

City of

# MADISON HEIGHTS



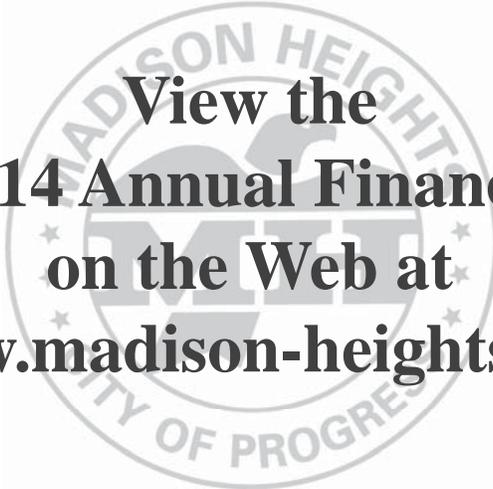
Michigan



Neighbors  
Helping  
Neighbors

## ANNUAL FINANCIAL REPORT

For Fiscal Year Ended June 30, 2014



**View the  
FY 2013-14 Annual Financial Audit  
on the Web at  
[www.madison-heights.org](http://www.madison-heights.org)**

Madison Heights has always prided itself on being a neighborly community, with many outstanding volunteer programs and organizations available to those in need. The cover photos reflect this sense of community spirit, which was proven to be stronger than ever in the wake of the devastating storm on August 11, 2014. As neighbors drew together with offers of help, community spirit soared, with many assisting both physically with clean up and financially by contributing to the Homeowners Flood Relief Fund. It soon became clear that the theme for this year's financial documents should be *Neighbors Helping Neighbors*.

Top photo:

Berge Sunde (left) is assisted by SHARP volunteer Morrie Brown (right). SHARP is a program to help seniors, those that are physically challenged and families of deployed servicemen and women in Madison Heights with home maintenance. (Photo taken by Andrew Potter; Courtesy of C & G Newspapers.)

Second Photo:

Volunteers from Faith Lutheran Church help senior and disabled residents with basement clean up and debris removal throughout the City after the August 2014 Storm.

Third Photo:

A happy homeowner, the recipient of a new hot water heater and furnace, the purchase of both made possible by donations from individuals and businesses to the Neighbors Helping Neighbors Homeowners Flood Relief Fund.

Bottom photo:

Community volunteers at Habitat for Humanity of Oakland County Women Build 2014 build site located on East Kalama in Madison Heights.

# **City of Madison Heights, Michigan**

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

# 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 (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of 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. 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, 2014 and the respective changes in its financial position and, where applicable, cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

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

***Emphasis of Matter***

As discussed in Note 15 to the basic financial statements, during the year ended June 30, 2014, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*. As a result, the governmental funds now report deferred inflows for revenues that are not collected soon enough to be available for operations. In addition, the pension trust fund now includes substantially different note disclosures and required supplemental information. Our opinion is not modified with respect to these matters.

***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension system and OPEB system schedules, 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.

*Plante & Moran, PLLC*

October 28, 2014

# 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, 2014 (fiscal year 2014). 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, 2014:

- The City's General Fund was budgeted to use \$578,830 in fund balance during the current fiscal year; however, at June 30, 2014, fund balance increased \$1,122,500. This difference occurred due to the following events that differed from the amended budget:
  - The City received an MMRMA distribution of \$700,302, of which \$385,166 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.
  - Due to timing, several items that were budgeted to be purchased and or completed in FY 2014 were carried forward into FY 2015. This total amount of planned fund balance use was \$385,835.
  - Overall tax revenues were down in FY 2014 when compared to FY 2013; however, tax revenues were recorded \$639,000 higher than budget due to fewer tax refunds than anticipated and personal property collection being higher than the budget by more than \$297,000.
  - Court fines continue to come in under budget in FY 2014 by \$110,580. However, this was an increase over FY 2013 by \$179,200.
  - Interest revenue was recorded at \$107,600 more than budget due to the diversity of investments and market performance.
  - The General Fund also benefited from closing the housing department which resulted in \$200,675 in unrestricted assets from the disabled voucher program being transferred to the General Fund. This money was accumulated administrative fees.
- The City's Major Streets Fund was budgeted to use \$1,378,480 in fund balance during the current fiscal year; however, during the year ended June 30, 2014, fund balance decreased \$727,238. This difference occurred due to the 13 Mile Sectional and John R Overlay (11 Mile to 12 ½ Mile) road projects which spanned two fiscal years.

# City of Madison Heights, Michigan

## Management's Discussion and Analysis (Continued)

- The City's Local Streets Fund has decreased fund balance during the year ended June 30, 2014 by \$460,858. This reduction is due to 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 \$68.0 million for governmental activities (all funds excluding water and sewer and fiduciary funds) at June 30, 2014. This reflects a decrease in governmental activities net position of \$1.2 million, or 1.8 percent, from fiscal year 2013. Of this amount, \$6.9 million is considered unrestricted, down from \$8.6 million unrestricted at June 30, 2013, which means the City may use or designate this amount to meet ongoing and future obligations. This amount does not reflect cash on hand.
- During the fiscal year, the City's governmental activities received \$29.7 million in program and general revenue, which is an increase of \$1.0 million from fiscal year 2013. The primary reason for the increase was an increase in unrestricted investment earnings of approximately \$328,000 and significant insurance distributions of approximately \$385,000.
- Total governmental activity program expenses for the year were \$30.9 million or an increase of \$4.2 million, or 15.7 percent, when compared to fiscal year 2013. The increase in program expenses is related to the increase in Police and Fire pension and other postemployment benefits expenses.
- 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 \$12.7 million, resulting in an increase in current assets of \$2.0 million for fiscal year 2014. 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 \$30.4 million as of June 30, 2014. This total is an increase of approximately \$2.7 million, or 9.7 percent, over June 30, 2013. Of this amount, \$8.8 million is unrestricted, of which \$7.8 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 2014, the City's total net position increased 1.5 percent from a year ago, increasing from \$97.0 million to \$98.4 million. At June 30, 2014, this net position is categorized as those which are invested in capital assets net of related debt (77.8 percent or \$76.6 million), restricted for specific uses (6.1 percent or \$6.0 million), and those which are unrestricted (16.1 percent or \$15.8 million).

The City's net position of \$76.6 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 \$6.0 million is subject to bond covenant restrictions or other legal or regulatory requirements. The remaining portion of the City's net position of approximately \$15.8 million is unrestricted, but assigned to meet ongoing obligations.

A review of the governmental activities, separate from the business-type activities, shows a decrease of approximately \$1.2 million in net position during fiscal year 2014. Unrestricted net position has decreased by \$1.7 million from June 30, 2013. Relative to changes in fund balance for governmental activities, the General Fund had an increase of approximately \$1.1 million. The City's General Fund was budgeted to use approximately \$579,000 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 \$700,302, of which \$385,166 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.
- Due to timing, several items that were budgeted to be purchased and or completed in FY 2014 were carried forward into FY 2015. This total amount of planned fund balance use was \$385,835.
- Overall tax revenues were down in FY 2014 when compared to FY 2013; however, tax revenues were recorded \$639,000 higher than budget due to fewer tax refunds than anticipated and personal property collection being higher than the budget by more than \$297,000.
- Court fines continue to come in under budget in FY 2014 by \$110,580. However, this was an increase over FY 2013 by \$179,200.

# City of Madison Heights, Michigan

## Management's Discussion and Analysis (Continued)

- Interest revenue was recorded at \$107,600 more than budget due to the diversity of investments and market performance.
- The General Fund also benefited from closing the housing department which resulted in \$200,675 in unrestricted net assets from the disabled voucher program being transferred to the General Fund. This money was accumulated administrative fees.

The City's Local Streets Fund has decreased fund balance at June 30, 2014 by \$460,858. This reduction is due 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 decreased fund balance at June 30, 2014 by \$727,238. This difference occurred due to the 13 Mile Sectional and John R Overlay (11 Mile to 12 ½ Mile) road projects which crossed fiscal years.

The City's Revolving Fund, which is specific to capital improvement projects, experienced a decrease in fund balance of \$27,086. This decrease was due to timing of the special assessment sidewalk construction projects which are completed after fiscal year end and billed to property owners in three installments.

The following table shows a comparison of net position (in thousands of dollars) as of June 30, 2014 and 2013:

	Governmental Activities		Business-type Activities		Total	
	As of June 30					
	2014	2013	2014	2013	2014	2013
<b>Assets</b>						
Current assets	\$ 15,925	\$ 15,874	\$ 11,117	\$ 9,112	\$ 27,042	\$ 24,986
Noncurrent assets:						
Capital assets	58,566	57,249	30,385	29,843	88,951	87,092
Other	2,949	5,884	147	184	3,096	6,068
Total assets	77,440	79,007	41,649	39,139	119,089	118,146
<b>Liabilities</b>						
Current liabilities	4,465	4,428	2,047	1,759	6,512	6,187
Long-term liabilities	4,956	5,333	9,196	9,653	14,152	14,986
Total liabilities	9,421	9,761	11,243	11,412	20,664	21,173
<b>Net Position</b>						
Net investment in capital assets	55,056	53,439	21,557	20,300	76,613	73,739
Restricted	6,044	7,244	-	-	6,044	7,244
Unrestricted	6,919	8,563	8,849	7,427	15,768	15,990
Total net position	<b>\$ 68,019</b>	<b>\$ 69,246</b>	<b>\$ 30,406</b>	<b>\$ 27,727</b>	<b>\$ 98,425</b>	<b>\$ 96,973</b>

# 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 increased approximately \$997,000 from the prior fiscal year. Property taxes were down 0.4 percent, or \$69,000, over last year due to a decrease in overall taxable value. Operating grants were down \$134,000 over last year directly related to a reduction in neighborhood stabilization funds. Franchise fees decreased \$80,000 over last year. These decreases were offset by increases in investment earnings of \$328,000 directly related to market conditions during the year, capital grants (\$256,000) charges for services (\$260,000), state-shared revenues (\$103,000), and miscellaneous other revenue (\$333,000).

Program expenses increased 15.9 percent from the previous fiscal year. This increase resulted from the additional expenses for police and fire, and general employees' pension and other postemployment systems. General government expenses increased 24.0 percent from the previous fiscal year and public works expenses increased 10.0 percent. The differences were primarily driven by the allocation of funding pension and retiree healthcare contributions.

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year Ended June 30					
	2014	2013	2014	2013	2014	2013
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 3,837	\$ 3,577	\$ 12,480	\$ 12,328	\$ 16,317	\$ 15,905
Operating grants	2,314	2,448	-	-	2,314	2,448
Capital grants and contributions	701	445	-	-	701	445
General revenue:						
Property taxes	18,386	18,455	-	-	18,386	18,455
State-shared revenue	2,858	2,755	-	-	2,858	2,755
Unrestricted investment earnings	393	65	245	4	638	69
Franchise fees	490	570	-	-	490	570
Other	689	356	-	-	689	356
Gain on sale of capital assets	-	-	-	4	-	4
Total revenue	29,668	28,671	12,725	12,336	42,393	41,007
<b>Program Expenses</b>						
General government	5,442	4,387	-	-	5,442	4,387
Public safety	15,650	13,147	-	-	15,650	13,147
Public works	4,640	4,217	-	-	4,640	4,217
Solid waste	2,142	1,984	-	-	2,142	1,984
Community development	1,163	1,261	-	-	1,163	1,261
Recreation	1,786	1,499	-	-	1,786	1,499
Interest on long-term debt	72	170	-	-	72	170
Water and sewer	-	-	10,046	9,554	10,046	9,554
Total program expenses	30,895	26,665	10,046	9,554	40,941	36,219
<b>Change in Net Position</b>	<b>\$ (1,227)</b>	<b>\$ 2,006</b>	<b>\$ 2,679</b>	<b>\$ 2,782</b>	<b>\$ 1,452</b>	<b>\$ 4,788</b>

# **City of Madison Heights, Michigan**

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

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.

### **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 2013-2014 was increased by 4.5 percent. The fixed monthly charge for water purchases increased 4.4 percent. The City provides sewage treatment to all residents and businesses using the Southeast Oakland County Sewage Disposal System. In fiscal year 2014, there was a rate increase for sewage treatment of 4.9 percent. This increase was offset by a decrease of 2.7 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 4.5 percent rate increase effective for bills on or after July 1, 2013. This rate adjustment increased the average water and sewer bill for a City resident from \$160.30 per quarter to \$167.34 per quarter. The Water and Sewer Fund had a \$2.7 million increase in its net position; this is due to increased user revenue as well as an increase in investment revenue during fiscal year 2014. Revenue from user charges increased 1.2 percent, or \$152,000, as a result of consumption and rate increases. Operating expenses increased by 5.4 percent, or \$500,000, 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 0.4 percent compared to 2013. To combat the negative pressure on revenue from dropping taxable values and the continued uncertainty of state funding levels, the City continues a hiring review of vacant positions and control of capital improvement expenditures as well as program reduction measures to reduce cost and add efficiencies to departmental operations.

# City of Madison Heights, Michigan

## Management's Discussion and Analysis (Continued)

### 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, 2014 amounts to \$88,950,917, net of accumulated depreciation. This is a net increase (additions less disposals and depreciation) of \$1,859,362 or 2.1 percent from last fiscal year. The following summarizes the City's capital assets, net of depreciation, as of June 30, 2014 and 2013:

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 2,550,490	\$ 2,552,990	\$ 164,413	\$ 164,413	\$ 2,714,903	\$ 2,717,403
Infrastructure	40,305,709	37,768,521	25,609,293	25,144,271	65,915,002	62,912,792
Buildings and improvements	11,032,548	11,538,666	4,191,981	4,275,554	15,224,529	15,814,220
Land improvements	1,252,647	1,514,366	-	-	1,252,647	1,514,366
Construction in progress	1,100,107	1,806,394	25,600	-	1,125,707	1,806,394
Other assets	807,269	624,283	393,274	258,320	1,200,543	882,603
Vehicles	1,517,586	1,443,777	-	-	1,517,586	1,443,777
<b>Total</b>	<b>\$ 58,566,356</b>	<b>\$ 57,248,997</b>	<b>\$ 30,384,561</b>	<b>\$ 29,842,558</b>	<b>\$ 88,950,917</b>	<b>\$ 87,091,555</b>

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

- Year 11 of the sidewalk program included an area bounded by 14 Mile, North Avis, Mandoline, Milton, Whitcomb and I-75.
- Several road construction projects were completed, including reconstruction of Barrington south of Horace Brown, Blairmoor - Manchester to 13 Mile Road, Whitcomb from Dequindre to Barrington, John R from 10 to 11 Mile, I-75 northbound service drive from Dallas to Lincoln, John R from 11 mile to 12 ½ mile, Couzens south of 11 Mile, Kalama from Stephenson Highway to Alger, and West Barrett from Alger to John R, and Harwood from Dartmouth to 368 Harwood.
- The purchase of six patrol vehicles, one building department van, one street pickup with plow, one single axle dump truck and one double axle dump truck.
- Technology expenditures included upgrades to BS&A building program to the .Net version, two new servers, and one desk scanner.
- Fire protection expenditures include three defibrillators, two self-contained breathing apparatus, and 27 rapid intervention packs and masks.
- Parking lot improvements at Huffman Park.
- Phase I of HVAC improvements and upgrades in the Library.

# City of Madison Heights, Michigan

## Management's Discussion and Analysis (Continued)

- Water main replacement of Barrington south of Horace Brown to 13 Mile, Whitter from Longfellow to Chaucer, Barrington - south of Horace Brown to 13 Mile southbound, Blairmoor from Manchester to Thirteen Mile Road, and Chaucer from Whitter to Longfellow.

Note 3 to the financial statements contains additional information regarding capital assets, including the depreciation expense charged during the year.

### Long-term Debt

At June 30, 2014, the City had \$12,467,559 in outstanding debt. Of this amount, \$3,510,000 related to general obligation bonds for the fire station construction and \$1,225,000 related to general obligation bonds for the automated water meter reading system, while the remaining \$7,732,559 is related to the City's portion of the George W. Kuhn (GWK) drain debt.

The City's bonded debt position as June 30, 2014 and 2013 is summarized below and is more fully explained in Note 6:

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation	<u>\$ 3,510,000</u>	<u>\$ 3,810,000</u>	<u>\$ 8,957,559</u>	<u>\$ 9,710,767</u>	<u>\$ 12,467,559</u>	<u>\$ 13,520,767</u>

The decrease in the City's debt in fiscal year 2014 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 \$1.2 million principal remaining.

# **City of Madison Heights, Michigan**

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

### **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 2014-2015 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 and changes to personal property.
- The impact of the Detroit Water and Sewerage Department (DWSD) operating arrangement on the wholesale water and sewer rates that are charged to the City and ultimately passed on to the City's water and sewer customers.
- 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](http://www.madison-heights.org).

# City of Madison Heights, Michigan

## Statement of Net Position June 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 2)	\$ 13,883,127	\$ 7,768,817	\$ 21,651,944	\$ 2,872
Receivables:				
Receivables from sales to customers on account	-	3,299,308	3,299,308	-
Accounts receivable	944,777	-	944,777	68,384
Due from other governmental units	831,291	-	831,291	-
Special assessments receivable - Current	103,600	-	103,600	-
Inventories	-	46,451	46,451	-
Prepaid items and deposits	162,123	2,909	165,032	-
Restricted assets (Note 1)	-	130,591	130,591	-
Net other postemployment and pension benefit asset (Notes 7, 8, and 9)	1,585,928	16,248	1,602,176	-
Capital assets (Note 3):				
Nondepreciable	3,650,597	190,013	3,840,610	-
Depreciable	54,915,759	30,194,548	85,110,307	732,092
Special assessments receivable - Long term	1,137,220	-	1,137,220	-
Property taxes receivable - Long term	225,960	-	225,960	-
<b>Total assets</b>	<b>77,440,382</b>	<b>41,648,885</b>	<b>119,089,267</b>	<b>803,348</b>
<b>Liabilities</b>				
Accounts payable	1,283,580	926,526	2,210,106	1,513
Due to other governmental units	3,408	-	3,408	-
Refundable deposits, bonds, etc.	-	144,061	144,061	-
Accrued liabilities and other	1,177,166	130,756	1,307,922	-
Due to police and fire retirement and other postemployment benefit trust funds	608,596	-	608,596	-
Noncurrent liabilities:				
Due within one year:				
Employee compensated absences - Current portion (Note 5)	506,723	69,075	575,798	-
Provision for insurance claims (Note 6)	560,892	-	560,892	-
Long-term debt - Due within one year (Note 5)	325,000	775,078	1,100,078	-
Due in more than one year:				
Employee compensated absences - Net of current portion (Note 5)	1,771,106	6,450	1,777,556	-
Net other postemployment benefit obligations (Note 9)	-	1,008,093	1,008,093	-
Long-term debt (Note 5)	3,185,000	8,182,481	11,367,481	-
<b>Total liabilities</b>	<b>9,421,471</b>	<b>11,242,520</b>	<b>20,663,991</b>	<b>1,513</b>

# City of Madison Heights, Michigan

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

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Net Position</b>				
Net investment in capital assets	\$ 55,056,356	\$ 21,557,593	\$ 76,613,949	\$ 732,092
Restricted for:				
Vehicles	606,097	-	606,097	-
Major and Local Street Funds - Construction and operations	4,554,409	-	4,554,409	-
Community improvement	3,596	-	3,596	-
Drug enforcement	104,192	-	104,192	-
Debt administration	22,971	-	22,971	-
Park Improvement and Maintenance				
Fund - Parks maintenance	674,848	-	674,848	-
Neighborhood Stabilization Fund	329	-	329	-
Library	77,330	-	77,330	-
Unrestricted	6,918,783	8,848,772	15,767,555	69,743
	<u>\$ 68,018,911</u>	<u>\$ 30,406,365</u>	<u>\$ 98,425,276</u>	<u>\$ 801,835</u>
Total net position				

# 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	\$ 5,442,129	\$ 2,107,321	\$ 82,629	\$ -
Public safety	15,649,815	572,469	137,504	61,056
Public works	4,640,246	72,048	1,926,452	639,799
Solid waste and recycling	2,141,811	12,501	-	-
Community and economic development	1,163,376	830,984	112,898	-
Recreation and culture	1,786,223	241,770	54,534	-
Interest on long-term debt	71,885	-	-	-
Total governmental activities	30,895,485	3,837,093	2,314,017	700,855
Business-type activities - Water and sewer	10,046,420	12,480,162	-	-
Total primary government	<u>\$ 40,941,905</u>	<u>\$ 16,317,255</u>	<u>\$ 2,314,017</u>	<u>\$ 700,855</u>
Component units:				
Housing Commission	\$ 438,553	\$ -	\$ -	\$ -
Downtown Development Authority	72,134	-	-	-
Total component units	<u>\$ 510,687</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue				
Unrestricted investment earnings				
Franchise taxes				
Miscellaneous				
Total general revenue				
<b>Change in Net Position</b>				
<b>Net Position - Beginning of year</b>				
<b>Net Position - End of year</b>				

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

Net (Expense) Revenue and Changes in Net Position			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (3,252,179)	\$ -	\$ (3,252,179)	\$ -
(14,878,786)	-	(14,878,786)	-
(2,001,947)	-	(2,001,947)	-
(2,129,310)	-	(2,129,310)	-
(219,494)	-	(219,494)	-
(1,489,919)	-	(1,489,919)	-
(71,885)	-	(71,885)	-
(24,043,520)	-	(24,043,520)	-
-	2,433,742	2,433,742	-
(24,043,520)	2,433,742	(21,609,778)	-
-	-	-	(438,553)
-	-	-	(72,134)
-	-	-	(510,687)
18,386,313	-	18,386,313	70,094
2,857,908	-	2,857,908	-
393,058	245,065	638,123	1,831
490,490	-	490,490	-
688,505	-	688,505	-
22,816,274	245,065	23,061,339	71,925
(1,227,246)	2,678,807	1,451,561	(438,762)
69,246,157	27,727,558	96,973,715	1,240,597
<b>\$ 68,018,911</b>	<b>\$ 30,406,365</b>	<b>\$ 98,425,276</b>	<b>\$ 801,835</b>

# City of Madison Heights, Michigan

## Governmental Funds Balance Sheet June 30, 2014

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund	Nonmajor Funds	Total
<b>Assets</b>						
Cash and cash equivalents (Note 2)	\$ 7,388,475	\$ 393,732	\$ 4,113,288	\$ 1,178,592	\$ 809,040	\$ 13,883,127
Receivables:						
Special assessments receivable	-	-	-	1,240,820	-	1,240,820
Accounts receivable	1,164,056	6,681	-	-	-	1,170,737
Due from other governmental units	521,748	208,348	79,516	-	21,679	831,291
Advances to other funds (Note 4)	-	-	361,422	-	-	361,422
Prepaid expenses and other assets	160,319	802	926	-	76	162,123
<b>Total assets</b>	<b>\$ 9,234,598</b>	<b>\$ 609,563</b>	<b>\$ 4,555,152</b>	<b>\$ 2,419,412</b>	<b>\$ 830,795</b>	<b>\$ 17,649,520</b>
<b>Liabilities</b>						
Accounts payable	\$ 731,605	\$ 27,006	\$ 492,129	\$ 15,659	\$ 17,181	\$ 1,283,580
Due to other governmental units	3,408	-	-	-	-	3,408
Advances from other funds (Note 4)	-	-	-	361,422	-	361,422
Accrued liabilities and other Due to police and fire retirement and other postemployment benefit trust funds	1,067,202	13,822	77,349	-	7,678	1,166,051
	608,596	-	-	-	-	608,596
<b>Total liabilities</b>	<b>2,410,811</b>	<b>40,828</b>	<b>569,478</b>	<b>377,081</b>	<b>24,859</b>	<b>3,423,057</b>
<b>Deferred Inflows of Resources - Unavailable revenue</b>						
	278,463	-	-	1,137,220	-	1,415,683
<b>Fund Balances</b>						
Nonspendable (Note 13)	160,319	802	362,348	-	76	523,545
Restricted (Note 13)	683,427	567,933	3,623,326	-	805,860	5,680,546
Assigned (Note 13)	5,701,578	-	-	905,111	-	6,606,689
<b>Total fund balances</b>	<b>6,545,324</b>	<b>568,735</b>	<b>3,985,674</b>	<b>905,111</b>	<b>805,936</b>	<b>12,810,780</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 9,234,598</b>	<b>\$ 609,563</b>	<b>\$ 4,555,152</b>	<b>\$ 2,419,412</b>	<b>\$ 830,795</b>	<b>\$ 17,649,520</b>

# City of Madison Heights, Michigan

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

<b>Fund Balance Reported in Governmental Funds</b>	\$ 12,810,780
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	58,566,356
Net pension/OPEB assets (funding in excess of actuarial requirements) are not current financial resources and are not reported in the funds	1,585,928
Deferred inflows of resources (special assessments and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end), are not recognized in the funds	1,415,683
Bonds payable are not due and payable in the current period and are not reported in the funds	(3,510,000)
Accrued interest is not due and payable in the current period and is not reported in the funds	(11,115)
Employee compensated absence 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	(2,277,829)
Provisions for self-insured claims do not present a claim on current financial resources and are not reported as fund liabilities	<u>(560,892)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 68,018,911</u></b>

# City of Madison Heights, Michigan

## Governmental Funds

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

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund	Nonmajor Funds	Total
<b>Revenue</b>						
Property taxes	\$ 16,420,348	\$ -	\$ 1,546,676	\$ -	\$ 395,806	\$ 18,362,830
Licenses and permits	897,863	-	-	-	-	897,863
Federal sources	210,193	111,185	74,387	-	112,898	508,663
Intergovernmental	2,946,376	1,336,075	590,377	-	61,056	4,933,884
Charges for services	2,145,648	-	-	-	-	2,145,648
Fines and forfeitures	1,710,418	-	-	-	-	1,710,418
Investment income (loss)	202,563	(3,902)	66,076	18,967	70,634	354,338
Other revenue:						
Special assessments	-	-	-	620,259	-	620,259
Local donations	36,300	-	-	-	-	36,300
Cable franchise fees	490,490	-	-	-	-	490,490
Other miscellaneous income	648,594	-	-	-	-	648,594
Total revenue	25,708,793	1,443,358	2,277,516	639,226	640,394	30,709,287
<b>Expenditures</b>						
Current:						
General government	5,046,701	-	-	-	-	5,046,701
Public safety	13,630,223	-	-	-	-	13,630,223
Public works	3,245,151	782,056	615,831	25,000	-	4,668,038
Community and economic development	1,089,483	-	-	-	111,552	1,201,035
Recreation and culture	1,622,884	-	-	-	28,952	1,651,836
Capital outlay	-	1,308,540	2,334,042	509,813	21,633	4,174,028
Debt administration	-	-	-	-	372,835	372,835
Total expenditures	24,634,442	2,090,596	2,949,873	534,813	534,972	30,744,696
<b>Excess of Revenue Over (Under) Expenditures</b>	1,074,351	(647,238)	(672,357)	104,413	105,422	(35,409)
<b>Other Financing Sources (Uses)</b>						
Proceeds from sale of capital assets	48,149	-	-	-	-	48,149
Transfers in (Note 4)	-	-	211,499	-	-	211,499
Transfers out (Note 4)	-	(80,000)	-	(131,499)	-	(211,499)
Total other financing sources (uses)	48,149	(80,000)	211,499	(131,499)	-	48,149
<b>Net Change in Fund Balances</b>	1,122,500	(727,238)	(460,858)	(27,086)	105,422	12,740
<b>Fund Balances - Beginning of year</b>	5,422,824	1,295,973	4,446,532	932,197	700,514	12,798,040
<b>Fund Balances - End of year</b>	<u>\$ 6,545,324</u>	<u>\$ 568,735</u>	<u>\$ 3,985,674</u>	<u>\$ 905,111</u>	<u>\$ 805,936</u>	<u>\$ 12,810,780</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, 2014**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 12,740</b>
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	5,107,773
Statement of activities records depreciation on capital assets	(3,392,078)
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	(398,336)
Governmental funds report expenditures for pension and other postemployment benefits as they make contributions; in the statement of activities, the cost is recognized as contributions are required. For 2014, the actuarially required contributions for OPEB were increased significantly but funding remained consistent with prior years	(2,831,517)
Receivables collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds	52,504
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	300,000
Interest expense is recorded in the statement of activities when a liability is incurred; it is reported in the governmental funds only when payment is due	950
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	(103,696)
Net changes in accumulated employee sick and vacation pay are recorded when the obligations are earned in the statement of activities	9,654
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	14,760
<b>Changes in Net Position of Governmental Activities</b>	<b><u>\$ (1,227,246)</u></b>

# City of Madison Heights, Michigan

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

	<u>Water and Sewer Fund</u>
<b>Assets</b>	
Current assets:	
Cash and investments (Note 2)	\$ 7,768,817
Accounts receivable	3,299,308
Inventories	46,451
Prepaid items and deposits	2,909
	<hr/>
Total current assets	11,117,485
Noncurrent assets:	
Restricted assets (Note 1)	130,591
Net pension asset (Note 7)	16,248
Capital assets (Note 3):	
Nondepreciable	190,013
Depreciable	30,194,548
	<hr/>
Total noncurrent assets	30,531,400
	<hr/>
Total assets	41,648,885
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	926,526
Refundable deposits, bonds, etc.	144,061
Accrued liabilities and other	130,756
Employee compensated absences - Current portion (Note 5)	69,075
Long-term debt - Due within one year (Note 5)	775,078
	<hr/>
Total current liabilities	2,045,496
Noncurrent liabilities:	
Employee compensated absences - Net of current portion (Note 5)	6,450
Net other postemployment benefit obligations (Note 9)	1,008,093
Long-term debt (Note 5)	8,182,481
	<hr/>
Total noncurrent liabilities	9,197,024
	<hr/>
Total liabilities	11,242,520
<b>Net Position</b>	
Net investment in capital assets	21,557,593
Unrestricted	8,848,772
	<hr/>
Total net position	<u>\$ 30,406,365</u>

# City of Madison Heights, Michigan

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

	<u>Water and Sewer Fund</u>
<b>Operating Revenue</b>	
Sale of water	\$ 5,509,353
Sewage disposal charges	6,880,449
Other charges for service	60,810
Charges to other funds	<u>29,550</u>
Total operating revenue	12,480,162
<b>Operating Expenses</b>	
Cost of water	1,583,664
Cost of sewage disposal	3,933,205
Water system maintenance	1,487,457
General services building	424,102
Sewer system maintenance	155,819
General administration	1,371,617
Depreciation	<u>809,802</u>
Total operating expenses	<u>9,765,666</u>
<b>Operating Income</b>	2,714,496
<b>Nonoperating Revenue (Expenses)</b>	
Interest and other income	245,065
Interest expense	(279,655)
Loss on sale of assets	<u>(1,099)</u>
Total nonoperating expenses	<u>(35,689)</u>
<b>Change in Net Position</b>	2,678,807
<b>Net Position - Beginning of year</b>	<u>27,727,558</u>
<b>Net Position - End of year</b>	<u><u>\$ 30,406,365</u></u>

# City of Madison Heights, Michigan

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

	Water and Sewer Fund
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 12,529,663
Receipts from interfund services and reimbursements	29,550
Payments to suppliers	(7,698,485)
Payments to employees	(639,177)
	4,221,551
<b>Cash Flows from Capital and Related Financing Activities</b>	
Proceeds from sales of capital assets	2,876
Purchase of capital assets	(1,318,061)
Principal and interest paid on capital debt	(1,027,261)
	(2,342,446)
<b>Cash Flows from Investing Activities - Income on investments</b>	245,065
<b>Net Increase in Cash and Cash Equivalents</b>	2,124,170
<b>Cash and Cash Equivalents - Beginning of year</b>	5,644,647
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 7,768,817</b>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>	
Operating income	\$ 2,714,496
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	809,802
Changes in assets and liabilities:	
Receivables	79,051
Inventories	10,324
Prepaid and other assets	29,611
Accounts payable	247,187
Accrued and other liabilities	331,080
	\$ 4,221,551

**Noncash Capital and Financing Activities** - \$37,719 of capital assets additions were funded by a reduction of the restricted assets held at the County.

# City of Madison Heights, Michigan

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

	Police and Fire Retirement and OPEB	Agency Funds
<b>Assets</b>		
Cash and cash equivalents (Note 2)	\$ 1,780,386	\$ 8,281
Investments (Note 2):		
Corporate obligations	8,634,790	-
U.S. government securities	5,472,203	-
Federal agency securities	-	116,646
Oakland County local government investment pool	-	104,463
Municipal bonds	-	74,001
Common stock	10,896,449	-
Small cap mutual funds	33,520,826	-
Money market	-	13,429
Receivables:		
Accrued interest receivable	155,383	-
Other receivables	-	47,792
Due from the City's General Fund	794,959	-
Total assets	61,254,996	\$ 364,612
<b>Liabilities</b>		
Accounts payable	-	\$ 51,066
Accrued liabilities and other	-	3,685
Cash bonds and deposits	-	309,861
Total liabilities	-	\$ 364,612
<b>Net Position Held in Trust for Pension and Other Employee Benefits</b>	<b>\$ 61,254,996</b>	

# 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, 2014

	Police and Fire Retirement and OPEB
	OPEB
<b>Additions</b>	
Investment income (loss):	
Interest and dividends	\$ 1,549,167
Net increase in fair value of investments	6,946,648
Less investment expenses	(194,576)
Net investment income	8,301,239
Contributions:	
Employer	4,515,167
Employee	549,025
Total contributions	5,064,192
Total additions	13,365,431
<b>Deductions</b>	
Benefit payments	5,613,647
Refunds of contributions	544,554
Administrative expenses	249,139
Total deductions	6,407,340
<b>Net Increase in Net Position Held in Trust</b>	6,958,091
<b>Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year</b>	54,296,905
<b>Net Position Held in Trust for Pension and Other Employee Benefits - End of year</b>	\$ 61,254,996

# City of Madison Heights, Michigan

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

	Housing Commission	Downtown Development Authority	Total
<b>Assets</b>			
Cash and investments (Note 2)	\$ -	\$ 2,872	\$ 2,872
Receivables	-	68,384	68,384
Capital assets (Note 3)	-	732,092	732,092
Total assets	-	803,348	803,348
<b>Liabilities - Accounts payable</b>	-	1,513	1,513
<b>Net Position</b>			
Net investment in capital assets	-	732,092	732,092
Unrestricted	-	69,743	69,743
Total net position	<u>\$ -</u>	<u>\$ 801,835</u>	<u>\$ 801,835</u>

# City of Madison Heights, Michigan

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	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Housing Commission	\$ 438,553	\$ -	\$ -	\$ -
Downtown Development Authority	72,134	-	-	-
Total component units	<b>\$ 510,687</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

General revenue:  
 Property taxes  
 Unrestricted investment earnings  
 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, 2014**

<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Housing Commission</u>	<u>Downtown Development Authority</u>	<u>Total</u>
\$ (438,553)	\$ -	\$ (438,553)
-	(72,134)	(72,134)
(438,553)	(72,134)	(510,687)
-	70,094	70,094
1,831	-	1,831
1,831	70,094	71,925
(436,722)	(2,040)	(438,762)
436,722	803,875	1,240,597
<b>\$ -</b>	<b>\$ 801,835</b>	<b>\$ 801,835</b>

# City of Madison Heights, Michigan

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## Notes to Financial Statements June 30, 2014

### Note I - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by the City of Madison Heights, Michigan (the "City"):

#### **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. Although blended component units are legal separate entities, in substance, they are part of the City's operations. 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 City (see discussion below for description).

**Blended Component Unit** - 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 provided low-income families with the opportunity to receive federally subsidized rent payments. The Housing Commission's governing body consisted of five individuals selected by the City Council. The Housing Commission's budget was subject to approval by the City Council. There are no separately issued financial statements. The Housing Commission ceased all activities in the prior fiscal year and returned the remaining resources to the Department of Housing and Urban Development and the City during the year ended June 30, 2014.

# City of Madison Heights, Michigan

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## Notes to Financial Statements June 30, 2014

### **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 have locations in the area and to encourage 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.

#### **Report Presentation**

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective, and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

# City of Madison Heights, Michigan

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## Notes to Financial Statements June 30, 2014

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

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

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.

#### **Fund Accounting**

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

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

- The General Fund, which is the primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another 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 the Oakland and Macomb County Road Commissions.

# City of Madison Heights, Michigan

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## Notes to Financial Statements June 30, 2014

### Note 1 - Summary of Significant Accounting Policies (Continued)

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

**Proprietary funds** include enterprise funds, which provide goods or services to users in exchange for charges or fees. The City reports the following fund as a "major" enterprise 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.

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

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

# City of Madison Heights, Michigan

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## Notes to Financial Statements June 30, 2014

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

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

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

#### **Basis of Accounting**

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

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

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

# City of Madison Heights, Michigan

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## Notes to Financial Statements June 30, 2014

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

Proprietary funds and fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

#### Specific Balances and Transactions

**Cash, Cash Equivalents, and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

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

**Restricted Assets** - 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 \$130,591 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, intangible assets, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,000 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.

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

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

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:

Capital Asset Class	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

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund-types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method; bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an "other financing source," as well as bond premiums and discounts. The debt service fund is generally used to liquidate governmental long-term debt.

#### **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has no deferred outflows of resources.

# City of Madison Heights, Michigan

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## Notes to Financial Statements June 30, 2014

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

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue qualifies for reporting in this category and arises only under a modified accrual basis of accounting. Unavailable revenue is reported in the General Fund and Revolving Fund balance sheets. The General Fund reports unavailable revenue from personal property taxes and a current year reimbursement. The Revolving Fund reports unavailable revenue from special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

#### **Net Position Flow Assumption**

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

#### **Fund Balance Flow Assumption**

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

#### **Fund Balance Policies**

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

# City of Madison Heights, Michigan

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## Notes to Financial Statements June 30, 2014

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

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

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

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.

#### **Property Tax Revenue**

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

The City's 2013 tax is levied and collectible on July 1, 2013 and is recognized as revenue in the year ended June 30, 2014, when the proceeds of the levy are budgeted and available for the financing of operations.

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

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

The 2013 taxable valuation of the City totaled \$784 million and was used for the July 1, 2013 tax bills. Taxes were levied as follows:

Purpose	Millage Rate	Revenue
City charter operating millage	8.8190	\$ 7,005,000
Millage rollback	1.1810	897,000
Solid waste	2.6457	2,040,000
Police and Fire Act 345	5.8155	4,480,000
Neighborhood roads	2.0000	1,555,000
Major vehicles	0.2500	193,000
Advanced life support systems	0.2500	193,000
Senior citizens	0.4490	347,000
Fire station bond	0.5148	401,000
Library	1.0000	765,000
Total	22.9250	\$ 17,876,000

**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.

**Compensated Absences (Vacation and Sick Leave)** - It is the City'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.

# City of Madison Heights, Michigan

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## Notes to Financial Statements June 30, 2014

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Proprietary Funds Operating Classification** - Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues 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 revenues of the Water and Sewer Fund are charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

### 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 law also allows investments outside the State of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension trust fund and 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

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## Notes to Financial Statements June 30, 2014

### 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, 2014, the Park Improvement and Maintenance Fund had approximately \$41,000 in money market funds and \$620,000 invested in debt and equity mutual funds.

The City has designated six banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority (explain any differences).

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 \$3,174,501 of bank deposits (certificates of deposit and a checking account) of which \$500,000 was covered by federal depository insurance. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution it deposits funds with 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, 2014

### 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 City had the following investments:

Investment	Fair Value	Weighted Average Maturity
<b>Primary Government</b>		
U.S. government securities	\$ 2,339,458	4.326 years
U.S. federal agency obligations	4,316,303	14.657 years
Oakland County local government investment pool	7,193,575	1.770 years
Municipal bonds	4,222,461	2.479 years
Total	\$ 18,071,797	
<b>Fiduciary Funds</b>		
Corporate bonds and notes	\$ 4,968,391	5.665 years
U.S. government securities	5,472,203	2.223 years
Total	\$ 10,440,594	

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### 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	\$ 478,273	A	S&P
Corporate bonds and notes	639,535	A-	S&P
Corporate bonds and notes	308,650	A+	S&P
Corporate bonds and notes	25,023	AA	S&P
Corporate bonds and notes	114,208	AA-	S&P
Corporate bonds and notes	57,879	AA+	S&P
Corporate bonds and notes	400,351	AAA	S&P
Corporate bonds and notes	100,408	B+	S&P
Corporate bonds and notes	251,169	BB	S&P
Corporate bonds and notes	81,838	BB-	S&P
Corporate bonds and notes	168,903	BB+	S&P
Corporate bonds and notes	879,838	BBB	S&P
Corporate bonds and notes	450,687	BBB-	S&P
Corporate bonds and notes	931,633	BBB+	S&P
Corporate bonds and notes	79,997	Not rated	N/A
U.S. government securities	7,811,661	AAA	Moody's
U.S. federal agency obligations	1,654,647	AAA	Moody's
U.S. federal agency obligations	2,661,657	Not rated	N/A
Money market funds	2,515,691	Not rated	N/A
Oakland County local government investment pool	7,193,575	Not rated	N/A
Municipal bonds	394,558	AA-	S&P
Municipal bonds	25,143	AA+	S&P
Municipal bonds	917,376	AA	S&P
Municipal bonds	283,276	AAA	S&P
Municipal bonds	376,110	A2	Moody's
Municipal bonds	1,480,622	AA2	Moody's
Municipal bonds	226,757	A	Moody's
Municipal bonds	518,620	A1	Moody's
Mutual funds	37,187,225	Not rated	N/A
Total	<u>\$ 68,215,310</u>		

# City of Madison Heights, Michigan

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## Notes to Financial Statements June 30, 2014

### Note 2 - Deposits and Investments (Continued)

**Concentration of Credit Risk** - The City places no limit on the amount it may invest in any one issuer. More than 5 percent of the City's investments are in the following:

Primary government:

Federal agency obligations - Federal National Mortgage Association	13%
Federal agency obligations - Federal Home Loan Bank	6%
U.S. government securities - U.S. Treasury notes	12%
Fiduciary funds - U.S. government securities - U.S. Treasury notes	9%

Additionally, more than 37 percent of the City's primary government investments are in the Oakland County Local Government Investment Pool (the "LGIP"). The LGIP is not registered with the SEC, and does not issue a separate report. The LGIP is managed as a 2(a)7 fund with its net asset value maintained at \$1. Fair value of the position in the pool is the same as the value of the pool shares.

The City's retirement system plans also hold investments in the U.S. stock market and those values fluctuate with market conditions.

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### Note 3 - Capital Assets

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

<b>Governmental Activities</b>	Balance July 1, 2013	Transfers	Additions	Disposals	Balance June 30, 2014
Capital assets not being depreciated:					
Land	\$ 2,552,990	\$ -	\$ -	\$ 2,500	\$ 2,550,490
Construction in progress	1,806,394	(1,770,858)	1,064,571	-	1,100,107
Subtotal	4,359,384	(1,770,858)	1,064,571	2,500	3,650,597
Capital assets being depreciated:					
Streets and bridges	58,371,867	1,770,858	2,693,204	-	62,835,929
Sidewalks	5,042,606	-	520,424	-	5,563,030
Buildings and improvements	17,840,868	(17,294)	-	186,141	17,637,433
Land improvements	2,175,063	17,294	65,651	118,812	2,139,196
Machinery and equipment	1,702,506	-	340,369	217,141	1,825,734
Furniture and fixtures	391,914	-	-	10,400	381,514
Vehicles	6,349,632	-	393,156	483,100	6,259,688
Office equipment	1,904,605	-	30,398	739,414	1,195,589
Subtotal	93,779,061	1,770,858	4,043,202	1,755,008	97,838,113
Accumulated depreciation:					
Streets and bridges	23,183,103	-	2,197,999	-	25,381,102
Sidewalks	2,462,849	-	249,299	-	2,712,148
Buildings and improvements	6,302,202	(2,240)	425,259	120,336	6,604,885
Land improvements	660,697	2,240	253,466	29,854	886,549
Vehicles	4,905,855	-	174,197	337,950	4,742,102
Other assets	3,374,742	-	91,858	871,032	2,595,568
Subtotal	40,889,448	-	3,392,078	1,359,172	42,922,354
Net capital assets being depreciated	52,889,613	1,770,858	651,124	395,836	54,915,759
Net capital assets	\$ 57,248,997	\$ -	\$ 1,715,695	\$ 398,336	\$ 58,566,356

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### Note 3 - Capital Assets (Continued)

<b>Business-type Activities</b>	Balance July 1, 2013	Transfers	Additions	Disposals	Balance June 30, 2014
Capital assets not being depreciated:					
Land	\$ 164,413	\$ -	\$ -	\$ -	\$ 164,413
Construction in progress	-	-	25,600	-	25,600
Subtotal	164,413	-	25,600	-	190,013
Capital assets being depreciated:					
Utility systems	22,820,690	-	1,040,865	-	23,861,555
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	222,841	(814)	-	-	222,027
Kuhn drain - Chlorine system rehabilitation	1,280,421	(52,527)	-	-	1,227,894
Kuhn drain - Miscellaneous projects	-	53,341	112,282	-	165,623
Kuhn drain - Structural access gate	209,687	-	-	-	209,687
Buildings and improvements	4,958,016	-	-	-	4,958,016
Machinery and equipment	2,435,914	-	177,033	39,655	2,573,292
Subtotal	45,830,485	-	1,330,180	39,655	47,121,010
Accumulated depreciation:					
Utility systems	11,702,302	-	404,262	-	12,106,564
Kuhn drain - Segment 1	483,326	-	50,000	-	533,326
Kuhn drain - Segments 2 and 3	1,001,117	-	200,252	-	1,201,369
Kuhn drain - Segment 4	17,764	-	4,441	-	22,205
Kuhn drain - Chlorine system rehabilitation	70,999	(2,450)	24,006	-	92,555
Kuhn drain - Miscellaneous projects	-	2,450	970	-	3,420
Kuhn drain - Structural access gate	16,776	-	4,194	-	20,970
Buildings and improvements	682,462	-	83,573	-	766,035
Machinery and equipment	2,177,594	-	38,104	35,680	2,180,018
Subtotal	16,152,340	-	809,802	35,680	16,926,462
Net capital assets being depreciated	29,678,145	-	520,378	3,975	30,194,548
Net capital assets	\$ 29,842,558	\$ -	\$ 545,978	\$ 3,975	\$ 30,384,561

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### Note 3 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 356,909
Public safety	293,944
Public works	2,452,518
Community development	5,135
Recreation	245,535
Refuse	<u>38,037</u>

Total governmental activities	<u>\$ 3,392,078</u>
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Business-type activities - Water and Sewer Fund	<u>\$ 809,802</u>
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### Component Units

Capital assets in the Downtown Development Authority, a component unit fund, consisted of land improvements with a net book value of \$732,092, which considers accumulated depreciation of \$114,023 as of June 30, 2014. There were no additions in the current year and depreciation expense for the current year was \$22,823.

**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>
Library HVAC system	\$ 117,024	\$ 115,800
Barrington pavement reconstruction	495,113	99,722
Blairmoor-Manchester pavement reconstruction	427,313	115,687
Manchester-Woodmont pavement reconstruction	10,644	91,357
2014 Sidewalk reconstruction	13,298	386,000
Chaucer watermain project	<u>25,600</u>	<u>134,400</u>
Total	<u>\$ 1,088,992</u>	<u>\$ 942,966</u>

### Note 4 - Interfund Receivables, Payables, and Transfers

At June 30, 2014 the City had one interfund balance: an advance in the amount of \$361,422 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.

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### Note 4 - Interfund Receivables, Payables, and Transfers (Continued)

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

Transfers In	Transfers Out	Amount
Local Streets Fund	Revolving Fund	\$ 131,499
	Major Streets Fund	80,000
	Total General Fund	<u>\$ 211,499</u>

The transfers into the Local Streets Fund were for construction projects during the current year.

### Note 5 - 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
<b>Governmental Activities</b>							
General obligation refunding bonds:							
Amount of issue - \$3,810,000 -							
For refunding the fire station							
bonds	1.90%	2023	\$ 3,810,000	\$ -	\$ 300,000	\$ 3,510,000	\$ 325,000
Vested employee benefits			2,287,483	115,314	124,968	2,277,829	506,723
Reserve for general liability insurance			118,017	156,859	109,207	165,669	-
claims			457,635	197,982	260,394	395,223	-
Reserve for workers' compensation							
liability insurance claims							
Total governmental			<u>\$ 6,673,135</u>	<u>\$ 470,155</u>	<u>\$ 794,569</u>	<u>\$ 6,348,721</u>	<u>\$ -</u>
activities							

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### Note 5 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type Activities</b>							
General obligation bonds (related to George W. Kuhn Drain project discussed below):							
Series 2000A - Amount of issue - \$1,881,478	2.5%	2022	\$ 962,310	\$ -	\$ 96,810	\$ 865,500	\$ 98,914
Series 2000C - Amount of issue - \$8,649,747	2.5%	2024	5,279,292	-	423,016	4,856,276	433,540
Series 2000D - Amount of issue - \$239,675	2.5%	2024	140,468	-	11,575	128,893	11,575
Series 2005F - Amount of issue - \$162,391	1.625%	2026	110,248	-	7,483	102,765	8,017
Series 2007 - Amount of issue - \$1,311,143	4.25%- 4.375%	2024	1,078,588	-	90,496	988,092	92,601
Series 2007G - Amount of issue - \$188,673	1.625%	2028	146,982	-	8,552	138,430	9,086
Series 2008H - Amount of issue - \$821,499	1.625%	2029	687,879	-	35,276	652,603	36,345
2010 General Obligation Limited Tax Bonds - Amount of issue - \$1,525,000	2.0%-4.0%	2025	1,305,000	-	80,000	1,225,000	85,000
Total			9,710,767	-	753,208	8,957,559	775,078
General obligations - Vested employee benefits			72,702	7,167	4,344	75,525	69,075
Total business-type activities			\$ 9,783,469	\$ 7,167	\$ 757,552	\$ 9,033,084	\$ 844,153

### 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 6.

### 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, 2014

### Note 5 - 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 \$3,438,718 compared to the annual debt requirements of \$1,032,584.

#### Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2014 (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
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	390,000	39,000	429,000	870,909	164,173	1,035,082
2020 - 2024	1,710,000	82,555	1,792,555	4,392,513	436,557	4,829,070
2025 - 2029	-	-	-	446,404	26,461	472,865
Total	\$ 3,510,000	\$ 349,935	\$ 3,859,935	\$ 8,957,559	\$ 1,513,274	\$ 10,470,833

#### Interest

The City's business-type activities had total interest expense for the year ended June 30, 2014 of approximately \$280,000. The City's governmental-type activities had total interest expense of approximately \$71,000 for the same period.

### Note 6 - 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.

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.

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### Note 6 - Risk Management (Continued)

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	
	2014	2013	2014	2013	2014	2013
Estimated liability (asset) - Beginning of year	\$ 118,017	\$ 302,755	\$ 457,635	\$ 233,496	\$ (501,544)	\$ -
Estimated claims incurred, including reinsurance premiums and changes in estimates	(109,207)	95,089	197,982	450,092	3,614,684	3,932,235
Claim and reinsurance premium payments and reinsurance recoveries	156,859	(279,827)	(260,394)	(225,953)	(3,088,095)	(4,433,779)
Estimated liability (asset) - End of year	<u>\$ 165,669</u>	<u>\$ 118,017</u>	<u>\$ 395,223</u>	<u>\$ 457,635</u>	<u>\$ 25,045</u>	<u>\$ (501,544)</u>

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.

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### Note 7 - Defined Benefit Pension Plan - 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 Obligation

Annual required contribution	\$ 926,184
Interest on net pension asset	(18,953)
Adjustment to annual required contribution	<u>23,746</u>
Annual pension cost (APC)	930,977
Contributions made	<u>926,184</u>
Decrease in net pension asset	4,793
Net pension asset - Beginning of year	<u>(236,913)</u>
Net pension asset - End of year	<u>\$ (232,120)</u>

**Annual Pension Cost** - For the year ended June 30, 2014, the City's annual pension cost of \$930,977 exceeded actual contributions of \$926,184.

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### Note 7 - Defined Benefit Pension Plan - Municipal Employees' Retirement System of Michigan (Continued)

**Actuarial Assumptions** - The annual required contribution was determined by an actuarial valuation as of December 31, 2011, 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 a closed basis. The amortization periods for the various divisions range from 18 to 25 years.

#### Three-year trend information

	Fiscal Year Ended June 30		
	2012	2013	2014
Annual pension cost (APC)	\$ 737,261	\$ 753,887	\$ 930,977
Percentage of APC contributed	113.0 %	118.0 %	99.5 %
Net pension asset	(97,628)	(236,914)	(232,120)

	Actuarial Valuation Date December 31		
	2011	2012	2013
Actuarial value of assets	\$ 26,299,697	\$ 25,978,597	\$ 26,029,761
Actuarial Accrued Liability (AAL) (entry age)	35,497,987	36,066,667	37,260,900
Unfunded AAL (UAAL)	9,198,290	10,088,070	11,231,139
Funded ratio	74.1 %	72.0 %	69.9 %
Covered payroll	4,190,045	3,805,610	3,595,526
UAAL as a percentage of covered payroll	219.5 %	265.1 %	312.4 %

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### Note 8 - Defined Benefit Pension Plan - Police and Fire Retirement System

**Plan Administration** - The Police and Fire Pension Board administers the City of Madison Heights, Michigan Policemen and Firemen Retirement System - a single-employer defined benefit pension plan that provides pensions for all sworn police and fire department employees of the City. Benefit terms have been established by contractual agreements between the City and the various employee union representation; amendments are subject to the same process.

Management of the Plan is vested in the Pension Board, which consists of seven members: three elected by plan members, three appointed by the City, and the City Treasurer, who serves as an ex-officio member.

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

Inactive plan members or beneficiaries currently receiving benefits	120
Inactive plan members entitled to but not yet receiving benefits	5
Active plan members	<u>72</u>
Total	<u>197</u>

**Benefits Provided** - The City of Madison Heights Policemen and Firemen Retirement System provides retirement, disability, and death benefits. Retirement benefits for department heads and members hired prior to July 1, 2009 are calculated as 2 percent (2.8 percent if the member has at least 25 years of service) of the member's final three-year average final compensation (AFC) times the first 25 years of member's service plus 1 percent of final three-year AFC times years of service in excess of 25.

Benefits for members hired after July 1, 2009, excluding department heads, are calculated as 2 percent (2.5 percent if the member has at least 25 years of service) of the member's final three-year AFC times the first 25 years of member's service plus 1 percent of AFC times years of service in excess of 25.

Plan members with 10 years of service are eligible to retire at age 60. Department heads and members hired before July 1, 2009 with 25 years or more of service are eligible to retire regardless of age. Plan members hired after July 1, 2009 with 25 years of service are eligible to retire at age 55. All plan members are eligible for deferred retirement benefits after 10 years of service upon the date of normal retirement had the member remained in employment.

### **Note 8 - Defined Benefit Pension Plan - Police and Fire Retirement System (Continued)**

All plan members are eligible for non-duty disability benefits after five years of service and for duty-related disability benefits upon hire. Non-duty disability retirement benefits prior to age 55 are calculated as 1.5 percent of the member's AFC times years of service. Upon reaching age 55, benefits are determined in the same manner as a normal service retirement pension.

Duty disability retirement benefits are payable upon the total and permanent disability of a member in the line of duty. Prior to age 55, benefits are determined as 50 percent of AFC. Upon reaching age 55, benefits are determined in the same manner as a normal service retirement with service credited from the date of disability to age 55.

Non-duty death benefits are paid to a surviving spouse equal to the normal service retirement pension if the member has 20 or more years of service. Duty death in-service benefits are paid to the surviving spouse upon the expiration of workers' compensation payments, equal to the same amount paid by workers' compensation.

**Contributions** - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the Pension Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the City Charter, union contracts, and plan provisions. For the year ended June 30, 2014, the active member contribution rate was 8.9 percent of annual pay for Firefighters and Fire Command, 9.17 percent for Police and Police Command, and 11.91 percent for Department Heads, and the City's average contribution rate was 27.82 of annual payroll.

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### Note 8 - Defined Benefit Pension Plan - Police and Fire Retirement System (Continued)

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

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

Asset Class	Target Allocation
Domestic equity	36.0%
International equity	14.0%
Emerging markets equity	5.0%
Investment grade U.S. fixed income	21.5%
High yield fixed income	10.0%
International fixed income	7.5%
Gold	4.0%
Cash and cash equivalents	2.0%

**Rate of Return** - For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 15.65 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

#### Pension Plan Reserves

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

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

The employee reserve is credited as employee contributions are received throughout the year; the Plan maintains a record of the amount contributed by each employee, and credits interest annually at a rate of 3.5 percent. For any employee who terminates before vesting in the pension plan, their balance is returned to them; for those who stay until retirement, the balance is available for withdrawal as a lump sum or transferred into the retiree reserve.

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### Note 8 - Defined Benefit Pension Plan - Police and Fire Retirement System (Continued)

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

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

	Required Reserve	Amount Funded
Retiree reserve	\$ 27,947,192	\$ 27,947,192
Employee reserve	8,040,218	8,040,218
Employer reserve	N/A	13,657,122

#### Net Pension Liability of the City

The City reports pension expense based on funding requirements, as directed by GASB Statement No. 27. Beginning next year, the City will adopt GASB Statement No. 68 which will require the measurement of pension expense as it is earned, rather than as it is funded. The net pension liability of the City has been measured as of June 30, 2014 and is composed of the following:

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

Total pension liability	\$ 69,003,981
Plan fiduciary net position	<u>(49,644,532)</u>
City's net position liability	19,359,449
Plan fiduciary net position as a percentage of the total pension liability	71.9 %

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

Inflation	5.5 %
Salary increases	5.5 - 8.5 % average, including inflation
Investment rate of return	7.5 % net of pension plan investment expense, including inflation

Mortality rates were based on the 1971 Group Annuity Mortality Table projected to 1984, set back six years for women. For the June 30, 2015 valuation, the actuary is planning to use a 2014 mortality table. Had that table been used for the June 30, 2014 valuation, it is estimated the total pension liability would have been greater by \$4.5 to \$5 million dollars.

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### Note 8 - Defined Benefit Pension Plan - Police and Fire Retirement System (Continued)

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

#### Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate incorporates a municipal bond rate which was 4.29 percent. The source of that bond rate was based on an index of 20-year general obligation bonds with an average AA credit rating (which is published by the Federal Reserve) as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met). The long-term expected rate of return was applied to projected benefit payments from June 30, 2015 to June 30, 2114 and the municipal bond rate was applied to the remaining periods.

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

Asset Class	Long-term Expected Real Rate of Return
Domestic equity	7.80 %
International equity	7.70
Emerging markets equity	7.90
U.S. government or agency fixed income	2.30
High yield fixed income	5.80
International fixed income	2.50
Gold	4.10
Cash or cash equivalents	1.30

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### Note 8 - Defined Benefit Pension Plan - Police and Fire Retirement System (Continued)

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the City, calculated using the discount rate of 7.50 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability of the City	\$ 26,751,779	\$ 19,359,444	\$ 13,045,809

#### Pension Cost

The pension plan does not issue a separate financial report.

**Annual Pension Cost** - For the year ended June 30, 2014, the City's annual pension cost of \$1,566,746 for the plan was equal to the City's required and actual contribution. The pension cost for the three most recent years is as follows:

	Fiscal Year Ended June 30		
	2014	2013	2012
Annual pension cost (APC)	\$ 1,566,746	\$ 1,338,104	\$ 1,240,861
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
Net pension obligation	\$ -	\$ -	\$ -

**Funding Status and Funding Progress** - As of June 30, 2013, the most recent actuarial valuation date, the plan was 71 percent funded. The actuarial accrued liability for benefits was \$67,745,324, and the actuarial value of assets was \$48,067,300, resulting in an unfunded actuarial accrued liability of \$19,678,024. The covered payroll (annual payroll to active employees covered by the plan) was \$5,867,119, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 335.4 percent.

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 value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

# City of Madison Heights, Michigan

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## Notes to Financial Statements June 30, 2014

### **Note 8 - Defined Benefit Pension Plan - Police and Fire Retirement System (Continued)**

**Actuarial Methods and Assumptions** - The annual required contribution was determined as part of an actuarial valuation at June 30, 2012, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.5 investment rate of return and (b) projected salary increases of 5.5 percent to 8.5 percent per year. Both (a) and (b) include an inflation component of 5.5. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis over 30 years.

### **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, 160 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 \$68,400 and \$4,757, respectively, for the year ended June 30, 2014. Benefits of police and fire retirees are reported and expensed by the police and fire retirement fiduciary fund utilizing funds contributed by the General 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, 2014, the Municipal Employees' Retirement System of Michigan Health Care Savings Plan Trust paid postemployment benefits totaling \$691,098 and the City's General Fund expensed postemployment benefits totaling \$73,157. These expenses represent 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.

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### Note 9 - Other Postemployment Benefits (Continued)

The Police and Fire Other Postemployment Benefits (OPEB) Trust 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 expensed postemployment benefits totaling \$95,232. Additionally, the Police and Fire OPEB Trust expensed \$993,326 of benefit payments. 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, 2014, the City contributed \$14,900 for the employees in these plans.

#### 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. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

**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 \$1,201,004, as determined by the City Council through annual budget resolution. The City's General Fund also expensed postemployment benefits totaling \$73,157.

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### Note 9 - Other Postemployment Benefits (Continued)

**Funding Progress** - For the year ended June 30, 2014, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2012. 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.

Annual required contribution (recommended)	\$ 2,743,417
Interest on the prior year's net OPEB obligation/asset	(128,652)
Less adjustment to the annual required contribution	<u>142,848</u>
Annual OPEB cost	2,757,613
Amounts contributed:	
Payments of current premiums	(73,157)
Implicit rate subsidy of premiums	(137,585)
Contributions to trust	<u>(1,201,004)</u>
Change in net OPEB obligation (asset)	1,345,867
OPEB obligation (asset) - Beginning of year	<u>(1,608,152)</u>
OPEB obligation (asset) - End of year	<u><u>\$ (262,285)</u></u>

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>
6/30/12	\$ 1,673,327	127.4 %
6/30/13	1,783,515	121.8
6/30/14	2,757,613	51.2

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

### **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.

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 an 8.0 percent investment rate of return and 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.

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### Note 9 - Other Postemployment Benefits (Continued)

**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 incurred pay-as-you-go retiree healthcare costs of \$95,232. 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.

**Funding Progress** - For the year ended June 30, 2014, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2012. 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)	\$ 4,350,801
Interest on the prior year's net OPEB asset	(142,397)
Less adjustment to the annual required contribution	<u>95,256</u>
Annual OPEB cost	4,303,660
Amounts contributed:	
Payments of current premiums	(95,232)
Implicit rate subsidy on premiums	(248,678)
Advance funding	<u>(2,160,796)</u>
Decrease in net OPEB asset	1,798,954
OPEB asset - Beginning of year	<u>(1,898,632)</u>
OPEB asset - End of year	<u>\$ (99,678)</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) Obligation
6/30/12	\$ 1,937,202	118.5 %	\$ (1,225,392)
6/30/13	1,983,851	133.9	(1,898,632)
6/30/14	4,303,660	58.2	(99,678)

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### Note 9 - Other Postemployment Benefits (Continued)

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

**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 multi-year 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.

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### 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.

As of June 30, 2014, the SOCSDS had obtained aggregate financing of approximately \$131,500,000 (of which approximately \$130,258,975 had been received or drawn down) and had incurred \$138,696,781 of costs related to the project. Included in the City's Water and Sewer Fund financial statements at June 30, 2014 was \$13,854,302 of system improvements and construction in progress, net of accumulated depreciation, \$130,591 of assets held at the County, and \$7,732,558 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, 2013		\$	(2,911,996)
Current year building permit revenue			517,446
Current year related expenses:			
Direct costs	\$	351,046	
Estimated indirect costs		331,710	682,756
			<u>          </u>
Current year shortfall			<u>(165,310)</u>
Cumulative shortfall - June 30, 2014		\$	<u><u>(3,077,306)</u></u>

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### Note 12 - Upcoming Accounting Pronouncements

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

### 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
<b>Fund Balances</b>						
Nonspendable:						
Prepays	\$ 160,319	\$ 802	\$ 926	\$ -	\$ 76	\$ 162,123
Advances to other funds	-	-	361,422	-	-	361,422
Total	160,319	802	362,348	-	76	523,545
Restricted:						
Vehicles	606,097	-	-	-	-	606,097
Roads	-	567,933	312,145	-	-	880,078
Roads - Proposal R	-	-	3,311,181	-	-	3,311,181
Debt administration	-	-	-	-	22,971	22,971
Drug enforcement	-	-	-	-	104,192	104,192
Parks maintenance	-	-	-	-	674,848	674,848
Other restrictions	-	-	-	-	3,520	3,520
Library	77,330	-	-	-	-	77,330
Neighborhood stabilization program	-	-	-	-	329	329
Total	683,427	567,933	3,623,326	-	805,860	5,680,546
Assigned:						
Subsequent year's budget	385,835	-	-	-	-	385,835
Vested employee benefits	2,235,296	-	-	-	-	2,235,296
Retained insurance risk	2,013,550	-	-	-	-	2,013,550
Other postemployment benefits	439,540	-	-	-	-	439,540
Technology improvements	100,000	-	-	-	-	100,000
Capital improvements	527,357	-	-	905,111	-	1,432,468
Total	5,701,578	-	-	905,111	-	6,606,689
Total fund balance	<u>\$ 6,545,324</u>	<u>\$ 568,735</u>	<u>\$ 3,985,674</u>	<u>\$ 905,111</u>	<u>\$ 805,936</u>	<u>\$ 12,810,780</u>

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2014

### Note 14 - Subsequent Events

On August 11, 2014 torrential rains blew through southeast Michigan sending gushing water through freeways, neighborhood streets, and basements. Madison Heights was among the hardest-hit communities. Approximately 3,000 homes were affected, and City properties including the City Hall and 43rd District Court had flooding of the basements and 16 city vehicles. Damage to City property is estimated to be over \$2 million with an additional \$430,000 in residential trash pick-up that equaled 3,920 tons or 43 percent of the City's normal annual volume. The City's liability insurance storm backup coverage is limited to \$1 million of damage with an additional \$5 million in flood insurance. In addition, President Obama declared a federal disaster which makes FEMA funds available for residents and public damage. This includes a percentage of debris removal and City losses that exceed insurance coverage.

### Note 15 - Change in Accounting

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

Item	Amount	Prior Reporting Classification/Treatment	New Classification After Adoption of GASB Statement No. 65
Revenue in governmental funds not collected within 60 days of year end	\$ 1,415,683	Liability	Deferred inflow of resources

During the current year, the City adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*. This statement required changes to the actuarial valuations resulting in a different measurement of the liability of the employer to plan members for benefits provided through the pension plan. As a result, the disclosures within the pension footnote have changed considerably along with the related schedules in the required supplemental information.

## **Required Supplemental Information**

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# City of Madison Heights, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 15,612,327	\$ 15,781,297	\$ 16,420,348	\$ 639,051
Licenses and permits	784,350	784,350	897,863	113,513
Federal grants	216,000	271,000	210,193	(60,807)
State-shared revenue and grants	2,919,241	2,919,241	2,946,376	27,135
Charges for services	2,038,808	2,038,808	2,145,648	106,840
Fines and forfeitures	1,820,998	1,820,998	1,710,418	(110,580)
Investment income	95,000	95,000	202,563	107,563
Other revenue	756,780	756,780	1,175,384	418,604
Total revenue	<u>24,243,504</u>	<u>24,467,474</u>	<u>25,708,793</u>	<u>1,241,319</u>
<b>Expenditures - Current</b>				
General government	5,118,510	5,230,635	5,046,701	183,934
Public safety	13,441,614	13,573,029	13,630,223	(57,194)
Public works	3,061,597	3,413,567	3,245,151	168,416
Community and economic development	1,114,120	1,122,620	1,089,483	33,137
Recreation and culture	1,714,663	1,781,128	1,622,884	158,244
Total expenditures	<u>24,450,504</u>	<u>25,120,979</u>	<u>24,634,442</u>	<u>486,537</u>
<b>Excess of Revenue (Under) Over Expenditures</b>	(207,000)	(653,505)	1,074,351	1,727,856
<b>Other Financing Sources -</b>				
Proceeds from sale of capital assets	27,500	74,675	48,149	(26,526)
<b>Net Change in Fund Balance</b>	(179,500)	(578,830)	1,122,500	1,701,330
<b>Fund Balance - Beginning of year</b>	<u>5,422,824</u>	<u>5,422,824</u>	<u>5,422,824</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 5,243,324</b></u>	<u><b>\$ 4,843,994</b></u>	<u><b>\$ 6,545,324</b></u>	<u><b>\$ 1,701,330</b></u>

# City of Madison Heights, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Streets Fund Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Federal grants	\$ -	\$ -	\$ 111,185	\$ 111,185
Intergovernmental	1,284,997	1,284,997	1,336,075	51,078
Investment income	4,500	4,500	(3,902)	(8,402)
Total revenue	<u>1,289,497</u>	<u>1,289,497</u>	<u>1,443,358</u>	<u>153,861</u>
<b>Expenditures</b>				
Current - Public works	839,227	967,977	782,056	185,921
Capital outlay	935,000	1,595,000	1,308,540	286,460
Total expenditures	<u>1,774,227</u>	<u>2,562,977</u>	<u>2,090,596</u>	<u>472,381</u>
<b>Other Financing Uses - Transfers out</b>	<u>(80,000)</u>	<u>(105,000)</u>	<u>(80,000)</u>	<u>25,000</u>
<b>Net Change in Fund Balance</b>	(564,730)	(1,378,480)	(727,238)	651,242
<b>Fund Balance - Beginning of year</b>	<u>1,295,973</u>	<u>1,295,973</u>	<u>1,295,973</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><u>\$ 731,243</u></u>	<u><u>\$ (82,507)</u></u>	<u><u>\$ 568,735</u></u>	<u><u>\$ 651,242</u></u>

# City of Madison Heights, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Local Streets Fund Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 1,439,494	\$ 1,439,494	\$ 1,546,676	\$ 107,182
Federal grants	-	-	74,387	74,387
State-shared revenue and grants	479,832	533,682	590,377	56,695
Investment income	28,450	28,450	66,076	37,626
Total revenue	1,947,776	2,001,626	2,277,516	275,890
<b>Expenditures</b>				
Current - Public works	661,350	715,200	615,831	99,369
Capital outlay	2,267,000	2,232,000	2,334,042	(102,042)
Total expenditures	2,928,350	2,947,200	2,949,873	(2,673)
<b>Excess of Expenditures Over Revenue</b>	(980,574)	(945,574)	(672,357)	273,217
<b>Other Financing Sources</b> - Transfers in	211,499	211,499	211,499	-
<b>Net Change in Fund Balance</b>	(769,075)	(734,075)	(460,858)	273,217
<b>Fund Balance</b> - Beginning of year	4,446,532	4,446,532	4,446,532	-
<b>Fund Balance</b> - End of year	<u>\$ 3,677,457</u>	<u>\$ 3,712,457</u>	<u>\$ 3,985,674</u>	<u>\$ 273,217</u>

# City of Madison Heights, Michigan

## Required Supplemental Information Police and Fire Pension System Schedule Year Ended June 30, 2014

The schedule of funding progress is as follows:

### Police and Fire Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Valuation Payroll (c)	UAAL as a Percentage of Valuation Payroll
6/30/08	\$ 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
6/30/13	48,067,300	67,745,324	19,678,024	71.0	5,867,119	335.4

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
6/30/09	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
6/30/14	6/30/12	1,566,746	100

\* Excludes contributions made for retiree healthcare 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, 2013, the date of 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, 2014

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
6/30/09	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
6/30/14	6/30/12	4,303,660	52.9

The calculation of percentage contributed for the fiscal year ended June 30, 2014 includes pay-as-you-go insurance premiums of \$95,232 that were paid for by the Police and Fire Retirement System, an implicit rate subsidy of \$20,443, and advance funding of \$2,160,796 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, 2012. Additional information as of June 30, 2013, the date of 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

## Required Supplemental Information General Employees Pension System Schedule Year Ended June 30, 2014

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/11	\$ 26,299,697	\$ 35,497,987	\$ 9,198,290	74.1	\$ 4,190,045	219.5
12/31/12	25,978,597	36,066,667	10,088,070	72.0	3,805,610	265.1
12/31/13	26,029,761	37,260,900	11,231,139	69.9	3,595,526	312.4

# City of Madison Heights, Michigan

## Required Supplemental Information General Employees Other Postemployment Benefits Trust Schedule Year Ended June 30, 2014

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/08	\$ 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

# City of Madison Heights, Michigan

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

### 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 budgetary comparison schedule 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

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

### Note - Stewardship, Compliance, and Accountability (Continued)

Excess of expenditures over appropriations in budgeted funds - During the year, the City incurred significant expenditures that were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund - Public safety	\$ 13,573,029	\$ 13,630,223	\$ (57,194)
Local Streets Fund - Capital outlay	2,232,000	2,334,042	(102,042)

# City of Madison Heights, Michigan

## Required Supplemental Information Schedule of Changes in the City Net Pension Liability and Related Ratios Police and Fire Pension System Last Fiscal Year

	2014
<b>Total Pension Liability</b>	
Service cost	\$ 1,172,252
Interest	4,942,746
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds	(4,856,341)
Net change in total pension liability	1,258,657
Total pension liability - Beginning of year	67,745,324
Total pension liability - End of year	<b>\$ 69,003,981</b>
<b>Plan Fiduciary Net Position</b>	
Contributions - Employer	\$ 2,010,461
Contributions - Member	549,025
Net investment income	6,739,515
Administrative expenses	(249,139)
Benefit payments, including refunds	(4,856,341)
Other	-
Net change in plan fiduciary net position	4,193,521
Plan fiduciary net position - Beginning of year	45,451,011
Plan fiduciary net position - End of year	<b>\$ 49,644,532</b>
<b>City's Net Pension Liability - Ending</b>	<b>\$ 19,359,449</b>
<b>Plan Fiduciary Net Position as a % of Total Pension Liability</b>	71.94 %
<b>Covered Employee Payroll</b>	\$ 5,672,836
<b>City's Net Pension Liability as a % of Covered Employee Payroll</b>	341.3 %

# City of Madison Heights, Michigan

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## Required Supplemental Information Schedule of Investment Returns Police and Fire Pension System Last Fiscal Year

Annual money-weighted rate of return, net of investment expense	15.7 %
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# City of Madison Heights, Michigan

## Required Supplemental Information Schedule of City Contributions Police and Fire Pension System Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	\$ 2,010,461	\$ 1,757,601	\$ 1,240,859	\$ 1,391,859	\$ 1,589,770	\$ 1,625,338	\$ 1,745,795	\$ 1,794,618	\$ 1,656,681	\$ 1,513,225
Contributions in relation to the actuarially determined contribution	2,010,461	1,757,601	1,240,859	1,391,859	1,589,770	1,625,338	1,745,795	1,794,618	1,656,681	1,513,225
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 5,672,836	\$ 5,867,119	\$ 5,676,851	\$ 6,009,688	\$ 6,844,767	\$ 7,499,803	\$ 7,597,087	\$ 7,220,564	\$ 7,060,160	\$ 7,115,713
Contributions as a percentage of covered employee payroll	35.4 %	30.0 %	21.9 %	23.2 %	23.2 %	21.7 %	23.0 %	24.9 %	23.5 %	21.3 %

### Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation Date June 30, 2014

Actuarially determined contribution rates are calculated as of June 30, which is one year prior to the beginning of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Individual entry age normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Asset valuation method	Four-year smoothed market
Inflation	5.5% - approximate; No explicit price inflation assumption is used in the valuation
Salary increases	5.5% to 8.5% including inflation
Investment rate of return	7.5%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	1971 Group Annuity Mortality Table projected to 1984, set back six years for women
Other information	There were no benefit changes during the year

## **Other Supplemental Information**

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# City of Madison Heights, Michigan

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

	Special Revenue Funds				Debt Service Funds	Total Nonmajor Governmental Funds
	Community Improvement	Forfeiture	Park Improvement and Maintenance		Fire Stations Fund	
			Neighborhood Stabilization			
<b>Assets</b>						
Cash and investments	\$ -	\$ 104,192	\$ 676,944	\$ 329	\$ 27,575	\$ 809,040
Receivables - Due from other governmental units	21,679	-	-	-	-	21,679
Prepaid expenses	76	-	-	-	-	76
Total assets	<u>\$ 21,755</u>	<u>\$ 104,192</u>	<u>\$ 676,944</u>	<u>\$ 329</u>	<u>\$ 27,575</u>	<u>\$ 830,795</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 15,085	\$ -	\$ 2,096	\$ -	\$ -	\$ 17,181
Accrued liabilities and other	3,074	-	-	-	4,604	7,678
Total liabilities	18,159	-	2,096	-	4,604	24,859
<b>Fund Balances</b>						
Nonspendable	76	-	-	-	-	76
Restricted	3,520	104,192	674,848	329	22,971	805,860
Total fund balances	3,596	104,192	674,848	329	22,971	805,936
Total liabilities and fund balances	<u>\$ 21,755</u>	<u>\$ 104,192</u>	<u>\$ 676,944</u>	<u>\$ 329</u>	<u>\$ 27,575</u>	<u>\$ 830,795</u>

# City of Madison Heights, Michigan

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

	Special Revenue Funds				Debt Service Fund	Total Nonmajor Governmental Funds
	Community Improvement	Forfeiture	Park Improvement and Maintenance		Fire Stations Fund	
			Neighborhood Stabilization			
<b>Revenue</b>						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 395,806	\$ 395,806
Federal grants	112,898	-	-	-	-	112,898
State-shared revenue and grants	-	61,056	-	-	-	61,056
Investment income	-	433	70,201	-	-	70,634
Total revenue	112,898	61,489	70,201	-	395,806	640,394
<b>Expenditures</b>						
Current:						
Community and economic development	111,552	-	-	-	-	111,552
Recreation and culture	-	-	28,952	-	-	28,952
Capital outlay	-	21,633	-	-	-	21,633
Debt service	-	-	-	-	372,835	372,835
Total expenditures	111,552	21,633	28,952	-	372,835	534,972
<b>Net Change in Fund Balances</b>	1,346	39,856	41,249	-	22,971	105,422
<b>Fund Balances - Beginning of year</b>	2,250	64,336	633,599	329	-	700,514
<b>Fund Balances - End of year</b>	<u>\$ 3,596</u>	<u>\$ 104,192</u>	<u>\$ 674,848</u>	<u>\$ 329</u>	<u>\$ 22,971</u>	<u>\$ 805,936</u>

# City of Madison Heights, Michigan

## Other Supplemental Information Combining Statement of Net Position Fiduciary Funds June 30, 2014

	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
<b>Assets</b>						
Cash and cash equivalents	\$ 1,465,953	\$ 314,433	\$ 1,780,386	\$ 3,811	\$ 4,470	\$ 8,281
Investments:						
Corporate obligations	4,968,391	3,666,399	8,634,790	-	-	-
U.S. government securities	5,472,203	-	5,472,203	-	-	-
Federal agency securities	-	-	-	-	116,646	116,646
Common stock	10,896,449	-	10,896,449	-	-	-
Oakland County local government investment pool	-	-	-	-	104,463	104,463
Municipal bonds	-	-	-	-	74,001	74,001
Small cap mutual funds	26,168,271	7,352,555	33,520,826	-	-	-
Money market	-	-	-	-	13,429	13,429
Accrued interest receivable and other	152,144	3,239	155,383	-	47,792	47,792
Due from primary government	521,121	273,838	794,959	-	-	-
Total assets	49,644,532	11,610,464	61,254,996	<u>\$ 3,811</u>	<u>\$ 360,801</u>	<u>\$ 364,612</u>
<b>Liabilities</b>						
Accounts payable	-	-	-	\$ 126	\$ 50,940	\$ 51,066
Prepaid taxes	-	-	-	3,685	-	3,685
Cash bonds and deposits	-	-	-	-	309,861	309,861
Total liabilities	-	-	-	<u>\$ 3,811</u>	<u>\$ 360,801</u>	<u>\$ 364,612</u>
<b>Net Position Held in Trust for Pension and Other Employee Benefits</b>	<u>\$ 49,644,532</u>	<u>\$ 11,610,464</u>	<u>\$ 61,254,996</u>			

# City of Madison Heights, Michigan

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

	Police and Fire Retirement	Police and Fire Other Post- employment Benefits	Total Pension Trust Funds
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ 1,377,162	\$ 172,005	\$ 1,549,167
Net increase in fair value of investments	5,556,929	1,389,719	6,946,648
Less investment expenses	<u>(194,576)</u>	<u>-</u>	<u>(194,576)</u>
Net investment income	6,739,515	1,561,724	8,301,239
Contributions:			
Employer	2,010,461	2,504,706	4,515,167
Employee	<u>549,025</u>	<u>-</u>	<u>549,025</u>
Net contributions	<u>2,559,486</u>	<u>2,504,706</u>	<u>5,064,192</u>
Total additions	9,299,001	4,066,430	13,365,431
<b>Deductions</b>			
Benefit payments	4,311,787	1,301,860	5,613,647
Refunds of contributions	544,554	-	544,554
Administrative expenses	<u>249,139</u>	<u>-</u>	<u>249,139</u>
Total deductions	<u>5,105,480</u>	<u>1,301,860</u>	<u>6,407,340</u>
<b>Net Increase in Net Position Held in Trust</b>	4,193,521	2,764,570	6,958,091
<b>Net Position Held in Trust for Police and Fire Retirement and Other Postemployment Benefits - Beginning of year</b>	<u>45,451,011</u>	<u>8,845,894</u>	<u>54,296,905</u>
<b>Net Position Held in Trust for Police and Fire Retirement and Other Postemployment Benefits - End of year</b>	<u><u>\$ 49,644,532</u></u>	<u><u>\$ 11,610,464</u></u>	<u><u>\$ 61,254,996</u></u>

# City of Madison Heights, Michigan

## Other Supplemental Information Schedule of Changes in Reserves Police and Fire Retirement System Year Ended June 30, 2014

	Employees' Contributions	Employer's Contributions	Retirees' Pension Benefit Payments
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ -	\$ 1,377,162	\$ -
Net increase in fair value of investments	-	5,556,929	-
Less investment expenses	-	(194,576)	-
Net investment income	-	6,739,515	-
Contributions:			
Employer contributions	-	2,010,461	-
Employee contributions	549,025	-	-
Net contributions	549,025	2,010,461	-
Transfers	196,754	-	3,557,108
Total additions	745,779	8,749,976	3,557,108
<b>Deductions</b>			
Pension payments	-	-	4,311,787
Transfers	-	3,753,862	-
Refunds of contributions	544,554	-	-
Administrative expenses	-	249,139	-
Total deductions	544,554	4,003,001	4,311,787
<b>Net Increase (Decrease) in Net Position Held in Trust</b>	201,225	4,746,975	(754,679)
<b>Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year</b>	7,838,993	8,910,147	28,701,871
<b>Net Position Held in Trust for Pension and Other Employee Benefits - End of year</b>	<b>\$ 8,040,218</b>	<b>\$ 13,657,122</b>	<b>\$ 27,947,192</b>