

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

**YES NO** Check each applicable box below. (See instructions for further detail.)

1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.   The local unit has adopted a budget for all required funds.
5.   A public hearing on the budget was held in accordance with State statute.
6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.   The local unit only holds deposits/investments that comply with statutory requirements.
9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.   The local unit is free of repeated comments from previous years.
12.   The audit opinion is UNQUALIFIED.
13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.   The board or council approves all invoices prior to payment as required by charter or statute.
15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature		Printed Name		License Number

# **City of Southgate, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2007**

# City of Southgate, Michigan

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## Principal Officials Elected

### Administrative

Mayor  
Norma J. Wurmlinger

Clerk  
Thomas Alexander

Treasurer  
Sheryl Denman

### Legislative

President of Council  
John Graziani

Carol M. Batko  
Christopher P. Rollet  
Theresa Lannen  
Janice M. Ferencz  
Phillip J. Rauch  
Michelle R. Davis

### District Judge

James A. Kandrevas

# **City of Southgate, Michigan**

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## **Principal Officials Appointed**

### **City Administrator**

Levon G. King

### **Assistant City Administrator/Finance Director**

David Angileri

### **Department Heads**

**Charles Castle**

Police Chief

**John Woldkowski**

Fire Chief

**J. David Weidenbach**  
Director of Public Services

**Robert Casanova**  
Chief Building Inspector

**Ronald Jewell**

Parks and Recreation Director

### **City Attorney**

Edward M. Zelenak

### **City Auditors**

Plante & Moran, PLLC

### **Consultants**

Urban Engineering Company - Engineers

Wade Trim - Planning Consultants

# City of Southgate, Michigan

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# City of Southgate, Michigan

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Southgate, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Southgate, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Southgate, Michigan as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement systems schedules of funding progress and employer contributions, and budgetary comparison schedules (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Southgate, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

October 11, 2007

# City of Southgate, Michigan

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## Management's Discussion and Analysis

The City of Southgate's 2007 annual report is presented in conformity with the requirements of GASB 34, as it was in 2006, 2005, and 2004. This annual report consists of discussion and analysis of the City of Southgate's (the "City") financial performance. This provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2007:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$35,000 this year. This represents a 1.1 percent decrease from the prior year.
- Property taxes are the City's single, largest source of revenue. The City's taxable value for fiscal year 2007 was \$851,690,108, which represents an increase of \$35,036,401, or 4.3 percent.
- The City closely monitors discretionary spending by performing periodic budget adjustments. As a result, fund balance in the General Fund increased by approximately \$48,100 despite certain revenue decreases as well as increases in expenditures.

### Using this Annual Report

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

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

# City of Southgate, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2007 and 2006 (in thousands of dollars):

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Assets</b>						
Current assets	\$ 19,199	\$ 17,335	\$ 7,265	\$ 5,845	\$ 26,464	\$ 23,180
Noncurrent assets	62,404	63,854	31,807	32,158	94,211	96,012
Total assets	81,603	81,189	39,072	38,003	120,675	119,192
<b>Liabilities</b>						
Current liabilities	6,010	6,479	1,457	1,497	7,467	7,976
Long-term liabilities	17,386	18,280	10,946	11,795	28,332	30,075
Total liabilities	23,396	24,759	12,403	13,292	35,799	38,051
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	46,232	47,107	19,340	18,902	65,572	66,009
Restricted	11,191	9,374	4,258	3,545	15,449	12,919
Unrestricted	784	(51)	3,071	2,264	3,855	2,213
Total net assets	<u>\$ 58,207</u>	<u>\$ 56,430</u>	<u>\$ 26,669</u>	<u>\$ 24,711</u>	<u>\$ 84,876</u>	<u>\$ 81,141</u>

The City's combined net assets increased 4.6 percent from a year ago, increasing from about \$81 million to about \$85 million. As we look at governmental activities separately from the business-type activities, we can see that net assets increased by \$1.8 million in governmental type and by \$2.0 million in business type. Business-type activities comprise about \$27 million of the total net assets.

Unrestricted net assets, the portion of net assets that can be used to finance day-to-day operations, increased by \$835,000 for governmental activities. The current level of unrestricted net assets for our governmental activities stands at \$784,000, or about 2.9 percent of expenditures.

# City of Southgate, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and as compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Net Assets - Beginning of year</b>	\$ 56,430	\$ 56,261	\$ 24,711	\$ 23,159	\$ 81,141	\$ 79,420
<b>Revenue</b>						
Program revenue:						
Charges for services	5,742	4,756	6,686	6,499	12,428	11,255
Operating grants and contributions	2,665	2,853	-	-	2,665	2,853
Capital grants and contributions	39	89	157	459	196	548
General revenue:						
Property taxes:						
City	9,172	8,303	-	-	9,172	8,303
Sanitation	1,630	1,630	-	-	1,630	1,630
Police and fire	2,765	2,765	-	-	2,765	2,765
Library	735	740	-	-	735	740
Streets	1,557	1,480	-	-	1,557	1,480
EPA	-	-	1,196	589	1,196	589
State-shared revenue	3,202	3,237	-	-	3,202	3,237
Gain (loss) on sale of asset	8	(5)	-	-	8	(5)
Unrestricted investment earnings	1,096	951	171	142	1,267	1,093
Transfers and other revenue	40	40	(40)	(40)	-	-
<b>Total revenue</b>	<b>28,651</b>	<b>26,839</b>	<b>8,170</b>	<b>7,649</b>	<b>36,821</b>	<b>34,488</b>
<b>Program Expenses</b>						
General government	4,521	5,023	-	-	4,521	5,023
Public safety	9,508	9,212	-	-	9,508	9,212
Public works	8,557	8,316	-	-	8,557	8,316
28th District Court	1,122	1,196	-	-	1,122	1,196
Recreation and culture	2,119	2,200	-	-	2,119	2,200
Interest on long-term debt	1,047	723	-	-	1,047	723
Golf course	-	-	544	554	544	554
Water and sewer	-	-	5,668	5,543	5,668	5,543
<b>Total expenses</b>	<b>26,874</b>	<b>26,670</b>	<b>6,212</b>	<b>6,097</b>	<b>33,086</b>	<b>32,767</b>
<b>Change in Net Assets</b>	<b>1,777</b>	<b>169</b>	<b>1,958</b>	<b>1,552</b>	<b>3,735</b>	<b>1,721</b>
<b>Net Assets - End of year</b>	<b>\$ 58,207</b>	<b>\$ 56,430</b>	<b>\$ 26,669</b>	<b>\$ 24,711</b>	<b>\$ 84,876</b>	<b>\$ 81,141</b>

# City of Southgate, Michigan

## Management's Discussion and Analysis (Continued)

### Governmental Activities

The City's total governmental revenues increased by approximately \$1.8 million from the prior year. The City had increases in charges for services, property taxes, and unrestricted investment earnings, which contributed to the increase.

Overall, current year expenses increased from the prior year by approximately \$204,000. Expenses remained relatively consistent with the prior year, despite large increases in health-care costs as well as police and fire overtime. To offset these increases, the City closely monitored its spending in all other areas.

### Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund and the Golf Course Fund. We provide water to residents from the Detroit Water System. We also provide sewage treatment through Wayne County Downriver Sewage Disposal System. In the Golf Course Fund, the two biggest factors affecting business are weather and the economy. Since April 2004, the club house has been under new management and the City continues to focus on improving the operating results of the golf course.

### The City's Funds

The analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2007 include the General Fund, the CDBG Fund, and the Building Authority Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$9,400,000 in the current year. The budget in the General Fund is basically a "maintenance" budget, which means it increases modestly from year to year.

### General Fund Budgetary Highlights

During the current year, actual revenues exceeded budget by \$569,152 primarily due to actual investment earnings exceeding budgeted amounts. The City departments overall stayed within budget with the exception of general government non-departmental and transfers to other funds. Non-departmental actual expenditures exceed budgeted amounts by \$473,393 primarily due to increases in insurance expenses. Transfers to other funds exceeded budget by \$412,021 due to unbudgeted transfers made to the Capital Improvement Fund. Overall, the General Fund's fund balance increased by \$48,117 in the current year, from \$2,044,454 a year ago to \$2,092,571 at June 30, 2007.

# **City of Southgate, Michigan**

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

### **Capital Asset and Debt Administration**

The City continues to collect a dedicated millage approved by the voters in November 2001 for improvements to streets in conjunction with a five-year improvement plan.

At the end of 2006, the City had approximately \$93,000,000 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the City has invested significantly in roads within the City.

### **Economic Factors and Next Year's Budgets and Rates**

The City's budget for next year calls for a freeze on operating property tax rates. This can be accomplished because of the strong growth in our tax base. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions.

We anticipate that the water and sewer rates will have to increase somewhat in 2008. We are in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2008 to discuss the need for such an increase.

### **Contacting the City's Management**

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

# City of Southgate, Michigan

## Statement of Net Assets June 30, 2007

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 3)	\$ 13,443,116	\$ 996,521	\$ 14,439,637	\$ 2,291,754
Receivables - Net (Note 4)	2,914,115	2,399,309	5,313,424	5,526
Internal balances (Note 6)	404,070	(404,070)	-	-
Due from component unit	1,108,260	-	1,108,260	-
Due from other governmental units	1,185,141	-	1,185,141	192,724
Prepaid items and other assets	143,936	11,399	155,335	210,495
Inventories	-	3,032	3,032	-
Restricted assets (Note 9)	-	4,258,422	4,258,422	-
Investment in joint ventures (Note 14)	-	766,264	766,264	-
Net pension asset (Note 12)	452,922	-	452,922	-
Capital assets - Net (Note 5):				
Assets not being depreciated	3,556,420	188,047	3,744,467	-
Assets being depreciated	58,394,876	30,853,527	89,248,403	-
<b>Total assets</b>	<b>81,602,856</b>	<b>39,072,451</b>	<b>120,675,307</b>	<b>2,700,499</b>
<b>Liabilities</b>				
Accounts payable	1,241,079	514,317	1,755,396	28,256
Accrued and other liabilities	660,606	54,909	715,515	-
Deferred revenue (Note 4)	1,096,359	-	1,096,359	-
Due to primary government (Note 6)	-	-	-	1,108,260
Due to other governmental units	722,559	-	722,559	745
Compensated absences and other (Notes 1 and 7):				
Due within one year	1,482,190	-	1,482,190	-
Due in more than one year	2,473,869	132,174	2,606,043	-
Long-term debt (Notes 1 and 7):				
Due within one year	807,002	888,211	1,695,213	-
Due in more than one year	14,912,002	10,813,442	25,725,444	-
<b>Total liabilities</b>	<b>23,395,666</b>	<b>12,403,053</b>	<b>35,798,719</b>	<b>1,137,261</b>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	46,232,292	19,339,921	65,572,213	-
Restricted:				
Street expenses	7,498,156	-	7,498,156	-
Sanitation, police and fire retirement, and other (Note 10)	640,528	-	640,528	-
Southgate/Wyandotte drain operation and maintenance	2,089,405	-	2,089,405	-
Library levy	929,261	-	929,261	-
Narcotics enforcement activity	103,827	-	103,827	-
Sewer debt and capital outlay	-	4,258,422	4,258,422	-
Unrestricted	713,721	3,071,055	3,784,776	1,563,238
<b>Total net assets</b>	<b>\$ 58,207,190</b>	<b>\$ 26,669,398</b>	<b>\$ 84,876,588</b>	<b>\$ 1,563,238</b>

# City of Southgate, Michigan

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
Governmental activities:				
General government	\$ 4,521,306	\$ 1,004,085	\$ 255,027	\$ -
Public safety	9,507,871	67,401	37,092	39,439
Public services	8,556,940	1,817,630	1,616,579	-
Cultural and recreation	2,118,653	1,196,403	709,638	-
28th District Court	1,121,745	1,656,756	46,624	-
Interest on long-term debt	1,047,019	-	-	-
<b>Total governmental activities</b>	<b>26,873,534</b>	<b>5,742,275</b>	<b>2,664,960</b>	<b>39,439</b>
Business-type activities:				
Water and sewer	5,668,320	6,222,621	-	157,043
Golf course	544,225	463,109	-	-
<b>Total business-type activities</b>	<b>6,212,545</b>	<b>6,685,730</b>	<b>-</b>	<b>157,043</b>
<b>Total primary government</b>	<b>\$ 33,086,079</b>	<b>\$ 12,428,005</b>	<b>\$ 2,664,960</b>	<b>\$ 196,482</b>
<b>Component units:</b>				
Tax Increment Financing Authority	\$ 758,441	\$ 18,443	\$ -	\$ 3,640
Downtown Development Authority	90,658	-	-	-
Southeastern Michigan Information Alliance	104,134	349,629	-	-
<b>Total component units</b>	<b>\$ 953,233</b>	<b>\$ 368,072</b>	<b>\$ -</b>	<b>\$ 3,640</b>
General revenues:				
Property taxes:				
City				
Sanitation				
Police and fire				
Library				
Streets				
EPA				
Component unit				
State-shared revenues				
Loss on disposal of capital assets				
Unrestricted investment earnings				
Transfers				
Total general revenues, proceeds, and transfers				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2007**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (3,262,194)	\$ -	\$ (3,262,194)	\$ -
(9,363,939)	-	(9,363,939)	-
(5,122,731)	-	(5,122,731)	-
(212,612)	-	(212,612)	-
581,635	-	581,635	-
(1,047,019)	-	(1,047,019)	-
(18,426,860)	-	(18,426,860)	-
-	711,344	711,344	-
-	(81,116)	(81,116)	-
-	630,228	630,228	-
(18,426,860)	630,228	(17,796,632)	-
-	-	-	(736,358)
-	-	-	(90,658)
-	-	-	245,495
-	-	-	(581,521)
9,172,169	-	9,172,169	-
1,629,709	-	1,629,709	-
2,764,539	-	2,764,539	-
735,131	-	735,131	-
1,556,617	-	1,556,617	-
-	1,196,369	1,196,369	-
-	-	-	1,273,259
3,202,235	-	3,202,235	-
7,736	-	7,736	-
1,096,045	171,413	1,267,458	56,403
40,000	(40,000)	-	-
20,204,181	1,327,782	21,531,963	1,329,662
1,777,321	1,958,010	3,735,331	748,141
56,429,869	24,711,388	81,141,257	815,097
<b>\$ 58,207,190</b>	<b>\$ 26,669,398</b>	<b>\$ 84,876,588</b>	<b>\$ 1,563,238</b>

# City of Southgate, Michigan

## Governmental Funds Balance Sheet June 30, 2007

	Major Funds					
	General Fund	Community Development Block Grant Fund	Building Authority Fund	Street Paving Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and investments	\$ 2,727,899	\$ -	\$ 83,251	\$ 2,654,210	\$ 7,805,435	\$ 13,270,795
Receivables - Net	732,077	948,180	-	71,347	1,162,511	2,914,115
Due from other funds	487,993	171,379	-	1,272	643,811	1,304,455
Due from component unit	22,157	250	-	350,000	735,853	1,108,260
Due from other governmental units	749,014	60,021	-	-	376,106	1,185,141
Prepaid costs and other assets	142,783	1,153	-	-	-	143,936
<b>Total assets</b>	<b>\$ 4,861,923</b>	<b>\$ 1,180,983</b>	<b>\$ 83,251</b>	<b>\$ 3,076,829</b>	<b>\$ 10,723,716</b>	<b>\$ 19,926,702</b>
<b>Liabilities and Fund Balances (Deficit)</b>						
<b>Liabilities</b>						
Accounts payable	\$ 884,007	\$ -	\$ -	\$ 69,933	\$ 255,565	\$ 1,209,505
Accrued and other liabilities	654,674	-	-	-	5,932	660,606
Due to other funds	439,202	232,702	-	-	228,481	900,385
Due to other governmental units	722,559	-	-	-	-	722,559
Deferred revenue	68,910	971,330	-	-	79,169	1,119,409
<b>Total liabilities</b>	<b>2,769,352</b>	<b>1,204,032</b>	<b>-</b>	<b>69,933</b>	<b>569,147</b>	<b>4,612,464</b>
<b>Fund Balances (Deficit)</b>						
Reserved for other purposes (Note 10)	640,528	-	-	-	-	640,528
Unreserved:						
Designated - Reported in:						
General Fund	373,000	-	-	-	-	373,000
Special Revenue Funds	-	-	-	2,000,000	1,330,000	3,330,000
Capital Projects Fund	-	-	-	-	1,340,000	1,340,000
Undesignated - Reported in:						
General Fund	1,079,043	-	-	-	-	1,079,043
Special Revenue Funds	-	(23,049)	-	1,006,896	6,855,240	7,839,087
Capital Projects Fund	-	-	-	-	425,379	425,379
Debt Service Funds	-	-	83,251	-	203,950	287,201
<b>Total fund balances (deficit)</b>	<b>2,092,571</b>	<b>(23,049)</b>	<b>83,251</b>	<b>3,006,896</b>	<b>10,154,569</b>	<b>15,314,238</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 4,861,923</b>	<b>\$ 1,180,983</b>	<b>\$ 83,251</b>	<b>\$ 3,076,829</b>	<b>\$ 10,723,716</b>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	61,951,296
Net pension asset is not a financial resource and is not reported in the funds	452,922
Grant revenue not collected within 60 days of year end is recognized as deferred revenue, but shown as governmental revenue	23,050
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(19,675,063)
A portion of Internal Service Funds is included as part of governmental activities	140,747
<b>Net assets of governmental activities</b>	<b>\$ 58,207,190</b>

# City of Southgate, Michigan

## Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2007

	Major Funds					Total Governmental Funds
	General Fund	Community Development Block Grant Fund	Building Authority Fund	Street Paving Fund	Other Nonmajor Governmental Funds	
<b>Revenues</b>						
Property taxes	\$ 13,566,417	\$ -	\$ -	\$ 1,556,617	\$ 735,131	\$ 15,858,165
Federal sources	6,514	153,219	-	-	-	159,733
State sources	3,377,821	-	-	-	1,644,650	5,022,471
Charges for services	1,047,920	-	-	-	134,218	1,182,138
Licenses and permits	536,647	-	-	-	-	536,647
Fines and forfeitures	1,469,360	-	-	-	-	1,469,360
Interest and rentals	1,084,014	-	23,917	90,446	429,019	1,627,396
Special assessments	-	-	-	-	1,352,033	1,352,033
Other	68,535	-	684,538	-	388,166	1,141,239
<b>Total revenues</b>	<b>21,157,228</b>	<b>153,219</b>	<b>708,455</b>	<b>1,647,063</b>	<b>4,683,217</b>	<b>28,349,182</b>
<b>Expenditures - Current</b>						
General government	4,838,790	-	-	-	265,097	5,103,887
Public services	4,458,991	160,195	-	568,206	3,177,175	8,364,567
Public safety	9,385,194	-	-	-	133,050	9,518,244
Cultural and recreation	1,509,525	-	-	-	-	1,509,525
Capital outlay	-	-	-	-	368,516	368,516
Debt service	-	-	1,098,441	-	233,002	1,331,443
<b>Total expenditures</b>	<b>20,192,500</b>	<b>160,195</b>	<b>1,098,441</b>	<b>568,206</b>	<b>4,176,840</b>	<b>26,196,182</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>964,728</b>	<b>(6,976)</b>	<b>(389,986)</b>	<b>1,078,857</b>	<b>506,377</b>	<b>2,153,000</b>
<b>Other Financing Sources (Uses)</b>						
Proceeds from issuance of debt	-	-	-	-	313,000	313,000
Transfers in	-	-	413,603	-	1,020,809	1,434,412
Transfers out	(916,611)	-	-	-	(477,801)	(1,394,412)
<b>Total other financing sources (uses)</b>	<b>(916,611)</b>	<b>-</b>	<b>413,603</b>	<b>-</b>	<b>856,008</b>	<b>353,000</b>
<b>Net Change in Fund Balances</b>	<b>48,117</b>	<b>(6,976)</b>	<b>23,617</b>	<b>1,078,857</b>	<b>1,362,385</b>	<b>2,506,000</b>
<b>Fund Balances (Deficit) - Beginning of year</b>	<b>2,044,454</b>	<b>(16,073)</b>	<b>59,634</b>	<b>1,928,039</b>	<b>8,792,184</b>	<b>12,808,238</b>
<b>Fund Balances (Deficit) - End of year</b>	<b>\$ 2,092,571</b>	<b>\$ (23,049)</b>	<b>\$ 83,251</b>	<b>\$ 3,006,896</b>	<b>\$ 10,154,569</b>	<b>\$ 15,314,238</b>

# City of Southgate, Michigan

## Governmental Funds Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

**Net Change in Fund Balances - Total Governmental Funds** \$ 2,506,000

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	1,291,850
Depreciation on capital assets reported on governmental funds report as capital outlays expenditures	(2,631,276)
Governmental funds do not report a gain or loss on the disposal of assets, but record proceeds from the disposal as revenue; in the statement of activities, the gain or loss on disposal is calculated based on the net book value of the asset and the proceeds received	5,554
Change in the net pension asset is recorded on the statement of activities	(116,113)
Net change in revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	6,967
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	772,057
Capital lease proceeds are not reported as financing sources on the statement of activities	(313,000)
Decrease in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when incurred in the statement of activities	285,331
Internal Service Funds are also included as governmental activities	<u>(30,049)</u>

**Change in Net Assets of Governmental Activities** **\$ 1,777,321**

# City of Southgate, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2007

	Enterprise Funds			Internal Service Fund - Workers' Compensation
	Water and Sewer	Golf Course	Total	
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 749,965	\$ 131,674	\$ 881,639	\$ 287,203
Receivables - Net	2,397,995	1,314	2,399,309	-
Due from other funds	6,380	-	6,380	-
Inventories	3,032	-	3,032	-
Other	11,399	-	11,399	-
Total current assets	3,168,771	132,988	3,301,759	287,203
Noncurrent assets:				
Restricted assets (Note 9)	4,258,422	-	4,258,422	-
Investment in joint ventures (Note 14)	766,264	-	766,264	-
Capital assets	30,324,968	716,606	31,041,574	-
Total noncurrent assets	35,349,654	716,606	36,066,260	-
Total assets	38,518,425	849,594	39,368,019	287,203
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	470,189	23,079	493,268	2,622
Accrued and other liabilities	43,348	11,561	54,909	50,000
Due to other funds	85,115	325,335	410,450	-
Current portion of long-term debt	888,211	-	888,211	-
Total current liabilities	1,486,863	359,975	1,846,838	52,622
Noncurrent liabilities:				
Provision for compensated absences - Net of current portion	132,174	-	132,174	-
Long-term debt - Net of current portion	10,813,442	-	10,813,442	-
Total noncurrent liabilities	10,945,616	-	10,945,616	-
Total liabilities	12,432,479	359,975	12,792,454	52,622
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	18,623,315	716,606	19,339,921	-
Restricted	4,258,422	-	4,258,422	-
Unrestricted	3,204,209	(226,987)	2,977,222	234,581
Total net assets	\$ 26,085,946	\$ 489,619	26,575,565	\$ 234,581
Amounts reported for business-type activities in the statement of net assets are different because a portion of Internal Service Funds is included as part of business-type activities			93,833	
Net assets of business-type activities			\$ 26,669,398	

# City of Southgate, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Enterprise Funds			Governmental Activities - Internal Service Fund - Workers' Compensation
	Water and Sewer	Golf Course	Total	
<b>Operating Revenues</b>				
Water consumption	\$ 2,324,492	\$ -	\$ 2,324,492	\$ -
Sewage disposal charges	2,973,929	-	2,973,929	-
Assessments	702,704	-	702,704	-
Other	221,713	-	221,713	45,000
Greens fees and miscellaneous	-	463,109	463,109	-
Total operating revenues	6,222,838	463,109	6,685,947	45,000
<b>Operating Expenses</b>				
Cost of water produced/purchased	1,367,784	-	1,367,784	-
Cost of sewage treatment	1,176,440	-	1,176,440	-
Operation and maintenance	1,450,402	448,508	1,898,910	-
Overhead and other	451,519	54,404	505,923	-
Depreciation	883,956	41,313	925,269	-
Contractual services	-	-	-	109,573
Total operating expenses	5,330,101	544,225	5,874,326	109,573
<b>Operating Income (Loss)</b>	892,737	(81,116)	811,621	(64,573)
<b>Nonoperating Revenue (Expenses)</b>				
Property tax collections - EPA levy	1,196,369	-	1,196,369	-
Loss on sale of asset	(217)	-	(217)	-
Investment income	159,577	6,040	165,617	14,491
Interest expense	(312,390)	-	(312,390)	-
<b>Income (Loss) - Before contributions</b>	1,936,076	(75,076)	1,861,000	(50,082)
<b>Capital Contributions - Donated water and sewer lines</b>	157,043	-	157,043	-
<b>Transfers Out</b>	(40,000)	-	(40,000)	-
<b>Change in Net Assets</b>	2,053,119	(75,076)	1,978,043	(50,082)
<b>Net Assets - Beginning of year</b>	24,032,827	564,695	24,597,522	284,663
<b>Net Assets - End of year</b>	<b>\$ 26,085,946</b>	<b>\$ 489,619</b>	<b>\$ 26,575,565</b>	<b>\$ 234,581</b>
<b>Net Change in Net Assets</b>			\$ 1,978,043	
<b>Total Enterprise Funds - Internal Service Funds are also included as business-type activities</b>			(20,033)	
<b>Change in Net Assets of Business-type Activities</b>			<b>\$ 1,958,010</b>	

# City of Southgate, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

	Enterprise Funds		
	Water and Sewer	Golf Course	Internal Service Fund - Workers' Compensation
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 5,418,019	\$ 463,917	\$ 45,000
Payments to suppliers	(2,452,781)	(403,690)	-
Payments to employees	(1,888,119)	(53,231)	-
Internal activity - Payments from other funds	1,192	-	-
Claims paid	-	-	(128,466)
Net cash provided by (used in) operating activities	1,078,311	6,996	(83,466)
<b>Cash Flows from Noncapital and Related Financing Activities -</b>			
Interfund transfers	(40,000)	-	-
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchase of capital assets	(205,675)	(10,673)	-
Proceeds from sale of assets	3,445	-	-
Principal and interest paid on capital debt	(1,305,671)	-	-
Property tax collection	1,196,369	-	-
Net cash used in capital and related financing activities	(311,532)	(10,673)	-
<b>Cash Flows from Investing Activities - Interest received on investments</b>	159,577	6,040	14,491
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	886,356	2,363	(68,975)
<b>Cash and Cash Equivalents - Beginning of year</b>	1,377,481	129,311	356,178
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 2,263,837</b>	<b>\$ 131,674</b>	<b>\$ 287,203</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>			
Cash and investments	\$ 749,965	\$ 131,674	\$ 287,203
Restricted investments (Note 9)	1,513,872	-	-
Total cash and cash equivalents	<b>\$ 2,263,837</b>	<b>\$ 131,674</b>	<b>\$ 287,203</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>			
Operating income (loss)	\$ 892,737	\$ (81,116)	\$ (64,573)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	883,956	41,313	-
Changes in assets and liabilities:			
Receivables	(487,851)	808	-
Other assets	(316,968)	-	-
Accounts payable	91,443	6,067	(18,893)
Accrued and other liabilities	(7,340)	1,173	-
Compensated absence	21,142	-	-
Interfund activity	1,192	38,751	-
Net cash provided by (used in) operating activities	<b>\$ 1,078,311</b>	<b>\$ 6,996</b>	<b>\$ (83,466)</b>

**Noncash Investing, Capital, and Financing Activities** - The City had asset additions of \$157,043 that were contributed to the City.

# City of Southgate, Michigan

## Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2007

	Pension and Other Employee Benefit Trust Funds	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 6,650,859	\$ 213,600
Investments:		
U.S. government securities	6,137,899	-
Stocks and mutual funds	59,600,094	-
Bonds	3,688,780	-
Other	2,126,792	-
Receivables - Employer	947,951	-
Total assets	79,152,375	<b><u>\$ 213,600</u></b>
<b>Liabilities</b>		
Accounts payable	30,024	\$ 10,904
Due to other governmental units	-	42,868
Cash bonds and deposits	-	159,828
Total liabilities	30,024	<b><u>\$ 213,600</u></b>
<b>Net Assets</b> - Held in trust for pension and other employee benefits	<b><u>\$ 79,122,351</u></b>	

# City of Southgate, Michigan

## Fiduciary Funds Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2007

	Pension and Other Employee Benefit Trust Funds
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 1,537,076
Net increase in fair value of investments	9,601,228
Investment expense	<u>(554,900)</u>
Net investment income	10,583,404
Contributions:	
Employer	3,874,720
Employee	<u>421,554</u>
Total contributions	<u>4,296,274</u>
Total additions	14,879,678
<b>Deductions</b>	
Benefit payments	6,253,931
Refunds of contributions	<u>443,997</u>
Total deductions	<u>6,697,928</u>
<b>Net Increase in Net Assets Held for Pension Benefits</b>	8,181,750
<b>Net Assets Held in Trust for Pension and Other Employee Benefits</b>	
Beginning of year	<u>70,940,601</u>
End of year	<u><u>\$ 79,122,351</u></u>

# City of Southgate, Michigan

## Component Units Statement of Net Assets June 30, 2007

	Tax Increment Financing Authority	Downtown Development Authority	Southeastern Michigan Information Alliance	Totals
<b>Assets</b>				
Cash and investments	\$ 1,650,867	\$ 524,696	\$ 116,191	\$ 2,291,754
Other receivables	5,526	-	-	5,526
Due from other governmental units	-	-	191,979	191,979
Due from component units	745	-	-	745
Other	-	-	210,495	210,495
Total assets	1,657,138	524,696	518,665	2,700,499
<b>Liabilities</b>				
Accounts payable	495	11,947	15,814	28,256
Due to primary government	852,220	-	256,040	1,108,260
Due to component units	-	745	-	745
Total liabilities	852,715	12,692	271,854	1,137,261
<b>Net Assets - Unrestricted</b>	<b>\$ 804,423</b>	<b>\$ 512,004</b>	<b>\$ 246,811</b>	<b>\$ 1,563,238</b>

# City of Southgate, Michigan

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	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>
<b>Tax Increment Financing Authority -</b> Redevelopment	\$ 758,441	\$ 18,443	\$ 3,640
<b>Downtown Development Authority -</b> General government	90,658	-	-
<b>Southeastern Michigan Information Alliance -</b> Public safety	<u>104,134</u>	<u>349,629</u>	<u>-</u>
Total governmental activities	<u><b>\$ 953,233</b></u>	<u><b>\$ 368,072</b></u>	<u><b>\$ 3,640</b></u>

General revenues:

Property taxes

Interest

Total general revenues

**Change in Net Assets**

**Net Assets** - Beginning of year

**Net Assets** - End of year

**Component Units  
Statement of Activities  
Year Ended June 30, 2007**

Net (Expense) Revenue and Changes in Net Assets			
Tax Increment Financing Authority	Downtown Development Authority	Southeastern Michigan Information Alliance	Total
\$ (736,358)	\$ -	\$ -	\$ (736,358)
-	(90,658)	-	(90,658)
-	-	245,495	245,495
(736,358)	(90,658)	245,495	(581,521)
1,026,072	247,187	-	1,273,259
35,540	19,547	1,316	56,403
1,061,612	266,734	1,316	1,329,662
325,254	176,076	246,811	748,141
479,169	335,928	-	815,097
<b>\$ 804,423</b>	<b>\$ 512,004</b>	<b>\$ 246,811</b>	<b>\$ 1,563,238</b>

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

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

### **Reporting Entity**

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

**Blended Component Units** - The City of Southgate Building Authority (the "Building Authority") is governed by a board that is appointed by the mayor and approved by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings. The City is involved in the purchase, by lease contract, of recreation facilities and related improvements and a library building addition from the Building Authority. Building Authority operations consist of the issuance and repayment of debt and the construction of facilities. The financial statements of the Building Authority are consolidated with the financial statements of the City as follows:

- a. The assets of the Building Authority held for payment of outstanding bond issues are reported in the Debt Service Funds.
- b. Fixed assets (completed construction projects) and remaining amounts due on bonds issued by the Building Authority are reported in the governmental activities statement of net assets.

**Discretely Presented Component Units** - The Tax Increment Financing Authority's (the "Authority") governing body, which consists of 11 individuals, is appointed by the mayor and approved by the City Council. In addition, the Authority's budget is subject to approval by the City Council. Complete financial statements can be obtained by writing to the City of Southgate.

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

The Downtown Development Authority (the “DDA”) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA’s governing body, which consists of nine individuals, is appointed by the mayor and approved by the City Council. In addition, the DDA’s budget is subject to approval by the City.

The Economic Development Corporation (the “Corporation”) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation’s governing body, which consists of nine individuals, is appointed by the mayor and approved by the City Council.

The Southeastern Michigan Information Alliance (the “SMIA”) was created to enhance public safety through the sharing of technology and information resources to support the public safety services of the member communities. The Alliance’s governing body consists of one representative appointed by each governmental unit who is a member of SMIA.

**Jointly Governed Organization** - Jointly governed organizations are discussed in Note 14.

### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

## **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 who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

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

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

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

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

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The City reports the following major governmental funds:

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

**Community Development Block Grant Fund** - The Community Development Block Grant Fund accounts for community development grants and rehabilitation lien activity.

**Building Authority Fund** - The Building Authority Fund consists of operations related to the issuance and repayment of debt and the construction of facilities.

**Street Paving Fund** - The Street Paving Fund consists of operations related to the maintenance and construction of the City's roads.

The City reports the following major proprietary funds:

**Water and Sewer Fund** - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

**Golf Course Fund** - The Golf Course Fund accounts for the activities of the clubhouse operations and golf course operations.

Additionally, the City reports the following fund types:

**Internal Service Fund** - The Internal Service Fund accounts for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, mainly on a cost-reimbursement basis.

**Pension and Other Employee Benefit Trust Funds** - The Pension and Other Employee Benefit Trust Funds account for the activities of the Policemen and Firemen and Municipal Employees' Retirement Systems and their related retiree healthcare funds, which accumulate resources for pension benefit payments to qualified police and fire and municipal retirees.

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

**Agency Funds** - Agency Funds account for assets held by the City for individuals, organizations, other governments, or other funds. They are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for water and sewer sales and greens fees. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. When an expense has been incurred for purposes for which both restricted and unrestricted resources are available, it is the City's policy to first apply restricted resources.

### **Assets, Liabilities, and Net Assets or Equity**

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

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

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

**Property Taxes** - 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 2006 taxable valuation of the City totaled \$847 million, a portion of which is captured by the Downtown Development Authority and the Tax Increment Finance Authority, on which ad valorem taxes levied consisted of 10.1366 mills for the City's operating purposes, 2.1160 mills for refuse, 3.799 mills for Act 345 police and fire retirement, .9130 mills for the library's operating purposes, 1.9334 mills for road construction, and 1.3805 mills for the EPA judgment levy. The ad valorem taxes levied raised \$8,100,000 for operation, \$1,700,000 for refuse, \$3,000,000 for police and fire retirement, \$700,000 for the library's operation, \$1,600,000 for road construction, and \$1,200,000 for the EPA judgment levy. These amounts are recognized in the respective General, Special Revenue, Water and Sewer, and Debt Service Funds financial statements as taxes receivable - current or as tax revenue.

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

**Restricted Assets** - The bonds of the Water and Sewer Fund require amounts to be set aside for debt service principal and interest, and a bond reserve. In addition, a portion of the water and sewer user fee has been restricted by ordinance to be used solely for the purpose of making capital improvements in the City's water and sewer system.

**Capital Assets** - Capital assets, which include property, plant, equipment, 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 government as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

Infrastructure	30-50 years
Water and sewer distribution systems	50-75 years
Land improvements	20 years
Buildings and building improvements	50 years
Vehicles	8-10 years
Equipment and machinery	10-20 years

**Compensated Absences (Vacation and Sick Leave)** - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Employees may receive payment of the accumulated sick leave and vacation balance at the rate determined by union contracts, which vary from unit to unit. All vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only for employee terminations as of year end.

**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 assets. Bond premiums and discounts, as well as issuance costs, 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 reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

**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**

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

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

1. On or before 90 days prior to the commencement of the fiscal and budget year (July 1), the mayor shall prepare and submit to the Council a complete itemized proposed budget for the next fiscal year.
2. A public hearing on the budget shall be held before its final adoption, at such time and place as the Council shall direct, and notice of such public hearing shall be published at least one month in advance thereof by the clerk.

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2007

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

- The Council shall, on or before 30 days prior to the commencement of the next fiscal year, adopt a budget for the ensuing fiscal year.

Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2007 has not been calculated. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund is presented as required supplemental information.

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

- Operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."
- Reimbursements from other funds have been included in revenue, rather than as a reduction of general government nondepartmental expenditures.
- The Community Development Block Grant Fund has not been budgeted on a fiscal year basis consistent with the City, and therefore, the financial activity has been omitted from the required supplemental information.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

General Fund	Final Budget	Actual	Variance
General government:			
Executive	\$ 164,787	\$ 167,762	\$ (2,975)
Attorney	156,000	156,712	(712)
Clerk	163,804	163,959	(155)
Treasurer	215,208	223,910	(8,702)
Nondepartmental	3,165,732	3,639,125	(473,393)
Public safety - Police and Fire Civil Service Commission	5,500	14,530	(9,030)
Public works:			
Public services	1,841,362	1,845,882	(4,520)
Building	451,380	477,261	(25,881)
Planning	14,140	22,846	(8,706)
City garage	418,764	490,431	(71,667)
Cultural and recreation:			
Recreation	469,762	473,096	(3,334)
Civic center	800,332	878,721	(78,389)
Cultural Commission	8,960	13,080	(4,120)
Transfers to other funds	604,590	1,016,611	(412,021)

## **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

Other than described below, these unfavorable variances in the General Fund were caused by unanticipated expenditures that became necessary during the year.

Transfers to other funds represent resources that became available after utility tax cases were settled during the year for amounts that were less than the original fund designation. These funds were transferred to the Capital Improvement Fund.

Nondepartmental expenditures were over budget due primarily to the City's change in insurance carriers. During the year, the City paid MMRMA for all open claims and outstanding reserves. As these claims are settled, the City will not be liable to make any further payments, but will receive a refund for those claims settled for less than the reserved amount.

**Fund Deficits** - The City has accumulated fund deficit in the Community Development Block Grant Fund in the amount of \$23,049. The deficit is a result of federal reimbursement of eligible costs not being received within 60 days of the year end. The City expects to use future grant funding to eliminate the deficit.

## **Note 3 - Deposits and Investments**

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

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

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2007

### Note 3 - Deposits and Investments (Continued)

The City has designated one bank for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized under the State statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

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

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$19,278,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

Investment Type (All in Pension Funds)	Fair Value	Investment Maturities		
		Less than 5 Years	5 to 15 Years	Over 15 Years
U.S. Treasury notes	\$ 6,137,899	\$ 5,338,024	\$ 799,875	\$ -
Mortgage-backed securities	2,126,792	93,131	125,348	1,908,313
Corporate bonds	2,913,649	739,590	1,157,234	1,016,825
Corporate-backed securities	651,552	229,691	258,983	162,878
Foreign bonds	123,579	-	123,579	-
Total	<u>\$ 11,953,471</u>	<u>\$ 6,400,436</u>	<u>\$ 2,465,019</u>	<u>\$ 3,088,016</u>

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2007

### Note 3 - Deposits and Investments (Continued)

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

Investment Type (all in Pension Funds)	Fair Value	Rating	Rating Organization
Mortgage-backed securities	\$ 2,126,792	Not rated	
Corporate bonds	1,016,825	WR	Moody's
Corporate bonds	811,579	AAA	Moody's
Corporate bonds	346,617	AA3	Moody's
Corporate bonds	222,267	AA2	Moody's
Corporate bonds	132,425	A3	Moody's
Corporate bonds	132,821	A2	Moody's
Corporate bonds	497,808	A1	Moody's
Corporate bonds	68,280	BAA3	Moody's
Corporate bonds	115,739	BAA2	Moody's
Corporate bonds	300,513	BAA1	Moody's
Corporate bonds	43,906	BA1	Moody's
Money market funds	3,931,884	AAA	Moody's
Pooled investments	11,719,032	Not rated	

**Foreign Currency Risk** - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The pension system restricts the amount of investments in foreign currency-denominated investments to 5 percent of total pension system investments. The following securities are subject to foreign currency risk:

Investment Type (All in Pension Funds)	Currency	Maturity	Fair Value
Pooled foreign investments	Various	N/A	\$ 3,488,374

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2007

### Note 4 - Receivables and Deferred Revenue

Receivables as of year end are as follows:

	Governmental Activities			Proprietary Funds		Total	Component
	General Fund	Community Development Block Grant	Nonmajor and Other Funds	Water and Sewer	Golf Course		Unit
Receivables:							
Taxes	\$ 706,121	\$ -	\$ 33,690	\$ -	\$ -	\$ 739,811	\$ -
Liens	-	948,180	-	-	-	948,180	-
Special assessments	-	-	973,549	-	-	973,549	-
Customer	-	-	-	2,397,093	-	2,397,093	-
Interest and other	25,956	-	155,272	902	1,314	183,444	5,526
Net receivables	<u>\$ 732,077</u>	<u>\$ 948,180</u>	<u>\$ 1,162,511</u>	<u>\$ 2,397,995</u>	<u>\$ 1,314</u>	<u>\$ 5,242,077</u>	<u>\$ 5,526</u>

The City has not recorded an allowance for potential uncollectible amounts related to the receivables discussed above because management deems all receivables to be collectible.

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

	Unavailable	Unearned
Community Development Block Grant:		
Liens	\$ -	\$ 948,280
Reimbursements	23,050	-
Grants received prior to meeting all eligibility requirements	-	148,079
Total	<u>\$ 23,050</u>	<u>\$ 1,096,359</u>

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets

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

	Balance July 1, 2006	Additions	Deletions	Adjustments	Balance June 30, 2007
<b>Governmental Activities</b>					
Capital assets not being depreciated:					
Land	\$ 3,382,650	\$ 1,212	\$ -	\$ -	\$ 3,383,862
Construction in progress	104,889	67,669	-	-	172,558
Subtotal	3,487,539	68,881	-	-	3,556,420
Capital assets being depreciated:					
Land improvements	2,265,794	36,678	-	-	2,302,472
Buildings and improvements	32,890,094	339,988	-	-	33,230,082
Vehicles	2,534,477	173,353	(245,032)	494,055	2,956,853
Equipment and machinery	7,838,184	107,826	(40,798)	-	7,905,212
Infrastructure	60,276,920	603,634	-	-	60,880,554
Subtotal	105,805,469	1,261,479	(285,830)	494,055	107,275,173
Accumulated depreciation:					
Land improvements	692,000	81,696	(5,763)	-	767,933
Buildings and improvements	6,592,764	670,290	-	-	7,263,054
Vehicles	1,437,073	140,868	(218,425)	494,055	1,853,571
Equipment and machinery	5,871,421	317,025	(28,686)	-	6,159,760
Infrastructure	31,414,582	1,421,397	-	-	32,835,979
Subtotal	46,007,840	2,631,276	(252,874)	494,055	48,880,297
Net capital assets being depreciated	59,797,629	(1,369,797)	(32,956)	-	58,394,876
Net capital assets	\$ 63,285,168	\$ (1,300,916)	\$ (32,956)	\$ -	\$ 61,951,296

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets (Continued)

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
<b>Business-type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 169,444	\$ -	\$ -	\$ 169,444
Construction in progress	-	18,603	-	18,603
Subtotal	169,444	18,603	-	188,047
Capital assets being depreciated:				
Land improvements	627,259	4,449	-	631,708
Water and sewer distribution systems	42,390,743	302,220	-	42,692,963
Buildings and building improvements	901,853	7,542	-	909,395
Vehicles	1,426,792	34,536	(31,315)	1,430,013
Equipment and machinery	781,788	6,039	(49,732)	738,095
Subtotal	46,128,435	354,786	(81,047)	46,402,174
Accumulated depreciation:				
Land improvements	215,994	16,430	-	232,424
Water and sewer distribution systems	12,379,664	764,246	-	13,143,910
Buildings and building improvements	315,589	18,218	-	333,807
Vehicles	1,101,078	96,865	(27,653)	1,170,290
Equipment and machinery	688,440	29,510	(49,734)	668,216
Subtotal	14,700,765	925,269	(77,387)	15,548,647
Net capital assets being depreciated	31,427,670	(570,483)	(3,660)	30,853,527
Net capital assets	<u>\$ 31,597,114</u>	<u>\$ (551,880)</u>	<u>\$ (3,660)</u>	<u>\$ 31,041,574</u>

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 1,302,665
Public safety	303,582
Public works	345,367
Recreation and culture	614,231
District Court	<u>65,431</u>

Total governmental activities \$ 2,631,276

Business-type activities:

Water and sewer	\$ 883,956
Golf	<u>41,313</u>

Total business-type activities \$ 925,269

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2007

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Proprietary Fund - Golf Course Fund	\$ 98,751
	Proprietary Fund - Water and Sewer Fund	1,954
	Community Development Block Grant Fund	232,702
	Other governmental funds	<u>154,586</u>
	Total General Fund	487,993
Community Development Block Grant Fund	Proprietary Fund - Water and Sewer Fund	83,161
	General Fund	20,618
	Other governmental funds	<u>67,600</u>
	Total Community Development Block Grant Fund	171,379
Street Paving Fund	General Fund	1,272
Other governmental funds	Proprietary Fund - Golf Course Fund	224,089
	General Fund	414,768
	Other governmental funds	<u>4,954</u>
	Total other governmental funds	<u>643,811</u>
	Total governmental funds	<u>\$ 1,304,455</u>
Water and Sewer Fund	Golf Course Fund	\$ 2,495
	General Fund	2,544
	Other governmental funds	<u>1,341</u>
	Total Proprietary Funds	<u>\$ 6,380</u>

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2007

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Receivable Fund	Payable Fund	Amount
<b>Due to/from Component Units</b>		
General Fund	Southeastern Michigan Information Alliance	\$ 22,157
Community Development Block Grant Fund	Tax Increment Finance Authority	250
Street Paving Fund	Tax Increment Finance Authority	350,000
Other governmental funds	Tax Increment Finance Authority	501,970
	Southeastern Michigan Information Alliance	<u>233,883</u>
	Total other governmental funds	<u>735,853</u>
	Total component units owing to primary government	<u>\$ 1,108,260</u>

### Interfund Transfers

	Transfers Out			Total
	General Fund	Other Governmental Funds	Proprietary Funds	
Transfers in:				
Building Authority Fund	\$ 304,590 (1)	\$ 109,013 (4)	\$ -	\$ 413,603
Other governmental funds	<u>612,021 (2)</u>	<u>368,788 (3)</u>	<u>40,000</u>	<u>1,020,809</u>
Total	<u>\$ 916,611</u>	<u>\$ 477,801</u>	<u>\$ 40,000</u>	<u>\$ 1,434,412</u>

(1) Transfers for capital expenditures

(2) Transfers of \$412,021 were for capital expenditures and \$200,000 were for operations

(3) Transfers of \$77,175 were for debt service and \$291,613 were for operations

(4) Transfers for debt service

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2007

### Note 7 - Long-term Debt

The government 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 government. Installment purchase agreements and capital leases are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Original Amount	Interest Rate Range	Maturity Payment Range	Principal Maturity Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>									
General obligation bonds:									
Library Building Authority Refunding Bonds	\$ 1,515,000	2.0%-4.4%	2023	\$60,000- \$105,000	\$ 1,325,000	\$ -	\$ 60,000	\$ 1,265,000	\$ 60,000
2000 Ice Arena Building Authority - Partially refunded	3,750,000	5.0%	2010	\$140,000- \$175,000	620,000	-	140,000	480,000	150,000
2005 Ice Arena Building Authority Refunding Bonds	2,815,000	3.0%-4.0%	2021	\$25,000- \$295,000	2,815,000	-	25,000	2,790,000	25,000
Less deferred amount on refunding					(195,000)	-	(13,000)	(182,000)	(13,000)
2002 Recreation Facility Building Authority - Partially refunded	9,995,000	4.25%-4.5%	2015	\$265,000- \$380,000	2,705,000	-	265,000	2,440,000	280,000
2005 Recreation Facility Building Authority Refunding Bonds	6,665,000	3.25%-4.5%	2026	\$20,000- \$685,000	6,625,000	-	20,000	6,605,000	20,000
Less deferred amount on refunding					(315,000)	-	(15,750)	(299,250)	(15,750)
2000 Michigan Transportation Fund installment purchase agreements	695,000	6.0%	2014	\$50,000- \$75,000	525,000	-	50,000	475,000	50,000
2003 police computer system installment purchase agreement	700,000	3.19%	2013	\$66,606- \$79,641	511,843	-	66,606	445,237	68,630
Parking lot improvements installment purchase agreement	649,500	5.17%	2018	\$43,300	476,300	-	43,300	433,000	43,300
City of Southgate aerial ladder fire truck installment purchase agreement	614,899	4.93%	2010	\$65,904- \$75,977	283,379	-	65,904	217,475	69,108
28th District Court expansion installment purchase agreement	950,000	4.35%	2018	\$53,406- \$80,607	801,539	-	53,046	748,493	54,704
2006 City Hall heating/cooling capital lease	313,000	4.98%	2021	\$11,951 \$29,664	-	313,000	11,951	301,049	15,010
Total governmental activities					<u>\$ 16,178,061</u>	<u>\$ 313,000</u>	<u>\$ 772,057</u>	<u>\$ 15,719,004</u>	<u>\$ 807,002</u>
Tax tribunal	N/A	N/A	N/A	N/A	\$ 412,021	\$ -	\$ 412,021	\$ -	\$ -
Self-insurance claims	N/A	N/A	N/A	N/A	753,000	132,000	-	885,000	442,500
Compensated absence	N/A	N/A	N/A	N/A	3,076,369	-	5,310	3,071,059	1,039,690
Total compensated absence and other					<u>\$ 4,241,390</u>	<u>\$ 132,000</u>	<u>\$ 417,331</u>	<u>\$ 3,956,059</u>	<u>\$ 1,482,190</u>

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2007

### Note 7 - Long-term Debt (Continued)

	Original Amount	Interest Rate Range	Maturity Payment Range	Principal Maturity Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type Activities</b>									
General obligation bonds:									
Water and Sewer Bond 1993	\$ 1,545,000	4.9%-5.15%	2005	\$110,000	\$ -	\$ -	\$ -	\$ -	\$ -
Water and Sewer Bond 1987	1,700,000	7.3%-6.0%	2006	\$150,000	150,000	-	150,000	-	-
Sewage Disposal System Bonds (17 issues)	17,922,267	2.0%-5.45%	2022	\$843,281- \$1,031,270	12,121,294	-	843,281	11,278,013	870,411
Tank Rehabilitation Bonds	423,640	8.9%	2027	\$17,800- \$31,751	423,640	-	-	423,640	17,800
Total business-type activities					\$ 12,694,934	\$ -	\$ 993,281	\$ 11,701,653	\$ 888,211

The Building Authority bonds represent the financing to construct the Fun and Fitness Center, ice arena, and library expansion. The assets of the Tax Increment Financing Authority district have been pledged for repayment of the Center debt.

Annual debt service requirements to maturity for the above obligations are as follows (other than tax tribunal, self-insurance claims, and compensated absences):

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 807,002	\$ 683,818	\$ 1,490,820	\$ 888,211	\$ 282,456	\$ 1,170,667
2009	846,462	647,163	1,493,625	900,701	265,311	1,166,012
2010	880,311	609,093	1,489,404	930,230	235,464	1,165,694
2011	835,259	569,352	1,404,611	947,753	219,053	1,166,806
2012	876,286	534,328	1,410,614	984,764	188,782	1,173,546
2013-2017	4,541,979	2,084,009	6,625,988	4,907,483	579,493	5,486,976
2018-2022	4,299,705	1,125,967	5,425,672	2,017,755	234,110	2,251,865
2023-2027	2,632,000	289,234	2,921,234	124,756	3,854	128,610
Total	\$ 15,719,004	\$ 6,542,964	\$ 22,261,968	\$ 11,701,653	\$ 2,008,523	\$ 13,710,176

Total interest incurred for the City for the year approximated \$1,360,000.

### Note 8 - 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 activity since January 1, 2007 is as follows:

Cumulative surplus at July 1, 2006	\$ 2,811
Building permit revenue	451,471
Less direct costs and indirect costs	<u>(531,333)</u>
Cumulative deficit at June 30, 2007	<u>\$ (77,051)</u>

### Note 9 - Restricted Assets

#### Enterprise Funds

A portion of the water and sewer user fee has been restricted by ordinance to be used solely for the purpose of making capital improvements in the City's water and sewer system. In addition, restricted assets result from the establishment of debt reserves related to Wayne County Sewage Disposal System bonds. The restricted assets at June 30, 2007 consist of the following:

User fee - Cash and certificates of deposit	\$ 1,513,872
Wayne County Sewage Disposal System bonds - Assets held at the County for future debt payments	<u>2,744,550</u>
Total restricted assets	<u>\$ 4,258,422</u>

Net assets in the amount of \$4,258,422 have been restricted. This amount represents restricted assets arising from the water and sewer public improvement, program user charge, as well as unspent property tax collections remitted to the County for future debt service payments on the Wayne County bonds noted above.

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2007

### Note 10 - Reserved and Designated Fund Balances

The City has reserved fund balances in the following funds:

General Fund:

Unspent property tax proceeds - Sanitation	\$ 528,204
Unspent property tax proceeds - Police and fire pension	<u>112,324</u>
Total General Fund	<u>\$ 640,528</u>

The City has designated fund balance in the following funds:

General Fund:

Workers' compensation	\$ 200,000
Property acquisition	37,000
Computer software	100,000
Equipment - Bobcat	<u>36,000</u>
Total General Fund	<u>\$ 373,000</u>

Other nonmajor governmental funds - Capital Projects Funds:

Police cars	\$ 700,000
Property acquisition	250,000
Reeck house	40,000
Equipment - Pumper	<u>350,000</u>
Total other nonmajor governmental funds - Capital Projects Funds	<u>\$ 1,340,000</u>

Other nonmajor governmental funds - Special Project Funds:

Local Streets - Various street projects	\$ 120,000
Local Streets - Capital equipment	580,000
Major Streets - Various street projects	630,000
Street Paving - Various street projects	<u>2,000,000</u>
Total other nonmajor governmental funds - Special Project Funds	<u>\$ 3,330,000</u>

### Note 11 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims and participates in the Michigan Municipal Risk Management Authority, a risk pool for claims relating to property loss, torts, and errors and omissions. The City is primarily self-insured for employee injuries, but has purchased stop-loss commercial insurance to limit losses. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management 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.

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

	<u>2007</u>	<u>2006</u>
Unpaid claims - Beginning of year	\$ 803,000	\$ 810,500
Incurred claims - Including claims incurred but not reported	592,371	475,766
Claim payments	<u>(460,371)</u>	<u>(483,266)</u>
Unpaid claims - End of year	<u>\$ 935,000</u>	<u>\$ 803,000</u>

Recorded in the accrued and other liabilities of the Workers' Compensation Fund is a liability for \$50,000 related to workers' compensation claims. The remaining amount of unpaid claims liability is recorded as long-term debt.

### Note 12 - Retirement Systems

**Plan Description** - The City contributes to the Municipal Employees' Retirement System, covering general City employees, and the Policemen and Firemen Retirement System, covering certain police and fire department personnel, which are the administrators for the single-employer defined benefit pension plans. These systems provide retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2006, the date of the most recent actuarial valuations, membership consisted of the following:

	Policemen and Firemen Retirement System	Municipal Employees' Retirement System
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	75	70
Current active employees	64	85

The plans do not issue separate financial reports.

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

The obligation to contribute to and maintain the systems for these employees was established by City ordinances, State statute (P.A. 345), and negotiations with the City's collective bargaining units. The Municipal Employees' Retirement System requires a contribution from the employees of 4.5 percent of annual salary for members hired prior to July 1, 1991 and 3 percent of annual salary for members hired on or after July 1, 1991 up to the Social Security wage base plus 5 percent of annual salary in excess of the Social Security wage base. The Policemen and Firemen Retirement System requires contributions from the employees of 5 percent for policemen and firemen and 7.5 percent for command officers hired before January 1, 1981. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2007

### Note 12 - Retirement Systems (Continued)

**Annual Pension Cost** - For the year ended June 30, 2007, the City's systems had the following activity:

	Annual Required Contribution	Interest on Net Pension Asset	Adjustment to Annual Required Contribution	Annual Pension Cost	Actual Contribution
Policemen and Firemen Retirement System	\$ 1,881,109	\$ (32,251)	\$ 55,590	\$ 1,904,448	\$ 1,783,439
Municipal Employees' Retirement System	747,468	(11,504)	20,967	756,931	747,468

The annual required contribution was determined as part of an actuarial valuation at June 30, 2005 using the entry actual age cost method. Significant actuarial assumptions include the following:

	Policemen and Firemen Retirement System	Municipal Employees' Retirement System
Investment rate of return*	7.5%	7.5%
Projected salary increases*	4.7%-8.3%	4.5%-17.1%
* Includes inflation at	4.5%	4.5%
Cost of living adjustments	None	None

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 12 years for the Policemen and Firemen Retirement System and 12 years for the Municipal Employees' Retirement System. During 2007, the Policemen and Firemen Retirement System changed its unfunded actuarial liability amortization period to 20 years. The impact of this change will be reflected in future actuarial valuations.

# City of Southgate, Michigan

## Notes to Financial Statements June 30, 2007

### Note 12 - Retirement Systems (Continued)

The three-year trend information for the plans is as follows:

#### Policemen and Firemen Retirement System

	Fiscal Year Ended June 30		
	2007	2006	2005
Annual pension cost (APC)	\$ 1,904,449	\$ 1,590,802	\$ 1,134,093
Percentage of APC contributed	93.65	98.51	97.89
Net pension obligation (asset)	\$ (309,003)	\$ (412,565)	\$ (418,736)

#### Municipal Employees' Retirement System

	Fiscal Year Ended June 30		
	2007	2006	2005
Annual pension cost (APC)	\$ 756,931	\$ 728,346	\$ 509,488
Percentage of APC contributed	98.75	98.77	98.39
Net pension obligation (asset)	\$ (143,919)	\$ (156,470)	\$ (162,185)

#### Reserves

As of June 30, 2007, the Plan's legally required reserves have been fully funded as follows:

	Municipal Employees	Policemen and Firemen
Reserves for employees' contributions	\$ 1,505,047	\$ 2,915,337
Reserves for retired benefit payments	17,374,866	35,332,094

### Note 13 - Postretirement Benefits

The City provides healthcare and life insurance benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 145 retirees are eligible. In addition, 149 active employees may be entitled to benefits upon retirement. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due; during the year, this amounted to \$1,854,232. Premiums for life insurance amounted to \$15,957 during the year ended June 30, 2007.

### Note 13 - Postretirement Benefits (Continued)

During the year ended June 30, 1993, the City began prefunding for the liability for postemployment benefits related to employees covered under the Policemen and Firemen Retirement System based on an actuarial valuation performed for the year ended June 30, 1997. Significant actuarial assumptions used in determining the healthcare obligation for the Policemen and Firemen Retirement System include a rate of return on investments of present and future assets of 7.50 percent per year compounded annually and a long-term average assumed rate of premium increases of 5.5 percent to 15.0 percent per year. The accrued liability for health care as of June 30, 2007 is not known. The percentage of payroll employer contributions determined by the actuary range from 8.5 percent to 16.4 percent and is deemed by the actuary to be sufficient to sustain the fund for 25 years.

The net assets available for police and fire retirees at June 30, 2007 total \$1,386,354. The healthcare benefit activity related to the employees covered under the Policemen and Firemen Retirement System is recorded in the Act 345 Health Insurance Fund. Employer contributions made to this fund of \$1,222,857 were based on taxes collected through a special P.A. 345 millage and approximated the actuarially determined required contribution.

In addition to the Act 345 Health Insurance Fund discussed above, the City has established a Municipal Employees' Retiree Health Care Fund to prefund the liability for postemployment benefits related to employees covered under the Municipal Employees' Retirement System. Contributions are determined by management. Current year contributions of \$100,000 were transferred from the General Fund and net assets available at June 30, 2007 totaled \$1,645,104.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncements provide guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncements are effective for the City's fiscal years ending June 30, 2008 and June 30, 2009 for Statement No. 43 and Statement No. 45, respectively.

## **Note 14 - Joint Ventures**

### **Southgate-Wyandotte Drainage District**

The City is a member of the Southgate-Wyandotte Drainage District, a joint venture with the City of Wyandotte that provides drainage services to the residents of Southgate and Wyandotte. The venture is administered by the Wayne County Drainage Board. The City paid \$1,404,380 to Wayne County during the year for operation and maintenance.

The City of Southgate has approximately a 42 percent interest in the venture. The operations of the fund will be financed through assessments to the participating cities, Wayne County, and the State of Michigan. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

### **Downriver Sewage Disposal System**

The City, along with 12 other communities, jointly participates in the Downriver Sewage Disposal System. The City's share of capital assets, restricted assets (for debt service), and related debt is recorded in the Water and Sewer Fund as "investment in joint ventures", and was \$766,264 at June 30, 2007. During the year, the City paid \$1,381,990 for operations of the system and \$843,281 for debt service.

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

The Downriver Sewage Disposal System has been authorized to issue two new bonds. Completion Bonds were issued August 3, 2007 for \$1,081,141. In addition, Capital Improvement Bonds are anticipated to be issued in 2007 for \$382,700.

Financial statements for both joint ventures can be obtained from the County of Wayne's administrative offices at 415 Clifford, Detroit, MI 48226.

## **Required Supplemental Information**

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# City of Southgate, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 2,044,454	\$ 2,044,454	\$ 2,044,454	\$ -
<b>Resources (Inflows)</b>				
Property taxes	13,447,889	13,447,889	13,566,417	118,528
Licenses and permits	562,000	562,000	536,647	(25,353)
Federal sources	12,000	12,000	6,514	(5,486)
State sources	3,473,879	3,473,879	3,377,821	(96,058)
Charges for services	968,700	968,700	1,047,920	79,220
Fines and forfeitures	1,454,000	1,454,000	1,469,360	15,360
Interest and rentals	549,790	549,790	1,084,014	534,224
Other	99,000	99,000	68,535	(30,465)
Reimbursements from other funds	<u>1,434,739</u>	<u>1,434,739</u>	<u>1,413,921</u>	<u>(20,818)</u>
Total resources (inflows)	22,001,997	22,001,997	22,571,149	569,152
<b>Charges to Appropriations (Outflows)</b>				
General government:				
City Council	105,938	105,938	102,061	3,877
Executive	164,787	164,787	167,762	(2,975)
Elections	55,970	55,970	43,638	12,332
Assessor	199,062	199,062	196,787	2,275
Attorney	156,000	156,000	156,712	(712)
Clerk	163,804	163,804	163,959	(155)
Civil Service Commission	2,000	2,000	1,826	174
Finance	410,123	410,123	400,617	9,506
Treasurer	215,208	215,208	223,910	(8,702)
Nondepartmental	3,165,732	3,165,732	3,639,125	(473,393)
Public safety:				
Police	6,174,856	6,174,856	5,986,097	188,759
Fire	3,465,320	3,465,320	3,384,487	80,833
Emergency preparedness	6,210	6,210	80	6,130
Police and Fire Civil Service Commission	5,500	5,500	14,530	(9,030)
Public works:				
Public services	1,841,362	1,841,362	1,845,882	(4,520)
Sanitation	1,714,226	1,714,226	1,622,571	91,655
Building	451,380	451,380	477,261	(25,881)
Planning	14,140	14,140	22,846	(8,706)
City garage	418,764	418,764	490,431	(71,667)

# City of Southgate, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Charges to Appropriations (Outflows)</b>				
(Continued)				
Cultural and recreation:				
Recreation	\$ 469,762	\$ 469,762	\$ 473,096	\$ (3,334)
Civic Center	800,332	800,332	878,721	(78,389)
Senior Citizen Center	140,026	140,026	126,886	13,140
Cultural Commission	8,960	8,960	13,080	(4,120)
Heritage Days	25,000	25,000	16,662	8,338
Cable Commission	1,520	1,520	1,080	440
28th District Court	1,221,425	1,221,425	1,056,314	165,111
Transfers to other funds	604,590	604,590	1,016,611	(412,021)
Total charges to appropriations (outflows)	22,001,997	22,001,997	22,523,032	(521,035)
<b>Fund Balance - End of year</b>	<b>\$ 2,044,454</b>	<b>\$ 2,044,454</b>	<b>\$ 2,092,571</b>	<b>\$ 48,117</b>

# City of Southgate, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Street Paving Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance</b> - Beginning of year	\$ 1,928,039	\$ 1,928,039	\$ 1,928,039	\$ -
<b>Resources (Inflows)</b>				
Property taxes	1,544,229	1,544,229	1,556,617	12,388
Interest and rentals	<u>20,000</u>	<u>20,000</u>	<u>90,446</u>	<u>70,446</u>
Total resources (inflows)	1,564,229	1,564,229	1,647,063	82,834
<b>Charges to Appropriations (Outflows) -</b>				
Highways and streets	<u>1,550,000</u>	<u>1,550,000</u>	<u>568,206</u>	<u>981,794</u>
<b>Fund Balance</b> - End of year	<u><b>\$ 1,942,268</b></u>	<u><b>\$ 1,942,268</b></u>	<u><b>\$ 3,006,896</b></u>	<u><b>\$ 1,064,628</b></u>

# City of Southgate, Michigan

## Required Supplemental information Municipal Employees' Retirement System Schedule of Funding Progress (dollar amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/01	\$ 22.8	\$ 18.4	\$ (4.4)	123.9	\$ 3.7	-
06/30/02	23.0	19.4	(3.6)	118.6	3.9	-
06/30/03	22.5	21.8	(0.7)	103.2	3.6	-
06/30/04	21.8	22.8	1.0	95.6	4.1	24.4
06/30/05	21.9	24.3	2.4	90.1	4.0	60.0
06/30/06	22.1	25.9	3.8	85.3	3.7	102.7

### Schedule of Employer Contributions

Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2002	\$ 237,415	102.40	\$ (111,871)
2003	211,625	130.58	(176,587)
2004	259,371	97.60	(170,374)
2005	509,488	98.39	(162,185)
2006	728,346	98.77	(156,470)
2007	756,931	98.75	(143,919)

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2005, the latest actuarial valuation date, follows:

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Remaining amortization period	12 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	4.5%-17.1%
*Includes inflation at	4.5%
Cost of living adjustments	Not applicable

# City of Southgate, Michigan

## Required Supplemental information Policemen and Firemen Retirement System Schedule of Funding Progress (dollar amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/01	\$ 56.4	\$ 43.5	\$ (12.9)	129.7	\$ 4.7	-
06/30/02	55.2	47.5	(7.7)	116.2	4.9	-
06/30/03	50.7	50.8	0.1	99.8	4.5	2.2
06/30/04	47.6	52.7	5.10	90.3	5.1	100.0
06/30/05	45.8	53.9	8.10	85.0	5.2	155.8
06/30/06	46.6	56.8	10.2	82.0	5.3	192.5

### Schedule of Employer Contributions

Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2002	\$ 127,374	78.55	\$ (537,523)
2003	146,443	66.00	(487,736)
2004	399,029	87.97	(439,736)
2005	1,134,093	97.89	(418,736)
2006	1,590,802	98.51	(412,565)
2007	1,904,449	93.65	(309,003)

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2005, the latest actuarial valuation date, follows:

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Remaining amortization period	12 years - open
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	4.7%-8.3%
*Includes inflation at	4.5%
Cost of living adjustments	Not applicable

## **Other Supplemental Information**

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# City of Southgate, Michigan

	Special Revenue Funds						
	Major Streets	Local Streets	Narcotics Enforcement	Severance Reserve	Southgate - Wyandotte Operation and Maintenance	Library	District Court Capital Improvement
<b>Assets</b>							
Cash and investments	\$ 1,838,872	\$ 1,692,714	\$ 166,287	\$ 641,014	\$ 967,158	\$ 949,015	\$ 77,797
Receivables - Net	-	-	-	-	1,128,494	34,017	-
Due from other funds	636	224,725	203	-	1,272	4,954	-
Due from component unit	-	501,970	-	-	-	-	-
Due from other governmental units	190,998	74,442	-	-	-	76,674	33,992
<b>Total assets</b>	<b>\$ 2,030,506</b>	<b>\$ 2,493,851</b>	<b>\$ 166,490</b>	<b>\$ 641,014</b>	<b>\$ 2,096,924</b>	<b>\$ 1,064,660</b>	<b>\$ 111,789</b>
<b>Liabilities and Fund Balances (Deficit)</b>							
<b>Liabilities</b>							
Accounts payable	\$ 11,768	\$ 41,803	\$ 60,094	\$ -	\$ -	\$ 129,428	\$ -
Accrued and other liabilities	-	-	-	-	-	5,932	-
Due to other funds	29,933	19,526	-	20,744	7,519	39	90,639
Deferred revenue	-	-	2,569	-	-	-	-
<b>Total liabilities</b>	<b>41,701</b>	<b>61,329</b>	<b>62,663</b>	<b>20,744</b>	<b>7,519</b>	<b>135,399</b>	<b>90,639</b>
<b>Fund Balances (Deficit) -</b>							
Unreserved							
Designated - Reported in:							
Special Revenue Funds	630,000	700,000	-	-	-	-	-
Capital Project Funds	-	-	-	-	-	-	-
Undesignated	1,358,805	1,732,522	103,827	620,270	2,089,405	929,261	21,150
<b>Total fund balances (deficit)</b>	<b>1,988,805</b>	<b>2,432,522</b>	<b>103,827</b>	<b>620,270</b>	<b>2,089,405</b>	<b>929,261</b>	<b>21,150</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 2,030,506</b>	<b>\$ 2,493,851</b>	<b>\$ 166,490</b>	<b>\$ 641,014</b>	<b>\$ 2,096,924</b>	<b>\$ 1,064,660</b>	<b>\$ 111,789</b>

**Other Supplemental information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2007**

Debt Service Funds		Capital Projects Funds				Total Nonmajor Governmental Funds
SCI 541 Bond	Michigan Transportation Bond	Southgate - Wyandotte Drain	Capital Improvement Fund	Drake Street Construction Fund		
\$ 4,725	\$ 112,227	\$ 86,998	\$ 1,157,118	\$ 111,510	\$ 7,805,435	
-	-	-	-	-	1,162,511	
-	-	-	412,021	-	643,811	
-	-	-	233,883	-	735,853	
-	-	-	-	-	376,106	
<b>\$ 4,725</b>	<b>\$ 112,227</b>	<b>\$ 86,998</b>	<b>\$ 1,803,022</b>	<b>\$ 111,510</b>	<b>\$ 10,723,716</b>	
\$ -	\$ -	\$ -	\$ 12,472	\$ -	\$ 255,565	
-	-	-	-	-	5,932	
-	-	-	60,081	-	228,481	
-	-	-	76,600	-	79,169	
-	-	-	149,153	-	569,147	
-	-	-	-	-	1,330,000	
-	-	-	1,340,000	-	1,340,000	
4,725	112,227	86,998	313,869	111,510	7,484,569	
4,725	112,227	86,998	1,653,869	111,510	10,154,569	
<b>\$ 4,725</b>	<b>\$ 112,227</b>	<b>\$ 86,998</b>	<b>\$ 1,803,022</b>	<b>\$ 111,510</b>	<b>\$ 10,723,716</b>	

# City of Southgate, Michigan

## Special Revenue Funds

	Major Streets	Local Streets	Narcotics Enforcement	Severance Reserve	Southgate - Wyandotte Operation and Maintenance	Library	District Court Capital Improvement
<b>Revenues</b>							
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 735,131	\$ -
State sources	1,163,229	453,350	11,484	-	-	-	-
Charges for service	-	-	-	-	-	-	131,396
Interest income	114,179	101,833	6,353	44,544	47,022	36,684	2,306
Special assessments	-	-	-	-	1,352,033	-	-
Other	-	-	64,807	-	-	18,438	56,000
<b>Total revenues</b>	<b>1,277,408</b>	<b>555,183</b>	<b>82,644</b>	<b>44,544</b>	<b>1,399,055</b>	<b>790,253</b>	<b>189,702</b>
<b>Expenditures</b>							
Current:							
General government	-	-	-	196,360	-	-	-
Public services	571,416	592,698	-	-	1,404,380	608,681	-
Public safety	-	-	133,050	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	155,827
<b>Total expenditures</b>	<b>571,416</b>	<b>592,698</b>	<b>133,050</b>	<b>196,360</b>	<b>1,404,380</b>	<b>608,681</b>	<b>155,827</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>705,992</b>	<b>(37,515)</b>	<b>(50,406)</b>	<b>(151,816)</b>	<b>(5,325)</b>	<b>181,572</b>	<b>33,875</b>
<b>Other Financing Sources (Uses)</b>							
Proceeds from issuance of debt	-	-	-	-	-	-	-
Operating transfers in	-	291,613	-	240,000	-	-	-
Operating transfers out	(368,788)	-	-	-	-	(109,013)	-
<b>Total other financing sources (uses)</b>	<b>(368,788)</b>	<b>291,613</b>	<b>-</b>	<b>240,000</b>	<b>-</b>	<b>(109,013)</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>337,204</b>	<b>254,098</b>	<b>(50,406)</b>	<b>88,184</b>	<b>(5,325)</b>	<b>72,559</b>	<b>33,875</b>
<b>Fund Balances (Deficit) - Beginning of year</b>	<b>1,651,601</b>	<b>2,178,424</b>	<b>154,233</b>	<b>532,086</b>	<b>2,094,730</b>	<b>856,702</b>	<b>(12,725)</b>
<b>Fund Balances - End of year</b>	<b>\$ 1,988,805</b>	<b>\$ 2,432,522</b>	<b>\$ 103,827</b>	<b>\$ 620,270</b>	<b>\$ 2,089,405</b>	<b>\$ 929,261</b>	<b>\$ 21,150</b>

**Other Supplemental Information  
Combining Statement of Revenue, Expenditures, and  
Changes in Fund Balances (Deficit)  
Nonmajor Governmental Funds  
Year Ended June 30, 2007**

Debt Service Funds		Capital Projects Funds				
SCI 541 Bond	Michigan Transportation Bond	Southgate - Wyandotte Drain	Capital Improvement Fund	Drake Street Construction Fund	Total Nonmajor Governmental Funds	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 735,131	
-	-	-	16,587	-	1,644,650	
-	-	-	-	2,822	134,218	
201	5,852	4,247	59,261	6,537	429,019	
-	-	-	-	-	1,352,033	
-	-	-	248,921	-	388,166	
201	5,852	4,247	324,769	9,359	4,683,217	
-	-	-	68,737	-	265,097	
-	-	-	-	-	3,177,175	
-	-	-	-	-	133,050	
-	-	-	368,516	-	368,516	
-	77,175	-	-	-	233,002	
-	77,175	-	437,253	-	4,176,840	
201	(71,323)	4,247	(112,484)	9,359	506,377	
-	-	-	313,000	-	313,000	
-	77,175	-	412,021	-	1,020,809	
-	-	-	-	-	(477,801)	
-	77,175	-	725,021	-	856,008	
201	5,852	4,247	612,537	9,359	1,362,385	
4,524	106,375	82,751	1,041,332	102,151	8,792,184	
<b>\$ 4,725</b>	<b>\$ 112,227</b>	<b>\$ 86,998</b>	<b>\$ 1,653,869</b>	<b>\$ 111,510</b>	<b>\$ 10,154,569</b>	

# City of Southgate, Michigan

	Pension and Other Employee Benefit Trust Funds				
	Municipal Employees' Retirement System	Policemen and Firemen Retirement System	Act 345 Health Insurance	Municipal Employees' Retiree Health Care	Totals
<b>Assets</b>					
Cash and investments	\$ 23,900,358	\$ 51,585,091	\$ 1,079,421	\$ 1,639,554	\$ 78,204,424
Employer receivables	73,083	532,361	336,957	5,550	947,951
Total assets	23,973,441	52,117,452	1,416,378	1,645,104	79,152,375
<b>Liabilities</b>					
Accounts payable	-	-	30,024	-	30,024
Due to other governmental units	-	-	-	-	-
Cash bonds and deposits	-	-	-	-	-
Total liabilities	-	-	30,024	-	30,024
<b>Net Assets - Held in trust for pension and other employee benefits</b>	<b><u>\$ 23,973,441</u></b>	<b><u>\$ 52,117,452</u></b>	<b><u>\$ 1,386,354</u></b>	<b><u>\$ 1,645,104</u></b>	<b><u>\$ 79,122,351</u></b>

**Other Supplemental Information  
Combining Statement of Net Assets  
Fiduciary Funds  
Year Ended June 30, 2007**

Agency Funds

Tax Collection	Senior Citizens' Trust	Escrow	Totals
\$ 33,324	\$ 58,113	\$ 122,163	\$ 213,600
-	-	-	-
<b><u>\$ 33,324</u></b>	<b><u>\$ 58,113</u></b>	<b><u>\$ 122,163</u></b>	<b><u>\$ 213,600</u></b>
\$ -	\$ -	\$ 10,904	\$ 10,904
33,324	-	9,544	42,868
-	58,113	101,715	159,828
<b><u>\$ 33,324</u></b>	<b><u>\$ 58,113</u></b>	<b><u>\$ 122,163</u></b>	<b><u>\$ 213,600</u></b>

# City of Southgate, Michigan

## Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2007

	Municipal Employees' Retirement System	Policemen and Firemen Retirement System	Act 345 Health Insurance	Municipal Employees' Retiree Health Care	Totals
<b>Additions</b>					
Investment income:					
Interest and dividends	\$ 567,757	\$ 875,482	\$ 18,321	\$ 75,516	\$ 1,537,076
Net increase in fair value of investments	2,602,574	6,998,654	-	-	9,601,228
Investment expense	(171,559)	(383,341)	-	-	(554,900)
Net investment income	2,998,772	7,490,795	18,321	75,516	10,583,404
Contributions:					
Employer	747,468	1,783,439	1,222,857	120,956	3,874,720
Employee	130,515	291,039	-	-	421,554
Total contributions	877,983	2,074,478	1,222,857	120,956	4,296,274
Total additions	3,876,755	9,565,273	1,241,178	196,472	14,879,678
<b>Deductions</b>					
Benefit payments	1,691,480	3,474,050	1,088,401	-	6,253,931
Refunds of contributions	189,443	254,554	-	-	443,997
Total deductions	1,880,923	3,728,604	1,088,401	-	6,697,928
<b>Net Increase in Net Assets Held for Pension Benefits</b>	1,995,832	5,836,669	152,777	196,472	8,181,750
<b>Net Assets Held in Trust for Pension Benefits</b>					
Beginning of year	21,977,609	46,280,783	1,233,577	1,448,632	70,940,601
End of year	<u>\$ 23,973,441</u>	<u>\$ 52,117,452</u>	<u>\$ 1,386,354</u>	<u>\$ 1,645,104</u>	<u>\$ 79,122,351</u>



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October 11, 2007

To the Honorable Mayor and  
Members of the City Council  
City of Southgate  
14400 Dix Toledo Road  
Southgate, MI 48195

Dear Mayor and Council Members:

We recently completed the audit of the financial statements of the City of Southgate, Michigan (the "City") for the year ended June 30, 2007. In addition to the audit report, we offer the following comments for your consideration:

### **Overall Financial Condition**

Over the past several years, the City has been working to maintain a healthy fund balance. Undesignated fund balance for the General Fund is approximately \$1,079,000 for the year ended June 30, 2007, which is about 5 percent of one year's worth of expenditures. As we have discussed with you in the past, fund balance is necessary due to uncertainty related to major revenue sources and increasing costs. Many of these items are outlined below. The City is positioned in the very short term to weather this downturn because of the fund balance that exists, but we encourage management to make every effort to protect and preserve the level of fund balance. This will ensure the City's health for years to come.

### **New Auditing Standards**

New auditing rules, effective December 31, 2006, have resulted in some changes in the communications that we are required to provide following our audit. These rules require us to more formally communicate matters we note about your accounting procedures and internal controls. While we have always provided our observations in these areas as part of our audit, we are now required to tell you about more items than we may have in the past and to communicate them in writing.

The new auditing standard (Statement on Auditing Standards No. 112, referred to as SAS 112) requires us to inform you about any matters noted in your accounting procedures or internal controls that the new standard defines as a "significant deficiency." The new threshold for a significant deficiency is a low one - a significant deficiency is any flaw that creates more than a remote risk of errors in your financial statements that could matter to a user of the statements. Matters that may be immaterial to the financial statements still may be classified by the new auditing standards as a significant deficiency.



We are also required to communicate these matters to more people. In the past, we have sometimes provided comments of this nature as part of a draft meeting with management. Only material internal control issues have been included in our letter. Under these new rules, we are obligated to communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for your operations, including the supervisor and the board members in addition to our communications with management. This communication is intended to comply with the requirements of the new auditing standards.

In planning and performing our audit for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness:

- Journal entries were required during the audit to ensure the financial statement presentation was in conformity with generally accepted accounting principles. It should be noted that a number of these journal entries were related to transactions that were unusual in nature.

In addition to the above, we have identified additional matters that we would like to communicate as a result of our audit. These matters are not considered to be significant deficiencies or material weaknesses.

### **Bank Reconciliations**

During the testing of bank reconciliations, it was noted that bank reconciliations were not signed and dated, indicating that they had been reviewed in a timely manner. While it appears the bank reconciliations are being reviewed timely, we suggest that the City institute additional procedures, such as initialing and dating the bank reconciliation upon review. Such additional procedures would serve as audit evidence that in fact the internal control system is being adhered to.

### **Fund Deficit**

At June 30, 2007, the CDBG fund had a deficit of \$23,049. The deficit is due to the timing of reimbursements from Wayne County and will be eliminated once these reimbursements are received. The City is required to file a deficit elimination plan with the State of Michigan for this fund.

In addition, the City had a fund deficit in unrestricted net assets in the Golf Course Fund of \$226,987 at June 20, 2007. This fund had a loss of \$75,076 during the current year and has negative working capital. We would suggest reviewing operating activities and making the necessary changes to restore working capital in this fund.

### **Southeastern Michigan Information Alliance**

During 2007, the City and other Downriver communities created the Southeastern Michigan Information Alliance (SMIA) to enhance public safety through the sharing of information and technology. SMIA has met the criteria to be considered a component unit of the City and has been included in the June 30, 2007 financial statements as such. The City is performing all of the administrative and maintenance functions for SMIA. Under the terms of the SMIA agreement, participating communities have agreed to pay maintenance and overhead costs. During the year, the City did not have a formal process in place to capture the maintenance and overhead costs incurred for this activity and was not reimbursed by SMIA. We suggest developing a process to capture the costs incurred by the City for operating SMIA so the City can be reimbursed for these costs.

### **Ice Arena**

During our testing, we reviewed the cash receipt procedures at the ice arena concession stand. We noted that it is common practice to make change for customers by using the "no-sale" key and that all employees can void transactions without approval. In addition, we noted that it is common practice for the concession stand to not report amounts over or short at the end of the day to the City. The concession stand manager sets overages aside and uses them to replace shortages when they occur. We suggest reviewing the current cash collection procedures and strengthening controls where appropriate.

## **Healthcare Funding**

The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Post-employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local governmental units in recognizing the cost of retiree health care and other non-pension post-employment benefits. The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of an employee, rather than at the time the healthcare premiums are paid.

The new pronouncement is effective for the year ending June 30, 2009. The City has approximately \$3,000,000 set aside for its obligation for retiree health care in the Retirement Health Care Trust Funds, which is a good start to funding this liability. These new standards allow the City to fund the actuarial accrued liability for benefits provided and earned to date over 30 years. This new pronouncement could have a significant effect on the City if it intends to actuarially fund this obligation. It is our understanding that the City has already had a valuation done for this liability. The City will need to disclose the results of the actuarial valuation in the June 30, 2008 financial statements.

Finally, we offer the following comments and recommendations relating to legislative matters for your consideration:

## **State-shared Revenue**

The future of the State's revenue-sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The State was approximately \$1.8 billion short of the revenue needed to cover basic services for the State's upcoming fiscal year 2007/2008 budget. The legislature and the governor acted on October 1 to increase the income tax rate (from 3.9 percent to 4.35 percent, raising more than \$750 million) and to enact a new 6 percent tax on certain services (raising approximately \$700 million per year). As part of the continuation budget that was also passed on October 1, there are still approximately \$400 million of "to-be-determined" cuts that remain to be agreed upon and announced for the fiscal year 2007/2008 budget. It is not completely clear whether the State's fiscal year 2006/2007 budget has been completely balanced as well. The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue-sharing formula" and to what extent?

Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?

- **Statutory Revenue-sharing Formula Expires in 2007** - Legislative action is required on this Act for appropriations to continue into 2008 and beyond.
- **Changes to Michigan's Tax Structure** - The Michigan single business tax has been eliminated effective December 31, 2007, which will result in the loss of \$1.9 billion from the State's budget in 2008. In June 2007, a replacement for the single business tax - called the new Michigan business tax - was approved by the legislature. More details on this new tax structure are included below. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers, and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the single business tax. Technical corrections on this recently passed law are still pending and the law is lengthy and complex. The true financial impact on the State's budget is hard to predict. Further changes to Michigan's tax structure were made on October 1 as described above to partially close the structural budget deficit that exists.

As introduced, the governor's budget for fiscal year 2007/2008 includes a revenue-sharing increase of \$27 million to be distributed using the three-part formula currently contained in the revenue-sharing act (taxable value per capita, population/unit type, and yield equalization) with an additional \$14.5 million for public safety funding. While specific details have not been announced yet, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments. Many observers have indicated that it is likely that revenue sharing for fiscal year 2007/2008 will more than likely be tied to fiscal year 2006/2007 funding levels.

It is unclear what the outcome will be regarding the short-term and long-term funding of statutory revenue sharing. Decisions still remain on the ultimate funding level for revenue sharing for the State's fiscal years 2006/2007 and 2007/2008. Local governments may need to react with budget amendments when these final decisions are made by the State.

State-shared revenue accounts for approximately 16 percent of the City's total General Fund revenue. The table below details state-shared revenue for the City of Southgate since 2003 broken out by statutory and constitutional portions.

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>
2003	\$1,656,000	\$2,006,000	\$3,662,000
2004	\$1,306,000	\$1,990,000	\$3,296,000
2005	\$1,223,404	\$2,028,074	\$3,251,478
2006	\$1,152,428	\$2,066,656	\$3,219,084
2007	\$1,099,509	\$2,023,711	\$3,123,220
2008 estimated	\$1,075,271	\$2,047,949	\$3,123,220

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$1,100,000 at risk in its General Fund. In light of the current environment, we strongly encourage local governments to be conservative when budgeting or projecting the revenue-sharing line item.

### **Property Taxes**

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2007	3.7%
2006	3.3%
2005	2.3%
2004	2.3%
2003	1.5%
2002	3.2%

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. As a result, despite general operating charter mills of 12.5, currently the Headlee limited mills are 10.1366, a reduction of approximately 19 percent.

### **Property Tax Legislation**

A series of House bills were introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property. With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation or 5 percent, until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred to as the "uncapped" value or the "pop-up" value. As several published studies and reports have demonstrated, the treatment of "uncapped" values or the "pop-up" amount when a property is transferred or sold as growth on existing property subject to the Headlee rollback calculation has resulted in continued downward pressure on millage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994.

The three bills in the package are House Bills 4440, 4441, and 4442 and would propose to do the following:

- **House Bill 4440** - This bill establishes an 18-month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the time frame of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years.
- **House Bill 4441** - This bill increases the real estate transfer tax by .10 percent and earmarks the money to be returned to local government for potential loss in revenue occurring from House Bill 4440.
- **House Bill 4442** - This bill would change the General Property Tax Act to exempt the “pop-up” or “uncapped” value from the Headlee rollback calculation. If this legislation were enacted, increases in taxable value resulting from property sales or transfers would be treated as “additions” to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14 (HB 4440 has been assigned to the Senate Finance Committee). House Bill 4442 has not been voted on yet in the House.

### **New Michigan Business Tax**

As previously indicated, the new Michigan business tax (MBT) was approved by the legislature in June 2007 and replaces the single business tax (SBT) which expires December 31, 2007. According to the State, the new MBT is intended to generate about the same \$1.9 billion generated by the expiring SBT. While the MBT intended to simplify the old SBT, the MBT is a very lengthy and complicated new law. The new MBT imposes two taxes - a modified gross receipts tax and a business income tax.

More personal property tax relief is also part of the new MBT. Business personal property classified as “industrial” or “commercial” will be exempt from certain personal property taxes - specifically from the state education tax (SET) and local school operating mills. “Industrial” personal property will receive exemptions from the 6 SET mills and the 18 schools operating mills (for a total 24 mill exemption). “Commercial” personal property will be exempt from 12 of the 18 school operating mills.

These newly enacted personal property tax exemptions will mean that local governments will collect less school taxes on these properties. For local governments, such as Southgate, that have enacted an administrative fee on tax collections, they will likely see a decrease in the administration fees that have traditionally been collected.

Given the favorable tax treatment of industrial versus commercial personal property, it is expected that businesses will be re-reviewing the classification of their personal property. Your assessor will likely receive more frequent inquiries and requests to change classification of personal property to take the most advantage of the tax break afforded to industrial property and commercial property and the additional relief available for industrial property.

As we understand it now, these are the areas at the local governmental level (i.e., impact on administrative fees; impact on school dollars available for capture for certain tax increment financing authorities; property classifications) that are the most directly impacted by the new MBT. We will keep you updated as we continue to explore these and other issues regarding the impact of the MBT on local units of government.

### **Recent Revisions to State Transportation Funding Program**

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent including the adoption of an asset management process for the Major and Local Street systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. These provisions sunset on December 31, 2008. Without an extension of this provision, a transfer from the Major Street Fund to the Local Street Fund can only be done to the extent that local revenues exist in the Major Street Fund. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

### **Municipal Finance Act Revisions - Reminder**

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end, June 30, 2007, and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.

### **Other Legislative Items**

In addition to the legislature's main focus on the business tax structure and solving the budget deficit, the following are a summary of a few other matters impacting local government finance receiving attention in Lansing these days:

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

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October 11, 2007

- **Act 312** - Several articles have been written about recent discussions on potential revisions to Act 312, which governs collective bargaining between local governments and their police and fire bargaining units.
- **Local Government Consolidation** - Two bills to eliminate potential barriers to consolidation efforts have received attention by the legislature (House Bills 4266 and 4246).
- **Drain Code Revisions** - A series of bills dealing with revisions to the Drain Code were voted on by the House in August (House Bills 4641, 4642, 4643, 4644, and 4688).
- **Transportation Tax Increase** - There continues to be ongoing discussion about the need for additional monies to properly fund Michigan's transportation system. More information can be found at [http://www.drivemi.org/mtt\\_members.php](http://www.drivemi.org/mtt_members.php).

We would like to express our thanks and appreciation for the courtesy and cooperation extended to us by the City staff during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience.

Yours truly,

**Plante & Moran, PLLC**



Beth A. Bialy



William E. Brickey