

City of Northville, Michigan

Financial Report with Supplemental Information June 30, 2014

City of Northville, Michigan

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Independent Auditor's Report

To the Mayor and Members of the City Council
City of Northville, 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 Northville, 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 Northville, 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 an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Northville, 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 Mayor and Members of the City Council
City of Northville, Michigan

Emphasis of Matter

As discussed in Note 14 to the basic financial statements, in 2014, the City adopted the new accounting guidance of GASB No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred inflows and outflows of resources, certain items that were previously reported as assets and liabilities. Our opinion is not modified with respect to this matter.

Required Supplemental Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Northville, Michigan's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Plante & Moran, PLLC

November 5, 2014

City of Northville, Michigan

Management's Discussion and Analysis

The following discussion and analysis of the financial performance for the City of Northville, Michigan (the "City") 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

Due to financial reporting changes required by GASB Statement No. 54 in fiscal year 2011, the Street, Drainage, and Sidewalk Improvement Fund and the Payroll Fund are included with the General Fund for financial reporting purposes. The Street, Drainage, and Sidewalk Improvement Fund accounts for proceeds from a dedicated millage. The expenditures are based upon a rolling 20-year capital improvement plan for improvements throughout the City. The Payroll Fund accounts for the activity related to employee fringe benefits costs.

The net decrease in fund balance to the General Fund of \$130,527 is comprised of the following:

- The General Fund increase of \$88,431 was budgeted.
- The Street, Drainage, and Sidewalk Improvement Fund decrease of \$218,958 was due to use of fund balance for current year street improvement projects.

Property tax revenue increased 2.6 percent from the prior year and it continues to be the City's single largest source of revenue at approximately 54 percent of governmental revenue. The City's millage generated approximately \$4.35 million to support General Fund operations and approximately \$542,000 for street maintenance and improvements.

Rental income is the City's second largest source of governmental revenue. This includes cell tower rent recorded in the General Fund and tenant rents at Allen Terrace, a senior housing facility. The Housing Commission approved a 1.5 percent increase in rent at the beginning of the fiscal year.

State-shared revenue, the City's second largest source of revenue in the General Fund, increased 3.5 percent from the prior year. This revenue source includes liquor license fees, constitutional revenue sharing, and Economic Vitality Incentive Program (EVIP) payments.

The State of Michigan, under Act 51, distributes revenue received from gasoline taxes to municipalities for maintenance of major and local streets. This revenue source increased 8.9 percent this year. That increase included an additional distribution of \$21,740 to help offset the increased winter maintenance expenditures as Southeast Michigan was impacted with record-breaking snow totals and extremely cold weather this past winter season.

An updated valuation for other postemployment benefits (OPEB) was required as of June 30, 2014 due to plan changes for both actives and pre-65 retirees. The City implemented a high deductible health care plan with an associated health savings account (HSA). That valuation decreased the actuarially accrued liability from \$23.3 million to \$19.3 million, or 17 percent, in one year. The City contributed an additional \$436,423 to the plan this year, bringing the assets up to \$6.9 million. The unfunded actuarial accrued liability is \$12.4 million. There are a total of 84 participants in the plan, of which 32 are active. The funded ratio is at 36 percent, up from 24 percent in the prior year.

City of Northville, Michigan

Management's Discussion and Analysis (Continued)

The unfunded actuarial accrued pension liability has increased from \$7.97 million to \$8 million over the previous year. The funded ratio is at 58 percent, which is consistent with the prior year. The City contributed an additional \$282,309 beyond the annual required contribution (ARC). There are a total of 86 participants in the plan, of which 15 are active.

Long-term debt for the primary government is \$2.37 million. There are two general obligation debt issues outstanding. The 2010 Build America Bonds received an interest subsidy from the federal government. The amount of the subsidy had been reduced, enabling the City to refund the bonds. This refunding provided stabilization of the interest costs going forward by not subjecting them to further subsidy reductions from the federal government.

The City's business-type activities have no outstanding debt as of the end of the fiscal year. This is consistent with the City's long-term goal to reduce debt. Where appropriate, a well-planned "pay-as-you-go" system has been established and utilized.

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 trustee or agent for the benefit of those outside of the City.

City of Northville, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

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

	Governmental Activities				Percent Change
	2012	2013	2014	Change	
Assets					
Other assets	\$ 13,046,556	\$ 13,197,981	\$ 13,832,678	\$ 634,697	4.8%
Capital assets	<u>27,521,648</u>	<u>27,942,052</u>	<u>27,159,753</u>	<u>(782,299)</u>	-2.8%
Total assets	40,568,204	41,140,033	40,992,431	(147,602)	-0.4%
Liabilities					
Current liabilities	1,391,789	1,266,016	1,129,264	(136,752)	-10.8%
Long-term liabilities	<u>4,959,354</u>	<u>4,487,915</u>	<u>4,063,259</u>	<u>(424,656)</u>	-9.5%
Total liabilities	<u>6,351,143</u>	<u>5,753,931</u>	<u>5,192,523</u>	<u>(561,408)</u>	-9.8%
Net Position					
Net investment in capital assets	25,337,835	25,417,052	24,794,753	(622,299)	-2.4%
Restricted	1,960,284	1,945,602	1,859,449	(86,153)	-4.4%
Unrestricted	<u>6,918,942</u>	<u>8,023,448</u>	<u>9,145,706</u>	<u>1,122,258</u>	14.0%
Total net position	<u>\$ 34,217,061</u>	<u>\$ 35,386,102</u>	<u>\$ 35,799,908</u>	<u>\$ 413,806</u>	1.2%

Overall, the City's net position of governmental activities increased by 1.2 percent from a year ago. The increase in other assets is due to additional pension contributions beyond the annual required contribution, resulting in the recognition of a pension asset and an increase in cash to set aside funds for future capital improvements. The decrease in capital assets is due to the current year depreciation expense.

The decrease in current liabilities is primarily due to decreases in accounts payable. The decrease in long-term liabilities was expected for two reasons. First, the decrease of \$295,000 in the liability for other postretirement benefits was expected as it reflects the overpayment between the City's annual required contribution and the actual contributions made during the year ended June 30, 2014. Secondly, the decrease in long-term debt of \$195,000 was due to debt service payments made during the year.

City of Northville, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The following table shows the changes in net position during the current year as compared to the two prior years:

	Governmental Activities				
	2012	2013	2014	Change	Percent Change
Revenue					
Program revenue:					
Charges for services	\$ 1,762,588	\$ 2,125,056	\$ 2,148,363	\$ 23,307	1.1%
Operating grants	682,719	685,527	582,264	(103,263)	-15.1%
Capital grants	1,522,839	997,445	286,155	(711,290)	-71.3%
General revenue:					
Property taxes	4,739,832	4,766,329	4,890,657	124,328	2.6%
State-shared revenue	493,560	507,098	525,422	18,324	3.6%
Investment earnings	38,072	19,677	19,678	1	0.0%
Franchise fees	146,759	159,722	167,083	7,361	4.6%
Racetrack breakage	229,087	210,350	178,431	(31,919)	-15.2%
Gain on disposal of assets	12,013	5,341	3,045	(2,296)	-43.0%
Other revenue	-	-	7,696	7,696	0.0%
Total revenue	9,627,469	9,476,545	8,808,794	(667,751)	-7.0%
Program Expenses					
General government	1,634,536	1,747,534	1,672,931	(74,603)	-4.3%
Public safety	3,252,406	3,271,047	3,278,295	7,248	0.2%
Public works	2,608,381	2,058,435	2,353,912	295,477	14.4%
Senior housing	889,684	799,917	799,986	69	0.0%
Recreation and culture	493,886	303,941	192,486	(111,455)	-36.7%
Interest on long-term debt	135,043	126,630	97,378	(29,252)	-23.1%
Total expenses	9,013,936	8,307,504	8,394,988	87,484	1.1%
Change in Net Position	\$ 613,533	\$ 1,169,041	\$ 413,806	\$ (755,235)	-64.6%

Overall, governmental revenue decreased 7 percent from the prior year. That is due to several factors described below.

The decrease in operating grants is related to deferred grant revenue recorded in the prior fiscal year.

The reduction in capital grants was due to timing of multi-year construction projects in the downtown area completed during the prior fiscal year.

Racetrack breakage decreased 15 percent over the prior year. This source of revenue has been steadily declining over the past 13 years.

City of Northville, Michigan

Management's Discussion and Analysis (Continued)

The above decreases are offset by revenue increases in property taxes and state-shared revenue, both of which were expected. In addition, franchise fees increased 5 percent over the prior year which is primarily driven by rate increases to its customers from the three cable providers in the City.

Overall, total expenses increased by 1 percent. The decrease in general government and recreation and culture expenses is primarily related to capital purchases in the prior fiscal year.

The increase in public works is attributable to the timing and scope of street improvements which fluctuate year to year.

Business-type Activities

The City's business-type activities consist of the Water and Sewer and Refuse and Recycling Funds. The City maintains transmission lines that allow customers to receive water from the Detroit water system and deliver it to its residents. In addition, a water tower is operated and maintained to supplement water pressure during periods of peak water demand. Sewage treatment is provided through Wayne County's Rouge Valley Sewage Disposal System. Refuse collection and recycling services are provided by an outside commercial entity.

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

	Business-type Activities				
	2012	2013	2014	Change	Percent Change
Assets					
Other assets	\$ 2,826,748	\$ 2,498,905	\$ 1,901,512	\$ (597,393)	-23.9%
Capital assets	<u>5,650,221</u>	<u>5,542,128</u>	<u>5,683,115</u>	<u>140,987</u>	2.5%
Total assets	8,476,969	8,041,033	7,584,627	(456,406)	-5.7%
Liabilities					
Current liabilities	392,153	339,032	314,297	(24,735)	-7.3%
Long-term liabilities	<u>260,755</u>	<u>253,256</u>	<u>255,070</u>	<u>1,814</u>	0.7%
Total liabilities	<u>652,908</u>	<u>592,288</u>	<u>569,367</u>	<u>(22,921)</u>	-3.9%
Net Position					
Net investment in capital assets	5,650,221	5,542,128	5,683,115	140,987	2.5%
Unrestricted	<u>2,173,840</u>	<u>1,906,617</u>	<u>1,332,145</u>	<u>(574,472)</u>	-30.1%
Total net position	<u>\$ 7,824,061</u>	<u>\$ 7,448,745</u>	<u>\$ 7,015,260</u>	<u>\$ (433,485)</u>	-5.8%

City of Northville, Michigan

Management's Discussion and Analysis (Continued)

A decrease in total net position of 5.8 percent was expected for the following reasons:

Cash reserves were intended to be used to smooth the water and sewer rate increases to the users of the system.

The increase in capital assets was due to the addition of new water and sewer lines offset by the current year depreciation expense.

The change in accounts payable fluctuates annually due to timing of payments at year end for capital improvement projects.

	Business-type Activities				Percent Change
	2012	2013	2014	Change	
Operating revenue:					
Water and sewer	\$ 2,225,362	\$ 2,332,011	\$ 2,283,449	\$ (48,562)	-2.1%
Refuse and recycling	461,858	469,432	499,443	30,011	6.4%
Operating expenses:					
Water and sewer	2,616,234	2,648,549	2,718,604	70,055	2.6%
Refuse and recycling	508,541	482,853	483,348	495	0.1%
Operating loss	(437,555)	(329,959)	(419,060)	(89,101)	
Interest income	5,348	1,530	1,001	(529)	-34.6%
Allocated Internal Service					
Fund net loss	(83,256)	(46,887)	(15,426)	31,461	-67.1%
Change in Net Position	\$ (515,463)	\$ (375,316)	\$ (433,485)	\$ (58,169)	15.5%

The rate structure of the business-type activities is set based upon a multi-year budgeting approach to smooth out any significant fluctuations in user fees. Overall, revenue from the water and sewer operations decreased 2 percent. This was primarily attributable to a decrease in consumption of 11 percent offset by a 7.1 percent increase in water rates and a 6 percent increase in sewer rates. Refuse and recycling operating revenue increased 6 percent due primarily to a 9.5 percent increase in the residential refuse program.

Due to general economic conditions, the decrease in investment income was consistent among all funds.

Operating expenses remained relatively consistent with the prior year.

City of Northville, Michigan

Management's Discussion and Analysis (Continued)

The City's Funds

The presentation of the City's major funds follows the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as dedicated property tax millages. The City's major governmental funds for 2014, as defined by Governmental Accounting Standards Board Statement No. 34, are the following:

- General Fund
- Major Streets Fund
- Local Streets Fund
- Parking Fund
- Housing Commission
- Public Improvement Fund

General Fund Budgetary Highlights

The General Fund accounts for all police, fire, public works, planning and zoning, and administrative functions of the City government. The budget is essentially a "maintenance" budget, which means it increases modestly from year to year. The budget is monitored closely and amended quarterly.

Due to financial reporting changes required by GASB Statement No. 54 in fiscal year 2011, the Street, Drainage, and Sidewalk Improvement Fund and the Payroll Fund are included with the General Fund. The Street, Drainage, and Sidewalk Improvement Fund accounts for proceeds from a dedicated millage. The expenditures are based upon a rolling 20-year capital improvement plan for improvements throughout the City. The Payroll Fund accounts for the activity related to employee fringe benefits costs.

The General Fund pays for most of the City's governmental services. The most significant category is the police department which represents 41 percent of total General Fund expenditures, which is consistent with the prior year.

Shared services contributions account for 3.5 percent of total expenditures. Contributions from both the City of Northville and Northville Township provide funding for parks and recreation activities, senior adult services, and the Northville Youth Assistance program.

Operating transfers out are primarily from the Street, Drainage, and Sidewalk Fund to the Major and Local Streets Funds for street improvements. Transfers from the General Fund included \$310,000 committed for future capital needs.

Property values continue to be stable in the City. Property taxes represent 68 percent of General Fund revenue. The General Fund contributed \$300,000 to advance fund the postretirement healthcare and pension trust funds.

City of Northville, Michigan

Management's Discussion and Analysis (Continued)

Other Major Funds Highlights

The Major Streets Fund and Local Streets Fund account for proceeds from the state-wide gas and weight tax. Those funds are dedicated for maintenance and preservation of streets. Winter maintenance costs show a significant increase this year due to the past winter's record-breaking snow totals and extreme cold temperatures.

The Major Streets Fund accounted for the expenditures of street improvements on Seven Mile Road, Eight Mile Road, Hutton Street, and Center Street. The Local Streets Fund accounted for the expenditures of street improvements on Ely Street and Ely Court. Improvements for both funds combined totaled approximately \$603,000, which is funded by a dedicated millage for street, drainage, and sidewalk improvements.

The Parking Fund records special assessment revenue related to parking credits when new or expanded development occurs in the central business district. Improvements to the Marquis Parking Lot were undertaken in the current year. Fund balance will be utilized to fund future parking expansion projects.

The Housing Commission is a special revenue fund that accounts for the operation, maintenance, and repair of Allen Terrace, an apartment community for independent senior citizens. A new fund was created this year to account for the capital improvements to the building. An operating transfer of approximately \$1 million was directed to the new Housing Capital Outlay Fund which will pay for the improvements dictated by the Capital Needs Assessment report received in the prior year.

The Public Improvement Fund accounts for racetrack breakage revenue and special public improvement projects. Annually, the Northville City Council commits use of breakage funds received in excess of police and fire service costs at Northville Downs racetrack. The allocation of those funds is generally for physical improvements or programs that are of a general public use.

Capital Asset and Debt Administration

At the end of fiscal year 2014, the City had approximately \$33 million invested in a broad range of capital assets, including buildings, police and fire equipment, infrastructure, and water and sewer lines.

The City continues to collect a dedicated millage approved by the voters in March 1997 for comprehensive improvements to streets, drains, and sidewalks. The focus of the related capital project spending continues to be in conjunction with a 20-year improvement plan, which is reviewed on an ongoing basis.

The City also utilizes a Fire Equipment Replacement Fund and a Police Equipment Replacement Fund. These funds allow for the purchase of equipment following a 20-year replacement program to keep equipment up to date and meet current standards.

City of Northville, Michigan

Management's Discussion and Analysis (Continued)

The total debt outstanding at the end of the year related to governmental activities is just under \$2.4 million. This represents less than 1 percent of the City's state equalized value (SEV). The City is significantly under the legal debt margin, as defined by state statute, of 10 percent of SEV.

Economic Factors and Next Year's Budgets and Rates

The taxable value of the City increased 2.62 percent. The total City millage rate will remain at 15.3534 mills for fiscal year 2015. This will provide for an additional \$120,000 in general operating tax revenue.

Constitutional revenue sharing is budgeted to be consistent with the prior year.

All departments will continue to evaluate how to maintain a high level of service to the citizens while containing costs. Containing rising healthcare and pension costs will continue to be a high priority of administration. Additional contributions have been included in next year's budget in an attempt to reduce the unfunded liabilities.

Public Act 152 created the Publicly Funded Health Insurance Contribution Act. This act imposes certain limits on the portion of employees' medical benefit plan coverages paid by public employers. Labor contracts contain a provision to phase in the 80/20 cost-sharing formula for medical premiums over three years for all eligible employees.

The City has no debt in the Water and Sewer Fund and has controlled its water loss. However, rate adjustments were required for water and sewer fees effective July 1, 2014. The combined increase on the utility bill for refuse, water, and sewer is 6.8 percent.

The full-time staffing level of 41 is expected to remain the same for next fiscal year.

Contacting the City's Management

This financial report is intended to provide the 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 City's finance office at 215 West Main Street, Northville, Michigan 48167 or via the City's website at www.ci.northville.mi.us.

City of Northville, Michigan

Statement of Net Position June 30, 2014

	Primary Government			Component Unit - Downtown Development Authority
	Governmental	Business-type	Total	
	Activities	Activities		
Assets				
Cash and investments	\$ 11,364,127	\$ 1,252,067	\$ 12,616,194	\$ 733,130
Receivables:				
Property taxes receivable	9,678	-	9,678	-
Receivables from sales to customers on account	-	762,437	762,437	-
Accrued interest receivable	52,777	-	52,777	-
Other receivables	136,588	-	136,588	348
Due from other governmental units	145,652	-	145,652	-
Special assessments receivable	278,863	-	278,863	-
Due from component units	6,850	-	6,850	-
Internal balances	187,730	(187,730)	-	-
Inventory	52,258	49,989	102,247	-
Prepaid expenses and other assets	157,094	3,463	160,557	11,630
Restricted assets (Note 8)	374,092	-	374,092	-
Investment in joint ventures (Note 12)	580,946	-	580,946	-
Land held for resale	225,000	-	225,000	-
Net pension asset	261,023	21,286	282,309	-
Capital assets (Note 5):				
Assets not subject to depreciation	4,121,313	398,465	4,519,778	-
Assets subject to depreciation	23,038,440	5,284,650	28,323,090	-
Total assets	40,992,431	7,584,627	48,577,058	745,108
Liabilities				
Accounts payable	147,418	266,804	414,222	100,458
Due to other governmental units	30,851	-	30,851	-
Due to primary government	-	-	-	6,850
Refundable deposits, bonds, etc.	-	559	559	-
Accrued liabilities and other	591,840	21,163	613,003	44,260
Unearned revenue	18,877	-	18,877	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences (Note 7)	140,278	25,771	166,049	-
Current portion of long-term debt (Note 7)	200,000	-	200,000	-
Due in more than one year:				
Compensated absences (Note 7)	333,088	9,002	342,090	-
Net retiree healthcare obligation (Note 11)	1,565,171	246,068	1,811,239	-
Long-term debt (Note 7)	2,165,000	-	2,165,000	-
Total liabilities	5,192,523	569,367	5,761,890	151,568
Net Position				
Invested in capital assets - Net of related debt	24,794,753	5,683,115	30,477,868	-
Restricted for:				
Streets, drainage, and sidewalk improvements	1,506,191	-	1,506,191	-
Insurance retention	318,097	-	318,097	-
Police forfeitures	35,161	-	35,161	-
Unrestricted	9,145,706	1,332,145	10,477,851	593,540
Total net position	\$ 35,799,908	\$ 7,015,260	\$ 42,815,168	\$ 593,540

City of Northville, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,672,931	\$ 670,797	\$ 2,298	\$ -
Public safety	3,278,295	571,275	31,462	123,729
Public works	2,353,912	18,896	512,078	146,736
Senior housing	799,986	784,860	36,426	15,690
Recreation and culture	192,486	102,535	-	-
Interest on long-term debt	97,378	-	-	-
Total governmental activities	8,394,988	2,148,363	582,264	286,155
Business-type activities:				
Water and sewer	2,734,030	2,283,449	-	-
Refuse and recycling	483,348	499,443	-	-
Total business-type activities	3,217,378	2,782,892	-	-
Total primary government	<u>\$ 11,612,366</u>	<u>\$ 4,931,255</u>	<u>\$ 582,264</u>	<u>\$ 286,155</u>
Component unit - Downtown Development Authority	<u>\$ 915,329</u>	<u>\$ -</u>	<u>\$ 9,705</u>	<u>\$ -</u>

General revenue:
 Property taxes
 State-shared revenue
 Investment income
 Cable franchise fees
 Franchise fee revenue
 Gain on sale of fixed assets
 Other revenue

Total general revenue

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			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (999,836)	\$ -	\$ (999,836)	\$ -
(2,551,829)	-	(2,551,829)	-
(1,676,202)	-	(1,676,202)	-
36,990	-	36,990	-
(89,951)	-	(89,951)	-
(97,378)	-	(97,378)	-
(5,378,206)	-	(5,378,206)	-
-	(450,581)	(450,581)	-
-	16,095	16,095	-
-	(434,486)	(434,486)	-
(5,378,206)	(434,486)	(5,812,692)	-
-	-	-	(905,624)
4,890,657	-	4,890,657	664,988
525,422	-	525,422	-
19,678	1,001	20,679	556
178,431	-	178,431	-
167,083	-	167,083	-
3,045	-	3,045	-
7,696	-	7,696	-
5,792,012	1,001	5,793,013	665,544
413,806	(433,485)	(19,679)	(240,080)
35,386,102	7,448,745	42,834,847	833,620
\$ 35,799,908	\$ 7,015,260	\$ 42,815,168	\$ 593,540

City of Northville, Michigan

	General Fund	Major Streets	Local Streets
Assets			
Cash and cash equivalents	\$ 3,641,017	\$ 415,985	\$ 195,087
Receivables:			
Property taxes receivable	9,678	-	-
Special assessments receivable	-	-	-
Accrued interest receivable	52,777	-	-
Other receivables	95,866	-	-
Due from other governmental units	87,388	40,866	17,398
Due from component units	6,850	-	-
Inventory	33,450	-	-
Prepaid expenses and other assets	151,412	473	790
Land held for resale	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ 4,078,438	\$ 457,324	\$ 213,275
Liabilities			
Accounts payable	\$ 95,869	\$ 30,244	\$ 673
Due to other governmental units	30,705	-	-
Accrued liabilities and other	496,008	2,371	3,657
Unearned revenue	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	622,582	32,615	4,330
Deferred Inflows of Resources (Note 4)	-	-	-
Fund Balances			
Nonspendable:			
Inventory/Assets held for resale	33,450	-	-
Prepays	151,411	473	790
Restricted:			
Roads	-	424,236	208,155
Police forfeitures	35,161	-	-
Streets, drains, and sidewalk improvements	872,537	-	-
Committed:			
Cemetery improvements	-	-	-
Arts commission	-	-	-
Capital projects and purchases	-	-	-
Parking	-	-	-
Allen Terrace	-	-	-
Debt service	-	-	-
Assigned:			
Beautification Commission	7,393	-	-
Other	1,492	-	-
Unassigned	2,354,412	-	-
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	3,455,856	424,709	208,945
	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources, and fund balances	\$ 4,078,438	\$ 457,324	\$ 213,275

**Governmental Funds
Balance Sheet
June 30, 2014**

Parking	Housing Commission	Public Improvement	Other Nonmajor Governmental Funds	Total
\$ 452,525	\$ 312,573	\$ 2,089,762	\$ 3,317,086	\$ 10,424,035
-	-	-	-	9,678
278,863	-	-	-	278,863
-	-	-	-	52,777
-	-	38,090	2,632	136,588
-	-	-	-	145,652
-	-	-	-	6,850
-	-	-	-	33,450
-	3,670	-	-	156,345
-	-	225,000	-	225,000
\$ 731,388	\$ 316,243	\$ 2,352,852	\$ 3,319,718	\$ 11,469,238
\$ 125	\$ 9,803	\$ 2,046	\$ 5,276	\$ 144,036
-	-	-	146	30,851
-	9,758	-	4,375	516,169
-	18,877	-	-	18,877
125	38,438	2,046	9,797	709,933
236,242	-	-	-	236,242
-	-	225,000	-	258,450
-	3,670	-	-	156,344
-	-	-	-	632,391
-	-	-	-	35,161
-	-	-	-	872,537
-	-	133,782	889,921	1,023,703
-	-	-	70,450	70,450
-	-	1,992,024	2,344,216	4,336,240
495,021	-	-	-	495,021
-	274,135	-	-	274,135
-	-	-	5,334	5,334
-	-	-	-	7,393
-	-	-	-	1,492
-	-	-	-	2,354,412
495,021	277,805	2,350,806	3,309,921	10,523,063
\$ 731,388	\$ 316,243	\$ 2,352,852	\$ 3,319,718	\$ 11,469,238

City of Northville, Michigan

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

Fund Balance Reported in Governmental Funds	\$ 10,523,063
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	15,670,933
Infrastructure assets used in governmental activities are not financial resources and are not reported in the funds	11,214,424
Investments in joint ventures are not financial resources and are not reported in the funds	580,946
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	236,242
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(2,365,000)
Interest payable is not accrued in the funds	(16,457)
Compensated absences are not included as a liability of the funds	(473,366)
Other postemployment benefits are not included as a liability of the funds	(1,565,171)
Pension contributions paid in excess of annual required contribution are recorded as an asset in the government-wide statements	261,023
Internal service funds are included as part of governmental activities	<u>1,733,271</u>
Net Position of Governmental Activities	<u>\$ 35,799,908</u>

City of Northville, Michigan

	Major Special Revenue Funds				
	General Fund	Major Streets	Local Streets	Parking	Housing Commission
Revenue					
Property taxes	\$ 4,890,657	\$ -	\$ -	\$ -	\$ -
Community Development Block Grant	-	-	-	-	-
Licenses and permits	409,899	-	-	-	-
Federal grants	1,382	12,482	-	-	-
State-shared revenue and grants	530,384	267,509	124,007	-	-
Charges for overhead services	233,280	-	-	-	-
Sales and services	599,484	-	-	-	6,223
Fines and forfeitures	68,313	-	-	-	-
Investment income	15,661	164	135	283	726
Rental income	190,096	-	-	-	766,647
Special assessments	-	-	-	59,247	-
Local contribution	126,868	-	-	-	100
Racetrack breakage	19,161	-	-	-	-
Michigan Housing Authority subsidies	-	-	-	-	36,326
Other	87,190	-	-	2,270	19,686
Total revenue	7,172,375	280,155	124,142	61,800	829,708
Expenditures - Current					
General government	1,810,426	-	-	-	-
Public safety:					
Police department	2,573,753	-	-	-	-
Fire department	808,268	-	-	-	-
Public works	522,240	612,417	495,066	75,848	-
Senior housing	-	-	-	-	586,966
Recreation and culture	215,938	-	-	-	-
Contribution to MERS Trust	300,000	-	-	-	-
Debt service	-	-	-	-	-
Total expenditures	6,230,625	612,417	495,066	75,848	586,966
Excess of Revenue Over (Under) Expenditures	941,750	(332,262)	(370,924)	(14,048)	242,742
Other Financing Sources (Uses)					
Face value of debt issue	-	-	-	-	-
Transfers in (Note 6)	18,150	455,384	370,924	-	14,850
Transfers out (Note 6)	(1,090,427)	(64,987)	-	-	(1,097,522)
Payment to bond refunding escrow agent	-	-	-	-	-
Total other financing (uses) sources	(1,072,277)	390,397	370,924	-	(1,082,672)
Net Change in Fund Balances	(130,527)	58,135	-	(14,048)	(839,930)
Fund Balances - Beginning of year	3,586,383	366,574	208,945	509,069	1,117,735
Fund Balances - End of year	\$ 3,455,856	\$ 424,709	\$ 208,945	\$ 495,021	\$ 277,805

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

Governmental Funds

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

Capital Projects Fund	Other Nonmajor Governmental Funds	Total
Public Improvement		
\$ -	\$ -	\$ 4,890,657
-	15,690	15,690
-	-	409,899
-	17,069	30,933
-	-	921,900
-	-	233,280
-	14,285	619,992
-	-	68,313
1,052	1,137	19,158
-	-	956,743
-	-	59,247
-	299,691	426,659
159,270	-	178,431
-	-	36,326
4,390	102,049	215,585
164,712	449,921	9,082,813
13,499	-	1,823,925
-	-	2,573,753
-	12,830	821,098
147,433	-	1,853,004
-	42,874	629,840
-	102,004	317,942
-	-	300,000
-	307,440	307,440
160,932	465,148	8,627,002
3,780	(15,227)	455,811
-	1,709,822	1,709,822
205,911	1,267,923	2,333,142
(78,150)	(2,056)	(2,333,142)
-	(1,682,972)	(1,682,972)
127,761	1,292,717	26,850
131,541	1,277,490	482,661
2,219,265	2,032,431	10,040,402
\$ 2,350,806	\$ 3,309,921	\$ 10,523,063

City of Northville, 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	\$ 482,661
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	(826,646)
Net income from joint ventures is not recorded in the governmental funds, but is recorded in the statement of activities	19,734
Gain on disposal of assets reported in the statement of activities, not reported on the fund level as long-term assets are not reported	3,045
Change in long-term debt as a result of bond refunding that is recognized in the statement of activities when received; it is not reported in the funds statements	(33,593)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(42,621)
Grant revenue is recognized in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	(3,990)
Contribution of capital assets recognized in the statement of activities, but not in the governmental funds	70,383
Interest expense reported in the statement of activities that does not use current financial resources and is not reported as an expense in the governmental funds	8,785
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	193,594
Write-off of bond issuance costs which were previously amortized over the life of the debt (prior to implementing GASB Statement No. 65) in the statement of activities, but not in the governmental funds	(50,698)
Decrease in accumulated employee sick and vacation pay is reported in the statement of activities, does not require the use of current resources, and therefore is not reported in the fund statements until it comes due for payment	(758)
Other postemployment benefits paid in excess of the annual required contribution are expensed in the funds but are reported as a reduction of the accumulated liability in the government-wide statements	294,583
Pension contributions paid in excess of the annual required contribution are expensed in the funds but are reported as an asset in the government-wide statements	261,023
Internal service funds are included as part of governmental activities	38,304
Change in Net Position of Governmental Activities	\$ 413,806

City of Northville, Michigan

Proprietary Funds Statement of Net Position June 30, 2014

	Enterprise Funds			Internal Service Funds
	Major Fund - Water and Sewer	Nonmajor Fund - Refuse and Recycling	Total	
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,068,551	\$ 183,516	\$ 1,252,067	\$ 940,091
Receivables	638,883	123,554	762,437	-
Inventory	49,989	-	49,989	18,808
Prepaid expenses and other assets	3,235	228	3,463	749
Total current assets	1,760,658	307,298	2,067,956	959,648
Noncurrent assets:				
Restricted assets (Note 8)	-	-	-	374,092
Net pension asset (Note 9)	21,286	-	21,286	-
Capital assets (Note 5):				
Assets not subject to depreciation	398,465	-	398,465	-
Assets subject to depreciation	5,255,328	29,322	5,284,650	274,395
Total noncurrent assets	5,675,079	29,322	5,704,401	648,487
Total assets	7,435,737	336,620	7,772,357	1,608,135
Liabilities				
Current liabilities:				
Accounts payable	231,608	35,196	266,804	3,382
Refundable deposits, bonds, etc.	544	15	559	-
Accrued liabilities and other	19,398	1,765	21,163	59,214
Current portion of compensated absences	22,933	2,838	25,771	6,809
Total current liabilities	274,483	39,814	314,297	69,405
Noncurrent liabilities:				
Compensated absences - Net of current portion	8,011	991	9,002	2,378
Net retiree healthcare obligation (Note 11)	246,068	-	246,068	-
Total noncurrent liabilities	254,079	991	255,070	2,378
Total liabilities	528,562	40,805	569,367	71,783
Net Position				
Net investment in capital assets	5,653,793	29,322	5,683,115	274,395
Restricted - Insurance retention	-	-	-	318,097
Unrestricted	1,253,382	266,493	1,519,875	943,860
Total net position	<u>\$ 6,907,175</u>	<u>\$ 295,815</u>	7,202,990	<u>\$ 1,536,352</u>

Amounts reported for business-type activities in the statement of net position are different because a portion of the Internal Service Fund is included as business-type activities

Net Position of Business-type Activities

(187,730)
\$ 7,015,260

City of Northville, Michigan

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

	Enterprise Funds			Internal Service Funds
	Major Fund - Water and Sewer	Nonmajor Fund - Refuse and Recycling	Total	
Operating Revenue				
Other sales to customers	\$ 2,271,433	\$ 498,492	\$ 2,769,925	\$ -
Rental income	5,000	-	5,000	278,042
Charges to other funds	-	-	-	64,086
Recoveries	-	-	-	1,118
Other revenue	7,016	951	7,967	90,007
Total operating revenue	2,283,449	499,443	2,782,892	433,253
Operating Expenses				
General operating and maintenance	2,247,169	430,661	2,677,830	264,480
Claims	-	-	-	18,375
Compensation payouts	-	-	-	75,772
Other expenses	231,928	49,601	281,529	-
Depreciation	239,507	3,086	242,593	72,564
Total operating expenses	2,718,604	483,348	3,201,952	431,191
Operating (Loss) Income	(435,155)	16,095	(419,060)	2,062
Nonoperating Revenue				
Investment income	884	117	1,001	10,533
Gain on sale of assets	-	-	-	3,045
Total nonoperating revenue	884	117	1,001	13,578
Change in Net Position	(434,271)	16,212	(418,059)	15,640
Net Position - Beginning of year	7,341,446	279,603	7,621,049	1,520,712
Net Position - End of year	<u>\$ 6,907,175</u>	<u>\$ 295,815</u>	<u>\$ 7,202,990</u>	<u>\$ 1,536,352</u>
Net Change in Net Position - Total enterprise funds			\$ (418,059)	
Amounts reported for business-type activities in the statement of activities are different because the Internal Service Fund is allocated partially to business-type activities			(15,426)	
Change in Net Position of Business-type Activities			<u>\$ (433,485)</u>	

City of Northville, Michigan

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

	Enterprise Funds			Internal Service Funds
	Major Fund - Water and Sewer	Nonmajor Fund - Refuse and Recycling	Total	
Cash Flows from Operating Activities				
Receipts from customers	\$ 2,191,485	\$ 485,824	\$ 2,677,309	\$ 342,128
Receipts from interfund services and reimbursements	-	272	272	-
Payments to suppliers/insurance claims	(1,914,463)	(456,497)	(2,370,960)	(242,173)
Payments to employees	(576,123)	(48,919)	(625,042)	(104,955)
Other receipts	5,000	-	5,000	82,063
Pension payments in excess of the ARC	(21,286)	-	(21,286)	-
Net cash (used in) provided by operating activities	(315,387)	(19,320)	(334,707)	77,063
Cash Flows from Capital and Related Financing Activities				
Proceeds from sales of capital assets	-	-	-	3,045
Purchase of capital assets	(383,580)	-	(383,580)	-
Net cash used in (provided by) capital and related financing activities	(383,580)	-	(383,580)	3,045
Cash Flows from Investing Activities - Interest received on investments	884	117	1,001	10,533
Net (Decrease) Increase in Cash and Cash Equivalents	(698,083)	(19,203)	(717,286)	90,641
Cash and Cash Equivalents - Beginning of year	1,766,634	202,719	1,969,353	1,223,542
Cash and Cash Equivalents - End of year	<u>\$ 1,068,551</u>	<u>\$ 183,516</u>	<u>\$ 1,252,067</u>	<u>\$ 1,314,183</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and investments	\$ 1,068,551	\$ 183,516	\$ 1,252,067	\$ 940,091
Restricted cash	-	-	-	374,092
Total cash and cash equivalents	<u>\$ 1,068,551</u>	<u>\$ 183,516</u>	<u>\$ 1,252,067</u>	<u>\$ 1,314,183</u>
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities				
Operating (loss) income	\$ (435,155)	\$ 16,095	\$ (419,060)	\$ 2,062
Adjustments to reconcile operating (loss) income to net cash from operating activities:				
Depreciation and amortization	239,507	3,086	242,593	72,564
Changes in assets and liabilities:				
Receivables	(86,964)	(13,347)	(100,311)	-
Inventories	(10,259)	-	(10,259)	(2,351)
Prepaid and other assets	(3,235)	(228)	(3,463)	(749)
Accounts payable	(4,856)	(24,057)	(28,913)	593
Accrued and other liabilities	6,861	(869)	5,992	4,944
Net pension asset	(21,286)	-	(21,286)	-
Net cash (used in) provided by operating activities	<u>\$ (315,387)</u>	<u>\$ (19,320)</u>	<u>\$ (334,707)</u>	<u>\$ 77,063</u>

City of Northville, Michigan

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2014

	Private Purpose Trust - Allen Terrace Trust Fund	Agency Fund
Assets - Cash and cash equivalents	\$ 149,642	<u>\$ 8,642</u>
Liabilities		
Accounts payable	41	\$ 581
Due to other governmental units	-	<u>8,061</u>
Total liabilities	<u>41</u>	<u>\$ 8,642</u>
Net Position Held in Trust for Pension and Other Employee Benefits	<u>\$ 149,601</u>	

City of Northville, Michigan

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

	Private Purpose Trust - Allen Terrace Trust Fund
Additions	
Interest and dividends	\$ 86
Private purpose charges	130
Total additions	216
Deductions - Rent subsidies	3,457
Net Decrease in Net Assets Held in Trust	(3,241)
Net Assets Held in Trust - Beginning of year	152,842
Net Assets Held in Trust - End of year	<u><u>\$ 149,601</u></u>

Note I - Summary of Significant Accounting Policies

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

Reporting Entity

The City of Northville, Michigan is governed by a City Council of five members consisting of the elected council members and the mayor, who is deemed a member of the council for all purposes. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The 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).

Discretely Presented Component Unit - The Downtown Development Authority (DDA) of the City is reported in a separate component unit column to emphasize that it is legally separate from the City. The DDA was created to assist the City in the development of the downtown area. The DDA's governing body, which consists of nine individuals, is approved by the City Council. In addition, the DDA's budget is subject to approval by the City Council. The financial information included in the separate column is condensed. The complete financial statements of the DDA can be obtained from the City Offices at 215 W. Main Street, Northville, Michigan 48167.

Jointly Governed Organization - Jointly governed organizations are discussed in Note 12.

Accounting and Reporting Principles

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

Report Presentation

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

Note I - Summary of Significant Accounting Policies (Continued)

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

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

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

Fund Accounting

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

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

- The General Fund - The General Fund is the primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund.
- Major Streets Fund - The Major Streets Fund is a Special Revenue Fund that is used to account for the State of Michigan Public Act 51 monies that are used to construct and maintain major road systems.
- Local Streets Fund - The Local Streets Fund is a Special Revenue Fund that is used to account for the State of Michigan Public Act 51 monies that are used to construct and maintain local road systems.

Note I - Summary of Significant Accounting Policies (Continued)

- Parking Fund - The Parking Fund is a Special Revenue Fund that is used to account for parking credit special assessment revenue and to pay for related public parking expenditures.
- Housing Commission Fund - The Housing Commission Fund is a Special Revenue Fund that is used to account for the operation, maintenance, repair, and capital improvements of Allen Terrace, an apartment community for independent senior citizens. The fund's major source of revenue is rent from the tenants.
- Public Improvement Fund - The Public Improvement Fund is a Capital Projects Fund that accounts for breakage revenue to the extent that it exceeds the cost of providing police and fire service at the racetrack. The expenditures in this fund are primarily for public improvement 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 fund as a “major” enterprise fund:

- The Water and Sewer Fund provides water to customers, and disposes of sanitary sewage in exchange for quarterly user charges.

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:

- Allen Terrace Trust Fund, which provides rental subsidies for eligible Allen Terrace residents
- 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.

Note I - Summary of Significant Accounting Policies (Continued)

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.

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: most state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, some special assessment revenue will be collected after the period of availability; receivables have been recorded for these, along with a "deferred inflow".

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

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

Note I - Summary of Significant Accounting Policies (Continued)

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

Restricted Cash - Restricted cash represents funds held with the Michigan Municipal Risk Management Authority for insurance claims. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the City's policy is to first apply restricted resources.

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 \$5,000 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.

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

Capital Asset Class	Lives
Buildings and building improvements	5 to 50 years
Equipment	3 to 15 years
Land improvements	10 to 20 years
Parking system	5 to 10 years
Roads, sidewalks, and bridges	20 to 50 years
Streetscape	3 to 20 years
Vehicles	2 to 20 years
Refuse and recycling systems	15 years
Wells, water, and sewer distribution systems	30 to 90 years

Note I - Summary of Significant Accounting Policies (Continued)

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet 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 does not have any deferred outflow of resources in the current year.

In addition to liabilities, the statement of financial 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 government has deferred inflows related to special assessments that are not received within the period of availability.

Net Position Flow Assumption

Sometimes the government 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.

Note I - Summary of Significant Accounting Policies (Continued)

Fund Balance Flow Assumption

Sometimes the government 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

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, or city manager and finance director, who are authorized by policy approved by the City Council to make assignments. All current year assignments have been made by the city manager and finance director.
- Unassigned - Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

The fund balance policy prescribes the minimum unassigned fund balance in the General Fund as no less than two months of regular operating revenue or regular operating expenditures in the General Fund. This is deemed to be the prudent amount to maintain the City's ability to meet obligations as they come due throughout the year.

Note I - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Property tax receivables are shown as net of allowance for uncollectible amounts. Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1 of the following year. These taxes are due without penalty during the period from July 1 through August 31 with the final collection date of February 28 before they are added to the county tax rolls.

The 2013 taxable valuation of the City totaled \$307 million (net of captured taxable value of \$26 million), on which ad valorem taxes levied consisted of 13.5864 mills for the City's operating purposes and 1.7670 mills for street improvements. The ad valorem taxes levied raised approximately \$4.2 million for operations and \$541,000 for street, drainage, and sidewalk improvements. These amounts are recognized in the General Fund financial statements as taxes receivable - current or as tax revenue.

The delinquent real property taxes of the City are purchased by Wayne and Oakland counties. The counties sell tax notes, the proceeds of which are used to pay the City for these property taxes. Both the Wayne County and Oakland County shares of delinquent real property taxes have been recorded as revenue in the current year.

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. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits and accumulate compensatory leave time. After 10 years of service, employees may receive payment of the accumulated sick leave balance at the rate of 50 percent for retirement or 25 percent for other types of termination. A liability 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 at year end. The Employees Accumulated Compensation Fund internal service fund (or the Leave Time Reserve Fund) has been established to fully reserve funds to liquidate these liabilities for the City. The Downtown Development Authority will liquidate the compensated absences liabilities in that component unit.

City of Northville, Michigan

Notes to Financial Statements June 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary Funds Operating Classification - Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Fund and internal service funds are charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds 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.

Note 2 - Stewardship, Compliance, and Accountability

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

Cumulative shortfall at July 1, 2013		\$	(750,879)
Current year permit revenue			193,677
Related expenses:			
Direct costs	\$	61,541	
Estimated indirect costs		121,364	182,905
			<u>10,772</u>
Current year excess			<u>10,772</u>
Cumulative shortfall at June 30, 2014		\$	<u>(740,107)</u>

Note 3 - Deposits and Investments

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

The City has designated six banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all instruments authorized by state statute.

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's policy for custodial credit risk limits bank options to those approved by the Council. All banks must supply audited financial statements, proof of state registration, and certification of compliance with the City's investment policy. At year end, the City had \$1,481,914 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. 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.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity.

City of Northville, Michigan

Notes to Financial Statements June 30, 2014

Note 3 - Deposits and Investments (Continued)

At year end, the City had the following investments:

Investment	Fair Value	Weighted Average Maturity
Primary Government		
Federal National Mortgage Association	\$ 800,645	220 days
Federal Home Loan Bank	699,292	282 days
Federal Farm Credit Bank	1,600,548	113 days
US Treasury	3,708,813	365 days
Municipal bonds	<u>5,388,265</u>	254 days
Total	<u>\$ 12,197,563</u>	

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

Investment	Fair Value	Rating	Rating Organization
Primary Government			
Bank investment pools	\$ 387,563	Not rated	-
Federal National Mortgage Association	800,645	AA+	S&P
Federal Home Loan Bank	699,292	AA+	S&P
Federal Farm Credit Bank	1,600,548	AA+	S&P
US Treasury - Notes	2,809,578	AA+	S&P
US Treasury - T-bills	899,235	AA+	S&P
Municipal bonds	359,296	A+	S&P
Municipal bonds	1,102,667	AA	S&P
Municipal bonds	1,194,565	AA-	S&P
Municipal bonds	200,794	AA+	S&P
Municipal bonds	525,256	AAA	S&P
Municipal bonds	778,085	NR	S&P
Municipal bonds	<u>1,227,602</u>	SP-I	S&P
Total	<u>\$ 12,585,126</u>		

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk - It is the City's policy to diversify its investment portfolio with a goal of 5 percent maximum exposure to any one credit risk at the time of purchase. This requirement does not apply to investments issued by the U.S. government or its agencies, investments in mutual funds, and external investment pools and other pooled investments. At June 30, 2014, 6 percent of the City's investments were invested in Federal National Mortgage Association securities and 11 percent were invested in Federal Farm Credit Bank securities.

Component Unit and Parks and Recreation Commission - The cash and investments of the Downtown Development Authority and the Northville Parks and Recreation Commission are pooled with the City's cash and investments and included in the amounts above. At June 30, 2014, the carrying amount of the cash and investments for the DDA and the Parks and Recreation Commission was \$733,130 and \$1,851,556, respectively.

Note 4 - Deferred Inflows of Resources

Governmental funds report deferred inflows of resources in connection with receivables that are not collectible soon enough after the end of the year (60 days) that they are considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, there was \$236,242 in unavailable revenue related to special assessments that had not been received within the period of availability.

City of Northville, Michigan

Notes to Financial Statements June 30, 2014

Note 5 - Capital Assets

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

	Balance July 1, 2013	Reclassifications	Additions	Disposals	Balance June 30, 2014
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 3,611,236	\$ -	\$ -	\$ -	\$ 3,611,236
Construction in progress	1,327,112	(1,287,658)	389,637	12,799	416,292
Other nondepreciable assets	93,785	-	-	-	93,785
Subtotal	5,032,133	(1,287,658)	389,637	12,799	4,121,313
Capital assets being depreciated:					
Roads, sidewalks, and bridges	27,891,230	-	520,590	-	28,411,820
Parking system	5,512,099	-	84,043	-	5,596,142
Buildings and improvements	10,692,132	-	15,690	-	10,707,822
Machinery and equipment	2,049,052	-	108,562	11,206	2,146,408
Vehicles	2,188,582	-	-	37,264	2,151,318
Streetscape	4,409,381	-	920,728	-	5,330,109
Subtotal	52,742,476	-	1,649,613	48,470	54,343,619
Accumulated depreciation:					
Infrastructure	16,984,792	-	627,858	-	17,612,650
Parking system	2,008,745	-	131,296	-	2,140,041
Buildings and improvements	6,246,580	-	354,388	-	6,600,968
Machinery and equipment	1,828,733	-	76,201	11,206	1,893,728
Vehicles	1,858,851	-	89,184	37,264	1,910,771
Streetscape	904,856	-	242,165	-	1,147,021
Subtotal	29,832,557	-	1,521,092	48,470	31,305,179
Net capital assets being depreciated	22,909,919	-	128,521	-	23,038,440
Net capital assets	<u>\$ 27,942,052</u>	<u>\$ (1,287,658)</u>	<u>\$ 518,158</u>	<u>\$ 12,799</u>	<u>\$ 27,159,753</u>

City of Northville, Michigan

Notes to Financial Statements June 30, 2014

Note 5 - Capital Assets (Continued)

	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
Business-type Activities				
Capital assets not being depreciated - Construction in progress	\$ 14,885	\$ 383,580	\$ -	\$ 398,465
Capital assets being depreciated:				
Water and sewer lines	11,069,318	-	-	11,069,318
Buildings and improvements	21,535	-	-	21,535
Refuse and recycling systems	51,384	-	-	51,384
Subtotal	11,142,237	-	-	11,142,237
Accumulated depreciation:				
Water and sewer lines	5,574,483	239,507	-	5,813,990
Buildings and improvements	21,535	-	-	21,535
Refuse and recycling system	18,976	3,086	-	22,062
Subtotal	5,614,994	242,593	-	5,857,587
Net capital assets being depreciated	5,527,243	(242,593)	-	5,284,650
Net capital assets	\$ 5,542,128	\$ 140,987	\$ -	\$ 5,683,115

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

Governmental activities:		
General government		\$ 179,123
Public safety		76,474
Public works		1,002,524
Senior housing		168,047
Recreation and culture		22,360
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset		72,564
Total governmental activities		<u>\$ 1,521,092</u>
Business-type activities:		
Water and sewer		\$ 239,507
Refuse and recycling		3,086
Total business-type activities		<u>\$ 242,593</u>

City of Northville, Michigan

Notes to Financial Statements June 30, 2014

Note 5 - Capital Assets (Continued)

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

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
S. Center Street Improvements	\$ 175,029	\$ 102
Allen Drive Sewer Relief	12,881	10,645
East Street Watermain	376,914	9,000
Eight Mile/Center Intersection	19,714	19,714
Yerkes Pond Dam Repair	18,326	142,441
Downtown Wayfinding	17,645	8,573
Seven Mile Improvements	51,754	49,096
N. Center Street Improvements	1,537	3,899
N. Wing Street Improvements	3,078	8,888
Summerside Court	432	1,248
Silchester Court	540	1,149
Hutton Street Reconstruction	8,055	3,325
Total	<u>\$ 685,905</u>	<u>\$ 258,080</u>

Note 6 - Interfund Transfers

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

<u>Transfer From (Out)</u>	<u>Transfer To (In)</u>	<u>Amount</u>
General Fund	Public Improvement Fund	(1) \$ 203,855
	Major Streets Fund	(1) 455,384
	Local Streets Fund	(1) 305,937
	Housing Commission Fund	(2) 14,850
	Other nonmajor governmental funds	(1) <u>110,401</u>
Total General Fund		1,090,427
Major Streets Fund	Local Streets Fund	(2) 64,987
Public Improvement Fund	General Fund	(2) 18,150
	Other nonmajor governmental funds	(1) <u>60,000</u>
Total Public Improvement Fund		78,150
Housing Commission Fund	Other nonmajor governmental funds	(1) 1,097,522
Other nonmajor governmental funds	Public Improvement Fund	(1) <u>2,056</u>
Total		<u>\$ 2,333,142</u>

City of Northville, Michigan

Notes to Financial Statements June 30, 2014

Note 6 - Interfund Transfers (Continued)

- (1) Transfers between the various funds represent payment from one fund to another without an equivalent return of goods or services to fund projects, capital improvements, or debt service expenditures accounted for in the respective funds.
- (2) The transfers from the various funds are to support the operations of those funds.

Note 7 - Long-term Debt

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

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities - General obligations:						
Allen Terrace renovation bonds (refunding) - Maturing through 2022	2.14%	\$ 855,000	\$ -	\$ 75,000	\$ 780,000	\$ 80,000
Streetscape improvement bonds - Maturing through 2025	2.45% - 5.85%	1,670,000	-	1,670,000	-	-
Streetscape improvement bonds (refunding) - Maturing through 2025	3.10%	-	1,705,000	120,000	1,585,000	120,000
Total bonds payable		2,525,000	1,705,000	1,865,000	2,365,000	200,000
Accumulated compensated absences		485,329	43,336	55,299	473,366	140,278
Total governmental activities		<u>\$ 3,010,329</u>	<u>\$ 1,748,336</u>	<u>\$ 1,920,299</u>	<u>\$ 2,838,366</u>	<u>\$ 340,278</u>
Business-type activities - Accumulated compensated absences		<u>\$ 32,588</u>	<u>\$ 3,075</u>	<u>\$ 890</u>	<u>\$ 34,773</u>	<u>\$ 25,771</u>

Total interest expense for the year was approximately \$87,000. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Principal	Interest	Total
2015	\$ 200,000	\$ 64,971	\$ 264,971
2016	210,000	59,539	269,539
2017	210,000	53,797	263,797
2018	220,000	48,002	268,002
2019	230,000	41,945	271,945
2020-2024	1,130,000	113,586	1,243,586
2025	165,000	5,115	170,115
Total	<u>\$ 2,365,000</u>	<u>\$ 386,955</u>	<u>\$ 2,751,955</u>

City of Northville, Michigan

Notes to Financial Statements June 30, 2014

Note 7 - Long-term Debt (Continued)

Advance and Current Refundings - During the year, the City issued \$1,705,000 in limited tax general obligation bonds with an average interest rate of 3.1 percent. The proceeds of these bonds were used to advance refund \$1,670,000 of outstanding 2010 Direct Payment Build America bonds with an average interest rate of 3.4 percent. The net proceeds of \$1,678,150 (after payment of \$26,850 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the statement of net position. The advance refunding reduced total debt service payments over the next 11 years by \$547, which represents an economic gain of \$19.

Note 8 - Restricted Cash

The balances of restricted cash accounts are as follows:

	<u>Governmental Activities</u>
Funds held for insurance claims	<u>\$ 374,092</u>

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 regular employees of the City hired prior to certain dates. All divisions were closed in a previous year. 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 - The obligation to contribute to and maintain the System for these employees was established by negotiation with the City's competitive bargaining units. The labor agreement with the City's two police unions requires an employee contribution of 2.65 percent for plan-eligible employees.

City of Northville, Michigan

Notes to Financial Statements June 30, 2014

Note 9 - Defined Benefit Pension Plan (Continued)

The following table reconciles the net pension asset from the beginning of the year to the end of the year:

Annual Pension Cost and Net Pension Asset

Annual pension cost (APC)	\$ 760,020
Contributions made	<u>1,042,329</u>
Increase in net pension asset	282,309
Net pension asset - Beginning of year	<u>-</u>
Net pension asset - End of year	<u>\$ 282,309</u>

Annual Pension Cost - For the year ended June 30, 2014, the City's annual pension cost of \$760,020 for the plan was equal to the City's required and actual contribution. Actual contributions for the year totaled \$1,042,329. 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 percent investment rate of return, (b) projected salary increases of 4.5 percent per year to 14 percent per year, and (c) no 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 unfunded actuarial liability is being amortized as a level dollar amount over 10 to 18 years, depending on the length of time that the employee division has been closed. The amortization will continue to decrease by two years per year until a minimum of five-year amortization is attained.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2014	2013	2012
Annual pension cost (APC)	\$ 760,020	\$ 717,456	\$ 663,972
Percentage of APC contributed	137.1 %	100.0 %	100.0 %
Net pension asset	\$ 282,309	\$ -	\$ -

City of Northville, Michigan

Notes to Financial Statements June 30, 2014

Note 9 - Defined Benefit Pension Plan (Continued)

	Actuarial Valuation as of December 31		
	2013	2012	2011
Actuarial value of assets	\$ 11,221,629	\$ 11,190,146	\$ 11,364,748
Actuarial accrued liability (AAL)			
(entry age)	\$ 19,222,918	\$ 19,158,887	\$ 18,726,754
Unfunded AAL (UAAL)	\$ 8,001,289	\$ 7,968,741	\$ 7,362,006
Funded ratio	58.4 %	58.4 %	60.7 %
Covered payroll	\$ 1,051,567	\$ 1,189,266	\$ 1,321,194
UAAL as a percentage of covered payroll	760.9 %	670.1 %	557.2 %

Note 10 - Defined Contribution Pension Plan

The City provides pension benefits to its regular employees hired after various dates beginning in 1997 through a defined contribution plan administered by the Municipal Employees' Retirement System of Michigan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council action, the City contributes 10 percent of employees' gross earnings for regular nonunion, clerical, and public works employees, 11 percent for each eligible police patrol and command employee, and 5 percent for each eligible part-time employee. There is a 3 percent employee contribution for patrol and command employees. The City's contribution plus investment earnings are fully vested by the employee after seven years of service.

The City's total payroll during the current year was \$4,004,829. The current year contribution was calculated based on covered payroll of \$1,577,446, resulting in an employer contribution of \$161,445.

Note 11 - Other Postemployment Benefits

Plan Description - The City provides retiree healthcare benefits to eligible employees, their spouses, and eligible dependent children. This is an agent multiple employer defined benefit plan administered by the Municipal Employees' Retirement System of Michigan Health Funding Vehicle. For employees hired prior to July 1, 2009, the plan provides lifetime healthcare insurance for eligible retirees and their eligible spouses through the City's group health insurance plan. The City also allows retired and active members participating in the healthcare benefits program to opt out of coverage and receive a payment in lieu of healthcare benefits. Currently, the plan has 84 members. This plan covers both active and retired members. Benefit provisions are established through negotiated labor contracts and the nonunion benefits policy established by the City Council. Of the 84 members, 16 retirees and 13 active employees have opted out of health care coverage and receive payment in lieu of insurance. The active employees and retirees have the option to opt back in each year, if desired. The Retiree Health 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). However, as shown below, the City has made contributions to advance-fund these benefits, as determined by the City Council through annual budget resolutions.

For eligible union employees, the City has established an additional healthcare savings plan administered by MERS. The City contributes 1 percent of qualified wages for AFSCME (the public works union) employees hired prior to February 3, 1997. The City also has two police unions. Members of the police unions contribute a minimum of \$5 per pay period to the plan.

For eligible employees hired after July 1, 2008, the City contributes 2 percent to 6 percent of gross earnings, based upon years of service, into the healthcare savings plan. The City's contribution vests after five years of service. In addition, employees must contribute 1 percent of earnings into the plan. There are five employees participating in this plan. In accordance with these requirements, the City contributed \$3,515 and employees contributed \$1,752 during the current year. Additionally, there are some AFSCME employees who do not make contributions to the plan and the City contributes 1 percent of earnings into the plan. The City contributed \$1,350 for the two AFSCME employees. Finally, there are 10 police officers (POAM, COAM, Non-Union) who have employee-only contributions to the plan which totaled \$2,050.

City of Northville, Michigan

Notes to Financial Statements June 30, 2014

Note 11 - Other Postemployment Benefits (Continued)

The City funded 100 percent of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2014, the City made premium payments of \$692,771 and contributed an additional \$436,423 to the plan. Plan members receiving benefits contribute between 0 percent to 60 percent of their premium costs depending upon their years of service and date of retirement. In fiscal year 2014, total member contributions were \$7,289.

Funding Progress - For the year ended June 30, 2014, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2014. The valuation computes an annual required contribution which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution	\$ 820,187
ARC adjustment	(70,231)
Interest on the prior year's net OPEB obligation	<u>84,277</u>
Annual OPEB cost	834,233
Amounts contributed:	
Payments of current premiums	(692,771)
Advance funding	<u>(436,423)</u>
Decrease in net OPEB obligation	(294,961)
OPEB obligation - Beginning of year	<u>2,106,200</u>
OPEB obligation - End of year	<u>\$ 1,811,239</u>

Employer contributions and annual OPEB cost data for the current and preceding years were as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Costs	Percentage Contributed	Net OPEB Obligation
6/30/12	6/30/12	\$ 1,241,178	92.7	\$ 2,382,810
6/30/13	6/30/13	1,012,634	126.9	2,106,200
6/30/14	6/30/14	834,233	135.4	1,811,243

City of Northville, Michigan

Notes to Financial Statements June 30, 2014

Note 11 - Other Postemployment Benefits (Continued)

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Annual Covered Payroll (c)	Ratio of UAAL to Covered Payroll
6/30/12	\$ 4,637,961	\$ 32,612,503	\$27,974,542	14.2	\$ 2,715,073	1,030.3
6/30/13	5,643,093	23,343,428	17,700,335	24.2	2,722,596	650.1
6/30/14	6,905,872	19,305,113	12,399,241	35.8	2,618,278	473.6

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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the June 30, 2014 actuarial valuation, the entry-age actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return, and an annual healthcare cost trend rate of 7.45 percent initially, reduced to an ultimate rate of 5 percent after 13 years for current retirees. The annual cost trend rate for dental benefits is 4 percent. The expected long-term inflation assumption used was 2.5 percent. A discount rate of 4 percent was used. There is no inflation assumed on payment in lieu of healthcare benefits. For those active employees and retirees currently receiving a monthly payment in lieu of healthcare benefits, it was assumed that they will continue to elect to receive a monthly payment in lieu of healthcare benefits during retirement. However, those participants do have an opportunity to elect to receive health coverage in the future. The unfunded actuarial accrued liability is being amortized on a closed basis. The remaining amortization period at June 30, 2014 was 30 years.

Note 12 - Jointly Governed Organizations

The City participates in the Northville Parks and Recreation Commission (the "Recreation Commission") as a joint venture with the Charter Township of Northville. The City is represented by the mayor or mayor pro tem and one other member of the City Council. Approval of the annual budget is required by the City and the Charter Township of Northville. The Recreation Commission has been subsidized to the extent that expenditures exceed operating revenue. At June 30, 2014, the investment in the Recreation Commission was \$555,856. During the current year, the City contributed \$191,683 for the operations of the Recreation Commission. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Recreation Commission can be obtained from the City offices at 215 W. Main Street, Northville, Michigan 48167.

The City sponsors the pension plan and postretirement benefit plan on behalf of the Recreation Commission. The employer of record for the Commission is the City of Northville, Michigan. Accordingly, employees and retirees of the Commission participate in the City's employee benefit programs and policies and are pooled with all other City employees for benefits administration. The City charges the Commission for its pro-rata share of employee fringe benefit costs in the same manner as City departments are charged for fringe benefits. The Commission contributes a pro-rata share of the amortization of unfunded actuarial liability for the defined benefit pension plan and postretirement benefit plan.

The Recreation Commission reimbursed the City \$256,270 for fringe benefit expenditures during the year ended June 30, 2014.

The City participates in the Northville Youth Assistance Commission (the "Commission") as a joint venture with the Charter Township of Northville and Northville Public Schools. The City appoints three members to the governing board of the Commission. Approval of the annual budget is required by the City and the Charter Township of Northville. At June 30, 2014, the investment in the Commission was \$25,090. During the current year, the City contributed \$17,076 for the operations of the Commission. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Commission can be obtained from the Charter Township of Northville at 44405 Six Mile Road, Northville, Michigan 48167.

The City is a member of the 35th District Court System, which provides judicial services to the City and various other surrounding communities. The City appoints one member to the joint venture's board, which then approves the annual budget, and one member to the related Building Authority board. Complete financial statements for the court can be obtained from the 35th Judicial District Court at 660 Plymouth Road, Plymouth, Michigan 48170.

Note 12 - Jointly Governed Organizations (Continued)

The City is also served by the North Huron Valley/Rouge Valley (NHV/RV) Sewage Disposal System, which provides services to 17 municipal entities including cities, townships, and counties. The City's share of capital assets, operating assets, and related debt is recorded in the Water and Sewer Fund. During fiscal year 2014, the City paid \$793,003 for sewage disposal, operation and maintenance, and debt in this system. Payment of these charges is funded through the collection of sewer fees to City residents.

Note 13 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal Risk Management Authority (the "Authority") for claims relating to property loss, torts, and errors and omissions. The City also participates in the Michigan Municipal League (MML) risk pool for employee injuries. The City purchases commercial insurance for all medical benefits and for firefighter death and disability coverage. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League workers' compensation risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City. A portion of the excess insurance coverage is underwritten by the Michigan Municipal Risk Management Authority itself.

The City estimates the liability for general liability claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as claims that may have been incurred but not reported. During the year ended June 30, 2014, there were no significant uninsured claims paid by the City and no significant outstanding balances at year end.

Note 14 - Accounting and Reporting Change

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

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

Item	Amount	Prior Reporting Classification/Treatment	New Classification After Adoption of GASB 65
Bond issuance costs	\$ 50,698	Asset	Outflow of resources (an expense)
Revenue in governmental funds not collected within 60 days of year end	236,242	Liability	Deferred inflow of resources

Note 15 - 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 supplementary information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this Statement are effective for financial statements for the year ending June 30, 2015.

Required Supplemental Information

City of Northville, 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	\$ 4,902,337	\$ 4,877,741	\$ 4,890,657	\$ 12,916
Licenses and permits	302,300	401,845	409,899	8,054
Federal grants	-	-	1,382	1,382
State-shared revenue and grants	526,671	531,342	530,384	(958)
Charges for overhead services	233,280	233,280	233,280	-
Sales and services	632,250	621,075	599,484	(21,591)
Fines and forfeitures	47,750	73,389	68,313	(5,076)
Investment income	21,250	17,200	15,661	(1,539)
Rental income	169,661	179,661	190,096	10,435
Local contribution	126,540	126,868	126,868	-
Racetrack breakage	24,063	23,295	19,161	(4,134)
Other	20,200	83,153	87,190	4,037
Total revenue	7,006,302	7,168,849	7,172,375	3,526
Expenditures - Current				
General government:				
City Council	13,690	13,505	12,628	877
City manager	306,805	310,210	306,218	3,992
Finance and administrative services	280,260	279,345	276,757	2,588
Technology costs	156,950	129,760	123,084	6,676
Tax and assessing	224,990	201,790	192,419	9,371
City clerk	121,038	122,860	117,231	5,629
Clerk - Elections	40,192	40,260	32,278	7,982
Buildings and grounds	345,839	367,740	350,221	17,519
City attorney	87,000	98,000	94,145	3,855
Planning, zoning, and inspection	248,315	281,490	260,327	21,163
Insurance	25,390	25,282	25,282	-
Central supply	22,617	22,617	19,836	2,781
Public safety:				
Police/Sheriff (county)	2,669,931	2,593,714	2,573,753	19,961
Fire and EMS	780,670	832,185	808,268	23,917
Public works:				
Civic events	30,955	35,380	33,862	1,518
Parking system	127,215	128,249	129,549	(1,300)
Administration	170,545	175,144	175,977	(833)
Street lighting and miscellaneous public works	197,400	192,125	177,542	14,583
Beautification	4,815	5,190	5,310	(120)
Parks and recreation	221,861	215,959	215,938	21
OPEB trust contribution	-	300,000	300,000	-
Total expenditures	6,076,478	6,370,805	6,230,625	140,180
Excess of Revenue Over Expenditures	929,824	798,044	941,750	143,706
Other Financing Sources (Uses)				
Transfers in	-	18,150	18,150	-
Transfers out	(1,244,155)	(1,116,049)	(1,090,427)	25,622
Total other financing uses	(1,244,155)	(1,097,899)	(1,072,277)	25,622
Net Change in Fund Balance	(314,331)	(299,855)	(130,527)	169,328
Fund Balance - Beginning of year	3,586,383	3,586,383	3,586,383	-
Fund Balance - End of year	\$ 3,272,052	\$ 3,286,528	\$ 3,455,856	\$ 169,328

City of Northville, 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				
Federal grants	\$ -	\$ 12,482	\$ 12,482	\$ -
State-shared revenue and grants	242,892	263,204	267,509	4,305
Investment income	1,000	350	164	(186)
Total revenue	243,892	276,036	280,155	4,119
Expenditures - Current - Public works				
Street maintenance and repairs	886,950	691,168	586,654	104,514
Administration	23,665	23,665	25,763	(2,098)
Total expenditures	910,615	714,833	612,417	102,416
Excess of Expenditures Over Revenue	(666,723)	(438,797)	(332,262)	106,535
Other Financing Sources (Uses)				
Transfers in	730,783	547,253	455,384	(91,869)
Transfers out	(100,000)	(91,995)	(64,987)	27,008
Total other financing sources	630,783	455,258	390,397	(64,861)
Net Change in Fund Balance	(35,940)	16,461	58,135	41,674
Fund Balance - Beginning of year	366,574	366,574	366,574	-
Fund Balance - End of year	<u>\$ 330,634</u>	<u>\$ 383,035</u>	<u>\$ 424,709</u>	<u>\$ 41,674</u>

City of Northville, 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	\$ 113,815	\$ 122,734	\$ 124,007	\$ 1,273
Investment income	250	275	135	(140)
Total revenue	114,065	123,009	124,142	1,133
Expenditures - Current - Public works				
Administration	13,245	13,245	11,143	2,102
Street maintenance and repairs	557,234	585,304	483,923	101,381
Total expenditures	570,479	598,549	495,066	103,483
Excess of Expenditures Over Revenue	(456,414)	(475,540)	(370,924)	104,616
Other Financing Sources - Transfers in	470,473	475,540	370,924	(104,616)
Net Change in Fund Balance	14,059	-	-	-
Fund Balance - Beginning of year	208,945	208,945	208,945	-
Fund Balance - End of year	<u>\$ 223,004</u>	<u>\$ 208,945</u>	<u>\$ 208,945</u>	<u>\$ -</u>

City of Northville, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Investment income	\$ 750	\$ 600	\$ 283	\$ (317)
Other revenue:				
Special assessments	59,249	59,887	59,247	(640)
Other	2,300	2,300	2,270	(30)
Total revenue	62,299	62,787	61,800	(987)
Expenditures - Current - Public works	15,169	98,130	75,848	22,282
Net Change in Fund Balance	47,130	(35,343)	(14,048)	21,295
Fund Balance - Beginning of year	509,069	509,069	509,069	-
Fund Balance - End of year	\$ 556,199	\$ 473,726	\$ 495,021	\$ 21,295

City of Northville, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Federal grants	\$ 32,558	\$ -	\$ -	\$ -
Charges for services	5,305	6,305	6,223	(82)
Investment income	2,000	1,000	726	(274)
Rental income	765,116	767,136	766,647	(489)
Other revenue:				
Local contribution	-	-	100	100
Michigan Housing Authority subsidies	40,396	38,376	36,326	(2,050)
Other	12,000	7,980	19,686	11,706
Total revenue	857,375	820,797	829,708	8,911
Expenditures - Current -				
Senior housing	696,255	590,647	586,966	3,681
Excess of Revenue Over Expenditures	161,120	230,150	242,742	12,592
Other Financing Sources (Uses)				
Transfers in	14,850	14,850	14,850	-
Transfers out	(92,745)	(1,097,522)	(1,097,522)	-
Total other financing uses	(77,895)	(1,082,672)	(1,082,672)	-
Net Change in Fund Balance	83,225	(852,522)	(839,930)	12,592
Fund Balance - Beginning of year	1,117,735	1,117,735	1,117,735	-
Fund Balance - End of year	\$ 1,200,960	\$ 265,213	\$ 277,805	\$ 12,592

City of Northville, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Investment income	\$ 3,000	\$ 2,000	\$ 1,052	\$ (948)
Other revenue:				
Cable franchise fees	60,000	142,400	159,270	16,870
Other miscellaneous income	12,000	5,000	4,390	(610)
Total revenue	75,000	149,400	164,712	15,312
Expenditures - Current				
General government	13,255	13,500	13,499	1
Public works	175,038	236,787	147,433	89,354
Total expenditures	188,293	250,287	160,932	89,355
Excess of Revenue (Under) Over Expenditures	(113,293)	(100,887)	3,780	104,667
Other Financing Sources (Uses)				
Transfers in	22,056	62,056	205,911	143,855
Transfers out	(60,000)	(78,150)	(78,150)	-
Total other financing (uses) sources	(37,944)	(16,094)	127,761	143,855
Net Change in Fund Balance	(151,237)	(116,981)	131,541	248,522
Fund Balance - Beginning of year	2,219,265	2,219,265	2,219,265	-
Fund Balance - End of year	<u>\$ 2,068,028</u>	<u>\$ 2,102,284</u>	<u>\$ 2,350,806</u>	<u>\$ 248,522</u>

City of Northville, Michigan

Note to Required Supplemental Information Year Ended June 30, 2014

Note - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all special revenue funds, except that operating transfers and debt proceeds have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." All annual appropriations lapse at fiscal year end. The legal level of budgetary control adopted by the City is the activity level.

The budget represents a complete financial plan for all activities of the City for the ensuing fiscal year. All estimated income and proposed expenditures are detailed and presented in a form prescribed by law. In addition, this budget presents the proposed budget as part of a five-year plan to improve the decision-making process.

The budget process begins with goals and objectives meetings in January with the City Council, City manager, and administrative staff. These are public meetings. Based upon presentations by the City staff and discussion between the mayor and City Council, goals and objectives are prioritized by the City Council for the next fiscal year.

Each February, department heads receive workpapers to prepare their individual line-item budgets. Upon completion, the departmental budgets are returned to the finance director in March. The City manager and the finance director then analyze these amounts. Further discussions occur with department heads and the budget is adjusted accordingly.

A proposed balanced budget is then developed to support the direction and focus established for the community by the City Council. Specific issues are identified which are vital to continued quality services within the means available. This method of budgeting serves to improve the level of organizational accountability. City Council meetings, held in April and May, provide all interested citizens an open forum where they can be heard. Upon review, and a subsequent public hearing, the City Council adopts the budget by resolution.

The budget is scheduled for adoption at the second regular City Council meeting in May. The operating millage rate is established as part of the budget adoption resolution at that meeting.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, transfers out in the General Fund exceeded amounts budgeted. The City Council authorized a final year-end operating transfer from the General Fund to the Public Improvement Fund to set aside funds for future City Hall building improvements. As a result of this year-end budget transfer, the final transfers out balance did not exceed the budgeted amount.

City of Northville, Michigan

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

Note - Budgetary Information (Continued)

General Fund public works expenditures exceeded amounts budgeted for the parking system, administration, and beautification. The parking system variance was due to a year-end adjustment for the road salt inventory. The administration variance was due to higher vacation payouts than originally anticipated and the beautification variance was due to higher than anticipated costs for plant materials.

The Major Streets Fund administration expenditures exceeded budgeted amounts due to the re-allocation of overhead costs from the Local Streets Fund to adhere to Act 51 limitations on administration.

Other Supplemental Information

City of Northville, Michigan

Other Supplemental Information Combining Balance Sheet General Fund June 30, 2014

	Combining General Fund				
	General Fund	Street, Drainage, and Sidewalk Improvement	Interfund Investment Pool	Payroll	Total
Assets					
Cash and investments	\$ 2,694,800	\$ 872,806	\$ (52,777)	\$ 126,188	\$ 3,641,017
Receivables:					
Property taxes receivable	9,678	-	-	-	9,678
Accrued interest receivable	-	-	52,777	-	52,777
Other receivables	95,866	-	-	-	95,866
Due from other governmental units	87,388	-	-	-	87,388
Due from component units	6,850	-	-	-	6,850
Inventory	33,450	-	-	-	33,450
Prepaid expenses and other assets	74,097	-	-	77,315	151,412
	<u>3,002,129</u>	<u>872,806</u>	<u>-</u>	<u>203,503</u>	<u>4,078,438</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 95,481	\$ 269	\$ -	\$ 119	\$ 95,869
Due to other governmental units	-	-	-	30,705	30,705
Accrued liabilities and other	323,329	-	-	172,679	496,008
	<u>418,810</u>	<u>269</u>	<u>-</u>	<u>203,503</u>	<u>622,582</u>
Fund Balances					
Nonspendable:					
Inventory/Assets held for resale	33,450	-	-	-	33,450
Prepays	151,411	-	-	-	151,411
Restricted:					
Police forfeitures	35,161	-	-	-	35,161
Streets, drains, and sidewalk improvements	-	872,537	-	-	872,537
Assigned:					
Beautification Commission	7,393	-	-	-	7,393
Other	1,492	-	-	-	1,492
Unassigned	2,354,412	-	-	-	2,354,412
	<u>2,583,319</u>	<u>872,537</u>	<u>-</u>	<u>-</u>	<u>3,455,856</u>
Total fund balances	<u>2,583,319</u>	<u>872,537</u>	<u>-</u>	<u>-</u>	<u>3,455,856</u>
Total liabilities and fund balances	<u>\$3,002,129</u>	<u>\$ 872,806</u>	<u>\$ -</u>	<u>\$ 203,503</u>	<u>\$4,078,438</u>

City of Northville, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances General Fund Year Ended June 30, 2014

	Combining General Fund				Total
	General Fund	Street, Drainage, and Sidewalk Improvement	Interfund Investment Pool	Payroll	
Revenue					
Property taxes	\$ 4,349,036	\$ 541,621	\$ -	\$ -	\$ 4,890,657
Licenses and permits	409,899	-	-	-	409,899
Federal grants	1,382	-	-	-	1,382
State-shared revenue and grants	530,384	-	-	-	530,384
Sales and services:					
Charges to other funds	233,280	-	-	-	233,280
Charges for services to external parties	599,484	-	-	-	599,484
Fines and forfeitures	68,313	-	-	-	68,313
Investment income	14,919	742	-	-	15,661
Rental income	190,096	-	-	-	190,096
Other revenue:					
Local contribution	126,868	-	-	-	126,868
Cable franchise fees	19,161	-	-	-	19,161
Other	87,190	-	-	-	87,190
Total revenue	6,630,012	542,363	-	-	7,172,375
Expenditures					
Current:					
General government	1,810,426	-	-	-	1,810,426
Public safety:					
Police department	2,573,753	-	-	-	2,573,753
Fire department	808,268	-	-	-	808,268
Public works	522,240	-	-	-	522,240
Recreation and culture	215,938	-	-	-	215,938
Capital outlay	300,000	-	-	-	300,000
Total expenditures	6,230,625	-	-	-	6,230,625
Excess of Revenue Over Expenditures	399,387	542,363	-	-	941,750
Other Financing Sources (Uses)					
Transfers in	18,150	-	-	-	18,150
Transfers out	(329,106)	(761,321)	-	-	(1,090,427)
Total other financing uses	(310,956)	(761,321)	-	-	(1,072,277)
Net Change in Fund Balances	88,431	(218,958)	-	-	(130,527)
Fund Balances - Beginning of year	2,494,888	1,091,495	-	-	3,586,383
Fund Balances - End of year	<u>\$ 2,583,319</u>	<u>\$ 872,537</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,455,856</u>

City of Northville, Michigan

	Special Revenue Funds		Debt Service Funds	
	Cemetery	Arts Commission	DDA Debt Service Fund	Housing Debt Retirement Fund
Assets				
Cash and investments	\$ 890,164	\$ 76,520	\$ 2,554	\$ 2,780
Receivables - Net - Other receivables	-	2,632	-	-
Total assets	<u>\$ 890,164</u>	<u>\$ 79,152</u>	<u>\$ 2,554</u>	<u>\$ 2,780</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 243	\$ 4,181	\$ -	\$ -
Due to other governmental units	-	146	-	-
Accrued liabilities and other	-	4,375	-	-
Total liabilities	243	8,702	-	-
Fund Balances - Committed				
Cemetery improvements	889,921	-	-	-
Arts commission	-	70,450	-	-
Capital projects and purchases	-	-	-	-
Debt service	-	-	2,554	2,780
Total fund balances	<u>889,921</u>	<u>70,450</u>	<u>2,554</u>	<u>2,780</u>
Total liabilities and fund balances	<u>\$ 890,164</u>	<u>\$ 79,152</u>	<u>\$ 2,554</u>	<u>\$ 2,780</u>

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

Capital Projects Funds				
Fire Equipment Replacement	Police Equipment Replacement	Downtown Development Construction	Housing Commission Capital Outlay	Total Nonmajor Governmental Funds
\$ 1,090,094	\$ 276,604	\$ -	\$ 978,370	\$ 3,317,086
-	-	-	-	2,632
<u>\$ 1,090,094</u>	<u>\$ 276,604</u>	<u>\$ -</u>	<u>\$ 978,370</u>	<u>\$ 3,319,718</u>
\$ 275	\$ 50	\$ -	\$ 527	\$ 5,276
-	-	-	-	146
-	-	-	-	4,375
275	50	-	527	9,797
-	-	-	-	889,921
-	-	-	-	70,450
1,089,819	276,554	-	977,843	2,344,216
-	-	-	-	5,334
<u>1,089,819</u>	<u>276,554</u>	<u>-</u>	<u>977,843</u>	<u>3,309,921</u>
<u>\$ 1,090,094</u>	<u>\$ 276,604</u>	<u>\$ -</u>	<u>\$ 978,370</u>	<u>\$ 3,319,718</u>

City of Northville, Michigan

	Special Revenue Funds		Debt Service Funds	
	Cemetery	Arts Commission	DDA Debt Service Fund	Housing Debt Retirement Fund
Revenue				
Community Development Block Grant	\$ -	\$ -	\$ -	\$ -
Federal grants	-	-	17,013	-
Sales and services	14,285	-	-	-
Investment income	504	31	-	-
Other revenue:				
Local contribution	-	486	171,082	-
Other	-	102,049	-	-
Total revenue	14,789	102,566	188,095	-
Expenditures				
Current:				
Public safety	-	-	-	-
Health and welfare	-	-	-	-
Recreation and culture	-	102,004	-	-
Debt service	-	-	188,095	92,495
Total expenditures	-	102,004	188,095	92,495
Excess of Revenue Over (Under) Expenditures	14,789	562	-	(92,495)
Other Financing Sources (Uses)				
Face value of debt issue	-	-	-	-
Transfers in	-	-	-	92,495
Transfers out	-	(2,056)	-	-
Payment to bond refunding escrow agent	-	-	-	-
Total other financing (uses) sources	-	(2,056)	-	92,495
Net Change in Fund Balances	14,789	(1,494)	-	-
Fund Balances - Beginning of year	875,132	71,944	2,554	2,780
Fund Balances - End of year	\$ 889,921	\$ 70,450	\$ 2,554	\$ 2,780

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

Capital Projects Fund				
Fire Equipment Replacement	Police Equipment Replacement	Downtown Development Construction	Housing Commission Capital Outlay	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 15,690	\$ 15,690
56	-	-	-	17,069
-	-	-	-	14,285
531	71	-	-	1,137
128,123	-	-	-	299,691
-	-	-	-	102,049
128,710	71	-	15,690	449,921
12,830	-	-	-	12,830
-	-	-	42,874	42,874
-	-	-	-	102,004
-	-	26,850	-	307,440
12,830	-	26,850	42,874	465,148
115,880	71	(26,850)	(27,184)	(15,227)
-	-	1,709,822	-	1,709,822
75,401	95,000	-	1,005,027	1,267,923
-	-	-	-	(2,056)
-	-	(1,682,972)	-	(1,682,972)
75,401	95,000	26,850	1,005,027	1,292,717
191,281	95,071	-	977,843	1,277,490
898,538	181,483	-	-	2,032,431
\$ 1,089,819	\$ 276,554	\$ -	\$ 977,843	\$ 3,309,921

City of Northville, Michigan

Other Supplemental Information Combining Statement of Net Position Internal Service Funds June 30, 2014

	Municipal Equipment	Insurance Retention Fund	Employees' Accumulated Compensation	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 476,673	\$ 1,005	\$ 462,413	\$ 940,091
Inventory	18,808	-	-	18,808
Prepaid expenses and other assets	749	-	-	749
Total current assets	496,230	1,005	462,413	959,648
Noncurrent assets:				
Restricted assets	-	374,092	-	374,092
Capital assets - Assets subject to depreciation	274,395	-	-	274,395
Total noncurrent assets	274,395	374,092	-	648,487
Total assets	770,625	375,097	462,413	1,608,135
Liabilities				
Current liabilities:				
Accounts payable	3,252	-	130	3,382
Accrued liabilities and other	2,214	57,000	-	59,214
Current portion of compensated absences	6,809	-	-	6,809
Total current liabilities	12,275	57,000	130	69,405
Noncurrent liabilities - Compensated absences - Net of current portion	2,378	-	-	2,378
Total liabilities	14,653	57,000	130	71,783
Net Position				
Invested in capital assets	274,395	-	-	274,395
Restricted - Insurance claims	-	318,097	-	318,097
Unrestricted	481,577	-	462,283	943,860
Total net position	<u>\$ 755,972</u>	<u>\$ 318,097</u>	<u>\$ 462,283</u>	<u>\$ 1,536,352</u>

City of Northville, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Position Internal Service Funds Year Ended June 30, 2014

	Municipal Equipment	Insurance Retention Fund	Employees' Accumulated Compensation	Total
Operating Revenue				
Rental income	\$ 278,042	\$ -	\$ -	\$ 278,042
Charges to other funds	-	-	64,086	64,086
Recoveries	-	1,118	-	1,118
Other revenue	9,800	80,207	-	90,007
Total operating revenue	287,842	81,325	64,086	433,253
Operating Expenses				
Other operation and maintenance	264,480	-	-	264,480
Claims	-	18,375	-	18,375
Compensation pay-outs	-	-	75,772	75,772
Depreciation	72,564	-	-	72,564
Total operating expenses	337,044	18,375	75,772	431,191
Operating (Loss) Income	(49,202)	62,950	(11,686)	2,062
Nonoperating Revenue (Expenses)				
Investment income	254	10,016	263	10,533
Gain on sale of assets	3,045	-	-	3,045
Change in Net Position	(45,903)	72,966	(11,423)	15,640
Net Position - Beginning of year	801,875	245,131	473,706	1,520,712
Net Position - End of year	<u>\$ 755,972</u>	<u>\$ 318,097</u>	<u>\$ 462,283</u>	<u>\$ 1,536,352</u>

City of Northville, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2014

	Municipal Equipment	Insurance Retention Fund	Employees' Accumulated Compensation	Total
Cash Flows from Operating Activities				
Receipts from customers	\$ 278,042	\$ -	\$ 64,086	\$ 342,128
Payments to suppliers/insurance claims	(166,163)	(9,313)	(75,759)	(251,235)
Payments to employees	(104,955)	-	-	(104,955)
Other receipts	9,800	81,325	-	91,125
	<u>16,724</u>	<u>72,012</u>	<u>(11,673)</u>	<u>77,063</u>
Net cash provided by (used in) operating activities				
Cash Flows from Capital and Related Financing Activities - Proceeds from sales of capital assets	3,045	-	-	3,045
Cash Flows from Investing Activities - Interest received on investments	254	10,016	263	10,533
Net Increase (Decrease) in Cash and Cash Equivalents	20,023	82,028	(11,410)	90,641
Cash and Cash Equivalents - Beginning of year	456,650	293,069	473,823	1,223,542
Cash and Cash Equivalents - End of year	<u>\$ 476,673</u>	<u>\$ 375,097</u>	<u>\$ 462,413</u>	<u>\$ 1,314,183</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and investments	\$ 476,673	\$ 1,005	\$ 462,413	\$ 940,091
Restricted cash	-	374,092	-	374,092
Total cash and cash equivalents	<u>\$ 476,673</u>	<u>\$ 375,097</u>	<u>\$ 462,413</u>	<u>\$ 1,314,183</u>
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities				
Operating (loss) income	\$ (49,202)	\$ 62,950	\$ (11,686)	\$ 2,062
Adjustments to reconcile operating (loss) income to net cash from operating activities:				
Depreciation and amortization	72,564	-	-	72,564
Changes in assets and liabilities:				
Inventories	(2,351)	-	-	(2,351)
Prepaid and other assets	(749)	-	-	(749)
Accounts payable	580	9,062	13	9,655
Accrued and other liabilities	(4,118)	-	-	(4,118)
Net cash provided by (used in) operating activities	<u>\$ 16,724</u>	<u>\$ 72,012</u>	<u>\$ (11,673)</u>	<u>\$ 77,063</u>