

City of Swartz Creek, Michigan

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

City of Swartz Creek, Michigan

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Independent Auditor's Report

To the City Council
City of Swartz Creek, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Swartz Creek, 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 Swartz Creek, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Swartz Creek, 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 City Council
City of Swartz Creek, Michigan

Emphasis of Matter

As discussed in Note 13 to the basic financial statements, in 2014, the City adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, major fund budgetary comparison schedules, pension and OPEB system 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 an opinion on the financial statements that collectively comprise the City's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Plante & Morse, PLLC

November 5, 2014

City of Swartz Creek, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Swartz Creek, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2014:

- The City's total net position is \$19.1 million.
- The City's overall unrestricted net position is \$6.4 million.
- The City's General Fund expenditures exceeded revenue by \$78 thousand before transfers in and out. After transfers in and out, the net decrease in fund balance was \$63,984, leaving the General Fund with a fund balance of \$1,320,080.

Using this Annual Report

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

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

City of Swartz Creek, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

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

	Governmental Activities				Percent Change
	2012	2013	2014	Change	
Assets					
Other assets	\$ 3,557,503	\$ 3,727,701	\$ 3,901,493	\$ 173,792	5%
Capital assets	<u>8,035,502</u>	<u>7,837,141</u>	<u>7,436,908</u>	<u>(400,233)</u>	-5%
Total assets	11,593,005	11,564,842	11,338,401	(226,441)	-2%
Liabilities					
Current liabilities	136,764	176,522	213,557	37,035	21%
Long-term liabilities	<u>742,718</u>	<u>626,969</u>	<u>627,435</u>	<u>466</u>	0%
Total liabilities	<u>879,482</u>	<u>803,491</u>	<u>840,992</u>	<u>37,501</u>	5%
Net Position					
Net investment in capital assets	7,415,502	7,267,141	6,916,908	(350,233)	-5%
Restricted	1,250,277	1,371,034	1,362,603	(8,431)	-1%
Unrestricted	<u>2,047,744</u>	<u>2,123,176</u>	<u>2,217,898</u>	<u>94,722</u>	4%
Total net position	<u>\$ 10,713,523</u>	<u>\$ 10,761,351</u>	<u>\$ 10,497,409</u>	<u>\$ (263,942)</u>	-2%

The governmental net position decreased 2 percent from a year ago - decreasing from \$10.76 million to \$10.50 million. In comparison, last year's net position increased by .45 percent.

City of Swartz Creek, Michigan

Management's Discussion and Analysis (Continued)

Unrestricted net position - the part of net position that can be used to finance day-to-day operations - increased by \$95 thousand for the governmental activities. This represents an increase of approximately 4 percent. The current level of unrestricted net position for our governmental activities stands at \$2.2 million, or about 73 percent of expenditures.

	Governmental Activities				Percent Change
	2012	2013	2014	Change	
Revenue					
Program revenue:					
Charges for services	\$ 441,507	\$ 397,654	\$ 351,172	\$ (46,482)	-12%
Operating grants	385,145	300,175	408,317	108,142	36%
Capital grants	295,919	311,643	103,484	(208,159)	-67%
General revenue:					
Property taxes	1,128,298	1,208,678	878,807	(329,871)	-27%
State-shared revenue	452,796	467,392	477,837	10,445	2%
Investment earnings	12,347	8,393	4,778	(3,615)	-43%
Other revenue	457,550	171,049	560,448	389,399	228%
Total revenue	3,173,562	2,864,984	2,784,843	(80,141)	-3%
Program Expenses					
General government	307,965	274,532	266,398	(8,134)	-3%
Legislative	14,201	14,486	14,185	(301)	-2%
Public safety	1,017,384	1,031,455	1,208,735	177,280	17%
Public works	1,532,839	1,466,950	1,536,491	69,541	5%
Recreation and cultural	37,336	37,844	36,616	(1,228)	-3%
Interest on long-term debt	35,846	33,805	27,024	(6,781)	-20%
Total expenses	2,945,571	2,859,072	3,089,449	230,377	8%
Transfers	43,128	41,916	40,664	(1,252)	-3%
Change in Net Position	\$ 271,119	\$ 47,828	\$ (263,942)	\$ (311,770)	-652%

The City's total governmental revenue decreased by approximately \$80 thousand due to the economic generosity of the Michigan Tax Tribunal and the impact of Proposal A, resulting in a decrease in property tax revenue.

Expenses increased by about \$230 thousand during the year. The majority of this increase was due to the purchase of fire equipment for the Fire Authority that the City of Swartz Creek and Clayton Township jointly fund. The City of Swartz Creek contributed \$170,000 toward the purchase of a Pierce PUC pumper. Other areas that contributed to the increase were work contracted for Morrish Road Bridge improvements, improvements on City-owned parking lots, and the major snowstorms during the fiscal year which impacted budgeted amounts.

City of Swartz Creek, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

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

	Business-type Activities				Percent Change
	2012	2013	2014	Change	
Assets					
Other assets	\$ 4,302,764	\$ 4,440,870	\$ 4,720,539	\$ 279,669	6%
Capital assets	<u>4,939,853</u>	<u>5,036,617</u>	<u>4,966,581</u>	<u>(70,036)</u>	-1%
Total assets	9,242,617	9,477,487	9,687,120	209,633	2%
Liabilities					
Current liabilities	301,462	363,145	423,321	60,176	17%
Long-term liabilities	<u>707,386</u>	<u>695,694</u>	<u>693,455</u>	<u>(2,239)</u>	0%
Total liabilities	<u>1,008,848</u>	<u>1,058,839</u>	<u>1,116,776</u>	<u>57,937</u>	5%
Net Position					
Net investment in capital assets	4,314,986	4,435,777	4,399,302	(36,475)	-1%
Unrestricted	<u>3,918,783</u>	<u>3,982,871</u>	<u>4,171,042</u>	<u>188,171</u>	5%
Total net position	<u>\$ 8,233,769</u>	<u>\$ 8,418,648</u>	<u>\$ 8,570,344</u>	<u>\$ 151,696</u>	2%

	Business-type Activities				Percent Change
	2012	2013	2014	Change	
Operating revenue	\$ 2,388,841	\$ 2,447,083	\$ 2,687,031	\$ 239,948	10%
Operating expenses - Other than depreciation	1,930,219	2,039,865	2,348,246	308,381	15%
Depreciation	<u>160,626</u>	<u>170,622</u>	<u>172,074</u>	<u>1,452</u>	1%
Operating income	297,996	236,596	166,711	(69,885)	-30%
Interest income	11,228	9,466	7,880	(1,586)	-17%
Interest expense	27,303	26,337	25,081	(1,256)	-5%
Capital contributions	275,350	7,070	42,850	35,780	506%
Transfers	<u>(43,128)</u>	<u>(41,916)</u>	<u>(40,664)</u>	<u>1,252</u>	-3%
Change in net position	<u>\$ 514,143</u>	<u>\$ 184,879</u>	<u>\$ 151,696</u>	<u>\$ (33,183)</u>	-18%

Operating revenues increased by \$240 thousand due to an increase in water rates that the City passed on to residents as well as recording of the current year unbilled revenue.

City of Swartz Creek, Michigan

Management's Discussion and Analysis (Continued)

Operating expenses also increased since the City had to pay the water rate increase on to the County. The balance of the increase is due to the City resuming the project relining sewer lines.

The net position of business-type activities increased 2 percent from a year ago - increasing from \$8.4 million to \$8.6 million. This was due to an increase in rates. Last year's net position increased by 2 percent, which was mainly due to the increase in rates.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations - increased by \$188 thousand. This represents an increase of approximately 5 percent. The current level of unrestricted net position stands at \$4.2 million, or about 175 percent of expenditures.

The City's Funds

Our analysis of the City's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2014 include the General Fund, the Major Streets Fund, the Local Streets Fund, the Garbage Fund, and the Fire Capital Projects Fund.

The General Fund pays for most of the City's governmental services. The most significant is public safety activities. Public safety activities incurred expenses of approximately \$1.1 million in 2014, followed closely by public works at \$384 thousand which includes major and local streets.

The most significant increase related to capital outlay of \$170 thousand which represented the City's portion of the equipment costs paid to the Swartz Creek Fire Authority.

City of Swartz Creek, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the total governmental fund activity, on a modified accrual basis:

	2012	2013	2014	Change	Percent Change
Revenue					
Property taxes	\$ 1,160,936	\$ 1,049,526	\$ 1,035,745	\$ (13,781)	-1%
Charges for services	182,933	207,906	175,861	(32,045)	-15%
Licenses and permits	236,716	197,453	208,787	11,334	6%
State-shared revenues	455,806	440,424	541,319	100,895	23%
Act 51 funding	357,179	366,407	400,781	34,374	9%
Federal, state, and local grants	7,659	28,988	5,700	(23,288)	-80%
Fines and forfeitures	89,875	60,250	27,145	(33,105)	-55%
Interest and rentals	12,060	8,059	4,465	(3,594)	-45%
Special assessments	114,357	45,013	51,121	6,108	14%
Other	117,127	313,862	276,274	(37,588)	-12%
				-	
Total revenue	2,734,648	2,717,888	2,727,198	9,310	0%
Expenditures					
Current:					
General government	323,439	336,285	352,974	16,689	5%
Legislative	14,288	14,513	14,185	(328)	-2%
Public safety	985,725	997,235	1,083,611	86,376	9%
Public works	1,360,468	1,175,584	1,124,129	(51,455)	-4%
Recreation and culture	36,055	38,121	36,117	(2,004)	-5%
Capital outlay	-	-	81,750	81,750	100%
Debt service	86,255	83,805	81,543	(2,262)	-3%
Total expenditures	2,806,230	2,645,543	2,774,309	128,766	5%
Excess of Revenue (Under) Over Expenditures	(71,582)	72,345	(47,111)	(119,456)	-165%
Other Financing Sources -					
Transfers - Net	43,128	41,916	40,664	(1,252)	-3%
Net Change in Fund Balances	(28,454)	114,261	(6,447)	(120,708)	-106%
Fund Balances - Beginning of year	2,595,148	2,566,694	2,680,955	114,261	4%
Fund Balances - End of year	\$ 2,566,694	\$ 2,680,955	\$ 2,674,508	\$ (6,447)	0%

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. City departments overall stayed below budget, resulting in total expenditures of \$160 thousand below budget. Revenues were slightly higher than anticipated. These events made the General Fund's fund balance decrease from \$1.38 million a year ago to \$1.32 million at June 30, 2014.

City of Swartz Creek, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of 2014, the City had \$11.32 million invested in a broad range of capital assets, including land, buildings, equipment, and water and sewer lines. In the past two years, the City has invested significantly in roads within the City. Major additions included bridge work on several bridges in the City as well as sewer re-lining. Additional information on the City's capital assets can be found in Note 4 of this report.

Also at the end of 2014, the City had \$1,370,890 in long-term debt. A total of \$1,087,279 of long-term debt is the balance on the City's bonds. The remaining \$283,611 is related to accumulated compensated absences of \$86,445 and to other postemployment benefits of \$197,166.

Economic Factors and Next Year's Budgets and Rates

Due to the economic generosity of the Michigan Tax Tribunal and the impact of Proposal A, the City is expecting a decrease in taxable real property values for this fiscal year and possibly through the next fiscal year. Also expected is the elimination of taxable personal property. Because of these probable reductions in revenue, the City has spent time reviewing various department cost structures to identify areas in which changes can be made.

Contacting the City of Swartz Creek, Michigan's Management

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

City of Swartz Creek, Michigan

Statement of Net Position June 30, 2014

	Primary Government			Component Unit - Downtown Development Authority
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 1,980,673	\$ 1,540,236	\$ 3,520,909	\$ 22,279
Investments (Note 3)	660,000	2,171,000	2,831,000	10,000
Receivables:				
Property taxes receivable	14,468	-	14,468	-
Receivables from sales to customers on account	-	775,129	775,129	-
Accrued interest receivable	869	3,967	4,836	-
Other receivables	94,607	-	94,607	512
Due from other governmental units	283,822	-	283,822	-
Special assessments receivable	96,346	-	96,346	-
Internal balances	(88,534)	88,534	-	-
Inventory	-	21,319	21,319	-
Prepaid expenses and other assets	70,455	5,082	75,537	-
Investment in joint venture (Note 8)	289,506	-	289,506	-
Land held for resale	34,536	-	34,536	-
Net pension asset (Note 9)	464,745	115,272	580,017	-
Capital assets (Note 4):				
Assets not subject to depreciation	1,616,210	-	1,616,210	-
Assets subject to depreciation	5,820,698	4,966,581	10,787,279	-
Total assets	11,338,401	9,687,120	21,025,521	32,791
Liabilities				
Accounts payable	116,604	112,730	229,334	4,841
Due to other governmental units	-	275,473	275,473	-
Deposits payable	-	15,858	15,858	-
Accrued liabilities and other	44,753	19,260	64,013	-
Unearned revenue (Note 1)	2,200	-	2,200	-
Noncurrent liabilities:				
Due within one year (Note 6):				
Compensated absences	55,000	10,000	65,000	-
Current portion of long-term debt	50,000	35,726	85,726	-
Due in more than one year:				
Compensated absences	7,153	14,292	21,445	-
Net OPEB obligation (Note 11)	95,282	101,884	197,166	-
Long-term debt (Note 6)	470,000	531,553	1,001,553	-
Total liabilities	840,992	1,116,776	1,957,768	4,841
Net Position				
Net investment in capital assets	6,916,908	4,399,302	11,316,210	-
Restricted for:				
Streets	1,000,781	-	1,000,781	-
Garbage collection	337,247	-	337,247	-
Drug enforcement	5,689	-	5,689	-
Weed control	18,886	-	18,886	-
Unrestricted	2,217,898	4,171,042	6,388,940	27,950
Total net position	\$ 10,497,409	\$ 8,570,344	\$ 19,067,753	\$ 27,950

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

City of Swartz Creek, Michigan

	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 266,398	\$ 118,602	\$ -	\$ -
Legislative	14,185	-	-	-
Public safety	1,208,735	195,845	5,900	-
Public works	1,536,491	25,495	400,781	103,484
Recreation and culture	36,616	11,230	1,636	-
Interest on long-term debt	27,024	-	-	-
Total governmental activities	<u>3,089,449</u>	<u>351,172</u>	<u>408,317</u>	<u>103,484</u>
Business-type activities:				
Water Fund	1,559,532	1,552,509	-	24,750
Sewer Fund	985,869	1,134,522	-	18,100
Total business-type activities	<u>2,545,401</u>	<u>2,687,031</u>	<u>-</u>	<u>42,850</u>
Total primary government	<u>\$ 5,634,850</u>	<u>\$ 3,038,203</u>	<u>\$ 408,317</u>	<u>\$ 146,334</u>
Component unit - Downtown Development Authority	<u>\$ 11,601</u>	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue (unrestricted)				
Investment income				
Cable franchise fees (unrestricted)				
Other miscellaneous income				
Income from joint venture				
Total general revenue				
Transfers				
Change in Net Position				
Net Position - Beginning of year				
Net Position - End of year				

Statement of Activities
Year Ended June 30, 2014

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit - Downtown Development Authority
Governmental Activities	Business-type Activities	Total	
\$ (147,796)	\$ -	\$ (147,796)	\$ -
(14,185)	-	(14,185)	-
(1,006,990)	-	(1,006,990)	-
(1,006,731)	-	(1,006,731)	-
(23,750)	-	(23,750)	-
(27,024)	-	(27,024)	-
(2,226,476)	-	(2,226,476)	-
-	17,727	17,727	-
-	166,753	166,753	-
-	184,480	184,480	-
(2,226,476)	184,480	(2,041,996)	-
-	-	-	(9,601)
878,807	-	878,807	-
477,837	-	477,837	-
4,778	7,880	12,658	36
88,455	-	88,455	-
182,487	-	182,487	2
289,506	-	289,506	-
1,921,870	7,880	1,929,750	38
40,664	(40,664)	-	-
(263,942)	151,696	(112,246)	(9,563)
10,761,351	8,418,648	19,179,999	37,513
\$ 10,497,409	\$ 8,570,344	\$ 19,067,753	\$ 27,950

City of Swartz Creek, Michigan

Governmental Funds Balance Sheet June 30, 2014

	General Fund	Major Streets	Local Streets	Garbage Collection	Fire Capital Projects	Nonmajor Governmental Funds	Total
Assets							
Cash and cash equivalents (Note 3)	\$ 1,063,830	\$ 487,888	\$ 56,863	\$ 206,555	\$ 49	\$ 18,638	\$ 1,833,823
Investments (Note 3)	100,000	340,000	25,000	150,000	-	-	615,000
Receivables:							
Property taxes receivable	10,189	-	-	4,279	-	-	14,468
Special assessments receivable	96,346	-	-	-	-	-	96,346
Accrued interest receivable	195	249	5	267	-	-	716
Other receivables	86,589	648	958	-	-	6,412	94,607
Due from other governmental units (Note 5)	160,793	108,885	14,144	-	-	-	283,822
Prepaid expenses and other assets	63,719	1,980	1,980	491	-	1,963	70,133
Land held for resale	34,536	-	-	-	-	-	34,536
Total assets	\$ 1,616,197	\$ 939,650	\$ 98,950	\$ 361,592	\$ 49	\$ 27,013	\$ 3,043,451
Liabilities							
Accounts payable	\$ 54,292	\$ 35,543	\$ 471	\$ 21,176	\$ -	\$ 160	\$ 111,642
Advances from other funds (Note 5)	88,534	-	-	-	-	-	88,534
Accrued liabilities and other	33,573	702	1,103	3,169	-	-	38,547
Unearned revenue (Note 1)	2,200	-	-	-	-	-	2,200
Total liabilities	178,599	36,245	1,574	24,345	-	160	240,923
Deferred Inflows of Resources (Note 1)	117,518	2,707	-	4,279	-	3,516	128,020
Fund Balances							
Nonspendable:							
Prepays	63,719	1,980	1,980	491	-	1,963	70,133
Land held for resale	34,536	-	-	-	-	-	34,536
Restricted:							
Roads	-	898,718	95,396	-	-	-	994,114
Garbage collection	-	-	-	332,477	-	-	332,477
Drug forfeiture	-	-	-	-	-	3,726	3,726
Weed control	-	-	-	-	-	15,370	15,370
Assigned:							
Subsequent year's budget	129,366	-	-	-	-	-	129,366
Debt service	-	-	-	-	-	2,270	2,270
Capital projects	-	-	-	-	49	8	57
Unassigned	1,092,459	-	-	-	-	-	1,092,459
Total fund balances	1,320,080	900,698	97,376	332,968	49	23,337	2,674,508
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,616,197	\$ 939,650	\$ 98,950	\$ 361,592	\$ 49	\$ 27,013	\$ 3,043,451

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

City of Swartz Creek, Michigan

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

Fund Balance Reported in Governmental Funds	\$ 2,674,508
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	7,384,686
Other long-term assets, such as net pension assets, are not available for current financial resources and are not reported as fund assets	458,715
Investments in joint ventures are not financial resources and are not reported in the funds	289,506
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	96,346
Delinquent property taxes 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	31,674
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(520,000)
Accrued interest is not due and payable in the current period and is not reported in the funds	(5,588)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(60,486)
Other postemployment benefit obligations do not present a claim on current financial resources and are not reported as fund liabilities	(95,282)
Internal Service Funds are included as part of governmental activities	<u>243,330</u>
Net Position of Governmental Activities	<u>\$ 10,497,409</u>

City of Swartz Creek, Michigan

Governmental Funds

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

	Major Special Revenue Funds					Nonmajor Governmental Funds	Total
	General Fund	Major Streets	Local Streets	Garbage Collection	Fire Capital Projects		
Revenue							
Property taxes	\$ 702,338	\$ -	\$ -	\$ 333,407	\$ -	\$ -	\$ 1,035,745
Licenses and permits	208,787	-	-	-	-	-	208,787
Federal grants	5,700	-	-	-	-	-	5,700
State-shared revenue and grants	481,319	363,271	97,510	-	-	-	942,100
Charges for services	173,648	2,213	-	-	-	-	175,861
Fines and forfeitures	25,722	-	-	-	-	1,423	27,145
Investment income	2,497	950	57	846	97	18	4,465
Other revenue:							
Special assessments	36,085	-	-	-	-	15,036	51,121
Local donations	-	73,484	-	-	-	-	73,484
Other miscellaneous income	75,512	107,387	19,774	117	-	-	202,790
Total revenue	1,711,608	547,305	117,341	334,370	97	16,477	2,727,198
Expenditures - Current							
General government	287,501	699	3,099	61,675	-	-	352,974
Legislative	14,185	-	-	-	-	-	14,185
Public safety	1,068,135	-	-	-	-	15,476	1,083,611
Public works	383,755	301,446	107,366	331,562	-	-	1,124,129
Recreation and culture	36,117	-	-	-	-	-	36,117
Capital outlay	-	-	-	-	81,750	-	81,750
Debt service:							
Principal	-	-	-	-	-	50,000	50,000
Interest on long-term debt	-	-	-	-	-	31,543	31,543
Total expenditures	1,789,693	302,145	110,465	393,237	81,750	97,019	2,774,309
Excess of Revenue (Under) Over Expenditures	(78,085)	245,160	6,876	(58,867)	(81,653)	(80,542)	(47,111)
Other Financing Sources (Uses)							
Transfers in (Note 5)	34,433	-	-	-	-	81,328	115,761
Transfers out (Note 5)	(20,332)	-	-	(20,332)	-	(34,433)	(75,097)
Total other financing sources (uses)	14,101	-	-	(20,332)	-	46,895	40,664
Net Change in Fund Balances	(63,984)	245,160	6,876	(79,199)	(81,653)	(33,647)	(6,447)
Fund Balances - Beginning of year	1,384,064	655,538	90,500	412,167	81,702	56,984	2,680,955
Fund Balances - End of year	\$ 1,320,080	\$ 900,698	\$ 97,376	\$ 332,968	\$ 49	\$ 23,337	\$ 2,674,508

City of Swartz Creek, 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

Net Change in Fund Balances - Total Governmental Funds	\$ (6,447)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	95,401
Depreciation expense	(471,190)
Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	(199,787)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	50,000
Increases in accumulated employee sick and vacation pay reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment	(5,676)
Other postemployment benefit obligation expense is recognized in the statement of activities, but not in the governmental funds	(44,591)
Increase in net pension asset is shown on the statement of net position, which reduces pension expense in the statement of activities	4,732
Increase in equity interest in Swartz Creek Area Fire Department	289,506
Internal Service Funds are included as part of governmental activities	<u>24,110</u>
Change in Net Position of Governmental Activities	<u>\$ (263,942)</u>

City of Swartz Creek, Michigan

Proprietary Funds Statement of Net Position June 30, 2014

	Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Proprietary Internal Service Fund
Assets				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 762,689	\$ 777,547	\$ 1,540,236	\$ 146,850
Investments (Note 3)	1,311,000	860,000	2,171,000	45,000
Receivables:				
Receivables from sales to customers on account	441,543	333,586	775,129	-
Accrued interest receivable	2,409	1,558	3,967	153
Inventory	21,319	-	21,319	-
Prepaid expenses and other assets	2,855	2,227	5,082	322
Total current assets	2,541,815	1,974,918	4,516,733	192,325
Noncurrent assets:				
Advances to other funds	-	88,534	88,534	-
Net pension asset (Note 9)	61,025	54,247	115,272	6,030
Capital assets (Note 4)	2,103,879	2,862,702	4,966,581	52,222
Total noncurrent assets	2,164,904	3,005,483	5,170,387	58,252
Total assets	4,706,719	4,980,401	9,687,120	250,577
Liabilities				
Current liabilities:				
Accounts payable	16,867	95,863	112,730	4,962
Due to other governmental units	112,940	162,533	275,473	-
Deposits payable	13,358	2,500	15,858	-
Accrued liabilities and other	7,801	11,459	19,260	618
Compensated absences	5,000	5,000	10,000	-
Current portion of long-term debt (Note 6)	-	35,726	35,726	-
Total current liabilities	155,966	313,081	469,047	5,580
Noncurrent liabilities:				
Compensated absences	7,619	6,673	14,292	1,667
Net OPEB obligation (Note 11)	55,375	46,509	101,884	-
Long-term debt (Note 6)	-	531,553	531,553	-
Total noncurrent liabilities	62,994	584,735	647,729	1,667
Total liabilities	218,960	897,816	1,116,776	7,247
Net Position				
Net investment in capital assets	2,103,879	2,295,423	4,399,302	52,222
Unrestricted	2,383,880	1,787,162	4,171,042	191,108
Total net position	<u>\$ 4,487,759</u>	<u>\$ 4,082,585</u>	<u>\$ 8,570,344</u>	<u>\$ 243,330</u>

City of Swartz Creek, Michigan

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

	Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Proprietary Internal Service Fund
Operating Revenue				
Sale of water	\$ 1,540,527	\$ -	\$ 1,540,527	\$ -
Sewage disposal charges	-	1,123,570	1,123,570	-
Interest and penalty charges	11,982	10,952	22,934	-
Equipment rental	-	-	-	172,667
Total operating revenue	1,552,509	1,134,522	2,687,031	172,667
Operating Expenses				
Cost of water	1,356,170	-	1,356,170	-
Cost of sewage treatment	-	713,339	713,339	377
General operations and maintenance	59,782	32,262	92,044	125,153
Meter reading and billing	50,318	136,375	186,693	-
Depreciation	93,262	78,812	172,074	33,970
Total operating expenses	1,559,532	960,788	2,520,320	159,500
Operating (Loss) Income	(7,023)	173,734	166,711	13,167
Nonoperating Revenue (Expenses)				
Investment income	4,749	3,131	7,880	313
Interest expense	-	(25,081)	(25,081)	-
Other nonoperating general revenue	-	-	-	10,630
Total nonoperating revenue (expenses)	4,749	(21,950)	(17,201)	10,943
(Loss) Income - Before contributions	(2,274)	151,784	149,510	24,110
Capital Contributions - Tap fees	24,750	18,100	42,850	-
Transfers Out (Note 5)	(20,332)	(20,332)	(40,664)	-
Change in Net Position	2,144	149,552	151,696	24,110
Net Position - Beginning of year	4,485,615	3,933,033	8,418,648	219,220
Net Position - End of year	<u>\$ 4,487,759</u>	<u>\$ 4,082,585</u>	<u>\$ 8,570,344</u>	<u>\$ 243,330</u>

City of Swartz Creek, Michigan

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

	Enterprise Funds			Internal Service
	Water Fund	Sewer Fund	Total	Motor Pool
Cash Flows from Operating Activities				
Receipts from customers	\$ 1,468,143	\$ 1,103,737	\$ 2,571,880	\$ 736
Receipts from interfund services and reimbursements	-	-	-	171,931
Payments to suppliers	(1,304,239)	(762,237)	(2,066,476)	(102,931)
Payments to employees	(108,697)	(83,269)	(191,966)	(19,478)
Net cash provided by operating activities	55,207	258,231	313,438	50,258
Cash Flows from Noncapital Financing Activities - Advance made to other funds				
	(20,332)	(108,866)	(129,198)	-
Cash Flows from Capital and Related Financing Activities				
Benefit fees	24,750	18,100	42,850	-
Proceeds from sales of capital assets	-	-	-	8,125
Purchase of capital assets	(15,127)	(86,911)	(102,038)	(9,518)
Principal and interest paid on capital debt	-	(58,469)	(58,469)	-
Payments to other funds for reimbursement of capital expenditures	-	-	-	2,505
Net cash provided by (used in) capital and related financing activities	9,623	(127,280)	(117,657)	1,112
Cash Flows from Investing Activities				
Interest received on investments	3,569	2,377	5,946	176
Purchase of investment securities	(1,076,000)	(635,000)	(1,711,000)	(35,000)
Proceeds from sale and maturities of investment securities	931,000	720,000	1,651,000	45,000
Net cash (used in) provided by investing activities	(141,431)	87,377	(54,054)	10,176
Net (Decrease) Increase in Cash and Cash Equivalents	(96,933)	109,462	12,529	61,546
Cash and Cash Equivalents - Beginning of year	859,622	668,085	1,527,707	85,304
Cash and Cash Equivalents - End of year	\$ 762,689	\$ 777,547	\$ 1,540,236	\$ 146,850
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities				
Operating (loss) income	\$ (7,023)	\$ 173,734	\$ 166,711	\$ 13,167
Adjustments to reconcile operating (loss) income to net cash from operating activities:				
Depreciation and amortization	93,262	78,812	172,074	33,970
Changes in assets and liabilities:				
Receivables	(84,366)	(30,785)	(115,151)	-
Prepaid and other assets	41	(280)	(239)	-
Accounts payable	35,580	22,413	57,993	2,316
Accrued and other liabilities	17,713	14,337	32,050	805
Net cash provided by operating activities	\$ 55,207	\$ 258,231	\$ 313,438	\$ 50,258

City of Swartz Creek, Michigan

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2014

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 43,664
Receivables	<u>70,932</u>
Total assets	<u>\$ 114,596</u>
Liabilities	
Due to other governmental units	\$ 72,225
Deposits payable	<u>42,371</u>
Total liabilities	<u>\$ 114,596</u>

City of Swartz Creek, Michigan

Notes to Financial Statements June 30, 2014

Note I - Nature of Business and Significant Accounting Policies

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

Reporting Entity

The City of Swartz Creek was incorporated in 1959 under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates a council-manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems, and general administrative services.

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

Blended Component Units - For financial reporting purposes, the City of Swartz Creek Building Authority has been reported as if it were a part of the City's operations because:

- The City pledged its full faith and credit as a guarantee for the Authority's outstanding debt.
- The City is obligated to fund deficits of the Authority.

Discretely Presented Component Unit - The Swartz Creek Downtown Development Authority (the "Authority") was established in accordance with state law to promote and rehabilitate the downtown area. State law provides for a specific tax levy for the operations of the Authority. The City appoints the board and has to approve the annual budget and the issuance of any debt. Any surplus funds remaining at the termination of the Authority vest to the City.

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

Report Presentation

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

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

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's 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 that specific revenues were used for. The various funds are aggregated into three broad fund types:

City of Swartz Creek, Michigan

Notes to Financial Statements June 30, 2014

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

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

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Streets Fund accounts for the portion of the City's share of proceeds from gas and weight tax levied by the State and distributed to local governmental units to be used for major streets. State law requires that these taxes be used for major street maintenance and construction.
- The Local Streets Fund accounts for the portion of the City's share of proceeds from gas and weight tax levied by the State and distributed to local governmental units to be used for local streets. State law requires that these taxes be used for local street maintenance and construction.
- The Garbage Collection Fund accounts for a special property tax millage allowed to provide garbage and compost collection services.
- The Fire Capital Projects Fund accounts for financial resources to be contributed to the Swartz Creek Area Fire Department for capital projects.

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

- The Water Fund accounts for the operations of the water distribution system.
- The Sewer Fund accounts for the operations of the sewage pumping collection system.

The City's internal service funds are used to account for services provided to other departments of the government on a cost reimbursement basis. The City has a motor pool internal service fund that allocates costs to the various funds on a full accrual basis, so that the full costs are recognized and allocated to the various funds in the year that the costs are incurred.

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

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

- The Agency Fund accounts for assets held by the City in a trustee capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

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 government has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree health care 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.

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

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, and interest associated with the current fiscal period. Conversely, delinquent property taxes, special assessments, and miscellaneous receivables will be collected after the period of availability; receivables have been recorded for these, along with a "deferred inflow of resources".

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.

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

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

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 \$1,000 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 Swartz Creek, Michigan

Notes to Financial Statements June 30, 2014

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

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

<u>Capital Asset Class</u>	<u>Lives (in Years)</u>
Infrastructure	15-25
Water and sewer lines	50-75
Land improvements	20
Buildings and improvements	50
Machinery and equipment	3-20
Vehicles	5-10

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. Costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize the face amount of debt issued as an "other financing source," as well as bond premiums and discounts. The General Fund is generally used to liquidate governmental long-term debt.

Unearned Revenue - The statement of net position and/or balance sheet will sometimes report a liability related to resources that have been received but not yet earned. At the end of the fiscal year, the City reports unearned revenue related to miscellaneous revenue that was received during the year and related to the next fiscal year.

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

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 represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues from delinquent property taxes, special assessments, major street reimbursements, and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amount become available.

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

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 government'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 government'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. In the fund financial statements, governmental funds report the following components of fund balance:

Nonspendable: Amounts that are not in spendable form or are legally or contractually required to be maintained intact

Restricted: Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose

Committed: Amounts that have been formally set aside by the City Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the City Council.

Assigned: Intent to spend resources on specific purposes expressed by the City Council

City of Swartz Creek, Michigan

Notes to Financial Statements June 30, 2014

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

Unassigned: Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

Property Tax Revenue - Property taxes attach as an enforceable lien on property as of July 1. Taxes are also levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 30 of the following year, at which time penalties and interest are assessed.

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.

<u>Purpose</u>	<u>Millage Rate</u>	<u>Revenue</u>
General operating	4.829	\$ 699,853
Garbage collection	2.350	340,578
Total	<u>7.1790</u>	<u>\$ 1,040,431</u>

Pension and Other Postemployment Benefit Costs - The City offers both pension and retiree health care benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. The City uses the alternative measurement method to compute the ARC necessary to fund the OPEB 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. The General Fund, Water Fund, and Sewer Fund are used to liquidate the pension and OPEB obligations.

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

Compensated Absences (Vacation and Sick Leave) - In accordance with contracts negotiated with the various employee groups of the City, individual employees have a vested right upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. The General Fund is used to liquidate the obligation.

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 Fund and Sewer Fund and internal service funds are charges to customers for sales and services. The Water Fund and Sewer Fund also recognize 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 and internal service 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.

City of Swartz Creek, Michigan

Notes to Financial Statements June 30, 2014

Note 2 - Stewardship, Compliance, and Accountability

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

Shortfall at July 1, 2013	\$ (214,646)
Current year permit revenue	37,350
Related expenses - Direct costs	<u>63,121</u>
Current year shortfall	<u>(25,771)</u>
Cumulative shortfall at June 30, 2014	<u><u>\$ (240,417)</u></u>

Note 3 - Deposits and Investments

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

The City has designated several 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.

City of Swartz Creek, Michigan

Notes to Financial Statements June 30, 2014

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to risks, 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, including its component unit, had \$2,789,097 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City, including its component unit, believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
MBIA Michigan Class Pool	\$ 812	AAA	Fitch

City of Swartz Creek, Michigan

Notes to Financial Statements June 30, 2014

Note 4 - Capital Assets

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

	Balance July 1, 2013	Reclassifications and Adjustments	Additions	Disposals	Balance June 30, 2014
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 1,538,133	\$ -	\$ 783	\$ -	\$ 1,538,916
Construction in progress	59,751	(59,751)	77,294	-	77,294
Subtotal	1,597,884	(59,751)	78,077	-	1,616,210
Capital assets being depreciated:					
Infrastructure	5,255,204	75,185	34,505	-	5,364,894
Buildings and improvements	2,791,446	-	2,535	-	2,793,981
Machinery and equipment	1,082,398	(4,294)	16,980	(118,000)	977,084
Vehicles	621,487	8,426	-	(12,561)	617,352
Land improvements	606,442	-	1,280	-	607,722
Subtotal	10,356,977	79,317	55,300	(130,561)	10,361,033
Accumulated depreciation:					
Infrastructure	1,186,555	47,119	357,191	-	1,590,865
Buildings and improvements	1,073,230	-	56,019	-	1,129,249
Machinery and equipment	877,285	(4,615)	44,842	(106,009)	811,503
Vehicles	555,565	-	31,435	(19,040)	567,960
Land improvements	425,085	-	15,673	-	440,758
Subtotal	4,117,720	42,504	505,160	(125,049)	4,540,335
Net capital assets being depreciated	6,239,257	36,813	(449,860)	(5,512)	5,820,698
Net capital assets	\$ 7,837,141	\$ (22,938)	\$ (371,783)	\$ (5,512)	\$ 7,436,908
Business-type Activities					
Capital assets being depreciated:					
Water and sewer lines	\$ 9,297,734	\$ -	\$ 90,465	\$ -	\$ 9,388,199
Machinery and equipment	155,146	-	11,573	-	166,719
Subtotal	9,452,880	-	102,038	-	9,554,918
Accumulated depreciation:					
Water and sewer lines	4,282,539	-	159,710	-	4,442,249
Machinery and equipment	133,724	-	12,364	-	146,088
Subtotal	4,416,263	-	172,074	-	4,588,337
Net capital assets being depreciated	5,036,617	-	(70,036)	-	4,966,581
Net capital assets	\$ 5,036,617	\$ -	\$ (70,036)	\$ -	\$ 4,966,581

City of Swartz Creek, Michigan

Notes to Financial Statements June 30, 2014

Note 4 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 34,647
Public safety	14,012
Public works	377,161
Recreation and culture	45,370
Internal service fund depreciation is charged to the various functions based on their usage of the asset	<u>33,970</u>
Total governmental activities	<u>\$ 505,160</u>

Business-type activities:

Water	\$ 93,263
Sewer	<u>78,811</u>
Total business-type activities	<u>\$ 172,074</u>

Note 5 - Interfund Transfers

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advances from/to Other Funds		
Sewer Fund	General Fund	<u>\$ 88,534</u>

The long-term advance from the Sewer Fund to the General Fund was used to pay for the City's portion of the equipment costs paid to the Swartz Creek Fire Department. The advance is a 0.40 percent loan with annual payments due to the Sewer Fund from the General Fund, with annual installments of \$29,511 in year one, \$29,511 in year two, and \$29,512 in year three.

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

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	\$ 20,332
Garbage Collection Fund	Nonmajor governmental funds	20,332
Nonmajor governmental funds	General Fund	34,433
Proprietary Funds	Nonmajor governmental funds	<u>40,664</u>
	Total	<u>\$ 115,761</u>

The transfers from the General Fund to nonmajor governmental funds were for drug forfeitures, resources to service debt, and the use of unrestricted resources to finance special assessment road projects, in accordance with budgetary authorizations.

City of Swartz Creek, Michigan

Notes to Financial Statements June 30, 2014

Note 5 - Interfund Transfers (Continued)

The transfer from the Garbage Collection Fund represents the movement of resources to be used to service debt.

The transfers from the nonmajor governmental funds represent the use of unrestricted resources to finance governmental operations, in accordance with budgetary authorizations.

Note 6 - Long-term Debt

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

Description	Amount
Governmental Activities	
General obligations - 2001 Building Authority Bond, used to renovate city hall, bearing interest from 4.25 percent to 5.65 percent, maturing in 2021	\$ <u>520,000</u>

Description	Amount
Business-type Activities	
County contractual obligations - 2006 Genesee County Sewer Extension Bonds, bearing interest from 4 percent to 4.35 percent, maturing in 2026	\$ <u>567,279</u>

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligations	\$ 570,000	\$ -	\$ (50,000)	\$ 520,000	\$ 50,000
Other postemployment benefit obligation (Note 11)	50,691	44,591	-	95,282	-
Accumulated compensated absences	<u>56,278</u>	<u>51,494</u>	<u>(45,619)</u>	<u>62,153</u>	<u>55,000</u>
Total governmental activities	<u>\$ 676,969</u>	<u>\$ 96,085</u>	<u>\$ (95,619)</u>	<u>\$ 677,435</u>	<u>\$ 105,000</u>

City of Swartz Creek, Michigan

Notes to Financial Statements June 30, 2014

Note 6 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities					
County contractual obligations	\$ 600,840	\$ -	\$ (33,561)	\$ 567,279	\$ 35,726
Accumulated compensated absences	24,132	23,451	(23,291)	24,292	10,000
Other postemployment benefit obligation (Note 11)	70,722	31,162	-	101,884	-
Total business-type activities	<u>\$ 695,694</u>	<u>\$ 54,613</u>	<u>\$ (56,852)</u>	<u>\$ 693,455</u>	<u>\$ 45,726</u>

Total interest expense for the year was approximately \$56,000. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 50,000	\$ 28,480	\$ 78,480	\$ 35,726	\$ 23,652	\$ 59,378
2016	75,000	25,880	100,880	36,808	22,222	59,030
2017	75,000	21,906	96,906	38,973	20,750	59,723
2018	75,000	17,856	92,856	41,139	19,192	60,331
2019	75,000	13,730	88,730	43,304	17,546	60,850
2020-2024	170,000	14,936	184,936	251,161	59,194	310,355
2025-2029	-	-	-	120,168	7,912	128,080
Total	<u>\$ 520,000</u>	<u>\$ 122,788</u>	<u>\$ 642,788</u>	<u>\$ 567,279</u>	<u>\$ 170,468</u>	<u>\$ 737,747</u>

County Contractual Obligations - The above contractual obligations to the county are the result of the county issuance of bonds on the City's behalf. The City has pledged substantially all revenue of the Sewer Fund, net of operating expenses, to repay the obligations. Proceeds from the county bonds provided financing for the construction of the Western Trunk sewer extension project. The remaining principal and interest to be paid on the bonds total \$737,748. During the current year, net revenue of the system totaled \$232,214 compared to the annual debt requirements of \$58,554.

Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City participates in a public entity risk pool that assumes the risk of loss for these claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

City of Swartz Creek, Michigan

Notes to Financial Statements June 30, 2014

Note 7 - Risk Management (Continued)

The City has purchased commercial insurance for property, liability, wrongful acts, and health care. The City participates in the Michigan Municipal Workers' Compensation Self-Insurer's Fund administered by the Michigan Municipal League. The fund provides coverage for workers' compensation claims subject to a maximum limit of \$500,000 per occurrence.

Note 8 - Joint Venture Agreement

The Swartz Creek Area Fire Department (Fire Department) has been organized as a joint venture of the City of Swartz Creek and Township of Clayton (Township). The organization agreement provides for a joint exercise of power and the establishment of a separate administrative entity. Members of the Fire Department Board are appointed by the City and Township. The participating units provide revenue to the Fire Department on the basis of fire runs and general contributions. The City and Township have provided the Fire Department with the use of several vehicles and real property. Title to these vehicles remains with the contributing unit of governments.

The equity interest is calculated based on the City's total contributions as a percentage of all contributions received by the Fire Department. The City's equity interest of \$289,506 is recorded within the governmental activities column of the statement of net position.

During the year ended June 30, 2014, the City was billed \$39,856 for fire runs by the Fire Department. The City contributed an additional \$100,226 toward operating costs.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at the Fire Department headquarters.

Note 9 - Defined Benefit Pension Plan

Plan Description - The City participates in the Michigan Municipal Employees' Retirement System (the "System"), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System 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 - City employees are required to contribute to the plan at the following rates: general employees - 2 percent, police - 2.5 percent, supervisor - 4 percent.

City of Swartz Creek, Michigan

Notes to Financial Statements June 30, 2014

Note 9 - Defined Benefit Pension Plan (Continued)

Actuarial Methods and Assumptions - The annual required contribution was determined as part of an actuarial valuation at December 31, 2011 using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0 percent to 8.40 percent per year depending on age, attributable to seniority/merit. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a 10-year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of payroll contributions, using a prospective gradual reduction of the amortization period for open divisions from 30 years to 25 years.

Annual Pension Cost and Net Pension Asset

Annual required contribution	\$ 96,931
Interest on net pension asset	(45,917)
Adjustment to annual required contribution	<u>39,834</u>
Annual pension cost (APC)	90,848
Contributions made	<u>96,931</u>
Increase in net pension asset	6,083
Net pension asset - Beginning of year	<u>573,934</u>
Net pension asset - End of year	<u><u>\$ 580,017</u></u>

Three-year Trend Information

	Fiscal Year Ended June 30		
	2014	2013	2012
Annual pension cost (APC)	\$ 90,848	\$ 72,521	\$ 68,154
Percentage of ARC contributed	100 %	100 %	137 %
Net pension asset	\$ 580,017	\$ 573,934	\$ 566,610

City of Swartz Creek, Michigan

Notes to Financial Statements June 30, 2014

Note 9 - Defined Benefit Pension Plan (Continued)

	Actuarial Valuation December 31		
	2013	2012	2011
Actuarial value of assets	\$ 7,711,987	\$ 7,719,776	\$ 7,829,897
Actuarial accrued liability (AAL) (entry age)	\$ 8,235,676	\$ 8,184,102	\$ 8,597,380
Unfunded AAL (UAAL)	\$ 523,689	\$ 464,326	\$ 767,483
Funded ratio	93.6 %	94.3 %	91.1 %
Covered payroll	\$ 475,620	\$ 573,530	\$ 568,710
UAAL as a percentage of covered payroll	110.1 %	81.0 %	134.9 %

Note 10 - Defined Contribution Pension Plan

The City has adopted, by ordinance, a defined contribution money purchase pension plan administered by MERS and the ICMA Retirement Corporation. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is for all full-time supervisors and employees represented by AFSCME hired after July 1, 1997. Employees hired prior to that date that do not participate in the defined benefit plan (MERS) may also participate in the defined contribution plan. The City contributes 7 percent of supervisors' wages and 5 percent of AFSCME employees' annual compensation. No employee contributions are required, but voluntary contributions can be made by the participants in accordance with IRS regulations. Participants vest in the employer contribution at the rate of 20 percent for each year of employment, becoming fully vested after five years. Contribution requirements and plan provisions are established and may be amended by the City Council.

The City's total payroll during the current year was \$1,050,212. The current year contribution was calculated based on covered payroll of \$407,641, resulting in an employer contribution of \$26,498.

Note 11 - Other Postemployment Benefits

Plan Description - The City provides retiree healthcare benefits to eligible employees and their spouses. This is a single employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements. The plan does not issue a publicly available financial report.

Funding Policy - 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).

City of Swartz Creek, Michigan

Notes to Financial Statements June 30, 2014

Note 11 - Other Postemployment Benefits (Continued)

Funding Progress - The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB No. 45 for employers in plans with fewer than 100 total plan members. The ARC 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 on a closed basis (or funding excess) over a period of 26 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the net OPEB obligation:

Annual required contribution (recommended)	\$ 112,056
Interest on OPEB obligation	4,857
Less adjustment to the annual required contribution	<u>(6,210)</u>
Annual OPEB cost	110,703
Amounts contributed:	
Payments of current premiums	(34,950)
Advance funding	<u>-</u>
Increase in net OPEB obligation	75,753
OPEB obligation - Beginning of year	<u>121,413</u>
OPEB obligation - End of year	<u>\$ 197,166</u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current and two previous years are as follows:

Fiscal Year Ended	Alternative Measurement Method Date	Annual OPEB Costs	Percentage Contributed	Net OPEB Obligation
6/30/12	6/30/12	\$ 55,418	62.9 %	\$ 111,191
6/30/13	6/30/13	46,251	77.9	121,413
6/30/14	6/30/14	110,703	31.6	197,166

The funding progress of the plan is as follows:

Alternative Measurement Method Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Annual Covered Payroll (c)	Ratio of UAAL to Covered Payroll
6/30/12	\$ -	\$ 747,638	\$ 747,638	-	\$ -	-
6/30/13	-	619,620	619,620	-	-	-
6/30/14	-	1,196,994	1,196,994	-	-	-

Note 11 - Other Postemployment Benefits (Continued)

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

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

The following simplifying assumptions were made:

Retirement Age for Active Employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 56, or at the first subsequent year in which the member would qualify for benefits.

Marital Status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2002 United States Life Tables for Males and for Females were used.

Turnover - Nongroup-specific age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare Cost Trend Rate - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare and Medicaid Services. A rate of 6.1 percent initially, increased to an ultimate rate of 6.2 percent after six years, was used.

Note 11 - Other Postemployment Benefits (Continued)

Health Insurance Premiums - 2014 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid. Health insurance premiums from 2013 to 2014 increased significantly which resulted in the significant increase in the 2014 actuarial accrued liability.

Payroll Growth Rate - The expected long-term payroll growth rate was assumed to equal 1.5 percent.

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 4 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2014 was 26 years.

Note 12 - Upcoming Accounting Pronouncements

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

City of Swartz Creek, Michigan

Notes to Financial Statements June 30, 2014

Note 13 - 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 liabilities and instead to classify them as deferred inflows of resources.

As a result of implementing this statement, the following liabilities have been reclassified, as indicated:

<u>Item</u>	<u>Amount</u>	<u>Prior Reporting Classification/Treatment</u>	<u>New Classification After Adoption of GASB Statement No. 65</u>
Unavailable delinquent property taxes	\$ 14,468	Liability	Deferred inflow of resources
Unavailable special assessment revenue	99,862	Liability	Deferred inflow of resources
Unavailable major streets reimbursements	2,707	Liability	Deferred inflow of resources
Unavailable miscellaneous revenue	10,983	Liability	Deferred inflow of resources

Required Supplemental Information

City of Swartz Creek, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 731,282	\$ 696,282	\$ 702,338	\$ 6,056
Licenses and permits	171,213	182,878	208,787	25,909
Federal grants	-	4,920	5,700	780
State-shared revenue and grants	480,747	481,247	481,319	72
Charges for services	189,062	180,152	173,648	(6,504)
Fines and forfeitures	33,100	25,300	25,722	422
Investment income	3,784	2,627	2,497	(130)
Other revenue	73,707	104,184	111,597	7,413
Total revenue	1,682,895	1,677,590	1,711,608	34,018
Expenditures - Current				
General government	366,973	323,898	287,501	36,397
Legislative	16,502	16,516	14,185	2,331
Public safety	1,048,100	1,030,739	1,068,135	(37,396)
Public works	605,288	534,756	383,755	151,001
Recreation and culture	49,649	43,649	36,117	7,532
Total expenditures	2,086,512	1,949,558	1,789,693	159,865
Excess of Expenditures Over Revenue	(403,617)	(271,968)	(78,085)	193,883
Other Financing Sources (Uses)				
Transfers in	46,707	42,283	34,433	(7,850)
Transfers out	(20,332)	(28,183)	(20,332)	(7,851)
Net Change in Fund Balance	(377,242)	(257,868)	(63,984)	193,884
Fund Balance - Beginning of year	1,384,064	1,384,064	1,384,064	-
Fund Balance - End of year	<u>\$ 1,006,822</u>	<u>\$ 1,126,196</u>	<u>\$ 1,320,080</u>	<u>\$ 193,884</u>

City of Swartz Creek, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 273,809	\$ 303,809	\$ 363,271	\$ 59,462
Charges for services	930	2,243	2,213	(30)
Investment income	300	300	950	650
Local donations	-	73,484	73,484	-
Other revenue - Other miscellaneous income	4,000	5,339	107,387	102,048
Total revenue	279,039	385,175	547,305	162,130
Expenditures - Current				
General government	500	865	699	166
Public works:				
Street construction	87,582	134,344	134,631	(287)
Routine maintenance	68,765	64,728	38,328	26,400
Winter maintenance	43,331	54,206	54,186	20
Traffic services	81,307	86,413	65,285	21,128
Administration	2,962	3,977	3,619	358
Occupational safety	146	446	292	154
Right of way	7,000	7,000	5,105	1,895
Total expenditures	291,593	351,979	302,145	49,834
Net Change in Fund Balance	(12,554)	33,196	245,160	211,964
Fund Balance - Beginning of year	655,538	655,538	655,538	-
Fund Balance - End of year	<u>\$ 642,984</u>	<u>\$ 688,734</u>	<u>\$ 900,698</u>	<u>\$ 211,964</u>

City of Swartz Creek, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 82,000	\$ 82,000	\$ 97,510	\$ 15,510
Investment income	45	45	57	12
Other revenue	16,900	16,900	19,774	2,874
Total revenue	98,945	98,945	117,341	18,396
Expenditures - Current				
General government	500	715	3,099	(2,384)
Public works:				
Street construction	41,137	42,741	28,005	14,736
Routine maintenance	38,700	23,031	18,456	4,575
Winter maintenance	30,856	54,730	54,675	55
Traffic services	8,185	8,593	3,116	5,477
Administration	3,665	3,217	3,095	122
Stormwater drainage	8,500	6,000	19	5,981
Right of way	15,000	14,500	-	14,500
Total expenditures	146,543	153,527	110,465	43,062
Net Change in Fund Balance	(47,598)	(54,582)	6,876	61,458
Fund Balance - Beginning of year	90,500	90,500	90,500	-
Fund Balance - End of year	<u>\$ 42,902</u>	<u>\$ 35,918</u>	<u>\$ 97,376</u>	<u>\$ 61,458</u>

City of Swartz Creek, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Garbage Collection Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 343,384	\$ 343,384	\$ 333,407	\$ (9,977)
Investment income	1,100	1,100	846	(254)
Other revenue	147	147	117	(30)
Total revenue	344,631	344,631	334,370	(10,261)
Expenditures - Current				
General government	89,070	89,070	61,675	27,395
Public works:				
Rubbish disposal	292,254	292,254	266,726	25,528
Wood chipping	44,044	44,044	45,917	(1,873)
Facilities	31,955	31,955	18,919	13,036
Total expenditures	457,323	457,323	393,237	64,086
Other Financing Uses - Transfers out	(20,332)	(20,332)	(20,332)	-
Net Change in Fund Balance	(133,024)	(133,024)	(79,199)	53,825
Fund Balance - Beginning of year	412,167	412,167	412,167	-
Fund Balance - End of year	<u>\$ 279,143</u>	<u>\$ 279,143</u>	<u>\$ 332,968</u>	<u>\$ 53,825</u>

City of Swartz Creek, Michigan

Required Supplemental Information 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	\$ 7,829,897	\$ 8,597,380	\$ 767,483	91.1	\$ 568,710	135.0
12/31/12	7,719,776	8,184,102	464,326	94.3	573,530	81.0
12/31/13	7,711,987	8,235,676	523,689	93.6	475,620	110.1

City of Swartz Creek, Michigan

Required Supplemental Information OPEB 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
6/30/12	\$ -	\$ 747,638	\$ 747,638	-	\$ -	-
6/30/13	-	619,620	619,620	-	-	-
6/30/14	-	1,196,994	1,196,994	-	-	-

City of Swartz Creek, Michigan

Note to Required Supplemental Information Year Ended June 30, 2014

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all special revenue funds.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City had the following expenditure budget variance as a result of contributions to the Swartz Creek Area Fire Department to purchase a fire truck.

	<u>Budget</u>	<u>Actual</u>
General Fund - Public safety	\$ 1,030,739	\$ 1,068,135

Other Supplemental Information

City of Swartz Creek, Michigan

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

	Special Revenue Funds			Debt Service Funds		Total Nonmajor Governmental Funds
	Drug Enforcement	Special Assessment	Total	City Hall - Debt Service	Capital Projects	
Assets						
Cash and investments	\$ 3,726	\$ 12,634	\$ 16,360	\$ 2,270	\$ 8	\$ 18,638
Receivables	-	6,412	6,412	-	-	6,412
Prepaid expenses and other assets	1,963	-	1,963	-	-	1,963
Total assets	\$ 5,689	\$ 19,046	\$ 24,735	\$ 2,270	\$ 8	\$ 27,013
Liabilities, Deferred Inflows of Resources, and Fund Balances						
Liabilities - Accounts payable	\$ -	\$ 160	\$ 160	\$ -	\$ -	\$ 160
Deferred Inflows of Resources	-	3,516	3,516	-	-	3,516
Fund Balances						
Nonspendable:						
Prepays	1,963	-	1,963	-	-	1,963
Drug forfeiture	3,726	-	3,726	-	-	3,726
Weed control	-	15,370	15,370	-	-	15,370
Assigned:						
Debt service	-	-	-	2,270	-	2,270
Capital projects	-	-	-	-	8	8
Total fund balances	5,689	15,370	21,059	2,270	8	23,337
Total liabilities, deferred inflows of resources, and fund balances	\$ 5,689	\$ 19,046	\$ 24,735	\$ 2,270	\$ 8	\$ 27,013

City of Swartz Creek, 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 Funds		Total Nonmajor Governmental Funds
	Drug Enforcement	Special Assessment	City Hall - Debt Service	Capital Projects	
Revenue					
Fines and forfeitures	\$ 1,423	\$ -	\$ -	\$ -	\$ 1,423
Investment income	2	-	16	-	18
Other revenue	-	15,036	-	-	15,036
Total revenue	1,425	15,036	16	-	16,477
Expenditures - Current					
Public safety	5,887	9,589	-	-	15,476
Debt service:					
Principal	-	-	50,000	-	50,000
Interest on long-term debt	-	-	31,543	-	31,543
Total expenditures	5,887	9,589	81,543	-	97,019
Excess of Revenue (Under) Over Expenditures	(4,462)	5,447	(81,527)	-	(80,542)
Other Financing Sources (Uses)					
Transfers in	-	-	81,328	-	81,328
Transfers out	(4,116)	(30,317)	-	-	(34,433)
Total other financing (uses) sources	(4,116)	(30,317)	81,328	-	46,895
Net Change in Fund Balances	(8,578)	(24,870)	(199)	-	(33,647)
Fund Balances - Beginning of year	14,267	40,240	2,469	8	56,984
Fund Balances - End of year	<u>\$ 5,689</u>	<u>\$ 15,370</u>	<u>\$ 2,270</u>	<u>\$ 8</u>	<u>\$ 23,337</u>

City of Swartz Creek, Michigan

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

	Agency Funds				
	Trust and Agency	Current Tax Collection	Winter Tax Collection	Delinquent Personal Property Tax	Total Agency Funds
Assets					
Cash and cash equivalents	\$ 42,371	\$ -	\$ 1,293	\$ -	\$ 43,664
Receivables	-	-	-	70,932	70,932
Total assets	\$ 42,371	\$ -	\$ 1,293	\$ 70,932	\$ 114,596
Liabilities					
Due to other governmental units	\$ -	\$ -	\$ 1,293	\$ 70,932	\$ 72,225
Deposits payable	42,371	-	-	-	42,371
Total liabilities	\$ 42,371	\$ -	\$ 1,293	\$ 70,932	\$ 114,596