenses. The fund paid expenses and remitted cash to the police and fire retirement fiduciary fund. This activity is now accounted for in the General Fund.

Fire Stations Capital Projects Fund - The purpose of this fund is to account for the proceeds of bond issuance and expenditures associated with the construction of the new fire department headquarters, related improvements, and renovation of fire station #2.

Fire Stations Debt Service Fund - The Fire Stations Debt Service Fund accounts for the principal and interest payments on the bonds for the fire station construction and improvements. Revenue to this fund is generated by an ad valorem property tax.

Fire Manning Grant Fund - The Fire Manning Grant Fund is used to account for the activities associated with the staffing for adequate fire and emergency responses (SAFER) grant. The SAFER grant is a federal grant passed through the Department of Homeland Security. This objective of the grant is to maintain the number of firefighters to allow for protection against fire and fire-related hazards and fulfill related roles associated with fire departments.

Police and Fire Retirement Fund - The Police and Fire Retirement fiduciary fund is used to account for the accumulation of resources to be used for retirement annuity payments and medical costs. The fund accounts for trustee and investment expenses, administrative costs, auditing and actuarial fees related to the system, and retiree health benefits. Resources are provided by contributions from employees at rates fixed by contract and contributions from the City at amounts determined by an annual actuarial valuation.

Police and Fire Other Postemployment Benefits (OPEB) Fund - The Police and Fire OPEB Fund was established pursuant to Public Act 149 of 1999. The purpose of the fund is to hold and invest monies to be used for current and future payments of retiree healthcare benefits.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note I - Summary of Significant Accounting Policies (Continued)

Tax Collection Fund - The Tax Collection Fund is used to account for the collection and distribution of property taxes collected by the City on behalf of others.

Escrow Fund - The Escrow Fund is used to record deposits by outside individuals or organizations. The City acts as a trustee for these funds. A performance bond is an example of this kind of deposit.

Proprietary Funds - Proprietary funds, such as the Water and Sewer Fund, distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary fund relates to charges to customers for water sales and sewer services. 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 capital contributed to the fund.

Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Other revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

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

Assets, Liabilities, and Net Position or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income related to monies provided by the various funds (except the police and fire retirement system) and the component units of the City is allocated to each fund and component unit using a weighted average of the invested principal balances.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note I - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” All trade and property tax receivables are shown net of an allowance for uncollectible amounts.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of the business-type fund 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 or deposits in both government-wide and fund financial statements.

Restricted Assets - Assets of the Water and Sewer Fund held at the County represent unspent bond and loan proceeds held by the County for future construction. Net position of the Water and Sewer Fund has not been restricted for the \$168,310 held by the County for future construction as the amount is included in the calculation for net investment in capital assets.

Capital Assets - Capital assets, which include property, plant, equipment, vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, utility system water and sewer lines, 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 government as assets with an initial individual cost of more than \$2,000 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.

Buildings, equipment, and vehicles were assigned a salvage value of 10 percent of historical cost and are depreciated using the straight-line method over the following useful lives:

Buildings and land improvements	50 years
Machinery and equipment	5-10 years
Furniture and fixtures	5-10 years
Office equipment	5-10 years
Vehicles	5 years
Infrastructure assets are depreciated using the straight-line method over the following useful lives:	
Streets and bridges	15-50 years
Sidewalks	15 years
Utility systems	20-55 years

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note I - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the government's policy and obligation under labor agreements to permit employees to accumulate earned but unused sick and vacation pay benefits. Vacation pay is accrued when earned and sick pay is accrued when vested (or likely to vest). All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. The majority of this liability will be paid by the General Fund.

Long-term Obligations - In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund-type statement of net position. Bond premiums and discounts, as well as issuance costs, are generally deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable recorded bond premium or discount. Bond issuance costs are generally reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types generally 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 generally reported as debt service expenditures.

Pension and Other Postemployment Benefit Costs - The City offers both pension and retiree healthcare benefits to some 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.

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

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the City Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the City Council.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

- Assigned: Intent to spend resources on specific purposes expressed by the city manager or assistant city manager of administrative services, who are authorized by a resolution approved by the City Council to make assignments
- Unassigned: Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

The City Council has adopted a fund balance policy. The fund balance policy proscribes the minimum fund balance as 10 percent of expenditures in the General Fund. This is deemed to be the prudent amount to maintain the City's ability to meet obligations as they come due throughout the year.

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.

Other accounting policies are disclosed in other notes to the financial statements.

Accounting and Reporting Change - During the year, the City adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measures of net position, formerly net assets. The statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Since the City has no deferred outflows or inflows until adoption of GASB No. 65 (see Note 12), the only impact of the adoption of GASB No. 63 on the City is a change in terminology from "net assets" to "net position."

Property Tax Revenue - Property taxes are levied on July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year. Penalties and interest are assessed after the due dates.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2012 taxable valuation of the City totaled \$840 million and was used for the July 1, 2012 tax bills; this resulted in property tax revenue as follows:

Purpose	Millage Rate	Revenue
City charter operating millage	8.8190	\$ 7,245,000
Millage rollback	1.1810	953,000
Solid waste	2.6457	2,184,000
Police and Fire Act 345	5.2954	4,367,000
Neighborhood roads	2.0000	1,634,000
Major vehicles	0.2500	207,000
Advanced life support systems	0.2500	207,000
Senior citizens	0.4372	362,000
Fire station bond	0.5467	443,000
Library	1.0000	820,000
Total	22.4250	\$ 18,422,000

Note 2 - 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 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.

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

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 2 - Deposits and Investments (Continued)

In January 2009, the State of Michigan amended Public Act 20 of 1943 to allow local governmental units with special revenue funds consisting of payments for park operations and maintenance to invest the assets of the fund in accordance with Public Act 314 of 1965. The investments held in the Park Improvement and Maintenance Fund are invested in accordance with this amendment. As of June 30, 2013, the Park Improvement and Maintenance Fund had approximately \$9,000 invested in cash equivalents, \$192,000 invested in municipal bonds, \$196,000 in interlocal agreement pool funds, \$25,000 in money market funds, and \$216,000 invested in U.S. agency securities.

The City has designated three 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 the items listed above under State statutory authority. The City's deposits and investment policies are in accordance with statutory authority.

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$3,812,825 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$744,662 was covered by federal depository insurance. 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.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 2 - Deposits and Investments (Continued)

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 restricts investments in securities to maturities of not more than three years. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Primary Government		
U.S. government securities	\$ 3,391,644	3.424 years
U.S. federal agency obligations	2,789,504	15.288 years
Bank investment pool	5,614,352	1.975 years
Municipal bonds	<u>5,495,252</u>	1.682 years
Total primary government	17,290,752	
Fiduciary Fund		
Corporate bonds and notes	6,766,294	6.308 years
U.S. federal agency obligations	793,984	22.671 years
U.S. government securities	<u>8,146,556</u>	3.158 years
Total Fiduciary Fund	<u>15,706,834</u>	
Total	<u>\$ 32,997,586</u>	

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 2 - Deposits and Investments (Continued)

Credit Risk

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

Investment	Fair Value	Rating	Rating Organization
Corporate bonds and notes	\$ 637,462	A	S&P
Corporate bonds and notes	977,173	A-	S&P
Corporate bonds and notes	651,090	A+	S&P
Corporate bonds and notes	106,123	AA	S&P
Corporate bonds and notes	333,197	AA-	S&P
Corporate bonds and notes	150,484	AA+	S&P
Corporate bonds and notes	417,141	AAA	S&P
Corporate bonds and notes	1,597,639	BBB	S&P
Corporate bonds and notes	505,735	BBB-	S&P
Corporate bonds and notes	1,114,603	BBB+	S&P
Corporate bonds and notes	275,648	Not rated	N/A
U.S. government securities	11,538,200	AAA	Moody's
U.S. federal agency obligations	100,995	AA+	S&P
U.S. federal agency obligations	1,201,748	AAA	Moody's
U.S. federal agency obligations	2,280,745	Not rated	N/A
Money market funds	2,185,686	Not rated	N/A
Oakland County Interlocal Agreement Fund	5,614,352	Not rated	N/A
Municipal bonds	745,772	A+	S&P
Municipal bonds	973,853	AA-	S&P
Municipal bonds	21,085	AA+	S&P
Municipal bonds	1,498,600	AA	S&P
Municipal bonds	50,586	AAA	S&P
Municipal bonds	596,987	SP1	S&P
Municipal bonds	101,518	BBB	S&P
Municipal bonds	899,776	AA2	Moody's
Municipal bonds	264,126	A	Moody's
Municipal bonds	342,950	A1	Moody's
Mutual funds	26,524,436	Not rated	N/A

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 2 - Deposits and Investments (Continued)

Concentration of Credit Risk

The City places no limits on the amount the City may invest in one issuer. The City has more than 5 percent of its investments in the following:

Primary government:

Federal agency obligations - Federal National Mortgage Association	8%
U.S. government securities - U.S. Treasury notes	19%

Fiduciary funds - U.S. government securities - U.S. Treasury notes	15%
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The City's retirement system plans also hold investments in the U.S. stock market and those values fluctuate with market conditions.

Note 3 - Receivables and Deferred Revenue

Receivables as of year end for the City's individual major funds and the nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund	Nonmajor Funds	Total
Receivables:						
Special assessments receivable	\$ -	\$ -	\$ -	\$ 1,391,498	\$ -	\$ 1,391,498
Other receivables	1,008,996	1,201	1,387	-	113	1,011,697
Due from other governmental units	554,286	203,340	77,440	-	32,040	867,106
Net receivables	<u>\$ 1,563,282</u>	<u>\$ 204,541</u>	<u>\$ 78,827</u>	<u>\$ 1,391,498</u>	<u>\$ 32,153</u>	<u>\$ 3,270,301</u>

Receivables in the Water and Sewer Fund as of June 30, 2013 were \$3,378,359. There was no allowance for uncollectible accounts as of June 30, 2013.

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

	Unavailable
Personal property taxes	\$ 202,777
Special assessments	1,264,098
Total	<u>\$ 1,466,875</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 4 - Capital Assets

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

Governmental Activities	Balance July 1, 2012	Transfers	Additions	Disposals	Balance June 30, 2013
Capital assets not being depreciated:					
Land	\$ 2,552,990	\$ -	\$ -	\$ -	\$ 2,552,990
Construction in progress	1,399,817	(1,341,779)	1,748,356	-	1,806,394
Subtotal	3,952,807	(1,341,779)	1,748,356	-	4,359,384
Capital assets being depreciated:					
Streets and bridges	54,837,262	1,335,826	2,198,779	-	58,371,867
Sidewalks	4,525,119	5,953	511,534	-	5,042,606
Buildings and improvements	17,805,355	-	45,021	9,508	17,840,868
Land improvements	2,093,579	-	120,000	38,516	2,175,063
Machinery and equipment	1,617,579	-	99,587	14,660	1,702,506
Furniture and fixtures	391,914	-	-	-	391,914
Vehicles	6,493,560	-	251,733	395,661	6,349,632
Office equipment	1,913,126	-	3,082	11,603	1,904,605
Subtotal	89,677,494	1,341,779	3,229,736	469,948	93,779,061
Accumulated depreciation:					
Streets and bridges	21,104,297	(794)	2,079,600	-	23,183,103
Sidewalks	2,239,769	794	222,286	-	2,462,849
Buildings and improvements	6,006,817	-	301,422	6,037	6,302,202
Land improvements	641,023	-	37,301	17,627	660,697
Vehicles	5,101,940	-	160,010	356,095	4,905,855
Other assets	3,310,951	-	87,429	23,638	3,374,742
Subtotal	38,404,797	-	2,888,048	403,397	40,889,448
Net capital assets being depreciated	51,272,697	1,341,779	341,688	66,551	52,889,613
Net capital assets	\$ 55,225,504	\$ -	\$ 2,090,044	\$ 66,551	\$ 57,248,997

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 4 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2012	Additions	Disposals	Balance June 30, 2013
Capital assets not being depreciated -				
Land	\$ 164,413	\$ -	\$ -	\$ 164,413
Capital assets being depreciated:				
Utility systems	21,876,933	943,757	-	22,820,690
Kuhn drain - Segment 1	2,777,793	-	-	2,777,793
Kuhn drain - Segments 2 and 3	11,125,123	-	-	11,125,123
Kuhn drain - Segment 4	222,028	813	-	222,841
Kuhn drain - Chlorine system rehabilitation	1,280,421	-	-	1,280,421
Kuhn drain - Structural access gate	209,687	-	-	209,687
Buildings and improvements	4,789,616	168,400	-	4,958,016
Machinery and equipment	2,421,702	54,392	(40,180)	2,435,914
Subtotal	44,703,303	1,167,362	(40,180)	45,830,485
Accumulated depreciation:				
Utility systems	11,286,999	415,303	-	11,702,302
Kuhn drain - Segment 1	433,326	50,000	-	483,326
Kuhn drain - Segments 2 and 3	800,865	200,252	-	1,001,117
Kuhn drain - Segment 4	13,323	4,441	-	17,764
Kuhn drain - Chlorine system rehabilitation	46,025	24,974	-	70,999
Kuhn drain - Structural access gate	12,582	4,194	-	16,776
Buildings and improvements	598,889	83,573	-	682,462
Machinery and equipment	2,172,962	42,980	(38,348)	2,177,594
Subtotal	15,364,971	825,717	(38,348)	16,152,340
Net capital assets being depreciated	29,338,332	341,645	(1,832)	29,678,145
Net capital assets	\$ 29,502,745	\$ 341,645	\$ (1,832)	\$ 29,842,558

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

Governmental activities:	
General government	\$ 171,123
Public safety	263,700
Public works	2,305,260
Community development	11,972
Recreation	85,288
Refuse	50,705
Total governmental activities	\$ 2,888,048
Business-type activities - Water and Sewer Fund	\$ 825,717

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 4 - Capital Assets (Continued)

Component Units

Capital assets in the Downtown Development Authority, a component unit fund, consisted of land improvements with a net book value of \$754,915, which considers accumulated depreciation of \$91,200 as of June 30, 2013. There was \$5,407 in additions in the current year and depreciation expense for the current year was \$22,521.

Construction Commitments - The City has active construction projects at year end. The City's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Harwood W. pavement reconstruction	\$ 233,626	\$ 34,374
John R. resurfacing	452,404	1,595,400
Barrington pavement reconstruction	201,020	10,980
Whitcomb sectional repair	10,630	189,370
I-75 service drive sectional repair	14,612	260,388
Edward/Townley sectional repair	2,944	47,056
Total	<u>\$ 915,236</u>	<u>\$ 2,137,568</u>

Note 5 - Interfund Receivables, Payables, and Transfers

At June 30, 2013, the City had three interfund balances: an advance in the amount of \$482,135 from the Local Streets Fund to the Revolving Fund which represents an advance of local streets monies to finance local road-related special assessment projects, and interfund borrowings in the amounts of \$15,000 and \$4,000 from the General Fund to the Fire Stations Fund and Park Improvement and Maintenance Fund, respectively, which represent short-term lendings of cash.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

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
Major Streets Fund	General Fund	\$ 2,069,000
General Fund	Nonmajor governmental funds	339,955
Local Streets Fund	General Fund	100,000
	Major Streets Fund	175,000
	Revolving Fund	69,115
	Total Local Streets Fund	344,115
Nonmajor governmental funds	General Fund	26,255
	Total	<u>\$ 2,779,325</u>

The transfers into the Major Streets Fund and Local Streets Fund were for construction projects during the current year. The transfer into the General Fund represented the closing of the police and fire retirement special revenue fund. The transfer from the General Fund to the nonmajor governmental funds was made to prevent a deficit in the fire station debt service fund.

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. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation refunding bonds:							
Amount of issue - \$3,810,000							
For refunding the fire station bonds							
	1.90%	2023	\$ -	\$ 3,810,000	\$ -	\$ 3,810,000	\$ 300,000
General obligation bonds:							
Amount of issue - \$5,925,000							
For financing the construction of a new fire station							
	2%-3.875%	2021	4,050,000	-	4,050,000	-	-
Vested employee benefits			2,230,000	172,018	114,535	2,287,483	464,078
Reserve for general liability insurance claims			302,755	557,128	741,866	118,017	-
Reserve for workers' compensation liability insurance claims			233,496	388,161	164,022	457,635	-
Total governmental activities			<u>\$ 6,816,251</u>	<u>\$ 4,927,307</u>	<u>\$ 5,070,423</u>	<u>\$ 6,673,135</u>	<u>\$ 764,078</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
General obligation bonds (related to George W. Kuhn Drain project discussed below):							
Series 2000A - Amount of issue - \$1,881,478	2.5%	2022	\$ 1,056,489	\$ -	\$ 94,179	\$ 962,310	\$ 96,810
Series 2000C - Amount of issue - \$8,649,747	2.5%	2024	5,691,786	-	412,494	5,279,292	423,016
Series 2000D - Amount of issue - \$239,675	2.5%	2024	151,517	-	11,049	140,468	11,575
Series 2005F - Amount of issue - \$162,391	1.625%	2026	117,730	-	7,483	110,247	7,483
Series 2007 - Amount of issue - \$1,311,143	4.25%- 4.375%	2024	1,166,980	-	88,392	1,078,588	90,496
Series 2007G - Amount of issue - \$188,673	1.625%	2028	155,534	-	8,552	146,982	8,552
Series 2008H - Amount of issue - \$821,499	1.625%	2029	722,621	-	34,741	687,880	35,276
2010 General Obligation Limited Tax Bonds - Amount of issue - \$1,525,000	2.0%-4.0%	2025	1,380,000	-	75,000	1,305,000	80,000
Total			10,442,657	-	731,890	9,710,767	753,208
General obligations - Vested employee benefits			101,157	14,124	42,579	72,702	67,535
Total business-type activities			\$ 10,543,814	\$ 14,124	\$ 774,469	\$ 9,783,469	\$ 820,743

Governmental Activities

The accumulated employee benefits represent the estimated liability to be paid governmental fund-type employees under the City's sick, vacation, and longevity pay policies, net of the portion that is estimated will be paid currently. Under the City's policies and labor agreements, employees earn sick, vacation, and longevity time based on time of service with the City.

The reserve and funds on deposit for general and workers' compensation liability insurance claims are discussed in Note 7.

Business-type Activities

Seven of the eight general obligations recorded in the Water and Sewer Fund represent the City's obligations to service a portion, approximately 10.5 percent, of two bond issues and six State Revolving Fund loans related to the sewer construction project discussed in Note 10.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 6 - Long-term Debt (Continued)

The obligations were issued by the George W. Kuhn Drainage District on behalf of 14 participating communities, the County of Oakland, and the State of Michigan. The City has pledged its full faith and credit related to the repayment of these obligations and has recorded the liabilities in the Water and Sewer Fund since it is anticipated that the debt service requirements of these obligations will be provided from the revenue of this fund. During the current year, net revenue of the system was \$3,888,571 compared to the annual debt requirements of \$1,020,036.

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2013 (excluding compensated absences and other claims), including both principal and interest, are as follows:

Years Ending June 30	Governmental Activities			Business-type Activities (Water and Sewer Fund)		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 300,000	\$ 72,390	\$ 372,390	\$ 753,208	\$ 273,774	\$ 1,026,982
2015	325,000	66,690	391,690	775,078	253,900	1,028,978
2016	340,000	60,515	400,515	800,088	233,053	1,033,141
2017	365,000	54,055	419,055	824,572	211,047	1,035,619
2018	380,000	47,120	427,120	847,995	188,083	1,036,078
2019-2023	2,100,000	122,455	2,222,455	4,441,865	564,380	5,006,245
2024-2028	-	-	-	1,216,183	61,528	1,277,711
2029	-	-	-	51,778	1,283	53,061
Total	\$ 3,810,000	\$ 423,225	\$ 4,233,225	\$ 9,710,767	\$ 1,787,048	\$ 11,497,815

Interest

The City's business-type activities had total interest expense for the year ended June 30, 2013 of approximately \$288,000. The City's governmental-type activities had total interest expense of approximately \$132,000 for the same period.

Current Refundings - During the year, the City issued \$3,810,000 in general obligation bonds with an average interest rate of 1.9 percent. The proceeds of these bonds were used to refund \$3,775,000 of outstanding general obligation bonds with an average interest rate of 3.78 percent. The net proceeds of \$3,841,607 (after payment of \$37,667 in underwriting fees, insurance, and other issuance costs plus an additional \$69,274 transfer from the debt service fund) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the governmental activities long-term debt balance. The refunding reduced total debt service payments over the next 16 years by \$428,621, which represents an economic gain of \$321,102.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 7 - 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 participates in the Michigan Municipal Risk Management Authority risk pool for general liability claims. The City is self-insured for workers' compensation, health, and dental claims. This is the first year the City was self-insured for medical claims.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Annual premiums paid to the Authority are used to pay claims up to the retention limits. However, the ultimate liability for those claims remains with the City.

The City has elected to participate in the Authority's stop-loss program, which limits the paid losses to \$400,000 in any one year. The City's policy is to record premium payments to the Authority as expenditures of the participating funds.

The City estimates the liability for general liability, workers' compensation, and health claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The portion of this liability that relates to governmental fund activities and is not expected to be liquidated with expendable available financial resources is recorded as a noncurrent liability in the statement of net position. The remaining balance of the liability is recorded in the applicable fund, net of any funds on deposit that have not been previously expensed. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The estimated overpayment for health claims has been recorded in the governmental and proprietary funds as it is a current asset of the City. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Changes in the estimated liability (funds on deposit) for the past two fiscal years were as follows:

	General Liability		Workers' Compensation		Medical Claims
	2013	2012	2013	2012	2013
Estimated liability (asset) - Beginning of year	\$ 302,755	\$ (244,439)	\$ 233,496	\$ 223,901	\$ -
Estimated claims incurred, including reinsurance premiums and changes in estimates	95,089	626,796	450,092	135,650	983,059
Claim and reinsurance premium payments and reinsurance recoveries	(279,827)	(79,602)	(225,953)	(126,055)	(1,484,603)
Estimated liability (asset) - End of year	\$ 118,017	\$ 302,755	\$ 457,635	\$ 233,496	\$ (501,544)

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 7 - Risk Management (Continued)

Additionally, the City is involved in several contingent matters relating to lawsuits and claims. In the opinion of the City, the probability of material exposure, if any, to the City in excess of amounts currently recorded as a result of the resolution of these matters is remote.

Note 8 - Defined Benefit Pension Plan

Police and Fire Retirement System

Plan Description - The Police and Fire Retirement System is a single-employer defined benefit pension plan that is administrated by the City of Madison Heights Police and Fire Employees' Retirement System; this plan covers all sworn police and fire employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2012, the date of the most recent actuarial valuation, membership consisted of 120 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 70 current active employees. The plan does not issue a separate financial report.

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

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 8.90 percent of gross wages for firefighters and fire command, 9.17 percent for police officers and police command, and 11.91 percent for department heads. The funding policy provides for periodic employer contributions at actuarially determined rates. In addition, during the year ended June 30, 2013, the City's General Fund contributed \$419,498 related to investment and administrative expenses.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 8 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2013, the City's annual pension cost was \$1,338,104, excluding contributions for postretirement benefits and administrative expenses, investment expenses, and exclusive of employee contributions of \$534,290. The annual required contribution was determined as part of an actuarial valuation at June 30, 2011, using the individual entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return including 5.5 percent per year compounded annually, attributable to inflation, (b) projected salary increases of 5.5 percent per year, compounded annually, attributable to inflation, (c) additional projected salary increases of 0 percent to 3 percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The underfunded actuarial liability is being amortized by level percent-of-payroll contributions over an open 30-year period.

	Fiscal Year Ended June 30		
	2011	2012	2013
Annual pension cost (APC)	\$ 1,278,859	\$ 1,240,861	\$ 1,338,104
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
Net pension obligation	\$ -	\$ -	\$ -

Funded Status and Funding Progress - The funding status for the three most recent years is as follows:

	Actuarial Valuation as of June 30		
	2010	2011	2012
Actuarial value of assets	\$ 54,888,388	\$ 51,374,542	\$ 47,691,751
Actuarial accrued liability (AAL) (entry age)	\$ 63,161,498	\$ 65,466,348	\$ 67,929,700
Unfunded AAL (UAAL)	\$ 8,273,110	\$ 14,091,806	\$ 20,237,949
Funded ratio	86.9 %	78.5 %	70.2 %
Covered payroll	\$ 6,844,767	\$ 6,009,688	\$ 5,676,851
UAAL as a percentage of covered payroll	120.9 %	234.5 %	356.5 %

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 8 - Defined Benefit Pension Plan (Continued)

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

Reserve for employees' contributions	\$ 7,838,993
Reserve for retired benefit payments	28,701,871

Supplemental Information

The required supplemental information presented directly following the notes to the financial statements contained in the combining and individual fund section is designed to provide information about the plans' progress in accumulating sufficient assets to pay benefits when due.

Municipal Employees' Retirement System of Michigan

Plan Description - The City of Madison Heights, Michigan participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all employees of the City other than sworn police and fire employees. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplemental information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established primarily by negotiation with the collective bargaining units and requires a contribution from the employees ranging from 2.5 percent to 5.54 percent of gross wages.

Annual Pension Cost and Net Pension Asset

Annual required contribution	\$ 752,172
Interest on net pension asset	(7,810)
Adjustment to annual required contribution	9,525
Annual pension cost (APC)	753,887
Contributions made	893,173
Decrease in net pension asset	(139,286)
Net pension asset - Beginning of year	(97,628)
Net pension asset - End of year	\$ (236,914)

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 8 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2013, the City's actual contributions of \$893,173 exceeded the annual pension cost of \$753,887, exclusive of employee contributions.

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2011	2012	2013
Annual pension cost (APC)	\$ 726,791	\$ 737,261	\$ 753,887
Percentage of APC contributed	100 %	113 %	118 %
Net pension (asset) obligation	\$ -	\$ (97,628)	\$ (236,914)

	Actuarial Valuation Date		
	December 31		
	2010	2011	2012
Actuarial value of assets	\$ 26,547,659	\$ 26,299,697	\$ 25,978,597
Actuarial accrued liability (AAL) (entry age)	\$ 34,126,156	\$ 35,497,987	\$ 36,066,667
Unfunded AAL (UAAL)	\$ 7,578,497	\$ 9,198,290	\$ 10,088,070
Funded ratio	77.8 %	74.1 %	72.0 %
Valuation payroll	\$ 4,342,054	\$ 4,190,045	\$ 3,805,610
UAAL as a percentage of valuation payroll	174.5 %	219.5 %	265.1 %

Actuarial Assumptions - The following assumptions were used for an actuarial valuation at December 31, 2012, the date of the most recent valuation, using the entry age normal cost funding method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, including 4.5 percent per year, compounded annually, for inflation, (b) projected salary increases of 4.5 percent per year, compounded annually, attributable to inflation, (c) additional projected salary increases of 0 percent to 13 percent per year, attributable to seniority/merit, and (d) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a 10-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The amortization periods for the various divisions range from 17 to 24 years.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 9 - Other Postemployment Benefits

Retiree Healthcare Expenditures

The City provides healthcare benefits to some retirees, with no contribution required by the participant, which is paid monthly in accordance with labor contracts. Currently, 146 retirees are eligible. The portion of benefits of retirees other than sworn police and fire retirees paid and expensed by the General Fund and Water and Sewer Fund totaled \$38,027 and \$3,572, respectively, for the year ended June 30, 2013. Benefits of police and fire retirees are reported and expensed by the police and fire retirement fiduciary fund utilizing funds contributed by the police and fire retirement special revenue fund for this purpose.

The General Employees' Retirement System has assumed the reporting responsibility for most of the payment of the current cost of postemployment health benefits for general employees that were previously recorded as an expense in the General Fund and Water and Sewer Fund. During the year ended June 30, 2013, the Municipal Employees' Retirement System of Michigan Health Care Savings Plan Trust paid postemployment benefits totaling \$1,099,321. This expense represents the cost to meet current year claims and expenses on a cash basis, consistent with the City's historical accounting policy, and is not the result of any actuarial determination of future benefit funding requirements. The actuarial computed information regarding future benefits is disclosed below.

The Police and Fire Retirement System has assumed the reporting responsibility for the payment of the current cost of postemployment health benefits for retired police and fire employees that were previously recorded as an expense in the General Fund. During the year ended June 30, 2013, the City's General Fund contributed, and the Police and Fire Retirement System expensed, postemployment benefits totaling \$1,701,835. This expense represents the cost to meet current year claims and expenses on a cash basis, consistent with the City's historical accounting policy, and is not the result of any actuarial determination of future benefit funding requirements. The actuarial computed information regarding future benefits is disclosed below.

Healthcare Savings Plans

In 2006, the City established two separate healthcare savings plans under the Municipal Employees' Retirement System of Michigan which allow employees to make pretax contributions to be used by them for future healthcare costs. During the year ended June 30, 2013, the City contributed \$16,600 for the employees in these plans.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 9 - Other Postemployment Benefits (Continued)

General Employee Retiree Healthcare Benefits Trust

In 2005, the City established a fund pursuant to Public Act 149 of 1999. The purpose of the fund is to hold and invest monies to be used for future payments of general employee retiree healthcare benefits. The fund assets were placed in the Municipal Employees' Retirement System of Michigan Health Care Savings Plan Trust. Given that this plan is administered by MERS, the City does not report the plan's assets within the basic financial statements.

Plan Description - The City provides retiree healthcare benefits to eligible employees and their spouses through the General Employees' Retiree Healthcare Benefits Trust. This is a single employer defined benefit plan administered by the General Employees' Retiree Healthcare Benefits Trust. The benefits are provided under collective bargaining agreements.

Funding Policy - Employees are not required to contribute to the trust. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, as shown below, the City has made contributions to the trust of \$1,807,386, as determined by the City Council through annual budget resolution.

Funding Progress - For the year ended June 30, 2013, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2010. 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 cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

	Court and DPS Employees	All Other Employees	Total
Annual required contribution (recommended)	\$ 1,005,593	\$ 833,056	\$ 1,838,649
Interest on the prior year's net OPEB obligation/asset	51,050	(148,593)	(97,543)
Less adjustment to the annual required contribution	(56,683)	99,092	42,409
Annual OPEB cost	999,960	783,555	1,783,515
Amounts contributed:			
Payments of current premiums	(12,802)	(28,797)	(41,599)
Implicit rate subsidy of premiums	(93,390)	(230,005)	(323,395)
Contributions to trust	(665,966)	(1,141,420)	(1,807,386)
Change in net OPEB obligation (asset)	227,802	(616,667)	(388,865)
OPEB obligation (asset) - Beginning of year	638,123	(1,857,410)	(1,219,287)
OPEB obligation (asset) - End of year	\$ 865,925	\$ (2,474,077)	\$ (1,608,152)

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 9 - Other Postemployment Benefits (Continued)

The annual OPEB cost and the percentage contributed to the plan for the current and two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Costs</u>	<u>Percentage OPEB Costs Contributed</u>
6/30/11	\$ 1,345,028	139.1 %
6/30/12	1,673,327	127.4
6/30/13	1,783,515	121.8

The funding progress of the plan as of the three most recent valuation dates is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (Percent) (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll</u>
6/30/08	\$ 2,388,559	\$ 21,496,792	\$ 19,108,233	11.1 %	\$ 4,558,984	419.1 %
6/30/10	3,876,165	21,929,581	18,053,416	17.7	3,092,362	583.8
6/30/12	6,249,452	33,130,423	26,880,971	18.9	3,707,480	725.0

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.

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.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 9 - Other Postemployment Benefits (Continued)

In the June 30, 2012 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included an 8.0 percent investment rate of return, an annual healthcare cost trend rate of 9 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 for court and DPS employees is being amortized as a level dollar amount on a closed basis. The remaining amortization period (for that group of employees) at June 30, 2012 was 24 years. The UAAL for all other employees is being amortized as a level dollar amount on a closed basis. The remaining amortization period (for the remaining employees) at June 30, 2012 is 28 years.

Police and Fire Retiree Other Postemployment Benefits Trust

Plan Description - The City provides retiree healthcare benefits to eligible employees and their spouses through the Police and Fire Retiree Postemployment Benefits Trust (the "Trust"). Benefits are provided to police and fire retirees and their spouses and dependents. At June 30, 2012, the date of the most recent actuarial valuation, membership consisted of 79 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 61 current active employees.

This is a single employer defined benefit plan administered by the Trust. The benefits are provided under collective bargaining agreements. The Trust does not issue a separate stand-alone financial statement. Administrative costs are paid by the Trust through employer contributions.

Funding Policy - Employees are not required to contribute to the Trust. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, the City has made contributions to advance-fund these benefits, as determined by the City Council through annual budget resolutions. In the current year, the City made an advance-funding discretionary transfer of \$653,842 into the Trust based on an actuarial valuation done as of June 30, 2010. In the current year, the City also incurred pay-as-you-go retiree healthcare costs of \$1,701,835. These expenses are contributed by the City's General Fund and expensed by the Police and Fire Retirement System. The costs of administering the Trust are borne by the City's General Fund.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 9 - Other Postemployment Benefits (Continued)

Funding Progress - For the year ended June 30, 2013, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2010. 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 cost 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)	\$ 2,014,276
Interest on the prior year's net OPEB asset	(91,904)
Less adjustment to the annual required contribution	<u>61,479</u>
Annual OPEB cost	1,983,851
Amounts contributed:	
Payments of current premiums	(1,701,835)
Implicit rate subsidy on premiums	(301,414)
Advance funding	<u>(653,842)</u>
Decrease in net OPEB asset	(673,240)
OPEB asset - Beginning of year	<u>(1,225,392)</u>
OPEB asset - End of year	<u>\$ (1,898,632)</u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB asset for the three most recent years were as follows:

Fiscal Year Ended	Annual OPEB Costs	Percentage OPEB Costs Contributed	Net OPEB Asset
6/30/11	\$ 1,886,834	125.9 %	\$ 866,128
6/30/12	1,937,202	118.5	1,225,392
6/30/13	1,983,851	133.9	1,898,632

The funding progress of the plan as of the three most recent valuations 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	\$ 2,715,824	\$ 33,574,191	\$ 30,858,367	8.1 %	\$ 7,208,502	428.1 %
6/30/10	4,804,743	35,553,546	30,748,803	13.5	6,950,898	442.4
6/30/12	7,245,096	47,595,748	40,350,652	15.2	5,395,882	747.8

Note 9 - Other Postemployment Benefits (Continued)

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

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, 2012 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return compounded annually (net of administrative expenses). The valuation healthcare cost trend rate is assumed to be 9 percent in 2013, grading to 4.5 percent in 2022. The growth rate for amortizing the unfunded actuarial accrued liabilities was assumed to be 5.5 percent. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at June 30, 2012 was 28 years.

Note 10 - Commitments

Infrastructure Construction - The City and all other member communities of the Southeast Oakland County Sewage Disposal System (SOCSDS) had previously agreed to undertake improvements to the George W. Kuhn (GWK) Drain to expand the capacity and enhance the performance of the wastewater retention treatment facility. The estimated total cost of the project is \$128 million, with the City's estimated share approximating \$13 million. The GWK Drain District is financing the project by issuing debt, including low-interest (1.625 percent to 2.5 percent) State Revolving Fund money loans, with each community funding their proportionate share of the debt service payments. Additionally, the GWK Drain District communities have obtained approximately \$5.2 million in federal grants for the project.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 10 - Commitments (Continued)

As of June 30, 2013, the SOCSDS had obtained aggregate financing of approximately \$131,500,000 (of which approximately \$130,437,000 had been received or drawn down) and had incurred \$138,684,568 of costs related to the project. Included in the City's Water and Sewer Fund financial statements at June 30, 2013 was \$14,025,883 of system improvements and construction in progress, net of accumulated depreciation, \$168,310 of assets held at the County, and \$8,405,767 of general obligations payable, representing the major components of the City's interest in the project's activity at that date.

Note 11 - 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. Beginning January 1, 2000, 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 shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - July 1, 2012		\$	(2,799,936)
Current year building permit revenue			511,538
Current year related expenses:			
Direct costs	\$	350,860	
Estimated indirect costs		272,738	623,598
			<u> </u>
Current year shortfall			<u>(112,060)</u>
Cumulative shortfall - June 30, 2013		\$	<u><u>(2,911,996)</u></u>

Note 12 - Upcoming Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the City as of fiscal year 2013-2014.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 12 - Upcoming Accounting Pronouncements (Continued)

In June 2012, the GASB issued two new pension standards, GASB Statement No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions*. These new standards significantly revise the current accounting and reporting for pensions, both from an employer perspective as well as from a plan perspective. Employers providing defined benefit pensions to its employees must now, under these new standards, 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 and expanded note disclosures and required supplemental information (RSI). Statement No. 67 is required to be adopted for the 2013-2014 fiscal year and Statement No. 68 one year later.

Note 13 - Fund Balance Constraints

The detail of the various components of fund balance is as follows:

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund	Nonmajor Funds	Total
Fund Balances						
Nonspendable:						
Prepays	\$ 809,818	\$ 10,629	\$ 12,958	\$ -	\$ 113	\$ 833,518
Advances to other funds	-	-	482,135	-	-	482,135
Total	809,818	10,629	495,093	-	113	1,315,653
Restricted:						
Vehicles	598,755	-	-	-	-	598,755
Roads	-	1,285,344	330,544	-	-	1,615,888
Roads - Proposal R	-	-	3,620,895	-	-	3,620,895
Debt administration	-	-	-	-	(113)	(113)
Drug enforcement	-	-	-	-	64,336	64,336
Parks maintenance	-	-	-	-	633,599	633,599
Other restrictions	-	-	-	-	2,250	2,250
Library	201,897	-	-	-	-	201,897
Neighborhood stabilization program	-	-	-	-	329	329
Total	800,652	1,285,344	3,951,439	-	700,401	6,737,836
Assigned:						
Subsequent year's budget	785,165	-	-	-	-	785,165
Vested employee benefits	2,287,483	-	-	-	-	2,287,483
Retained insurance risk	721,706	-	-	-	-	721,706
Technology improvements	18,000	-	-	-	-	18,000
Capital improvements	-	-	-	932,197	-	932,197
Total	3,812,354	-	-	932,197	-	4,744,551
Total fund balance	\$ 5,422,824	\$ 1,295,973	\$ 4,446,532	\$ 932,197	\$ 700,514	\$ 12,798,040

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2013

Note 14 - Use of Net Position - Water and Sewer Fund

Management has designated the unrestricted net position of the Water and Sewer Fund (an enterprise fund) to be used for the following purposes:

Meter replacements	\$ 2,700,000
Subsequent year's end and accounts payable	949,915
Retained insurance risk	180,430
Vested employee benefits	72,702
Watermain replacement	1,874,200
Technology	113,000
Vehicle and equipment	670,515
Long-term debt	753,207
Bonds	<u>113,488</u>
Total designated unrestricted net position	<u>\$ 7,427,457</u>

Required Supplemental Information

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 16,653,593	\$ 16,653,593	\$ 16,467,524	\$ (186,069)
Licenses and permits	684,075	738,975	833,181	94,206
Federal grants	50,000	66,000	134,286	68,286
State-shared revenue and grants	2,710,267	2,826,967	2,855,332	28,365
Charges for services	2,088,016	2,088,016	2,088,535	519
Fines and forfeitures	1,903,000	1,903,000	1,531,203	(371,797)
Investment income	125,000	125,000	19,728	(105,272)
Other revenue	734,588	734,588	991,213	256,625
Total revenue	<u>24,948,539</u>	<u>25,136,139</u>	<u>24,921,002</u>	<u>(215,137)</u>
Expenditures - Current				
General government	6,026,974	5,972,394	5,792,396	179,998
Public safety	13,236,148	13,385,448	13,336,819	48,629
Public works	3,183,590	2,871,590	2,843,971	27,619
Community and economic development	916,892	942,892	938,268	4,624
Recreation and culture	1,722,435	1,709,665	1,688,912	20,753
Total expenditures	<u>25,086,039</u>	<u>24,881,989</u>	<u>24,600,366</u>	<u>281,623</u>
Excess of Revenue (Under) Over Expenditures	(137,500)	254,150	320,636	66,486
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	30,000	30,000	36,819	6,819
Transfers in	-	-	339,955	339,955
Transfers out	(2,169,000)	(2,169,000)	(2,195,255)	(26,255)
Total other financing uses	<u>(2,139,000)</u>	<u>(2,139,000)</u>	<u>(1,818,481)</u>	<u>320,519</u>
Net Change in Fund Balance	(2,276,500)	(1,884,850)	(1,497,845)	387,005
Fund Balance - Beginning of year	<u>6,920,669</u>	<u>6,920,669</u>	<u>6,920,669</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 4,644,169</u>	<u>\$ 5,035,819</u>	<u>\$ 5,422,824</u>	<u>\$ 387,005</u>

City of Madison Heights, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Intergovernmental	\$ 1,239,553	\$ 1,239,553	\$ 1,292,164	\$ 52,611
Investment income	250	250	1,302	1,052
Total revenue	1,239,803	1,239,803	1,293,466	53,663
Expenditures				
Current:				
Public works	1,456	1,456	-	1,456
Community and economic development	809,571	784,571	581,921	202,650
Capital outlay	2,269,000	1,726,500	1,869,193	(142,693)
Total expenditures	3,080,027	2,512,527	2,451,114	61,413
Excess of Expenditures Over Revenue	(1,840,224)	(1,272,724)	(1,157,648)	115,076
Other Financing Sources (Uses)				
Transfers in	2,069,000	2,069,000	2,069,000	-
Transfers out	(175,000)	(175,000)	(175,000)	-
Total other financing sources	1,894,000	1,894,000	1,894,000	-
Net Change in Fund Balance	53,776	621,276	736,352	115,076
Fund Balance - Beginning of year	559,621	559,621	559,621	-
Fund Balance - End of year	\$ 613,397	\$ 1,180,897	\$ 1,295,973	\$ 115,076

City of Madison Heights, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 1,534,417	\$ 1,534,417	\$ 1,569,883	\$ 35,466
State-shared revenue and grants	441,562	441,562	467,709	26,147
Investment income	33,218	33,218	72	(33,146)
Total revenue	2,009,197	2,009,197	2,037,664	28,467
Expenditures				
Current:				
Public works	1,718	1,718	-	1,718
Community and economic development	612,135	651,100	576,413	74,687
Capital outlay	2,558,000	2,616,425	2,022,831	593,594
Total expenditures	3,171,853	3,269,243	2,599,244	669,999
Excess of Expenditures Over Revenue	(1,162,656)	(1,260,046)	(561,580)	698,466
Other Financing Sources - Transfers in	344,115	344,115	344,115	-
Net Change in Fund Balance	(818,541)	(915,931)	(217,465)	698,466
Fund Balance - Beginning of year	4,663,997	4,663,997	4,663,997	-
Fund Balance - End of year	<u>\$ 3,845,456</u>	<u>\$ 3,748,066</u>	<u>\$ 4,446,532</u>	<u>\$ 698,466</u>

City of Madison Heights, Michigan

Required Supplemental Information Pension System Schedule Year Ended June 30, 2013

The schedule of funding progress is as follows:

Police and Fire Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Valuation Payroll (c)	UAAL as a Percentage of Valuation Payroll
6/30/07	\$ 55,004,366	\$ 61,959,805	\$ 6,955,439	88.8 %	\$ 7,220,564	96.3 %
6/30/08	57,130,630	61,187,814	4,057,184	93.4	7,597,087	53.4
6/30/09	56,156,781	63,175,083	7,018,302	88.9	7,499,803	93.6
6/30/10	54,888,388	63,161,498	8,273,110	86.9	6,844,767	120.9
6/30/11	51,374,542	65,466,348	14,091,806	78.5	6,009,688	234.5
6/30/12	47,691,751	67,929,700	20,237,949	70.2	5,676,851	356.5

The schedule of employer contributions is as follows:

Police and Fire Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution for Police and Fire*	Percentage Contributed
6/30/08	6/30/06	\$ 1,745,795	100 %
6/30/09	6/30/07	1,625,338	100
6/30/10	6/30/08	1,588,663	100
6/30/11	6/30/09	1,278,859	100
6/30/12	6/30/10	1,240,861	100
6/30/13	6/30/11	1,338,104	100

* Excludes contributions made for retiree health care and other expenses.

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

Police and Fire Retirement System

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll
Remaining amortization period	30 years open
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.5%-8.5%
Includes inflation at cost-of-living adjustments	5.5%
Postretirement benefit increases	None

City of Madison Heights, Michigan

Required Supplemental Information Police and Fire Other Postemployment Benefits Trust Schedule Year Ended June 30, 2013

The schedule of funding progress is as follows:

Police and Fire Other Postemployment Benefit Trust

Actuarial Valuation Date*	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Valuation Payroll (c)	UAAL as a Percentage of Valuation Payroll
6/30/06	\$ -	\$ 37,800,085	\$ 37,800,085	- %	\$ 7,005,987	539.5 %
6/30/08	2,715,824	33,574,191	30,858,367	8.1	7,208,502	428.1
6/30/10	4,804,743	35,553,546	30,748,803	13.5	6,950,898	442.4
6/30/12	7,245,096	47,595,748	40,350,652	15.2	5,395,882	747.8

* The Police and Fire Healthcare Trust was established during the fiscal year ended June 30, 2007; therefore, only four years of funding progress data is available.

The schedule of employer contributions is as follows:

Police and Fire Other Postemployment Benefit Trust

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Cost	Percentage Contributed
6/30/08	6/30/06	\$ 2,543,473	102.8 %
6/30/09	6/30/08	2,691,921	107.3
6/30/10	6/30/08	2,031,000	109.0
6/30/11	6/30/08	1,886,834	125.9
6/30/12	6/30/10	1,937,202	118.5
6/30/13	6/30/10	1,983,851	133.9

The calculation of percentage contributed for the fiscal year ended June 30, 2013 includes pay-as-you-go insurance premiums of \$1,701,835 that were paid for by the Police and Fire Retirement System, an implicit rate subsidy of \$301,414, and advance funding of \$653,842 that the City contributed to the Police and Fire Other Postemployment Benefit Trust.

The information presented above was determined as part of the actuarial valuations as of June 30, 2010. Additional information as of June 30, 2012, the latest actuarial valuation, is as follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent, closed
Remaining amortization period	28 years
Asset valuation method	Not applicable
Actuarial assumptions:	
Investment rate of return	7.5%
Growth rate for amortizing UAAL	5.5%
Medical care inflation	4.5%-9.0%

City of Madison Heights, Michigan

Note to Required Supplemental Information Year Ended June 30, 2013

Note - Stewardship, Compliance, and Accountability

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 is a summary of the requirements of this act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan*, dated April 1982 as amended by P.A. 493 of 2000:

- a. Budgets must be adopted for the General Fund and special revenue funds.
- b. Budgeted expenditures cannot exceed budgeted revenue and fund balance.
- c. The budgets must be amended when necessary.
- d. Public hearings must be held before budget adoptions.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget before being incurred.

The City adopts its budget based on total expenditures by fund, except for the General Fund for which it adopts budgeted expenditures by general government, public safety, public works, community and economic development, and culture and recreation, which is in accordance with the State's legal requirements. This then represents the level of classification detail at which expenditures may not legally exceed appropriations. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The level of detail presented in the required supplemental information for the General Fund and in the other supplemental information budgetary comparison schedules for the nonmajor governmental funds is on this budget basis. The level of detail presented in the required supplemental information for the major governmental funds is in greater detail than the adopted budgets. Copies of the budget for all budgeted funds are available at the office of the city clerk.

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

1. Prior to the third Monday in April, the city manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to the third Monday in May, the budget is legally enacted through passage of an ordinance.
4. The city manager is authorized to transfer budgeted amounts between line items within an activity category; however, any revisions that alter the total expenditures of any budgeted activity must be approved by the City Council.

During the current year, the budgets were amended in a legally permissible manner. Budget appropriations lapse at year end.

City of Madison Heights, Michigan

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

Note - Stewardship, Compliance, and Accountability (Continued)

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

All budget comparison schedules are contained in the other supplemental information section.

During the year, the Major Streets Fund incurred significant capital outlay expenditures that were in excess of the amounts budgeted. Actual expenditures were \$1,869,193 compared to the budgeted amount of \$1,726,500. The capital outlay expenditures related to a road project exceeding what was anticipated during the year.

Other Supplemental Information

City of Madison Heights, Michigan

	Special Revenue Funds					
	Community Improvement	Forfeiture	Park Improvement and Maintenance	Neighborhood Stabilization	Fire Manning Grant	Police and Fire Retirement
Assets						
Cash and investments	\$ -	\$ 64,336	\$ 637,845	\$ 3,762	\$ -	\$ -
Receivables:						
Accounts receivable	113	-	-	-	-	-
Due from other governmental units	32,040	-	-	-	-	-
Prepaid expenses	113	-	-	-	-	-
Total assets	\$ 32,266	\$ 64,336	\$ 637,845	\$ 3,762	\$ -	\$ -
Liabilities						
Accounts payable	\$ 26,536	\$ -	\$ 246	\$ 3,433	\$ -	\$ -
Due to other funds	-	-	4,000	-	-	-
Accrued liabilities and other	3,480	-	-	-	-	-
Total liabilities	30,016	-	4,246	3,433	-	-
Fund Balances						
Nonspendable	113	-	-	-	-	-
Restricted	2,137	64,336	633,599	329	-	-
Total fund balances	2,250	64,336	633,599	329	-	-
Total liabilities and fund balances	\$ 32,266	\$ 64,336	\$ 637,845	\$ 3,762	\$ -	\$ -

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

Debt Service Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 12,092	\$ -	\$ 718,035
-	-	113
-	-	32,040
-	-	113
\$ 12,092	\$ -	\$ 750,301
\$ -	\$ -	\$ 30,215
-	-	4,000
12,092	-	15,572
12,092	-	49,787
-	-	113
-	-	700,401
-	-	700,514
\$ 12,092	\$ -	\$ 750,301

City of Madison Heights, Michigan

	Special Revenue Funds					
	Community Improvement	Forfeiture	Park Improvement and Maintenance	Neighborhood Stabilization	Fire Manning Grant	Police and Fire Retirement
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants	143,556	-	-	175,384	158,393	-
State-shared revenue and grants	-	43,966	-	-	-	-
Investment income	-	-	(3,224)	-	-	-
Rental income	-	-	1,500	-	-	-
Total revenue	143,556	43,966	(1,724)	175,384	158,393	-
Expenditures						
Current:						
Public safety - Fire and EMS	-	-	-	-	158,393	-
Community and economic development	141,306	-	-	175,370	-	-
Recreation and culture	-	-	17,264	-	-	-
Capital outlay	-	97,277	-	-	-	-
Debt service	-	-	-	-	-	-
Total expenditures	141,306	97,277	17,264	175,370	158,393	-
Excess of Expenditures Over (Under) Revenue	2,250	(53,311)	(18,988)	14	-	-
Other Financing Sources (Uses)						
Face value of debt issue	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	(339,955)
Payment to bond refunding escrow agent	-	-	-	-	-	-
Total other financing (uses) sources	-	-	-	-	-	(339,955)
Net Change in Fund Balances	2,250	(53,311)	(18,988)	14	-	(339,955)
Fund Balances - Beginning of year	-	117,647	652,587	315	-	339,955
Fund Balances - End of year	\$ 2,250	\$ 64,336	\$ 633,599	\$ 329	\$ -	\$ -

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

Debt Service Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 429,239	\$ -	\$ 429,239
-	-	477,333
-	-	43,966
1,095	-	(2,129)
-	-	1,500
<u>430,334</u>	<u>-</u>	<u>949,909</u>
-	19,940	178,333
-	-	316,676
-	-	17,264
-	-	97,277
458,341	-	458,341
<u>458,341</u>	<u>19,940</u>	<u>1,067,891</u>
(28,007)	(19,940)	(117,982)
3,810,000	-	3,810,000
26,255	-	26,255
-	-	(339,955)
<u>(3,810,000)</u>	<u>-</u>	<u>(3,810,000)</u>
26,255	-	(313,700)
(1,752)	(19,940)	(431,682)
<u>1,752</u>	<u>19,940</u>	<u>1,132,196</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 700,514</u>

City of Madison Heights, Michigan

Other Supplemental Information Financial Data Schedule - Balance Sheet June 30, 2013

	14.871 Housing Choice Vouchers	Eliminations	Total
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash - Other restricted	\$ 7,240	\$ -	\$ 7,240
Investments - Restricted	<u>250,000</u>	<u>-</u>	<u>250,000</u>
Total assets	<u>\$ 257,240</u>	<u>\$ -</u>	<u>\$ 257,240</u>
Liabilities			
Accounts payable	\$ 17,889	\$ -	\$ 17,889
Accrued wage/payroll taxes payable	<u>3,761</u>	<u>-</u>	<u>3,761</u>
Total current liabilities	21,650	-	21,650
Equity - Fund balance reserved	<u>235,590</u>	<u>-</u>	<u>235,590</u>
Total liabilities and equity/net position	<u>\$ 257,240</u>	<u>\$ -</u>	<u>\$ 257,240</u>

City of Madison Heights, Michigan

Other Supplemental Information Financial Data Schedule - Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2013

	14.871 Housing Choice Vouchers	Eliminations	Total
Revenue			
Housing assistance payments grant	\$ 1,027,040	\$ -	\$ 1,027,040
Investment income - Unrestricted - Other	23	-	23
Fraud recovery income - HAP	<u>16,423</u>	<u>-</u>	<u>16,423</u>
Total revenue	1,043,486	-	1,043,486
Expenses			
Administrative salaries	64,882	-	64,882
Employee benefit contributions - Administrative	60,782	-	60,782
Office expenses	336	-	336
Legal expenses	7,380	-	7,380
Other	<u>8,236</u>	<u>-</u>	<u>8,236</u>
Total operating - Administrative	141,616	-	141,616
Total other nonoperating expenses	<u>1,049,317</u>	<u>-</u>	<u>1,049,317</u>
Total expenses	<u>1,190,933</u>	<u>-</u>	<u>1,190,933</u>
Total end deficiency of total revenue under total expenses	<u>\$ (147,447)</u>	<u>\$ -</u>	<u>\$ (147,447)</u>

City of Madison Heights, Michigan

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

	Pension Trust Funds			Agency Funds		
	Police and Fire Retirement	Police and Fire Other Post- employment Benefits	Total Pension Trust Funds	Tax Collection	Escrow	Total Agency Funds
Assets						
Cash and cash equivalents	\$ 1,191,850	\$ 289,079	\$ 1,480,929	\$ 10,657	\$ 35,554	\$ 46,211
Investments:						
Corporate obligations	6,597,108	2,993,752	9,590,860	-	-	-
U.S. government securities	7,751,278	-	7,751,278	-	-	-
Federal agency securities	1,358,448	-	1,358,448	-	96,528	96,528
Common stock	9,909,691	-	9,909,691	-	-	-
Oakland County interlocal agreement pool	-	-	-	-	87,677	87,677
Municipal bonds	-	-	-	-	85,817	85,817
Small cap mutual funds	18,016,541	5,514,144	23,530,685	-	-	-
Money market	-	-	-	-	11,007	11,007
Accrued interest receivable and other	190,379	2,746	193,125	-	-	-
Due from primary government	435,716	46,173	481,889	-	-	-
Total assets	<u>45,451,011</u>	<u>8,845,894</u>	<u>54,296,905</u>	<u>\$ 10,657</u>	<u>\$ 316,583</u>	<u>\$ 327,240</u>
Liabilities						
Accounts payable	-	-	-	\$ 924	\$ 40,344	\$ 41,268
Prepaid taxes	-	-	-	9,733	-	9,733
Cash bonds and deposits	-	-	-	-	276,239	276,239
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 10,657</u>	<u>\$ 316,583</u>	<u>\$ 327,240</u>
Net Position Held in Trust for Police and Fire Retirement and Other Postemployment Benefits	<u>\$ 45,451,011</u>	<u>\$ 8,845,894</u>	<u>\$ 54,296,905</u>			

City of Madison Heights, Michigan

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

	Police and Fire Retirement	Police and Fire Other Post- employment Benefits	Total Pension Trust Funds
Additions			
Investment income (loss):			
Interest and dividends	\$ 1,380,305	\$ 143,258	\$ 1,523,563
Net increase in fair value of investments	1,418,335	803,701	2,222,036
Less investment expenses	(225,340)	-	(225,340)
Net investment income	2,573,300	946,959	3,520,259
Contributions:			
Employer	1,757,603	2,657,089	4,414,692
Employee	534,290	-	534,290
Net contributions	2,291,893	2,657,089	4,948,982
Total additions	4,865,193	3,604,048	8,469,241
Deductions			
Benefit payments	4,153,845	2,003,250	6,157,095
Refunds of contributions	365,515	-	365,515
Administrative expenses	194,158	-	194,158
Total deductions	4,713,518	2,003,250	6,716,768
Net Increase in Net Position Held in Trust	151,675	1,600,798	1,752,473
Net Position Held in Trust for Police and Fire Retirement and Other Postemployment Benefits - Beginning of year			
	45,299,336	7,245,096	52,544,432
Net Position Held in Trust for Police and Fire Retirement and Other Postemployment Benefits - End of year			
	<u>\$ 45,451,011</u>	<u>\$ 8,845,894</u>	<u>\$ 54,296,905</u>

City of Madison Heights, Michigan

Other Supplemental Information Schedule of Changes in Reserves Police and Fire Retirement System Year Ended June 30, 2013

	Employees' Contributions	Employer's Contributions	Retirees' Pension Benefit Payments
Additions			
Investment income (loss):			
Interest and dividends	\$ -	\$ 1,380,305	\$ -
Net increase in fair value of investments	-	1,418,335	-
Less investment expenses	-	(225,340)	-
Net investment income	-	2,573,300	-
Contributions:			
Employer	-	1,757,603	-
Employee	534,290	-	-
Net contributions	534,290	1,757,603	-
Transfers	196,051	-	2,453,179
Total additions	730,341	4,330,903	2,453,179
Deductions			
Pension payments	-	-	4,153,844
Postretirement benefits	-	1,742,589	-
Transfers	-	906,642	-
Refunds of contributions	365,515	-	-
Administrative expenses	-	194,158	-
Total deductions	365,515	2,843,389	4,153,844
Net Increase (Decrease) in Net Position Held in Trust	364,826	1,487,514	(1,700,665)
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	7,474,167	7,422,633	30,402,536
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	\$ 7,838,993	\$ 8,910,147	\$ 28,701,871