

City of Roseville, Michigan

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

City of Roseville, Michigan

Contents

Report Letter	1-3
Management's Discussion and Analysis	4-18
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	19
Statement of Activities	20-21
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	22
Reconciliation of the Balance Sheet to the Statement of Net Position	23
Statement of Revenue, Expenditures, and Changes in Fund Balances	24
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25
Proprietary Funds:	
Statement of Net Position	26
Statement of Revenue, Expenses, and Changes in Net Position	27
Statement of Cash Flows	28
Fiduciary Funds:	
Statement of Fiduciary Net Position	29
Statement of Changes in Fiduciary Net Position - Pension and Other Employee Benefit Trust Fund	30
Notes to Financial Statements	31-61
Required Supplemental Information	62
Budgetary Comparison Schedule - General Fund	63-64
Budgetary Comparison Schedule - Major Special Revenue Funds	65-66
Pension System Schedule of Funding Progress	67
Other Postemployment Benefits Schedule of Funding Progress	68
Note to Required Supplemental Information	69-70
Schedule of Investment Returns	71
Schedule of Changes in the City Net Pension Liability and Related Ratios	72
Schedule of City Contributions	73

City of Roseville, Michigan

Contents (Continued)

Other Supplemental Information	74
Nonmajor Governmental Funds:	
Combining Balance Sheet	75-76
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	77
Internal Service Funds:	
Combining Statement of Net Position	78
Combining Statement of Revenue, Expenses, and Changes in Net Position	79
Combining Statement of Cash Flows	80
Fiduciary Funds:	
Statement of Assets and Liabilities	81
Combining Statement of Changes in Fiduciary Net Position	82

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseville, Michigan (the "City"), as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the City of Roseville, Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

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, each major fund, and the aggregate remaining fund information of the City of Roseville, Michigan as of June 30, 2014 and the respective changes in its financial position and, where applicable, cash flows, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3 to the financial statements, the City adopted the new accounting guidance of GASB No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred inflows and outflows of resources, certain items that were previously reported as assets and liabilities. The City also adopted GASB No. 67, *Financial Reporting for Pension Plans*, which provides additional disclosures in regard to the City's pension plans. The additional disclosures can be found in Notes 11 through 15 and within the schedules of required supplemental information. Our opinion is not modified with respect to these matters.

The financial statements include investments valued at approximately \$41,000,000 (29 percent of the net position of the fiduciary funds) at June 30, 2014, whose fair values have been estimated by management in the absence of readily determinable market values. Management's estimates are based on information provided by investment advisors, general partners, and other means. Our opinion has not been modified in respect to this matter.

Other Matters

Required Supplemental Information

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

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2014 on our consideration of the City of Roseville, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Roseville, Michigan's internal control over financial reporting and compliance.

Plante & Morse, PLLC

December 11, 2014

City of Roseville, Michigan

Management's Discussion and Analysis

Using This Annual Report

The annual report consists of a series of narratives and financial statements. This narrative is intended to serve as an introduction to the City of Roseville's (the "City") basic financial statements. The basic financial statements consist of three components: government-wide financial statements, fund financial statements, and the notes to the financial statements. This report also contains other supplemental information, as well as continuing disclosure information related to bonded debt issued by the City of Roseville.

The format of the annual report was modified in 2003 to comply with the reporting requirements of Government Accounting Standards Board Statement No. 34. The basic financial statements include two kinds of statements that present different views of the City. The statement of net position and the statement of activities provide information about the activities of the City on a government-wide basis. They are designed to present a long-term view of the City's finances. The fund financial statements, which follow the above-mentioned statements, illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Additionally, the fund financial statements report the City's operations in more detail than the government-wide financial statements.

Government-wide Financial Statements

The government-wide statements provide information about the City as a whole, using accounting methods similar to those used by private sector companies. The statement of net position includes all of the City's assets and liabilities. Net position, the difference between the City's assets and liabilities, is one way to measure the City's overall financial health. The statement of activities reflects all of the current year's revenue and expenses, regardless of when cash is actually received or paid.

The government-wide financial statements of the City are divided into two categories:

- Government activities - Most of the City's basic services are included here, such as police, fire, public works, recreation, and general administration. Property taxes, state-shared revenue, charges for services, and grants provide the majority of the funding.
- Business-type activities - The City charges user fees to customers to cover costs of providing water and sewer services.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding or monitor spending. Some funds are required to be separately maintained by state law. The City Council establishes other funds to control and manage money for particular purposes.

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

The City has three kinds of funds:

- **Governmental Funds** - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out and the balance left at year end that is available for future spending. The governmental fund statements provide a detailed short-term view that highlights whether there are more or fewer financial resources available in the near future to finance the City's programs. Because the focus of governmental funds is narrower, it is useful to compare this information with similar information presented for governmental activities in the government-wide financial statements. Both the balance sheet and the statement of revenue, expenditures, and changes in fund balances for the governmental funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 12 individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenue, expenditures, and changes in fund balances for the General Fund, Major Streets Fund, Local Streets Fund, and Capital Projects Fund, all of which are considered to be major funds. Data for the other eight governmental funds is combined into a single, aggregated presentation. Individual fund data for the nonmajor governmental funds is provided in the form of combining statements located in the other financial and supplemental information section of this report.

The City adopts an annual appropriated budget for all of its governmental funds. Budgetary comparison statements have been provided for all major governmental funds to demonstrate budgetary compliance.

- **Proprietary Funds** - Proprietary fund reporting, like government-wide statements, provides both short-term and long-term financial information. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented in the business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer operation. This fund is considered a major fund of the City. Internal service funds accumulate and allocate costs internally among various functions. The City uses internal service funds to account for its self-insurance programs and workers' compensation-related expenditures. Because these programs predominantly benefit governmental rather than business-type functions, they have been consolidated within the governmental activities in the government-wide financial statements.
- **Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside of the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources held in those funds are not available to finance the City's programs.

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

Required Supplemental Information

The required supplemental information is in addition to the basic financial statements and accompanying notes to the financial statements. This section of the report highlights the City's progress in funding its obligations to provide pension and other postemployment benefits to its employees. Also included in this section are the budgetary comparison statements for the General Fund and major special revenue funds.

Other Supplemental Information

Combining fund statements referred to earlier, as well as the City's schedule of indebtedness, are presented immediately following the required supplemental information section of this report.

The City of Roseville, Michigan as a Whole

The City's combined total net position increased 1 percent from a year ago, increasing from \$128.0 million to \$129.3 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$1.1 million in total net position, or 1 percent, during fiscal 2014. The change in total net position is primarily attributed to the \$.4 million decrease in current and long-term obligations and a \$.7 million increase in cash and investments. The City increased its total net position despite lower property tax revenue (due to decreased taxable values). In total, expenditures for fiscal 2014 were \$3.8 million or 6.8 percent less than expenditures incurred during fiscal 2013, despite the financial burden to fund retiree healthcare benefits for current and future. Like many communities, postemployment healthcare premiums were traditionally paid by the City's pension fund through its available "excess earnings." Beginning in 2005, as a result of increasing healthcare costs coupled with declining interest rates, the pension fund was no longer able to cover this obligation. In 2014, this obligation of \$4.8 million was paid entirely by the General Fund.

Business-type activities experienced a \$.2 million increase in total net position during fiscal 2014. This increase is attributed to the restructuring of the City's water and sewer billing rates, effective July 1, 2009. This, coupled with disciplined expense control throughout fiscal 2014, generated an increase in unrestricted net assets from operations. The restructuring of the City's water and sewer billing structure was a requirement of the State Revolving Fund loan application process. This restructuring generated proceeds which are necessary to finance critical improvements to the City's aging water and sewer infrastructure.

Governmental unrestricted net position, the portion of net position available to finance day-to-day operations and future growth, decreased from \$23.6 million at June 30, 2013 to \$23.3 million at June 30, 2014. The City's unrestricted net position for business-type activities increased by \$.9 million at June 30, 2014.

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

In a condensed format, the table below shows the comparison of net position (in millions of dollars) as of June 30, 2014 to the prior year:

	Governmental Activities			Percent Change
	2013	2014	Change	
Other assets	\$ 42,249,132	\$ 42,877,241	\$ 628,109	1%
Capital assets	82,172,347	82,286,574	114,227	0%
Total assets	124,421,479	125,163,815	742,336	1%
Current liabilities	4,023,957	4,491,453	467,496	12%
Long-term liabilities	15,071,985	14,229,559	(842,426)	-6%
Total liabilities	19,095,942	18,721,012	(374,930)	-2%
Deferred inflows	-	50,653	50,653	n/a
Total liabilities and deferred inflows	19,095,942	18,771,665	(324,277)	-2%
Net position:				
Net investment in capital assets	70,024,016	71,237,430	1,213,414	2%
Restricted	11,741,614	11,884,379	142,765	1%
Unrestricted	23,559,907	23,270,341	(289,566)	-1%
Total net position	<u>\$ 105,325,537</u>	<u>\$ 106,392,150</u>	<u>\$ 1,066,613</u>	1%

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net position (in millions of dollars) for the year ended June 30, 2014 from the prior year:

	Governmental Activities			Percent Change
	2013	2014	Change	
Revenue				
Program revenue:				
Charges for services	\$ 8,737,474	\$ 7,342,597	\$ (1,394,877)	-16%
Operating grants	4,675,487	4,795,856	120,369	3%
Capital grants	1,541,164	1,219,250	(321,914)	-21%
General revenue:				
Property taxes	22,062,545	20,803,926	(1,258,619)	-6%
State-shared revenue	4,391,617	4,524,061	132,444	3%
Investment earnings	21,219	28,270	7,051	33%
Other revenue	1,597,033	1,815,493	218,460	14%
Total revenue	43,026,539	40,529,453	(2,497,086)	-6%
Program Expenses				
General government	12,416,471	13,577,255	1,160,784	9%
Public safety	17,577,904	16,549,481	(1,028,423)	-6%
Public works	9,410,246	5,052,652	(4,357,594)	-46%
Construction and development	1,205,409	1,233,552	28,143	2%
Community and economic development	66,042	59,539	(6,503)	-10%
Recreation and cultural	3,118,596	2,521,435	(597,161)	-19%
Interest on long-term debt	435,614	465,424	29,810	7%
Transfers	6,443	3,502	(2,941)	-46%
Total expenses	44,236,725	39,462,840	(4,773,885)	-11%
Change in Net Position	\$ (1,210,186)	\$ 1,066,613	\$ 2,276,799	-188%

The City's total governmental revenues decreased \$2.5 million from \$43.0 million in 2013 to \$40.5 million in 2014. Of this amount, property taxes, which account for approximately 51 percent of total revenue, decreased by \$1.3 million to \$20.8 million due to lower taxable values on real and personal properties. While operating grants increased slightly from \$4.7 million in 2013 to \$4.8 million in 2014, revenue from capital grants decreased 21 percent from \$1.5 million to \$1.2 million. In addition, charges for service-type activities which support program costs such as the District Court, building and rental inspections, etc., decreased \$1.4 million during fiscal 2014. State-shared revenue, investment earnings, and other revenue combined represents 14.0 percent of total revenue, or \$6.0 million, and increased \$.4 million or 6.0 percent during fiscal 2014.

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

Total expenditures decreased by approximately \$4.8 million or 10.8 percent over the previous fiscal year. This decrease is attributed to several factors, including the continued downsizing of the City's workforce due to recent retirements, healthcare plan restructuring for both active and retired employees, and the completion of several street repairs projects coupled with overall strong expenditure control. The City continued to meet its actuarial required contribution for the defined benefit pension system during fiscal 2014. In addition, the City also satisfied its actuarial required contribution to the postemployment healthcare benefits trust. This is important for the City because future taxpayers should not be required to fund benefit payments that were earned in the current period. Despite increased designations over the past several years to fund future retiree medical costs, the City, like most communities, remains severely under-funded with regard to GASB Statement No. 45. This pronouncement, effective June 30, 2009, requires 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. As of June 30, 2014, the City's unfunded liability with regard to postemployment healthcare benefits was approximately \$72.3 million.

Business-type Activities

In a condensed format, the table below shows the comparison of net position (in millions of dollars) as of June 30, 2014 to the prior year:

	Business-type Activities			Percent Change
	2013	2014	Change	
Other assets	\$ 14,920,011	\$ 16,105,332	\$ 1,185,321	8%
Capital assets	<u>11,528,224</u>	<u>12,063,626</u>	<u>535,402</u>	5%
Total assets	26,448,235	28,168,958	1,720,723	7%
Current liabilities	1,838,393	1,800,193	(38,200)	-2%
Long-term liabilities	<u>1,958,001</u>	<u>3,505,072</u>	<u>1,547,071</u>	79%
Total liabilities	<u>3,796,394</u>	<u>5,305,265</u>	<u>1,508,871</u>	40%
Net position:				
Net investment in capital assets	9,616,752	8,894,821	(721,931)	-8%
Unrestricted	<u>13,035,089</u>	<u>13,968,872</u>	<u>933,783</u>	7%
Total net position	<u>\$ 22,651,841</u>	<u>\$ 22,863,693</u>	<u>\$ 211,852</u>	1%

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net position (in millions of dollars) for the year ended June 30, 2014 from the prior year:

	Business-type Activities			Percent Change
	2013	2014	Change	
Revenue				
Program revenue:				
Charges for services	\$ 12,791,625	\$ 13,243,660	\$ 452,035	4%
Operating grants and contributions	95,686	-	(95,686)	-100%
Total revenue	12,887,311	13,243,660	356,349	3%
Program Expenses				
Operating expenses, other than depreciation	11,654,452	12,488,496	834,044	7%
Depreciation and amortization	450,124	550,244	100,120	22%
Total program expense	12,104,576	13,038,740	934,164	8%
Operating Income	782,735	204,920	(577,815)	-74%
Interest Income	6,138	3,430	(2,708)	-44%
Transfers	6,443	3,502	(2,941)	-46%
Change in Net Position	<u>\$ 795,316</u>	<u>\$ 211,852</u>	<u>\$ (583,464)</u>	-73%

The City's business-type activities are recorded in the Water and Sewer Fund. Water and sewer operations are funded directly by user fees or charges for services. Revenue generated from the City's Water and Sewer Fund totaled \$13.2 million in 2014 and expenses were \$13.0 million. The City experienced an overall increase in net position of \$.2 million. For fiscal 2014, as a result of internal efficiencies, a 3.6 percent rate increase in the City's overall water and sewer rate was passed to customers, despite more significant increases for services charged to the City by the Detroit Water Board and the South Macomb Sanitary District. The City is currently in its seventh year of a 30-year working agreement with the City of Detroit to monitor maximum day "peaking" costs and usage to minimize future rate increases from its supplier. Effective July 1, 2009, City management revised the water and sewer billing structure to include a ready-to-serve base charge on all accounts, regardless of usage. The City's water and sewer rates continue to reflect only the estimated cost for water units purchased or sewer treatment costs incurred by the City. No other expenses are factored into these rates.

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

During fiscal 2014, the City's water and sewer system incurred an 11.2 percent increase in the volume of water purchased and an 8.2 percent increase in sewage units purchased as well as incurring a 5.1 percent increase in the total volume of water units sold and a 4.9 percent increase in sewage units treated. This relationship is supported by the City's inferred water loss percentage which increased from 12.5 percent to 17.2 percent in fiscal 2014, attributed to major repairs and/or capital improvements being made to the City's water and sewer lines. In August 2012, the City committed \$4.45 million in state revolving fund loan proceeds to finance critical enhancements to its infrastructure to reduce future water loss. Construction began shortly afterwards and is expected to be completed during the winter of 2015. For fiscal 2015, City Council has approved a 4.2 percent total rate increase, which is less than the rate increases for services charged by its suppliers. In addition, the City Council has initiated implementation of an automated water-meter reading system that will further enhance operations, reduce system loss, and increase collections.

The City's Funds

The analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2013 and 2014 include the General Fund, the Major and Local Streets Funds, and the Capital Projects Fund.

The General Fund receives all City revenue not designated for specific use by state statutes or City Charter, and accounts for most of the City's governmental services. The most significant of these are police and fire, which incurred expenditures of approximately \$14.7 million in 2014, before depreciation and other full accrual accounting adjustments. The general operating millage levied by the City supports these two services. Fund balance in the General Fund decreased by approximately \$1 million during fiscal 2014, primarily attributed to a \$1.2 million decrease in property tax revenue (due to decreased taxable values) and a \$.6 million decrease in federal grants. These decreases in revenue were offset by decreases in public safety and public works expenditures as well as other expenditure reductions attributed from general expense control efforts. Despite efforts to manage expenditures, funding for current retiree and post-retiree healthcare benefits continue to impact the fund balance in the General Fund.

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

The Major and Local Streets Funds are the two funds used by the City to account for capital outlay expenditures related to road construction and maintenance. State revenue sources and transfers from other funds support the activities recorded in these funds. During fiscal 2014, net position in the Major Streets Fund and Local Streets Fund increased by approximately \$473,000 and \$71,000, respectively, as prior year road improvement projects near completion. For 2014, the Local Streets Fund received approximately \$541,000 in operating transfers from the Major Streets Fund and Capital Projects Fund to support local road construction projects. Historically, the General Fund would have recorded a year-end transfer to the Local Streets Fund to support future road projects. Due to lower property tax revenue, these resources were not available to transfer in 2014. While some capital improvements can be delayed for the short term, the long-term effects of reduced road maintenance and improvements to aging infrastructure ultimately compromise a city's ability to provide core services to its residents.

The Capital Projects Fund includes the City's portion of the Lake St. Clair Clean Water Initiative project being administered on behalf of the City by Macomb County. The City maintains certain intangible rights to a county drain asset equal to the City's share of the debt associated with the Clean Water Initiative project. In March 2012, City Council recommitted/reassigned approximately \$2.8 million of the fund's financial reserves for future road construction projects. During fiscal 2012, 2013, and 2014, \$.4 million, \$1 million, and \$.3 million have been expended, respectively, for neighborhood road improvements. During fiscal 2013, the City purchased \$.4 million in tax-reverted properties from the county. These properties were remarketed to an investment group and sold for \$.8 million in fiscal 2014. As a result of an energy audit of the City's existing facilities, it was determined that significant annual savings could be achieved by replacing old infrastructure, including boilers, rooftop air conditioners, and windows located at various City facilities. City Council approved the \$3.4 million project, which began in June 2014 and is scheduled to be completed in spring 2015. During fiscal 2014, the City expended \$.1 million for this project. In total, the fund balance in the Capital Projects Fund increased by \$.6 million during fiscal 2014. Special assessment collections, capital grants, and operating transfers from other funds primarily support the activities within this fund.

During fiscal 2012, City Council passed a resolution authorizing a 1 mill tax levy dedicated to finance operations of the Roseville Public Library under Public Act 164. There is no expiration date related to this levy. Historically, activity related to the Roseville Public Library had been reflected as a department of the City's general operating budget. Subsequent to August 2011, activity related to the Roseville Public Library is presented as a separate fund and reflected in the City's government-wide financial statements.

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

During fiscal 2012, the City Councils of Roseville and Eastpointe created the "Recreation Authority of Roseville and Eastpointe," which is responsible for administering recreation programs and senior activities in their respective communities. In November 2011, voters of each community authorized a 1 mill tax levy to finance operations of the authority, which expires in 2031. Historically, recreation programming and senior activities for the City of Roseville had been reflected as a department of the City's general operating budget. Subsequent to January 2012, all recreation programming and senior activities became the financial responsibility of the Recreation Authority. The Recreation Authority is a separate legal entity and, as such, separately issues a financial report at year end.

General Fund Budgetary Highlights

City administration and City Council monitor and amend the budget to take into account unanticipated events that occur during the year. The budget was formally amended once during fiscal 2014. The amended budget for revenue in the General Fund increased by \$1.2 million or 3.6 percent from the adopted budgeted revenue primarily attributed to an increase in grant revenue, an increase in state shared revenue, and an increase in insurance refunds from originally anticipated amounts. In total, the General Fund amended budget for expenditures increased by approximately \$1.2 million or 3.6 percent primarily attributed to payroll-related expenditures from filling personnel vacancies. For fiscal 2014, the City's operating budget was a balanced document and reflected no utilization of fund balance. At June 30, 2014, the City recorded a net deficit of approximately \$1 million primarily due to funding current retiree and post-retiree healthcare benefits in excess of budgeted amounts. For fiscal 2015 and beyond, management has developed a comprehensive five-year financial forecast that is updated annually and is reflected as part of the City's annual operating budget.

Capital Assets and Long-term Debt Administration

At year end, the City had approximately \$94.4 million invested in a wide range of net capital assets, including land, buildings, police and fire equipment, computer equipment, infrastructure assets (roads, bridges, sidewalks, and storm drains in which it has invested since 1980), and water and sewer lines. Due to limited growth within the City, no water and sewer lines were contributed by developers in the current year. During fiscal 2014, the total value of the City's governmental infrastructure assets, net of depreciation, increased \$.5 million or 1.3 percent from \$39.9 million in 2013 to \$40.4 million in 2014. Included in the City's infrastructure assets are certain intangible rights to a county drain asset equal to the City's share of the debt associated with the Clean Water Initiative project.

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

During 2012, the City transferred approximately \$1.6 million in net assets to the Recreation Authority of Roseville and Eastpointe. The Recreation Authority was created under Public Act 32 to provide recreation programs and senior activities to the citizenship of these communities. At inception, the city councils of Roseville and Eastpointe committed to contribute real and personal property to the authority limited to the City of Roseville Recreation Center, 18185 Sycamore, Roseville, MI and the City of Eastpointe Community Center, 16435 Eight Mile Road, Eastpointe, MI. The articles permit any participating municipality, including the City of Roseville, to withdraw upon giving one full year's budgetary notice. The articles also address dissolution of the authority, which requires council resolution from the governing board of the participating communities, at which time all outstanding debt of the authority is required to be paid in full. Any remaining assets of the authority would be evenly distributed to the member communities at the time of dissolution.

Debt reported in the financial statements typically relates to the purchase or construction of capital assets and is reported as a liability on the statement of net position. In December 2014, Macomb County issued \$3,615,000 in bonds to refund certain outstanding indebtedness previously issued related to the Lake St. Clair Clean Water Initiative project. The City's portion of the bond issue represents \$1,144,509, maturing in April 2030. Interest on the bonds is payable semiannually on April 1 and October 1 of each year beginning April 1, 2014. Principal payments are paid annually beginning October 1, 2014. At June 30, 2014, the City had approximately \$3,169,000 outstanding on 2012 issued Capital Improvement Bonds for State Revolving Funds. The 2012 Capital Improvement Bonds mature through October 2033 with a 2.50 percent interest rate. Interest on the bonds is payable semiannually on April 1 and October 1 of each year beginning October 1, 2013. Principal payments are paid annually beginning April 1, 2014. Governmental debt service payments during fiscal 2014 consisted of approximately \$2.4 million in principal payments, including a \$1.1 million principal payment related to the aforementioned bond refunding, and \$0.5 million in interest on all outstanding bonds and debt obligations.

See the notes to the financial statements section of the report for additional information.

Economic Factors and Next Year's Budgets and Rates

In 2006, City management designed and implemented a comprehensive "multi-prong" turnaround plan to address the City's financial challenges. This plan cured the financial structural imbalance by implementing various expenditure controls including attrition of City personnel and wage and benefit concessions, as well as a voter-approved 5.0 mills tax increase in the City's operating levy. Prior to the adoption of the City's turnaround approach, the City was bracing for its third consecutive year of budget deficits.

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

Unfortunately, for the past seven years, property assessments have declined, but are anticipated to increase in 2015. Property taxes account for approximately 60 percent of the City's General Fund operating budget. Total property assessments decreased by approximately 3 percent in 2009 and by approximately 11 percent annually for fiscal years 2010 to 2013, and by approximately 6 percent in 2014. For fiscal year 2014-2015, the City's total assessed value increased from \$.852 billion to \$.856 billion. This approximates a .4 percent increase in market value or nearly \$.1 million in additional tax revenue. The City's Assessor projects a 2 percent increase in property values annually beginning in fiscal year 2015. Unfortunately, the City is considered nearly developed and as such does not foresee a great deal of potential growth in the tax base from new construction. Declining property tax revenues since 2008 have resulted in a cumulative loss of nearly \$35 million. For example, in 2015, the average homeowner will pay approximately the same amount in taxes as they did prior to the City's 5 mill tax increase approved in 2006, even with the inclusion of the Library Authority and Recreation Authority millages. In addition, the City's revenue-raising capacity is limited as a result of levying at the Headlee limit. Due to limitations imposed by Proposal A, the gap between assessed value and taxable value has been eliminated and property owners' tax bills have begun to decrease by the full assessment decline. Even when future property values stabilize, Proposal A will limit future increases in property value to the rate of inflation. This suppression of future increases in property values will hamper the City's financial recovery as the real estate market begins to improve.

Although the City's second largest revenue source, state revenue sharing, increased in 2014 by approximately \$.2 million as compared to 2013, the City has received reductions in state revenue sharing in each of the 10 prior years. In 2000, the City received \$6.3 million in revenue-sharing payments from the State of Michigan. State-shared revenue payments in 2014 were \$4.5 million, even after stringent EVIP compliance. Revenue sharing represents approximately 12 percent of the General Fund operating budget. The true effects of declining state-shared revenue are further intensified once inflationary increases are factored into the equation. For example, if the City had received state-shared revenue payments, adjusted for the effects of inflation, the City would have received over \$39 million more in state funding since 2000. Due to the State's financial restructuring, the City anticipates future revenue-sharing payments to remain constant in the short run.

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

Expenses, on the other hand, continue to rise faster than inflation in many areas, many of which are contractual in nature and are beyond the immediate control of City management. Although City departments continue to make concerted efforts to keep departmental expenditures at a minimum, contractual obligations continue to adversely influence the City's bottom line. For fiscal 2014, City management was able to negotiate the continuation of prior year concessions to negate many of its contractual obligations. Unfortunately, expenses such as pension contributions and healthcare benefits have increased at rates in excess of inflation. While the City continues to make its required annual contribution, the City's pension system remains 69 percent funded due to volatile financial markets. For 2015 and beyond, City management anticipates overall expenses to increase an average of 2 percent annually. The City remains self-insured for medical and workers' compensation claims, which is the most cost-effective structure possible. Medical claims are estimated to increase marginally per year, after extensive plan restructurings (due to the hard cap) and other related insurance changes. The City continues to negotiate labor contracts to reduce wages and other fringe benefits for both current employees and future retirees. Staff restructuring and utilizing alternative methods to provide essential City services, where economically feasible, are avenues under consideration by City management to control costs and improve efficiency.

The most adverse impact to fiscal 2014 and beyond continues to be the required funding for current and future retiree healthcare benefits. GASB Statement No. 45, which became effective June 30, 2009, requires 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. Despite increased designations over the past eight years to fund future retiree medical costs, the City, like most communities, remains severely underfunded with regard to this pronouncement.

Despite many cost-saving measures implemented by City management, the City was forced to utilize its financial reserves to supplement day-to-day operations during fiscal 2014. In 2013, the City's General Fund balance increased approximately \$1 million, from \$4.3 million to \$5.3 million, although \$.7 million is attributed to expenditures that were reclassified to a prepaid asset at year end. In 2014, the City's General Fund declined approximately \$1 million, from \$5.3 million to \$4.3 million. For fiscal 2015, the City's operating budget is a balanced document and continues to reflect no utilization of fund balance. The 2014-2015 operating budget was predicated on utilizing savings generated from comprehensive contract wage and benefit restructuring with city unions, especially the police and fire unions. Membership of these unions constitutes over half of the total full-time employees of the City. The City has recently begun the budgetary process for fiscal 2015-2016, at which time the financial status of fiscal 2015 will be re-evaluated. The City is currently projecting budgetary deficits of over \$.5 million for fiscal 2015-2016 attributed to previous declines in property values and other economic factors. At that time, without additional savings and/or revenue sources, the City's financial reserves will be severely compromised. The City has not adopted a formal fund balance policy, but does target to maintain at least 10 percent of operating expenditures in the General Fund. It is imperative that the City maintain adequate financial levels to ensure positive cash flow and to preserve its favorable bond rating from Standard & Poor's, this year upgraded from A stable to A plus, which has saved the City thousands of dollars in annual interest costs.

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

Roseville, like most communities, is faced with the financial challenge of reinventing the way it operates and provides essential core services to its residents. Due to further property tax reductions, deepening state revenue-sharing cuts, and higher pension and OPEB contribution requirements, supported by shrinking workforces and violable market values, the City continues to face unprecedented and permanent structural financial challenges. City government is a service to City residents and therefore, its primary costs are personnel related. The City continues to negotiate immediate and long-term savings from all its collective bargaining units in order to eliminate the use of fund balance reserves, maintain core services, and avoid future layoffs. Even if the State's financial position improves and economic recovery continues, limitations under Proposal A will hamper the City's economic recovery even under the most optimistic assumption, which is, at best, that the City's revenue stream will increase proportionally with expenditures. To complicate matters further, the State of Michigan eliminated personal property taxes for businesses during the year, which approximates \$2.2 million in General Fund revenue each year. Although the City has been assured replacement revenue from the elimination of personal property taxes, how much will be replaced and the source of the funding is still undetermined at this time. Therefore, the structural changes being implemented at the city level must continue to be permanent in nature.

City management continues to aggressively investigate new potential revenue opportunities, including service-sharing agreements with surrounding communities, while it monitors and adjusts expenditures to ensure adequate fund balance reserves are maintained. In July 2010, the City of Roseville, St. Clair Shores, and Eastpointe created a legal entity known as the South East Regional Emergency Services Authority (SERESA), which is responsible for the dispatching of emergency police, fire, and ambulance services throughout the member communities. The Articles of Incorporation allow funding to be from a dedicated millage or telephone operational surcharge. However, in the near term, dispatched calls for service are going to serve as the methodology for allocating SERESA's budget among the General Funds of the cities. The articles also permit any participating municipality, including Roseville, to withdraw upon giving one full year's budgetary notice, although as a disincentive, any withdrawing municipality forfeits the asset previously transferred. SERESA is housed in a building wholly owned by the City of Roseville. The authority contracts with the City to provide certain fiscal and technology assistance for an annual fee. In late 2012, City administration also established an internal redevelopment team that was assigned the task to create a new redevelopment strategy for the community. The new strategy received certification on behalf of the City as a Michigan Redevelopment Ready Community in 2014. This designation will open the doors for new potential redevelopment opportunities as well as potential financial and technical assistance from the Michigan Economic Development Corporation. This action has been fully supported by the City Council.

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

Contacting the City's Financial Management

This financial report is intended to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, we invite you to contact the city manager at the City of Roseville, 29777 Gratiot Avenue, Roseville, MI 48066.

City of Roseville, Michigan

Statement of Net Position June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents (Note 4)	\$ 32,168,644	\$ 11,294,675	\$ 43,463,319
Receivables:			
Property taxes receivable - Net of allowance	481,198	-	481,198
Receivables from sales to customers on account	-	4,075,411	4,075,411
Accrued interest receivable	55,298	-	55,298
Other receivables	2,200,064	14,509	2,214,573
Due from other governmental units	1,271,153	-	1,271,153
Special assessments receivable	13,498	-	13,498
Due from Employees' Benefit Trust Fund	115,388	-	115,388
Internal balances (Note 6)	(6,743)	6,743	-
Inventory	447,587	128,124	575,711
Prepaid expenses and other assets	761,376	585,870	1,347,246
Restricted assets	14,050	-	14,050
Investment in joint ventures (Note 10)	4,840,390	-	4,840,390
Net OPEB asset	515,338	-	515,338
Capital assets (Note 5):			
Assets not subject to depreciation	31,388,513	23,119	31,411,632
Assets subject to depreciation	50,898,061	12,040,507	62,938,568
Total assets	125,163,815	28,168,958	153,332,773
Liabilities			
Accounts payable	2,909,553	1,668,291	4,577,844
Due to other governmental units	-	56,997	56,997
Refundable deposits, bonds, etc.	198,649	30,089	228,738
Accrued liabilities and other current liabilities	1,383,251	44,816	1,428,067
Noncurrent liabilities (Note 7):			
Due within one year:			
Compensated absences	1,356,754	86,519	1,443,273
Current portion of long-term debt	1,235,092	180,000	1,415,092
Due in more than one year:			
Compensated absences	1,860,264	249,748	2,110,012
Long-term debt	9,777,449	2,988,805	12,766,254
Total liabilities	18,721,012	5,305,265	24,026,277
Deferred Inflows of Resources - Other deferred inflows - Deferred charges of bond refunding	50,653	-	50,653
Net Position			
Net investment in capital assets	71,237,430	8,894,821	80,132,251
Restricted for:			
Streets and highways	7,071,126	-	7,071,126
Debt service	2,167,321	-	2,167,321
Drug law enforcement	2,074,176	-	2,074,176
Library authority	291,541	-	291,541
Grants	256,165	-	256,165
Capital improvements	24,050	-	24,050
Unrestricted	23,270,341	13,968,872	37,239,213
Total net position	<u>\$ 106,392,150</u>	<u>\$ 22,863,693</u>	<u>\$ 129,255,843</u>

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

City of Roseville, Michigan

	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 13,577,255	\$ 4,608,821	\$ 987,740	\$ -
Public safety	16,549,481	2,420,995	531,888	-
Public works	5,052,652	270,682	3,204,622	1,219,250
Construction and development	1,233,552	-	-	-
Community and economic development	59,539	-	-	-
Recreation and culture	2,521,435	42,099	71,606	-
Interest on long-term debt	465,424	-	-	-
Total governmental activities	39,459,338	7,342,597	4,795,856	1,219,250
Business-type activities - Water and sewer	13,038,740	13,243,660	-	-
Total primary government	<u>\$ 52,498,078</u>	<u>\$ 20,586,257</u>	<u>\$ 4,795,856</u>	<u>\$ 1,219,250</u>
General revenue:				
Property taxes				
State-shared revenue (unrestricted)				
Investment income (unrestricted)				
Cable franchise fees				
Other miscellaneous income				
Total general revenue				
Transfers				
Change in Net Position				
Net Position - Beginning of year				
Net Position - End of year				

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (7,980,694)	\$ -	\$ (7,980,694)
(13,596,598)	-	(13,596,598)
(358,098)	-	(358,098)
(1,233,552)	-	(1,233,552)
(59,539)	-	(59,539)
(2,407,730)	-	(2,407,730)
(465,424)	-	(465,424)
(26,101,635)	-	(26,101,635)
-	204,920	204,920
(26,101,635)	204,920	(25,896,715)
20,803,926	-	20,803,926
4,524,061	-	4,524,061
28,270	3,430	31,700
762,317	-	762,317
1,053,176	-	1,053,176
27,171,750	3,430	27,175,180
(3,502)	3,502	-
1,066,613	211,852	1,278,465
105,325,537	22,651,841	127,977,378
<u>\$ 106,392,150</u>	<u>\$ 22,863,693</u>	<u>\$ 129,255,843</u>

City of Roseville, Michigan

Governmental Funds Balance Sheet June 30, 2014

	Special Revenue Funds						Total
	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Nonmajor Funds		
Assets							
Cash and cash equivalents (Note 4)	\$ 6,227,012	\$ 4,936,035	\$ 1,958,443	\$ 3,559,050	\$ 4,562,105		\$ 21,242,645
Receivables:							
Property taxes receivable	461,242	-	-	3,005	25,951		490,198
Special assessments receivable	-	-	-	13,498	-		13,498
Accrued interest receivable	55,298	-	-	-	-		55,298
Other receivables	1,879,344	-	-	9,263	314,565		2,203,172
Due from other governmental units	745,315	391,840	120,688	-	13,310		1,271,153
Due from Employees' Pension Trust Fund	115,388	-	-	-	-		115,388
Due from other funds (Note 6)	3,191	-	3,503	-	609		7,303
Inventory	-	-	-	-	5,500		5,500
Prepaid expenses	644,933	-	-	-	11,551		656,484
Restricted assets	-	-	-	14,050	-		14,050
Total assets	<u>\$ 10,131,723</u>	<u>\$ 5,327,875</u>	<u>\$ 2,082,634</u>	<u>\$ 3,598,866</u>	<u>\$ 4,933,591</u>		<u>\$ 26,074,689</u>
Liabilities							
Accounts payable	\$ 1,348,855	\$ 321,196	\$ 18,187	\$ 140,782	\$ 57,989		\$ 1,887,009
Due to other funds (Note 6)	1,666,617	-	-	7,614	3,191		1,677,422
Refundable deposits, bonds, etc.	198,649	-	-	-	-		198,649
Accrued liabilities and other	1,208,381	-	-	-	83,208		1,291,589
Compensated absences	54,530	-	-	-	-		54,530
Total liabilities	4,477,032	321,196	18,187	148,396	144,388		5,109,199
Deferred Inflows of Resources - Unavailable revenue							
	1,395,430	-	-	22,619	273,635		1,691,684
Fund Balances							
Nonspendable	644,933	-	-	-	17,051		661,984
Restricted:							
Streets and highways	-	5,006,679	2,064,447	-	-		7,071,126
Debt service	-	-	-	-	2,156,812		2,156,812
Grants	-	-	-	-	249,979		249,979
Capital Improvements	10,000	-	-	14,050	-		24,050
Library Authority	-	-	-	-	269,348		269,348
Drug Law Enforcement	-	-	-	-	1,835,169		1,835,169
Committed - Road Construction Projects	-	-	-	1,358,102	-		1,358,102
Assigned:							
Compensated absences	1,302,224	-	-	-	-		1,302,224
Capital Projects	-	-	-	2,055,699	-		2,055,699
Unassigned	2,302,104	-	-	-	(12,791)		2,289,313
Total fund balances	4,259,261	5,006,679	2,064,447	3,427,851	4,515,568		19,273,806
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 10,131,723</u>	<u>\$ 5,327,875</u>	<u>\$ 2,082,634</u>	<u>\$ 3,598,866</u>	<u>\$ 4,933,591</u>		<u>\$ 26,074,689</u>

City of Roseville, Michigan

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

Fund Balance Reported in Governmental Funds	\$ 19,273,806
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	82,286,574
Investments in joint ventures are not financial resources and are not reported in the funds	4,840,390
Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds	1,691,684
Deferred inflows for deferred charges on debt refunding are not recorded in the governmental funds	(50,653)
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(11,012,541)
Accrued interest is not due and payable in the current period and is not reported in the funds	(91,662)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(3,162,488)
Allowance for doubtful account is not reported in the funds for taxes receivable to be collected over several years	(9,000)
Other long-term liabilities, such as retiree health obligations, do not present a claim on current financial resources and are not reported as fund liabilities	515,338
Inventory is not available to pay for current period expenditures	442,087
Internal Service Funds are included as part of governmental activities	<u>11,668,615</u>
Net Position of Governmental Activities	<u>\$ 106,392,150</u>

City of Roseville, Michigan

Governmental Funds

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

	Major Special Revenue Funds					Total
	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Nonmajor Funds	
Revenue						
Property taxes	\$ 18,837,043	\$ -	\$ -	\$ -	\$ 1,891,257	\$ 20,728,300
Licenses and permits	1,067,665	-	-	-	-	1,067,665
Federal grants	41,815	-	-	-	706,780	748,595
State-shared revenue and grants	4,451,137	2,600,207	733,059	-	66,072	7,850,475
Charges for services	249,897	-	-	-	-	249,897
Fines and forfeitures	2,815,682	-	-	-	14,510	2,830,192
Investment income	5,209	1,589	635	1,013	3,713	12,159
Rental income	-	-	-	8,470	-	8,470
Other revenue:						
Special assessments	-	-	-	7,614	-	7,614
Local donations	-	-	-	-	5,534	5,534
Cable franchise fees	762,317	-	-	-	-	762,317
Other fees and miscellaneous income	2,866,823	-	177,194	13,171	459,065	3,516,253
Total revenue	31,097,588	2,601,796	910,888	30,268	3,146,931	37,787,471
Expenditures						
Current:						
General government	13,253,517	215,160	73,305	281,664	704,056	14,527,702
Public safety	15,754,338	-	-	-	639,047	16,393,385
Public works	1,957,970	297,716	1,162,258	427,313	675,634	4,520,891
Construction and development	1,847	1,078,138	146,118	7,449	-	1,233,552
Community and economic development	-	-	-	-	59,539	59,539
Recreation and culture	99,735	-	-	-	1,326,301	1,426,036
Other charges	-	-	-	-	303,812	303,812
Debt service - Interest on long-term debt	-	-	-	-	385,894	385,894
Total expenditures	31,067,407	1,591,014	1,381,681	716,426	4,094,283	38,850,811
Excess of Revenue Over (Under) Expenditures	30,181	1,010,782	(470,793)	(686,158)	(947,352)	(1,063,340)
Other Financing Sources (Uses)						
Face value of debt issue	-	-	-	-	1,195,165	1,195,165
Proceeds from sale of capital assets	11,650	-	-	751,000	-	762,650
Transfers in (Note 6)	-	-	541,404	575,000	507,009	1,623,413
Transfers out (Note 6)	(1,081,400)	(537,901)	-	(7,614)	-	(1,626,915)
Payment to bond refunding escrow agent	-	-	-	-	(1,195,165)	(1,195,165)
Total other financing (uses) sources	(1,069,750)	(537,901)	541,404	1,318,386	507,009	759,148
Net Change in Fund Balances	(1,039,569)	472,881	70,611	632,228	(440,343)	(304,192)
Fund Balances - Beginning of year	5,298,830	4,533,798	1,993,836	2,795,623	4,955,911	19,577,998
Fund Balances - End of year	\$ 4,259,261	\$ 5,006,679	\$ 2,064,447	\$ 3,427,851	\$ 4,515,568	\$ 19,273,806

City of Roseville, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds	\$ (304,192)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	2,044,746
Depreciation expense	(2,372,795)
Net book value of assets disposed of	(59,050)
Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	(110,374)
Contributed assets not reported in the funds	501,328
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	2,373,856
Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position	(1,235,340)
Change in accrued interest payable and other	(79,537)
Investment in joint ventures	286,802
Internal service funds are included as part of the governmental activities	(42,544)
Purchase of inventory is an expense in the governmental funds but not in the statement of activities, where it increases inventory asset balance	(15,375)
Other retirement healthcare obligation expenses are recognized in the statement of activities, but not in the governmental funds, where they increase liabilities	366,240
Deferred inflows for deferred charges on debt refunding are not recorded in the governmental funds	(50,653)
Bond premiums are not recorded in the governmental funds	90,831
Increase in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment	(327,330)
Change in Net Position of Governmental Activities	<u>\$ 1,066,613</u>

City of Roseville, Michigan

Proprietary Funds Statement of Net Position June 30, 2014

	Enterprise Fund	Governmental Activities
	Water and Sewer Fund	Proprietary Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents (Note 4)	\$ 11,294,675	\$ 10,888,190
Receivables:		
Receivables from sales to customers on account	4,075,411	-
Other receivables	14,509	24,701
Due from other funds	6,743	1,663,376
Inventory	128,124	-
Prepaid expenses and other assets	585,870	114,892
Total current assets	16,105,332	12,691,159
Noncurrent assets - Capital assets (Note 5)	12,063,626	-
Total assets	28,168,958	12,691,159
Liabilities		
Current liabilities:		
Accounts payable	1,668,291	-
Due to other governmental units	56,997	-
Refundable deposits, bonds, etc.	30,089	-
Accrued liabilities and other	44,816	-
Compensated absences (Note 7)	86,519	-
Provision for claims	-	1,022,544
Current portion of long-term debt (Note 7)	180,000	-
Total current liabilities	2,066,712	1,022,544
Noncurrent liabilities:		
Compensated absences (Note 7)	249,748	-
Long-term debt (Note 7)	2,988,805	-
Total noncurrent liabilities	3,238,553	-
Total liabilities	5,305,265	1,022,544
Net Position		
Net investment in capital assets	8,894,821	-
Unrestricted	13,968,872	11,668,615
Total net position	\$ 22,863,693	\$ 11,668,615

City of Roseville, Michigan

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

	Enterprise Fund	Governmental Activities
	Water and Sewer Fund	Proprietary Internal Service Funds
Operating Revenue		
Sale of water	\$ 2,130,031	\$ -
Sewage disposal charges	6,627,373	-
Maintenance charges	4,000,823	-
Interest and penalty charges	333,598	-
Other miscellaneous revenue	151,835	-
Charges to other funds	-	7,202,953
Total operating revenue	13,243,660	7,202,953
Operating Expenses		
Cost of water	2,240,535	-
Cost of sewage treatment	7,576,648	-
Billing and administrative costs	1,862,624	34,926
Benefit payments and other costs	808,689	7,214,148
Depreciation	550,244	-
Total operating expenses	13,038,740	7,249,074
Operating Income (Loss)	204,920	(46,121)
Nonoperating Revenue - Investment income	3,430	3,577
Income (Loss) - Before contributions	208,350	(42,544)
Transfers In	3,502	-
Change in Net Position	211,852	(42,544)
Net Position - Beginning of year	22,651,841	11,711,159
Net Position - End of year	\$ 22,863,693	\$ 11,668,615

City of Roseville, Michigan

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

	Enterprise Fund	Governmental Activities
	Water and Sewer Fund	Proprietary Internal Service Funds
Cash Flows from Operating Activities		
Receipts from customers	\$ 13,266,993	\$ 7,227,175
Payments from interfund services and reimbursements	(300)	(1,393,716)
Payments to suppliers	(10,682,187)	(824)
Payments to employees	(1,807,009)	(100,586)
Internal activity - Payments to other funds	(10,283)	-
Claims paid	-	(6,993,591)
	767,214	(1,261,542)
Net cash provided by (used in) operating activities		
Cash Flows from Noncapital Financing Activities -		
Transfers from other funds	3,502	-
Cash Flows from Capital and Related Financing Activities -		
Purchase of capital assets	(1,085,646)	-
Principal and interest paid on capital debt	(175,000)	-
Issuance of bonds	1,432,333	-
	171,687	-
Net cash used in (provided by) capital and related financing activities		
Cash Flows from Investing Activities - Interest received on investments		
	3,430	3,577
Net Increase (Decrease) in Cash and Cash Equivalents		
	945,833	(1,257,965)
Cash and Cash Equivalents - Beginning of year		
	10,348,842	12,146,155
Cash and Cash Equivalents - End of year		
	\$ 11,294,675	\$ 10,888,190
Balance Sheet Classification of Cash and Cash Equivalents -		
Cash and investments	\$ 11,294,675	\$ 10,888,190
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities		
Operating income (loss)	\$ 204,920	\$ (46,121)
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	550,244	-
Changes in assets and liabilities:		
Receivables	19,492	24,222
Due from others	(300)	(1,393,716)
Inventories	(3,011)	-
Prepaid and other assets	(246,056)	(824)
Accounts payable	163,184	-
Due to others	(10,283)	-
Estimated claims liability	-	154,897
Accrued and other liabilities	61,944	-
Due to other governmental units	23,239	-
Cash bond and deposits	3,841	-
	767,214	(1,261,542)
Net cash provided by (used in) operating activities		
	\$ 767,214	\$ (1,261,542)

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2014, there were no noncash activities.

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

City of Roseville, Michigan

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2014

	Pension and Other Employee Benefit Trust Fund	Agency Funds
Assets		
Cash and cash equivalents	\$ 110,194	\$ 288,952
Investments:		
U.S. government securities	11,518,108	-
Stocks	59,477,138	-
Bonds	10,096,938	-
Real estate	29,605,450	-
Mutual funds	17,962,560	-
Limited partnerships	18,391,980	-
Receivables:		
Accrued interest receivable	421,061	-
Other receivables	242,583	-
Prepaid expenses and other assets	-	7,144
Total assets	147,826,012	\$ 296,096
Liabilities		
Accounts payable	527,947	\$ 92,247
Due to primary government	115,388	-
Refundable deposits, bonds, etc.	-	104,288
Accrued liabilities and other	79,291	99,561
Total liabilities	722,626	\$ 296,096
Net Position Held in Trust for Pension and Other Employee Benefits	\$ 147,103,386	

City of Roseville, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Position - Pension and Other Employee Benefit Trust Fund Year Ended June 30, 2014

	Pension and Other Employee Benefit Trust Fund
Additions	
Investment income:	
Interest and dividends	\$ 2,791,589
Net increase in fair value of investments	19,836,361
Investment-related expenses	<u>(799,510)</u>
Net investment income	21,828,440
Contributions:	
Employer	10,109,370
Employee	<u>1,305,158</u>
Total contributions	11,414,528
Other additions	<u>58,733</u>
Total additions	33,301,701
Deductions	
Benefit payments	12,724,030
Health benefits	4,792,764
Administrative expenses	<u>172,283</u>
Total deductions	<u>17,689,077</u>
Net Increase in Net Position Held in Trust	15,612,624
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	<u>131,490,762</u>
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	<u><u>\$ 147,103,386</u></u>

Note I - Summary of Significant Accounting Policies

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

Reporting Entity

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

Blended Component Units

The City of Roseville Building Authority is governed by a board appointed by the City's governing body. Although it is legally separate from the City, the Building Authority 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 of Roseville Employees' Retirement System has been blended into the City's financial statements. The system is governed by a five-member board appointed that includes three members of the City Council. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

The City of Roseville District Court Funds have also been blended into the City's financial statements. The financial activities of the funds are limited to collections of amounts that are subsequently returned or paid to third parties. The fund are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The District Court is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the District Court.

The City of Roseville has excluded the Housing Commission from this report because the City is not able to impose its will on the Housing Commission. The Housing Commission's financial statements have been issued under separate cover.

Jointly Governed Organization - Jointly governed organizations are discussed in Note 10.

Accounting and Reporting Principles

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

Note I - Summary of Significant Accounting Policies (Continued)

Report Presentation

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

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

For the most part, the effect of interfund activity has been removed from these statements. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Fund Accounting

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

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

Note I - Summary of Significant Accounting Policies (Continued)

- **The General Fund** - The General Fund is the primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund.
- **Major Streets Fund** - The Major Streets Fund accounts for the resources of State gas and weight tax revenue that is restricted for use on major streets.
- **Local Streets Fund** - The Local Streets Fund accounts for the resources of State gas and weight tax revenue that is restricted for use on local streets.
- **Capital Projects Fund** - The Capital Projects Fund accounts for the proceeds of bond issuances and all other resources used for the purpose of constructing all major capital improvement projects of the City.

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

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

Internal Service Funds - The internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the City. These include the Self-insurance Healthcare Fund, Flexible Spending Fund, and the Self-insurance Workers' Compensation Fund. The Self-insurance Healthcare Fund is used to account for current healthcare coverage provided for City employees and their dependents and to provide a reserve for future catastrophic healthcare claims. The Self-insurance Workers' Compensation Fund is used to account for workers' compensation claims and to provide a reserve for future catastrophic workers' compensation claims.

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

- The Employees' Pension Trust Fund accumulates resources for pension benefit payments to retirees and is accounted for in the same manner as proprietary funds. The Retiree Healthcare Benefits Trust Fund accumulates resources for healthcare payments to retirees and is accounted for in the same manner as proprietary funds.
- The Miscellaneous Agency Fund, the P.A.I.R. Fund, the Tax Collection Fund, and the District Court Fund are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note I - Summary of Significant Accounting Policies (Continued)

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

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

Basis of Accounting

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

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

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

Note I - Summary of Significant Accounting Policies (Continued)

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

Specific Balances and Transactions

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

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

Restricted Assets - The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for the construction or debt service of the City of Roseville, Michigan water and sewer lines. Unspent bond proceeds of the Capital Projects Funds are required to be set aside for construction. These amounts have also been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, intangible assets, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

<u>Capital Asset Class</u>	<u>Lives (in Years)</u>
Roads and sidewalks	30-50
Water and sewer distribution systems	50-70
Buildings and building improvements	20-50
Other tools and equipment	3-15

Note I - Summary of Significant Accounting Policies (Continued)

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category: a deferred charge on a bond refunding reported in the government-wide statement of net position, and a deferred charge on refunding which results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the life of the refunded debt.

Unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two main sources: grants and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Note I - Summary of Significant Accounting Policies (Continued)

Net Position Flow Assumption

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

Fund Balance Flow Assumption

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

Fund Balance Policies

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

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

Note I - Summary of Significant Accounting Policies (Continued)

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

Property Tax Revenue

Properties are assessed as of December 31 of each year. If unpaid, the related taxes become a lien on December 1 of the following year. Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are due by September 1 with the final collection date of February 28. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

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

The current year taxable valuation of the City totaled \$852 million, on which taxes levied consisted of 19.0391 mills for operating purposes, 2.5738 mills for refuse collections, 0.2365 mills for debt service, 1.0000 mills for the Chapter 20 Drain Fund, and 1.0000 mills for the library. This resulted in \$18,271,000 for operating and refuse collections, \$201,000 for debt services, \$849,000 for the Chapter 20 Drain Fund, and \$841,000 for the library. These amounts are recognized in the respective General, Special Revenue, and Debt Service Fund financial statements as tax revenue.

Pension and Other Postemployment Benefit Costs - The City offers both pension and retiree health care benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for these amounts is reported in governmental funds only as it comes due for payment. The government-wide and proprietary statements accrue vacation and personal pay as it is earned and sick pay is accrued as it is used or vested (whichever is earlier). A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment - generally when an individual's employment has terminated as of year end. Compensated absences will be liquidated primarily by the General and Water and Sewer Funds.

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

Note 2 - Stewardship, Compliance, and Accountability

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

Shortfall at July 1, 2013		\$ (6,216,116)
Current year permit revenue		961,743
Related expenses:		
Direct costs	\$ 1,116,833	
Estimated indirect costs	<u>111,683</u>	<u>1,228,516</u>
Current year shortfall		<u>(266,773)</u>
Cumulative shortfall at June 30, 2014		<u>\$ (6,482,889)</u>

Note 3 - Change in Accounting

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

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

Item	Amount	Prior Reporting Classification/Treatment	New Classification After Adoption of GASB Statement No. 65
Deferred amounts on debt refundings	\$ 50,653	Adjustment to the bonds payable liability	Deferred inflow of resources
Revenue not collected within 60 days of year end	1,691,684	Liability	Deferred inflow of resources

During the current year, the City adopted GASB Statement No. 67, *Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25*. This statement required changes to the actuarial valuations, resulting in a different measurement of the liability of the employer to plan members for benefits provided through the pension plan. As a result, the disclosures within the pension footnote have changed considerably along with the related schedules in the required supplemental information.

Note 4 - Deposits and Investments

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

Note 4 - Deposits and Investments (Continued)

The Pension Trust Fund and Retiree Health Care Fund 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.

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

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 \$10,420,893 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.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, none of the City's investments were subject to custodial credit risk due to one of the following:

- Investments were part of an insured pool
- Investments were book-entry only in the name of the City and were fully insured
- Investments were part of a mutual fund
- Investments were held by an agent in the City's name

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

City of Roseville, Michigan

Notes to Financial Statements June 30, 2014

Note 4 - Deposits and Investments (Continued)

At year end, the City had the following investments subject to interest rate risk:

Investment	Fair Value	Weighted Average Maturity (Years)
Primary government:		
U.S. government agency securities	\$ 600,606	0.72
Municipal bonds	<u>10,630,134</u>	.34
Total	<u>\$ 11,230,740</u>	
Employees' Retirement System:		
U.S. government agency securities	\$ 10,798,297	20.65
Corporate bonds	7,923,619	7.64
Foreign bonds	682,616	8.49
Municipal bonds	<u>1,016,952</u>	10.84
Total	<u>\$ 20,421,484</u>	
Retiree Health Care Benefits Trust:		
U.S. government agency securities	\$ 719,811	3.24
Corporate bonds	<u>473,751</u>	2.42
Total	<u>\$ 1,193,562</u>	

City of Roseville, Michigan

Notes to Financial Statements June 30, 2014

Note 4 - Deposits and Investments (Continued)

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

Investment	Fair Value	Rating	Rating Organization
Primary government:			
Municipal bonds	\$ 686,201	AAA	S&P
Municipal bonds	2,104,995	AA+ to AA-	S&P
Municipal bonds	439,981	A+ to A	S&P
Municipal bonds	718,603	Not Rated	-
Pooled funds	24,062,074	AI	Moody's
Total	\$ 28,011,854		
Employees' Retirement System:			
U.S. Government Agency Securities	\$ 477,525	AA	S&P
Corporate bonds	1,616,195	AAA	S&P
Corporate bonds	932,355	AA+ to AA-	S&P
Corporate bonds	2,835,627	A+ to A-	S&P
Corporate bonds	2,494,679	BBB+ to BBB-	S&P
Corporate bonds	44,764	Not rated	-
Foreign bonds	123,798	AA+ to AA-	S&P
Foreign bonds	432,643	A+ to A-	S&P
Foreign bonds	126,175	BBB+ to BBB-	S&P
Municipal bond	131,865	AAA+ to AAA-	S&P
Municipal bond	642,373	AA+ to AA-	S&P
Municipal bond	182,522	A+ to A-	S&P
Municipal bond	60,191	Not rated	-
Total	\$ 10,100,712		
Retiree Health Care Benefits Trust:			
Corporate bonds	\$ 22,360	AA+ to AA-	S&P
Corporate bonds	193,976	A+ to A-	S&P
Corporate bonds	257,415	BBB+ to BBB-	S&P
Pooled funds	110,194	Not rated	-
Total	\$ 583,945		

Concentration of Credit Risk - The City places no limit on the amount it may invest in any one issuer. More than 5 percent of the Employees' Retirement System's investments are in Loomis Core Plus Full Distribution, iShares, and HGK Trinity Street International; these investments are 17.0022 percent, 9.7843 percent, and 6.8319 percent of the Employees' Retirement System's total investments, respectively.

Note 4 - Deposits and Investments (Continued)

Retirement Investments Securities Lending Transactions - As permitted by some state statutes, and under the provisions of a securities lending authorization agreement, the retirement system lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The system's custodial bank manages the securities lending program and receives cash, government securities, or irrevocable bank letters of credit as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended June 30, 2014, only United States currency was received as collateral. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank. The retirement system had limited credit risk exposure to the borrowers because the amounts the pension system owes the borrowers were less than the amounts the borrowers owe the pension system.

The retirement system did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank. Contracts with the lending agents require them to indemnify the pension system if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the system for income distributions by the securities' issuers while the securities are on loan.

The retirement system and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of such investment pool as of June 30, 2014 was one day. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2014, the retirement system had no credit risk exposure to borrowers. The collateral held and the fair market value of the underlying securities on loan for the retirement system as of June 30, 2014 were \$3,772,547 and \$3,677,696, respectively.

City of Roseville, Michigan

Notes to Financial Statements June 30, 2014

Note 5 - Capital Assets

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

	Balance July 1, 2013	Additions	Disposals/ Transfers	Balance June 30, 2014
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 31,041,263	\$ 169,192	\$ -	\$ 31,210,455
Construction in progress	-	178,058	-	178,058
Subtotal	31,041,263	347,250	-	31,388,513
Capital assets being depreciated:				
Infrastructure	79,102,253	1,740,216	-	80,842,469
Buildings and improvements	16,423,233	274,595	-	16,697,828
Machinery and equipment	14,951,943	184,013	243,935	14,892,021
Subtotal	110,477,429	2,198,824	243,935	112,432,318
Accumulated depreciation:				
Infrastructure	39,202,358	1,228,310	-	40,430,668
Buildings and improvements	7,885,857	454,358	-	8,340,215
Machinery and equipment	12,258,130	690,127	184,883	12,763,374
Subtotal	59,346,345	2,372,795	184,883	61,534,257
Net capital assets being depreciated	51,131,084	(173,971)	59,052	50,898,061
Net capital assets	\$ 82,172,347	\$ 173,279	\$ 59,052	\$ 82,286,574
Business-type Activities				
Capital assets not being depreciated -				
Construction in progress	\$ -	\$ 23,119	\$ -	\$ 23,119
Capital assets being depreciated:				
Water and sewer lines	24,828,197	961,389	-	25,789,586
Buildings and improvements	126,654	-	-	126,654
Machinery and equipment	3,621,760	101,140	-	3,722,900
Subtotal	28,576,611	1,062,529	-	29,639,140
Accumulated depreciation:				
Water and sewer lines	13,781,870	387,353	-	14,169,223
Buildings and improvements	122,305	1,087	-	123,392
Machinery and equipment	3,144,212	161,806	-	3,306,018
Subtotal	17,048,387	550,246	-	17,598,633
Net capital assets being depreciated	11,528,224	512,283	-	12,040,507
Net capital assets	\$ 11,528,224	\$ 535,402	\$ -	\$ 12,063,626

City of Roseville, Michigan

Notes to Financial Statements June 30, 2014

Note 5 - Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 193,963
Public safety	596,684
Public works	1,306,438
Recreation and culture	275,710
Total governmental activities	<u>\$ 2,372,795</u>
Business-type activities - Water and sewer	<u>\$ 550,246</u>

Construction Commitments - The City has active construction projects at year end. The projects include various major and local street projects administered by the Michigan Department of Transportation and the Macomb County Department of Roads. Total project costs to date for these projects have been \$2,464,677. The remaining commitments for these projects are \$367,171 and \$83,832, respectively.

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From			Total
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ -	\$ 3,191	\$ 3,191
Local Roads	-	3,503	-	3,503
Water and Sewer Fund	3,241	3,502	-	6,743
Internal service fund - Workers' Compensation Fund	418	-	-	418
Internal service fund - Employee Benefit Fund	1,662,958	-	-	1,662,958
Nonmajor governmental funds	-	609	-	609
Total	<u>\$ 1,666,617</u>	<u>\$ 7,614</u>	<u>\$ 3,191</u>	<u>\$ 1,677,422</u>

City of Roseville, Michigan

Notes to Financial Statements June 30, 2014

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

The General Fund has an interfund receivable of \$115,388 from the Employees' Pension Trust Fund as of the end of the year.

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

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

Transfers In	Transfers Out			Total
	General Fund	Major Streets Fund	Nonmajor Governmental Funds	
Local Streets Fund	\$ -	\$ 537,901	\$ 3,503	\$ 541,404
Capital Projects Fund	575,000	-	-	575,000
Nonmajor funds	506,400	-	609	507,009
Water and Sewer Fund	-	-	3,502	3,502
Total	\$ 1,081,400	\$ 537,901	\$ 7,614	\$ 1,626,915

The transfer from the Major Streets Fund to the Local Streets Fund is to help support local road projects. The transfers from the General Fund to the Capital Projects Fund are for various capital projects. The transfers from the General Fund to the nonmajor funds are for loan/debt current year obligations. The transfers from the Capital Projects Fund to the Local Streets, nonmajor governmental funds, and Water and Sewer Funds represent special assessment allocations.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

City of Roseville, Michigan

Notes to Financial Statements June 30, 2014

Note 7 - Long-term Debt (Continued)

The City has the following long-term debt outstanding at June 30, 2014:

Description	Amount
Governmental Activities	
<u>General obligations:</u>	
Unlimited Tax General Obligation Library Bonds	\$ 410,000
Building Authority Limited Tax General Obligation Refunding Bonds - Series 2006	2,715,000
Lake St. Clair Water Initiative Drainage District - 2001 Series A	1,734,198
Lake St. Clair Water Initiative Drainage District - 2002 Series A	381,653
Lake St. Clair Water Initiative Drainage District - SRF Project 5186-01	2,252,493
Lake St. Clair Water Initiative Drainage District - SRF Project 5186-02	1,588,389
Lake St. Clair Water Initiative Drainage District - SRF Project 5186-03	306,991
Lake St. Clair Water Initiative Drainage District - SRF Project 5186-05	193,653
Lake St. Clair Water Initiative Drainage District - 2004 Series A Refunded Bond Premium	1,093,856
Southeast Michigan Regional Energy Office - Interior Lighting Agreement	130,195
Southeast Michigan Regional Energy Office - Exterior Lighting Agreement	72,200
Subtotal	<u>11,012,541</u>
<u>Additional obligations:</u>	
Compensated absences	<u>3,217,018</u>
Total governmental activity debt	<u>\$ 14,229,559</u>
Description	Amount
Business-type Activities	
<u>Limited Tax General Obligation Bonds</u>	
Clean Water Program	\$ 3,168,805
<u>Other obligations:</u>	
Compensated absences	<u>336,267</u>
Total business-type activity debt	<u>\$ 3,505,072</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligations	\$ 12,162,346	\$ 1,233,760	\$ (2,383,565)	\$ 11,012,541	\$ 1,235,092
Accumulated compensated absences	<u>2,909,639</u>	<u>1,220,778</u>	<u>(913,399)</u>	<u>3,217,018</u>	<u>1,356,754</u>
Total governmental activities	<u>\$ 15,071,985</u>	<u>\$ 2,454,538</u>	<u>\$ (3,296,964)</u>	<u>\$ 14,229,559</u>	<u>\$ 2,591,846</u>

City of Roseville, Michigan

Notes to Financial Statements June 30, 2014

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities					
Bonds	\$ 1,911,472	\$ 1,432,333	\$ (175,000)	\$ 3,168,805	\$ 180,000
Accumulated compensated absences	283,034	152,930	(99,697)	336,267	86,519
Total business-type activities	<u>\$ 2,194,506</u>	<u>\$ 1,585,263</u>	<u>\$ (274,697)</u>	<u>\$ 3,505,072</u>	<u>\$ 266,519</u>

Total interest expense for the year was approximately \$465,000. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 1,235,092	\$ 352,593	\$ 1,587,685	\$ 180,000	\$ 79,321	\$ 259,321
2016	1,264,811	309,564	1,574,375	185,000	76,604	261,604
2017	1,083,045	270,521	1,353,566	190,000	71,979	261,979
2018	1,104,529	235,675	1,340,204	190,000	67,229	257,229
2019	1,135,691	198,716	1,334,407	195,000	62,479	257,479
2020-2024	3,580,002	549,986	4,129,988	1,055,000	236,771	1,291,771
2025-2029	1,256,096	189,879	1,445,975	1,173,805	97,396	1,271,201
2030-2034	353,275	5,841	359,116	-	-	-
Total	<u>\$ 11,012,541</u>	<u>\$ 2,112,775</u>	<u>\$ 13,125,316</u>	<u>\$ 3,168,805</u>	<u>\$ 691,779</u>	<u>\$ 3,860,584</u>

Advance and Current Refundings - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2014, \$2,575,000 of bonds outstanding are considered defeased.

In addition, in the current year, Macomb County issued \$3,615,000 in bonds to refund certain outstanding indebtedness previously issued related to the Lake St. Clair Clean Water Initiative project. The City's portion of the bond issue represents \$1,144,509, which is recorded in the governmental activities. The difference between the cash flows required to service the new debt and completed the refunding is approximately \$140,000, which includes bond premium of approximately \$91,000. The City estimates its minimum economic gain (difference between the present value of the debt service payments on the old and new debt) is approximately \$51,000.

Note 7 - Long-term Debt (Continued)

County Contractual Obligations - The above contractual obligations to the County are the result of the County issuance of bonds on the City's behalf and other communities involved in the Lake St. Clair Clean Water Initiative project. The City has pledged to raise property taxes, to the extent permitted by law, if necessary to fund the obligation to repay the County. Proceeds from the County bonds provided financing for the construction of the Lake St. Clair Clean Water Initiative Drainage Districts. The remaining principal and interest to be paid on the bonds total \$9,354,893. During the current year, net revenues of the system were \$847,700 compared to the annual debt requirements of \$808,418.

Note 8 - 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 property loss, torts, errors and omissions, and workers' compensation claims; the City is partially uninsured for employee medical benefit claims and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Under the employee medical benefit plan, the City is liable for claims up to a maximum amount of \$200,000 on an individual level annually. Under the workers' compensation plan, the City is liable for claims up to a maximum amount of \$500,000 on an individual level and \$794,267 in aggregate. All claims incurred prior to June 30, 2006 are covered under the City's previous workers' compensation insurance provider.

The City estimates the liability for employee medical benefit claims 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. The estimates are recorded in the Self-insurance Internal Service Fund and the Workers' Compensation Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	2014	2013
Unpaid claims - Beginning of year	\$ 867,647	\$ 989,426
Incurred claims - Including claims incurred but not reported	7,303,385	6,837,908
Claim payments	<u>(7,148,488)</u>	<u>(6,959,687)</u>
Unpaid claims - End of year	<u>\$ 1,022,544</u>	<u>\$ 867,647</u>

City of Roseville, Michigan

Notes to Financial Statements June 30, 2014

Note 9 - Pension and Other Employee Benefits Trust Funds

The following are condensed financial statements for the individual pension plans and postemployment healthcare plans:

	Employee Pension Trust Fund	Retiree Healthcare Benefits Trust Fund	Total
<u>Statement of Net Position</u>			
Cash and investments	\$ 140,759,424	\$ 6,402,944	\$ 147,162,368
Receivables	655,532	8,112	663,644
Liabilities	722,626	-	722,626
Net position	<u>\$ 140,692,330</u>	<u>\$ 6,411,056</u>	<u>\$ 147,103,386</u>
<u>Statement of Changes in Net Position</u>			
Investment income	\$ 20,892,292	\$ 936,148	\$ 21,828,440
Contributions	6,371,764	5,042,764	11,414,528
Other additions	58,733	-	58,733
Benefit payments	12,724,030	-	12,724,030
Administrative expenses	171,857	426	172,283
Health benefits	-	4,792,764	4,792,764
Net change in net position	<u>\$ 14,426,902</u>	<u>\$ 1,185,722</u>	<u>\$ 15,612,624</u>

Note 10 - Joint Ventures

The City is a member of the Southeast Macomb Sanitary District, which provides sewage disposal to participating municipalities in Macomb County, Michigan. Other members include the cities of St. Clair Shores and Eastpointe, Michigan. The City appoints one member to the joint venture's governing board, which then approves the annual budgets. The City's equity interest at June 30, 2014 in the Southeast Macomb Sanitary District of \$5,654,364 is recorded within the governmental activities column of the statement of net position based on the Southeast Macomb Sanitary District's June 30, 2014 financial statements. Complete financial statements for the Southeast Macomb Sanitary District can be obtained from its administrative offices at 20001 Pleasant Avenue, St. Clair Shores, Michigan 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

The City is a member of the South Macomb Disposal Authority (the "Authority"), which provides refuse disposal services to participating municipalities in Macomb County, Michigan. Other members include the cities of Centerline, Eastpointe, and Warren, Michigan. The City appoints one member to the joint venture's governing board, which then approves the annual budgets. The City's equity interest (loss) in the Authority of \$(1,267,270) is recorded within the governmental activities column of the statement of net position based on the South Macomb Disposal Authority's June 30, 2014 financial statements.

Note 10 - Joint Ventures (Continued)

Each participating community's equity interest in the insurance reserve is not determinable. Complete financial statements for the Southeast Macomb Sanitary District and the South Macomb Disposal Authority can be obtained from their administrative offices at 20001 Pleasant Avenue, St. Clair Shores, Michigan 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

The City is a member of the South East Regional Emergency Services Authority (SERESA), which is responsible for the dispatch of emergency police, fire, and ambulance services throughout the geographical area subject to the political control of the participating municipalities effective December 29, 2010. Other members include the cities of St. Clair Shores and Eastpointe. Each participating municipality is entitled to one board member appointment and then a fire chief and police chief are selected by the board. Each appointee is given a three-year term, except for the police and fire chiefs, who receive a one-year term. The Articles of Incorporation allow funding to be from a dedicated millage or telephone operational surcharge. However, in the near term, dispatched calls for service are going to serve as the methodology for allocating SERESA's budget among the General Funds of the cities. The articles also permit any participating municipality, including Roseville, to withdraw upon giving one full year's budgetary notice, although as a disincentive, any withdrawing municipality forfeits the asset previously transferred. SERESA's dispatch center is housed in a building wholly owned by the City of Roseville. The authority contracts with the City of Roseville to provide certain fiscal and information technology assistance for an annual fee. The City's equity interest in SERESA of \$453,296 is recorded within the governmental activities column of the statement of net position. Complete financial statements for the South East Regional Emergency Services Authority can be obtained from its administrative offices at 18961 Common Road, Roseville, Michigan 48066. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Note 10 - Joint Ventures (Continued)

The City is a member of the Recreation Authority of Roseville and Eastpointe (RARE), which is responsible for administering recreation programs and senior activities in its respective communities. The other member is the City of Eastpointe. The authority is governed by an administrative policy board. Each participating municipality is entitled to two board member appointments. In addition, the board selects one additional representative from either the community of Roseville or Eastpointe for a two-year term position. The authority will contract with the City of Roseville to provide certain administrative assistance for an annual fee. The Articles of Incorporation allow funding for the authority to be from a dedicated millage. In November 2011, voters of each community authorized a 1 mill tax levy to finance operations of the authority, which expires in 2031. The authority is authorized to borrow and issue debt, not to exceed two mills of the total taxable property within the authority's geographical area. Each participating municipality has committed to contribute real and personal property to the authority limited to the City of Roseville Recreation Center, 18185 Sycamore, Roseville, Michigan and the City of Eastpointe Community Center, 16435 Eight Mile Road, Eastpointe, Michigan. The articles permit any participating municipality, including the City of Roseville, to withdraw upon giving one full year's budgetary notice. The articles also address dissolution of the authority, which requires council resolution from the governing board of the participating communities, at which time all outstanding debt of the authority is required to be paid in full. Any remaining assets of the authority would be evenly distributed to the member communities at the time of dissolution. However, if either member withdraws from the authority, the member is not entitled to the return of any credit for property or money that was transferred to or paid to the authority. As a result, the City has not recorded an equity interest. Complete financial statements for RARE can be obtained from its administrative offices at 18185 Sycamore, Roseville, Michigan 48066. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Note 11 - Pension Plan Description

Plan Administration - The Pension Board administers the City of Roseville, Michigan Pension Plan - a single employer defined benefit pension plan that provides pensions for all permanent full-time general and public safety employees of the City. Benefit terms have been established by contractual agreements between the City and the various employee union representation; amendments are subject to the same process.

Management of the plan is vested in the Pension Board, which consists of five members: the mayor and four appointed members.

Note 11 - Pension Plan Description (Continued)

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

Inactive plan members or beneficiaries currently receiving benefits	365
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	<u>203</u>
Total	<u><u>568</u></u>

Benefits Provided - The pension plan provides retirement, disability, and death benefits. Retirement benefits for general plan members are established by the City's contracts with the City's collective bargaining units and may be amended through negotiation with the City's collective bargaining units. A plan member who leaves the City's service may withdraw his or her contributions, plus any accumulated interest.

Contributions - Article 9, Section 24 of the State of Michigan Constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the Pension Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the City Charter, union contracts, and plan provisions. For the year ended June 30, 2014, the active member contribution rate was between 6.5 and 12.5 percent of annual pay, and the City's contribution rate was between 32.9 and 39.2 percent of annual payroll.

Note 12 - Pension Plan Reserves

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

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

The employee reserve is credited as employee contributions are received throughout the year; the plan maintains a record of the amount contributed by each employee, and credits interest annually at a rate determined by the Pension Board. For the fiscal year ended June 30, 2014, the rate used was 3.1 percent. For any employee who terminates before vesting in the pension plan, their balance is returned to them; for those who stay until retirement, the balance is transferred into the retiree reserve.

Note 12 - Pension Plan Reserves (Continued)

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

	<u>Required Reserve</u>	<u>Amount Funded</u>
Retiree reserve	\$ 105,057,408	\$ 105,057,408
Employee reserve	18,692,633	18,692,633
Employer reserve	16,942,289	16,942,289

Note 13 - Pension Plan Investments - Policy and Rate of Return

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

Asset class:	<u>Target Allocation</u>
Domestic equities	36.0%
Fixed income	25.0%
Foreign equities	14.0%
Global equities	6.0%
Real estate	5.0%
Hedge funds	5.0%
Real assets	4.0%
Private equity	3.0%
Loan fund	2.0%

Rate of Return - For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 17.6 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

City of Roseville, Michigan

Notes to Financial Statements June 30, 2014

Note 14 - City Pension Cost and Related Asset/Obligation

The pension plan does not issue a separate financial report.

Annual Pension Cost - For the year ended June 30, 2014, the City's annual pension cost of \$5,207,023 for the plan was equal to the City's required and actual contribution. The pension cost for the three most recent years is as follows:

	Fiscal Year Ended June 30		
	2014	2013	2012
Annual pension cost (APC)	\$ 5,207,023	\$ 5,376,551	\$ 4,050,761
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
Net pension obligation	\$ -	\$ -	\$ (134,306)

Funding Status and Funding Progress - As of June 30, 2013, the most recent actuarial valuation date, the plan was 68.9 percent funded. The actuarial accrued liability for benefits was \$181 million, and the actuarial value of assets was \$125 million, resulting in an unfunded actuarial accrued liability of \$56 million. The covered payroll (annual payroll to active employees covered by the plan) was \$13 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 425 percent.

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Actuarial Methods and Assumptions - The annual required contribution was determined as part of an actuarial valuation at June 30, 2013, using the individual entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return and (b) projected salary increases between 5.0-8.8 percent per year. Both (a) and (b) include an inflation component of 5.0 percent. 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 21 years.

Note 15 - Net Pension Liability of the City

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

City of Roseville, Michigan

Notes to Financial Statements June 30, 2014

Note 15 - Net Pension Liability of the City (Continued)

Total pension liability	\$ 182,491,368
Plan fiduciary net position	<u>(140,692,329)</u>
City's net position liability	<u>\$ 41,799,039</u>
Plan fiduciary net position as a percentage of the total pension liability	77.1 %

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of June 30, 2013, which used update procedures to roll forward the estimated liability to June 30, 2014. The valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4.0 %
Salary increases	5.0-8.8 % average, including inflation
Investment rate of return	7.5 % net of pension plan investment expense, including inflation

Mortality rates were based on the 1984 Group Annuity Mortality Table - male and female. The actuary is in the process of considering the appropriateness of the mortality assumptions used.

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

Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Roseville, Michigan

Notes to Financial Statements June 30, 2014

Note 15 - Net Pension Liability of the City (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2013 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table.

	<u>Long-term Expected Real Rate of Return</u>
Asset class:	
Domestic equity	6.20%
International equity	6.10%
Emerging markets equity	7.30%
Investment grade U.S. fixed	1.70%
High yield fixed income	4.90%
International fixed income	2.00%
Hedge funds	4.50%
Real estate	6.20%
Private equity	9.40%
Infrastructure	7.00%
Cash	<u>0.80%</u>
Total/Weighted average	<u>5.57%</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the City, calculated using the discount rate of 7.5 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net pension liability of the City	\$ 60,622,272	\$ 41,799,039	\$ 25,717,651

Note 16 - Other Postemployment Benefits

Plan Description - The City provides retiree health care benefits to eligible employees and their spouses for public safety and general employees of the City. Currently, the plan has 591 members (including employees in active service, terminated employees not yet receiving benefits, and retired employees and beneficiaries currently receiving benefits) as of June 30, 2012 (the date of the most recent valuation). This is a single employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions.

Funding Policy - Retiree healthcare costs are recognized when paid for by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended June 30, 2014, the City made payments for postemployment health benefit premiums of \$4,792,764. The cost of administering the plan are borne by the City's General Fund. The activity is reported in this financial statement as a pension and other employee benefit trust fund type. The trust has a fund balance of \$6,411,056 as of June 30, 2014.

Funding Progress - For the year ended June 30, 2014, the City has estimated the cost of providing retiree health care benefits through an actuarial valuation as of June 30, 2012. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 4,669,103
Interest on the prior year's net OPEB obligation	-
Less adjustment to the annual required contribution	-
	<hr/>
Annual OPEB cost	4,669,103
Amounts contributed:	
Payments of current premiums	(4,792,980)
Advance funding	(250,000)
	<hr/>
Decrease in net OPEB obligation (asset)	(373,877)
OPEB obligation (asset) - Beginning of year	<hr/> (141,461)
OPEB obligation (asset) - End of year	<hr/> <u>\$ (515,338)</u>

Note 16 - Other Postemployment Benefits (Continued)

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

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Costs	Percentage OPEB Costs Contributed	Net OPEB Obligation (Asset)
6/30/12	6/30/10	\$ 4,527,564	106.3	\$ -
6/30/13	6/30/12	4,446,765	103.0	(141,461)
6/30/14	6/30/12	4,669,103	108.0	(515,338)

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/08	\$ 1,742,055	\$ 65,990,073	\$ 64,248,018	2.6	\$ 18,683,089	343.9
6/30/10	2,539,522	70,335,321	67,795,799	3.6	16,755,219	404.6
6/30/12	2,681,375	74,942,862	72,261,487	3.6	13,462,808	536.7

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

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

Note 16 - Other Postemployment Benefits (Continued)

In the June 30, 2012 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.5 percent initially, graded down to 5 percent in 0.5 percent increments over five years. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012 was 30 years.

Note 17 - Upcoming Accounting Pronouncements

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

Required Supplemental Information

City of Roseville, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 18,862,059	\$ 18,968,129	\$ 18,837,043	\$ (131,086)
Licenses and permits	990,250	1,093,250	1,067,665	(25,585)
Federal grants	50,000	225,050	41,815	(183,235)
State-shared revenue and grants	4,137,761	4,480,946	4,451,137	(29,809)
Charges for services	700,326	773,156	249,897	(523,259)
Fines and forfeitures	3,061,405	2,881,750	2,815,682	(66,068)
Investment income	25,000	25,000	5,209	(19,791)
Other fees and miscellaneous income	3,423,545	4,201,212	3,629,140	(572,072)
Total revenue	31,250,346	32,648,493	31,097,588	(1,550,905)
Expenditures - Current				
General government:				
Governing body	7,109,614	6,466,939	7,829,559	(1,362,620)
Finance/Accounting/Budget department	105,556	105,556	50,014	55,542
Purchasing	68,993	66,335	71,531	(5,196)
Information technology/Data processing	335,786	491,535	351,957	139,578
Treasurer	311,653	414,894	179,731	235,163
Assessing	396,515	375,592	349,368	26,224
Clerk	459,272	451,447	396,086	55,361
Buildings and grounds	699,832	753,507	666,761	86,746
Attorney	311,472	311,472	311,472	-
Human resources/Personnel	142,053	227,276	170,851	56,425
Pension board	114,531	115,363	1,181	114,182
Other	3,113,640	2,939,318	2,875,006	64,312
Total general government	13,168,917	12,719,234	13,253,517	(534,283)
Public safety:				
Police/Sheriff (county)	9,103,440	9,717,698	9,400,119	317,579
Fire and EMS	4,811,537	5,371,173	5,238,584	132,589
Building inspections and related	1,247,792	1,144,016	1,115,635	28,381
Total public safety	15,162,769	16,232,887	15,754,338	478,549
Public works:				
Street construction	690,610	965,081	933,828	31,253
Rubbish disposal	2,135,736	2,135,736	1,897,500	238,236
Street lighting	825,000	875,000	875,082	(82)
Allocated to other operations	(1,625,000)	(1,625,000)	(1,748,440)	123,440
Total public works	2,026,346	2,350,817	1,957,970	392,847

City of Roseville, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures - Current (Continued)				
Construction and development	\$ 25,000	\$ 24,900	\$ 1,847	\$ 23,053
Recreation and culture:				
Library	10,700	11,350	14,067	(2,717)
Parks and recreation	150,214	213,214	85,668	127,546
Total recreation and culture	<u>160,914</u>	<u>224,564</u>	<u>99,735</u>	<u>124,829</u>
Total expenditures	<u>30,543,946</u>	<u>31,552,402</u>	<u>31,067,407</u>	<u>484,995</u>
Excess of Revenue Over Expenditures	706,400	1,096,091	30,181	(1,065,910)
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	50,000	36,109	11,650	(24,459)
Transfers out	(756,400)	(1,132,200)	(1,081,400)	50,800
Total other financing uses	<u>(706,400)</u>	<u>(1,096,091)</u>	<u>(1,069,750)</u>	<u>26,341</u>
Net Change in Fund Balance	-	-	(1,039,569)	(1,039,569)
Fund Balance - Beginning of year	<u>5,298,830</u>	<u>5,298,830</u>	<u>5,298,830</u>	-
Fund Balance - End of year	<u>\$ 5,298,830</u>	<u>\$ 5,298,830</u>	<u>\$ 4,259,261</u>	<u>\$ (1,039,569)</u>

City of Roseville, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 2,275,000	\$ 2,498,175	\$ 2,600,207	\$ 102,032
Investment income	500	2,500	1,589	(911)
Total revenue	2,275,500	2,500,675	2,601,796	101,121
Expenditures - Current				
General government	197,500	211,318	215,160	(3,842)
Public works	440,000	502,500	297,716	204,784
Construction and development	1,445,624	883,000	1,078,138	(195,138)
Total expenditures	2,083,124	1,596,818	1,591,014	5,804
Excess of Revenue Over Expenditures	192,376	903,857	1,010,782	106,925
Other Financing Sources (Uses)				
Transfers in	301,374	-	-	-
Transfers out	(493,750)	(528,294)	(537,901)	(9,607)
Net Change in Fund Balance	-	375,563	472,881	97,318
Fund Balance - Beginning of year	4,533,798	4,533,798	4,533,798	-
Fund Balance - End of year	<u>\$ 4,533,798</u>	<u>\$ 4,909,361</u>	<u>\$ 5,006,679</u>	<u>\$ 97,318</u>

City of Roseville, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 675,000	\$ 720,116	\$ 733,059	\$ 12,943
Investment income	250	1,000	635	(365)
Other miscellaneous income	92,125	-	177,194	177,194
Total revenue	767,375	721,116	910,888	189,772
Expenditures - Current				
General government	67,500	72,012	73,305	(1,293)
Public works	920,000	839,170	1,162,258	(323,088)
Construction and development	276,625	276,625	146,118	130,507
Total expenditures	1,264,125	1,187,807	1,381,681	(193,874)
Excess of Expenditures Over Revenue	(496,750)	(466,691)	(470,793)	(4,102)
Other Financing Sources - Transfers in	496,750	531,294	541,404	10,110
Net Change in Fund Balance	-	64,603	70,611	6,008
Fund Balance - Beginning of year	1,993,836	1,993,836	1,993,836	-
Fund Balance - End of year	<u>\$ 1,993,836</u>	<u>\$ 2,058,439</u>	<u>\$ 2,064,447</u>	<u>\$ 6,008</u>

City of Roseville, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress Year Ended June 30, 2014

The schedule of funding progress is as follows (dollar amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/08	\$ 133,644	\$ 158,417	\$ 24,773	84.4	\$ 18,683	132.6
6/30/09	131,095	160,689	29,594	81.6	18,619	158.9
6/30/10	128,488	170,862	42,374	75.2	16,755	252.9
6/30/11	125,962	174,318	48,356	72.3	15,777	306.5
6/30/12	121,682	177,578	55,896	68.5	13,463	415.2
6/30/13	124,769	181,218	56,449	68.9	13,271	425.4

The schedule of employer contributions is as follows:

Fiscal Years Ending	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
6/30/09	6/30/07	\$ 3,892,855	100.0 %
6/30/10	6/30/08	4,160,914	100.0
6/30/11	6/30/09	4,691,696	100.0
6/30/12	6/30/10	4,050,761	100.0
6/30/13	6/30/11	5,376,550	100.0
6/30/14	6/30/12	5,207,023	100.0

* The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2013, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll - Closed
Amortization period (perpetual)	21 years
Asset valuation method	4-year smoothed market value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	5.0% - 8.8%
* Includes inflation at	5.0%

City of Roseville, Michigan

Required Supplemental Information Other Postemployment Benefits Schedule of Funding Progress Year Ended June 30, 2014

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/05	\$ -	\$ 73,768,489	\$ 73,768,489	- %	\$ 18,216,786	404.9 %
6/30/08	1,742,055	65,990,073	64,248,018	2.6	18,683,089	343.9
6/30/10	2,539,522	70,335,321	67,795,799	3.6	16,755,219	404.6
6/30/12	2,681,375	74,942,862	72,261,487	3.6	13,462,808	536.7

The schedule of employer contributions is as follows:

Fiscal Years Ending	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
6/30/10	6/30/08	\$ 4,429,760	96.9 %
6/30/11	6/30/10	4,502,127	98.5
6/30/12	6/30/12	4,502,127	106.9
6/30/13	6/30/12	4,446,765	103.6
6/30/14	6/30/13	4,669,103	102.6

* The required contribution is expressed to the City as a percentage of payroll.

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

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll - Closed
Amortization period (perpetual)	30 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	5.0%
* Includes inflation at	5.0%
Cost of living adjustments	None

City of Roseville, Michigan

Note to Required Supplemental Information Year Ended June 30, 2014

Budgetary Information

The City is legally subject to the budgetary control requirements of State of Michigan PA 621 of 1978 (the "Uniform Budgeting Act"). The following is a summary of the requirements of this act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan*, dated April 1982 as amended by PA 493 of 2000:

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

The City adopts its budget by activity, which is in accordance with the State's legal requirements. An activity is the level that aggregates budgetary line items by departmental responsibility. This then represents the level of classification detail at which expenditures may not legally exceed appropriations. The level of detail presented in the required supplemental information budgetary comparison schedules for the major governmental funds is a summarization of the activity-basis budget. Copies of the activity-basis budgets for all budgeted funds are available at the office of the City Clerk.

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

- Prior to February 1, all departments and entities within the City submit to the City Manager their proposed operating budget for the fiscal year commencing the following July 1.
- On the second Tuesday in April, the City Manager submits to the City Council a proposed balanced operating budget for the next fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is conducted to obtain taxpayer comments.
- Prior to the first Monday in May, the budget is legally adopted by the City Council through adoption of the appropriation ordinance.
- The City Manager is authorized to transfer budgeted amounts within budgetary activities; however, any revisions that alter the total expenditures of any budgetary activity must be approved by the City Council.

Budgeted amounts of the revenue and expenditures are presented for the General Fund and Special Revenue Funds. Individual amendments were not material in relation to the original appropriations that were adopted. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

City of Roseville, Michigan

Note to Required Supplemental Information (Continued)

Budgetary Information (Continued)

The City incurred expenditures which were in excess of the amounts budgeted during the year. The General Fund - Governing body line was \$949,964 over budget; General Fund - Purchasing was \$5,196 over budget; General Fund - Public Works Street Lighting was \$82 over budget; General Fund - Recreation and Culture - Library was \$2,717 over budget; Major Streets - General Government was \$3,842 over budget; Major Streets - Construction and Development was \$565,138 over budget; Local Streets - General Government was \$1,293 over budget; and Local Streets - Public Works was \$323,088 over budget. These unfavorable variances were caused by unanticipated expenditures that became necessary during the year.

City of Roseville, Michigan

Required Supplemental Information Schedule of Investment Returns Last Ten Fiscal Years

	2014	2013*	2012*	2011*	2010*	2009*	2008*	2007*	2006*	2005*
Annual money-weighted rate of return, net of investment expense	17.6 %	- %	- %	- %	- %	- %	- %	- %	- %	- %

* GASB 67 was implemented for FYE June 30, 2014 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.

City of Roseville, Michigan

Required Supplemental Information Schedule of Changes in the City Net Pension Liability and Related Ratios Last Ten Fiscal Years

	2014	2013*	2012*	2011*	2010*	2009*	2008*	2007*	2006*	2005*
Total Pension Liability										
Service cost	\$ 2,882,338	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	13,222,309	-	-	-	-	-	-	-	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(2,107,552)	-	-	-	-	-	-	-	-	-
Changes in assumptions	-	-	-	-	-	-	-	-	-	-
Benefit payments, including refunds	(12,724,030)	-	-	-	-	-	-	-	-	-
Net change in total pension liability	1,273,065	-	-	-	-	-	-	-	-	-
Total pension liability - Beginning of year	181,218,303	-	-	-	-	-	-	-	-	-
Total pension liability - End of year	\$ 182,491,368	\$ -								
Plan Fiduciary Net Position										
Contributions - Employer	\$ 6,206,039	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions - Member	165,725	-	-	-	-	-	-	-	-	-
Net investment income	20,892,292	-	-	-	-	-	-	-	-	-
Administrative expenses	(171,857)	-	-	-	-	-	-	-	-	-
Benefit payments, including refunds	(12,724,030)	-	-	-	-	-	-	-	-	-
Other	58,732	-	-	-	-	-	-	-	-	-
Net change in plan fiduciary net position	14,426,901	-	-	-	-	-	-	-	-	-
Plan fiduciary net position - Beginning of year	126,265,428	-	-	-	-	-	-	-	-	-
Plan fiduciary net position - End of year	\$ 140,692,329	\$ -								
City's Net Pension Liability - Ending	\$ 41,799,039	\$ -								
Plan Fiduciary Net Position as a % of Total Pension Liability	77.10 %	- %	- %	- %	- %	- %	- %	- %	- %	- %
Covered Employee Payroll	\$ 13,421,085	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's Net Pension Liability as a % of Covered Employee Payroll	311.4 %	- %	- %	- %	- %	- %	- %	- %	- %	- %

* GASB 67 was implemented for FYE June 30, 2014 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.

Other Supplemental Information

City of Roseville, Michigan

	Special Revenue Funds				
	Community Development Block Grant	Neighborhood Stabilization Grant	HOME	Drug Law Enforcement	Library Fund
Assets					
Cash and investments	\$ -	\$ 244,302	\$ 4,467	\$ 1,896,280	\$ 252,250
Receivables:					
Property taxes receivable	-	-	-	-	14,966
Other receivables	-	-	1,394	260,800	52,371
Due from other governmental units	13,310	-	-	-	-
Due from other funds	-	-	-	-	-
Inventory	-	5,500	-	-	-
Prepaid expenses and other assets	3,991	-	-	-	7,422
Total assets	\$ 17,301	\$ 249,802	\$ 5,861	\$ 2,157,080	\$ 327,009
Liabilities					
Accounts payable	\$ 719	\$ -	\$ -	\$ 39,929	\$ 11,050
Due to other funds	3,191	-	-	-	-
Accrued liabilities and other	12,705	-	184	42,975	24,418
Total liabilities	16,615	-	184	82,904	35,468
Deferred Inflows of Resources -					
Unavailable revenue	9,486	-	-	239,007	14,771
Fund Balances					
Nonspendable	3,991	5,500	-	-	7,422
Restricted:					
Debt service	-	-	-	-	-
Grants	-	244,302	5,677	-	-
Library Authority	-	-	-	-	269,348
Drug Law Enforcement	-	-	-	1,835,169	-
Unassigned	(12,791)	-	-	-	-
Total liabilities and fund balances	(8,800)	249,802	5,677	1,835,169	276,770
Total liabilities, deferred inflows of resources, and fund balances	\$ 17,301	\$ 249,802	\$ 5,861	\$ 2,157,080	\$ 327,009

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

Debt Service Funds			Total Nonmajor Governmental Funds
Building Authority	General Debt	Chapter 20 Drain	
\$ 14,242	\$ 689,761	\$ 1,460,803	\$ 4,562,105
-	3,917	7,068	25,951
-	-	-	314,565
-	-	-	13,310
-	-	609	609
-	-	-	5,500
-	-	138	11,551
\$ 14,242	\$ 693,678	\$ 1,468,618	\$ 4,933,591
\$ -	\$ -	\$ 6,291	\$ 57,989
-	-	-	3,191
-	552	2,374	83,208
-	552	8,665	144,388
-	3,849	6,522	273,635
-	-	138	17,051
14,242	689,277	1,453,293	2,156,812
-	-	-	249,979
-	-	-	269,348
-	-	-	1,835,169
-	-	-	(12,791)
14,242	689,277	1,453,431	4,515,568
\$ 14,242	\$ 693,678	\$ 1,468,618	\$ 4,933,591

City of Roseville, Michigan

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

	Special Revenue Funds					Debt Service Funds			Total Nonmajor Governmental Funds
	Community Development Block Grant	Neighborhood Stabilization Grant	HOME	Drug Law Enforcement	Library Fund	Building Authority	General Debt	Chapter 20 Drain	
Revenue									
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 841,068	\$ -	\$ 201,236	\$ 848,953	\$ 1,891,257
Federal grants	525,903	-	13,685	167,192	-	-	-	-	706,780
State-shared revenue and grants	-	-	-	-	66,072	-	-	-	66,072
Fines and forfeitures	-	-	-	-	14,510	-	-	-	14,510
Investment income	-	-	-	2,827	85	-	234	567	3,713
Other fees and miscellaneous revenue	93,766	23,040	-	322,881	24,912	-	-	-	464,599
Total revenue	619,669	23,040	13,685	492,900	946,647	-	201,470	849,520	3,146,931
Expenditures									
Current:									
General government	112,753	-	11,303	-	-	390,000	190,000	-	704,056
Public safety	-	-	-	639,047	-	-	-	-	639,047
Public works	110,204	-	-	-	-	-	-	565,430	675,634
Community and economic development	-	59,539	-	-	-	-	-	-	59,539
Recreation and culture	405,512	-	-	-	920,789	-	-	-	1,326,301
Special purpose government expense	-	-	-	-	-	-	19,320	284,492	303,812
Debt service - Interest on long-term debt	-	-	-	-	-	116,625	26,281	242,988	385,894
Total expenditures	628,469	59,539	11,303	639,047	920,789	506,625	235,601	1,092,910	4,094,283
Excess of Revenue (Under) Over Expenditures	(8,800)	(36,499)	2,382	(146,147)	25,858	(506,625)	(34,131)	(243,390)	(947,352)
Other Financing Sources (Uses)									
Face value of debt issue	-	-	-	-	-	-	-	1,195,165	1,195,165
Transfers in	-	-	-	-	-	506,400	-	609	507,009
Payment to bond refunding escrow agent	-	-	-	-	-	-	-	(1,195,165)	(1,195,165)
Total other financing sources	-	-	-	-	-	506,400	-	609	507,009
Net Change in Fund Balances	(8,800)	(36,499)	2,382	(146,147)	25,858	(225)	(34,131)	(242,781)	(440,343)
Fund Balances - Beginning of year	-	286,301	3,295	1,981,316	250,912	14,467	723,408	1,696,212	4,955,911
Fund Balances - End of year	\$ (8,800)	\$ 249,802	\$ 5,677	\$ 1,835,169	\$ 276,770	\$ 14,242	\$ 689,277	\$ 1,453,431	\$ 4,515,568

City of Roseville, Michigan

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

	Employee Benefits Fund	Workers' Compensation Fund	Flexible Savings Fund	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 10,732,714	\$ 142,783	\$ 12,693	\$ 10,888,190
Receivables	24,701	-	-	24,701
Due from other funds	1,662,958	418	-	1,663,376
Prepaid expenses and other assets	104,068	10,824	-	114,892
Total assets	12,524,441	154,025	12,693	12,691,159
Liabilities - Current - Accrued liabilities and other - Provision for claims				
	869,528	153,016	-	1,022,544
Net Position - Unrestricted	\$ 11,654,913	\$ 1,009	\$ 12,693	\$ 11,668,615

City of Roseville, Michigan

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

	Employee Benefits Fund	Workers' Compensation Fund	Flexible Savings Fund	Total
Operating Revenue -				
Charges to other funds	\$ 7,041,350	\$ 155,738	\$ 5,865	\$ 7,202,953
Operating Expenses				
Billing and administrative costs	34,926	-	-	34,926
Benefit payments and other costs	7,009,953	196,762	7,433	7,214,148
Total operating expenses	7,044,879	196,762	7,433	7,249,074
Operating Loss	(3,529)	(41,024)	(1,568)	(46,121)
Nonoperating Revenue -				
Investment income	3,528	44	5	3,577
Change in Net Position	(1)	(40,980)	(1,563)	(42,544)
Net Position - Beginning of year	11,654,914	41,989	14,256	11,711,159
Net Position - End of year	\$ 11,654,913	\$ 1,009	\$ 12,693	\$ 11,668,615

City of Roseville, Michigan

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

	Employee Benefits Fund	Workers' Compensation Fund	Flexible Savings Fund	Total
Cash Flows from Operating Activities				
Receipts from customers	\$ 7,063,540	\$ 157,462	\$ 6,173	\$ 7,227,175
(Payments) receipts from interfund services and reimbursements	(1,395,828)	2,112	-	(1,393,716)
Payments to suppliers	-	(824)	-	(824)
Payments to employees	(100,586)	-	-	(100,586)
Claims paid	(6,827,066)	(159,092)	(7,433)	(6,993,591)
Net cash used in operating activities	(1,259,940)	(342)	(1,260)	(1,261,542)
Cash Flows from Investing Activities -				
Interest received on investments	3,528	44	5	3,577
Net Decrease in Cash and Cash Equivalents	(1,256,412)	(298)	(1,255)	(1,257,965)
Cash and Cash Equivalents - Beginning of year	11,989,126	143,081	13,948	12,146,155
Cash and Cash Equivalents - End of year	<u>\$ 10,732,714</u>	<u>\$ 142,783</u>	<u>\$ 12,693</u>	<u>\$ 10,888,190</u>
Balance Sheet Classification of Cash and Cash Equivalents - Cash and investments	<u>\$ 10,732,714</u>	<u>\$ 142,783</u>	<u>\$ 12,693</u>	<u>\$ 10,888,190</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities				
Operating loss	\$ (3,529)	\$ (41,024)	\$ (1,568)	\$ (46,121)
Changes in assets and liabilities:				
Receivables	22,190	1,724	308	24,222
Due from others	(1,395,828)	2,112	-	(1,393,716)
Prepaid and other assets	-	(824)	-	(824)
Estimated claims liability	117,227	37,670	-	154,897
Net cash used in operating activities	<u>\$ (1,259,940)</u>	<u>\$ (342)</u>	<u>\$ (1,260)</u>	<u>\$ (1,261,542)</u>

City of Roseville, Michigan

Other Supplemental Information Statement of Assets and Liabilities Fiduciary Funds June 30, 2014

	Pension Trust Funds			Agency Funds				
	Employees' Pension Trust Fund	Retiree Healthcare Benefits Trust Fund	Total Pension Trust Funds	Tax Collections	Misc. Agency	P.A.I.R.	Court	Total Agency Funds
Assets								
Cash and cash equivalents	\$ -	\$ 110,194	\$ 110,194	\$ 9,002	\$ 71,823	\$ 4,278	\$ 203,849	\$ 288,952
Investments:								
U.S. government securities	10,798,297	719,811	11,518,108	-	-	-	-	-
Stocks	58,581,471	895,667	59,477,138	-	-	-	-	-
Bonds	9,623,187	473,751	10,096,938	-	-	-	-	-
Common collective trusts	29,605,450	-	29,605,450	-	-	-	-	-
Mutual funds	13,759,039	4,203,521	17,962,560	-	-	-	-	-
Limited partnerships	18,391,980	-	18,391,980	-	-	-	-	-
Receivables:								
Accrued interest receivable	412,949	8,112	421,061	-	-	-	-	-
Other receivables	242,583	-	242,583	-	-	-	-	-
Prepaid expenses and other assets	-	-	-	-	7,144	-	-	7,144
Total assets	141,414,956	6,411,056	147,826,012	\$ 9,002	\$ 78,967	\$ 4,278	\$ 203,849	\$ 296,096
Liabilities								
Accounts payable	527,947	-	527,947	\$ 9,002	\$ 78,967	\$ 4,278	\$ -	\$ 92,247
Due to primary government	115,388	-	115,388	-	-	-	-	-
Refundable deposits, bonds, etc.	-	-	-	-	-	-	104,288	104,288
Accrued liabilities and other	79,291	-	79,291	-	-	-	99,561	99,561
Total liabilities	722,626	-	722,626	\$ 9,002	\$ 78,967	\$ 4,278	\$ 203,849	\$ 296,096
Net Position Held in Trust for Pension and Other Employee Benefits	\$ 140,692,330	\$ 6,411,056	\$ 147,103,386					

City of Roseville, Michigan

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

	Employees' Pension Trust Fund	Retiree Healthcare Benefits Trust Fund	Total
Additions			
Investment income:			
Interest and dividends	\$ 2,649,509	\$ 142,080	\$ 2,791,589
Net increase in fair value of investments	18,958,138	878,223	19,836,361
Investment-related expenses	(715,355)	(84,155)	(799,510)
Net investment income	20,892,292	936,148	21,828,440
Contributions:			
Employer	5,066,606	5,042,764	10,109,370
Employee	1,305,158	-	1,305,158
Net contributions	6,371,764	5,042,764	11,414,528
Other additions	58,733	-	58,733
Total additions	27,322,789	5,978,912	33,301,701
Deductions			
Benefit payments	12,724,030	-	12,724,030
Health benefits	-	4,792,764	4,792,764
Administrative expenses	171,857	426	172,283
Total deductions	12,895,887	4,793,190	17,689,077
Net Increase in Net Position Held in Trust	14,426,902	1,185,722	15,612,624
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	126,265,428	5,225,334	131,490,762
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	\$ 140,692,330	\$ 6,411,056	\$ 147,103,386