

City of Westland, Michigan

Financial Report with Supplemental Information June 30, 2014

City of Westland, Michigan
Financial Report
June 30, 2014

Mayor William R. Wild

City Council

James Godbout, President

Adam Hammons, President Pro Tem

Christine Cicirelli-Bryant

Michael Kehrner

Bill Johnson

Dewey Reeves

Kevin Coleman

City Administration

Deputy Mayor

CATV/Community Relations

City Assessor

City Clerk

Community Development Programs

Computer Information Systems Director

Controller

Economic Development Director

Finance Director

Fire Chief

Law

Personnel Director

Police Chief

Public Service

Planning/Building

Senior Resources Director

Water and Sewer Superintendent

Thelma Kubitskey

Craig Welkenbach

Aaron Powers

Eileen DeHart

Joanne Campbell

Daniel Bourdeau

Devin Adams

Lori Fodale

Steven J. Smith

Michael J. Reddy

Jim Fausone

Cindy King

Jeff Jedrusik

Kevin L. Buford

Bruce Thompson

Barbara Marcum

Ben McCusker

City of Westland, Michigan

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Independent Auditor's Report

To the City Council
City of Westland, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Westland, 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 Westland, 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. The financial statements of the District Court Funds of District No. 18 were not audited under *Government Auditing Standards*.

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.

To the City Council
City of Westland, Michigan

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Westland, 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 explained in Note 1, the financial statements include investments valued at approximately \$45,600,000 (representing approximately 28 percent of net position) 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 the investment managers, periodic appraisal, real estate advisors, general partners, or other means. Our opinion has not been modified with respect to this matter.

Also, as described in Note 21, during the year ended June 30, 2014, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The City also adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*, which provides additional disclosures in regard to the City's pension plan. The additional disclosures can be found in Note 17, Note 18, and Note 19, and within the schedules of required supplemental information. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 City Council
City of Westland, Michigan

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Westland, 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 18, 2014 on our consideration of the City of Westland, 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 Westland, Michigan's internal control over financial reporting and compliance.

Plante & Morse, PLLC

December 18, 2014

City of Westland, Michigan

Management's Discussion and Analysis

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

Financial Highlights

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

- Capital contributions increased \$8 million in the current year, due to the transfer of assets from the TIFA and DDA component units to the City.
- State-shared revenue from the State of Michigan, our second largest revenue source, increased by approximately \$205,000 from the previous fiscal year. This is the second year in a row that there has been an increase in this revenue. The City complied with all three requirements of the States' Economic Vitality Incentive Program (EVIP) and received \$1,312,482 in what was formerly known as statutory revenue sharing.
- The City recognized a gain of \$13.7 million due to the sale of Taylor Towers.
- The City continues to utilize grant money, where available, to help fund programs and equipment purchases. The police department received several grants including a grant for dispatch consoles for \$800,000. They also received a grant from the Department of Justice to fund additional equipment needs. The First Contact Initiative Grant (formerly the Wayne County Donor Funding Grant) for the youth assistance continued for \$900,000.
- The City issued bonds during the year for the purchase of the new city hall and construction of the Farmers Market in the amounts of \$16,500,000 and \$3,300,000, respectively.
- The total net position related to the City's governmental activities increased by approximately \$4.6 million. In addition, fund balances for the governmental funds increased by approximately \$6.0 million during the year. The General Fund unassigned fund balance decreased by \$507,000.

Using this Annual Report

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

City of Westland, Michigan

Management's Discussion and Analysis (Continued)

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

The City of Westland as a Whole

The following table shows, in a condensed format, the net position as of the current date as compared to the previous year:

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current assets	\$ 27,243,246	\$ 20,098,191	\$ 17,107,370	\$ 16,145,886	\$ 44,350,616	\$ 36,244,077
Noncurrent assets	220,598,342	217,964,281	74,138,252	75,409,727	294,736,594	293,374,008
Total assets	247,841,588	238,062,472	91,245,622	91,555,613	339,087,210	329,618,085
Liabilities						
Current liabilities	9,766,737	8,255,132	3,323,212	3,526,329	13,089,949	11,781,461
Long-term liabilities	52,958,711	49,313,268	8,992,352	11,390,535	61,951,063	60,703,803
Total liabilities	62,725,448	57,568,400	12,315,564	14,916,864	75,041,012	72,485,264
Net Position						
Net investment in capital assets	209,422,520	209,533,286	69,507,586	70,081,953	278,930,106	279,615,239
Restricted	8,610,277	10,329,589	225,000	272,500	8,835,277	10,602,089
Unrestricted (deficit)	(32,916,657)	(39,368,803)	9,197,472	6,284,296	(23,719,185)	(33,084,507)
Total net position	<u>\$ 185,116,140</u>	<u>\$ 180,494,072</u>	<u>\$ 78,930,058</u>	<u>\$ 76,638,749</u>	<u>\$ 264,046,198</u>	<u>\$ 257,132,821</u>

The City's combined net position increased 3.0 percent from a year ago - increasing from \$257,132,821 to \$264,046,198. The increase was mainly a result of the Taylor Towers refinancing.

Unrestricted net position in governmental activities - the part of net position that can be used to finance operations - is currently at a deficit of \$32,916,657 for governmental activities. This is generally a result of the accrual of the compensated absences and other postemployment benefits, which will be paid from future revenue sources. This accrual is approximately \$48,800,000.

City of Westland, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net position during the current year from the previous year:

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Net Position - Beginning of year	\$ 180,494,072	\$ 191,834,725	\$ 76,638,749	\$ 75,906,533	\$ 257,132,821	\$ 267,741,258
Revenue						
Program revenue:						
Charges for services	19,931,829	19,727,110	27,997,829	26,918,046	47,929,658	46,645,156
Operating grants and contributions	10,126,196	9,225,664	-	-	10,126,196	9,225,664
Capital grants and contributions	8,357,109	260,511	162,120	77,782	8,519,229	338,293
General revenue:						
Property taxes	24,134,703	25,636,248	-	-	24,134,703	25,636,248
State-shared revenue	7,612,168	7,407,491	-	-	7,612,168	7,407,491
Interest	76,851	111,208	17,928	21,544	94,779	132,752
Gain on sale of fixed assets	104,480	2,485	-	-	104,480	2,485
Other revenue	743,934	238,932	-	-	743,934	238,932
Total revenue	71,087,270	62,609,649	28,177,877	27,017,372	99,265,147	89,627,021
Program Expenses						
General government	16,098,093	14,774,698	-	-	16,098,093	14,774,698
Public safety	37,968,046	37,066,091	-	-	37,968,046	37,066,091
Public works	18,770,314	15,116,767	-	-	18,770,314	15,116,767
Community and economic development	2,136,418	2,409,377	-	-	2,136,418	2,409,377
Cultural and recreation	4,584,972	4,407,122	-	-	4,584,972	4,407,122
Interest on long-term debt	190,597	176,247	-	-	190,597	176,247
Water and sewer	-	-	25,886,568	24,785,156	25,886,568	24,785,156
Total program expenses	79,748,440	73,950,302	25,886,568	24,785,156	105,635,008	98,735,458
Extraordinary/Special Items	13,733,238	-	-	(1,500,000)	13,733,238	(1,500,000)
Change in Net Position	5,072,068	(11,340,653)	2,291,309	732,216	7,363,377	(10,608,437)
Net Position - End of year	\$ 185,566,140	\$ 180,494,072	\$ 78,930,058	\$ 76,638,749	\$ 264,496,198	\$ 257,132,821

Governmental Activities

The City's total governmental revenue increased by approximately \$8,000,000. The increase, which represents approximately 13 percent, was primarily due to transfer of assets and additional grant revenue.

Expenses increased by approximately \$5,800,000 during the year. A big part of this increase was depreciation as well as an increase in the Department of Public Service budget, due to the abnormally hard winter. There was also a minor increase in the Public Safety expenditures.

City of Westland, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. The City provides water to residents from the Detroit water system. The City also provides sewage treatment through Wayne County. The usage of the water system decreased slightly from usage in the prior year. Effective July 1, 2014, the City Council increased the water and sewer rates by 2.43 percent and 3.85 percent, respectively.

The City of Westland's Funds

Our analysis of the City's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The Westland City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as community development block grant and debt service. The City's major funds for 2014 are the General Fund and Capital Projects Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$36 million in 2014. Other government services accounted for in the General Fund include general government (finance, city clerk, city assessor, economic development, community development, personnel, and the mayor's office), sanitation, and recreation. General Fund expenditures increased by approximately \$400,000. This was due mainly to increased capital purchases.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events that occurred during the year. One of the amendments was to account for a grant in the amount of \$800,000 which enabled the City to purchase new consoles for the dispatch center. Other amendments included the highway maintenance department due to the unusually cold and snowy winter last year. There were a few departments that went over budget, which included law, assessments, general government, joint dispatch, and parks and recreation.

The General Fund fund balance decreased from \$8,639,328 to \$5,393,707.

As of June 30, 2014, the City had a total of approximately \$295 million invested in a broad range of capital assets, including roads, buildings, police and fire equipment, and water and sewer lines.

City of Westland, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

The City had significant capital expenditures during the fiscal year; the following represents the most significant capital purchases for the year ended June 30, 2014:

- \$6,900,000 of construction costs in relation to the new city hall and fire station
- \$470,000 of construction costs pertaining to library building upgrades
- \$3,200,000 of construction costs pertaining to Tattan Park
- \$1,700,000 of other tools and equipment related to the purchase of rescue vehicles
- \$2,000,000 of other tools and equipment related to the purchase of police and fire equipment
- \$465,000 of water and sewer machinery and equipment for waste disposal vehicles

Debt service makes up approximately 2.1 percent of the total expenditures of the governmental funds.

More detailed information concerning capital assets and long-term debt can be found in Notes 5 and 8, respectively, in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The City's budget for the fiscal year ending June 30, 2015 takes into consideration a continued slow-moving economic climate. Although the taxable values for residential property increased slightly for the 2014 taxable year, the overall taxable value for the City declined around 1 percent. The Michigan tax tribunal cases have decreased substantially. The state-shared revenue has had slight increases over the last two years and will be monitored closely going forward. Moving ahead, the City will continue to comply with the requirements outlined by the State. In fiscal year June 30, 2011, the City Council adopted the "hard cap" option in accordance with Public Act 152, which limits the amount the City will pay for healthcare coverage for its employees. This will continue to help with the budget, but throughout the year, the City will need to monitor the budget very closely and continue to make adjustments as necessary.

City of Westland, Michigan

Management's Discussion and Analysis (Continued)

As discussed above, the fiscal year ending June 30, 2015 budget anticipates that the water and sewer costs will increase. The City Council has approved increases over the last several years and the City will bring any further recommendations to the City Council as necessary.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. For additional questions about this report or additional information, requests should be directed to the finance department.

City of Westland, Michigan

Statement of Net Position June 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 21,793,694	\$ 6,184,922	\$ 27,978,616	\$ 2,577,332
Investments (Note 3)	-	-	-	180,455
Receivables - Net (Note 4)	5,397,441	10,746,057	16,143,498	132,899
Due from component units	130	-	130	-
Internal balances	2,414	(2,414)	-	-
Inventories	9,588	149,819	159,407	-
Prepaid costs and other assets	39,979	28,986	68,965	-
Restricted assets (Note 6)	-	225,000	225,000	10,132,526
Land held for resale	1,305,319	-	1,305,319	-
Capital assets - Net (Note 5):				
Not being depreciated	3,335,379	-	3,335,379	90,000
Depreciable - Net	212,790,540	73,913,252	286,703,792	4,813,809
Note receivable (Note 15)	3,167,104	-	3,167,104	-
Total assets	247,841,588	91,245,622	339,087,210	17,927,021
Liabilities				
Accounts payable	2,521,421	1,799,638	4,321,059	2,158,734
Due to primary government	-	-	-	130
Deposits	-	366,429	366,429	-
Accrued and other liabilities	2,763,393	155,024	2,918,417	365,618
Unearned revenue (Note 4)	151,071	-	151,071	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences (Note 8)	2,783,811	240,161	3,023,972	-
Provision for claims (Note 10)	458,428	105,179	563,607	-
Current portion of long-term debt (Note 8)	1,088,613	656,781	1,745,394	225,000
Due in more than one year:				
Compensated absences (Note 8)	4,508,765	-	4,508,765	-
Provision for claims (Note 10)	1,376,277	714,708	2,090,985	-
Net other postemployment benefits liability (Note 20)	41,458,883	4,528,759	45,987,642	-
Long-term debt- Net of current portion (Note 8)	5,614,786	3,748,885	9,363,671	19,575,000
Total liabilities	62,725,448	12,315,564	75,041,012	22,324,482
Net Position				
Net investment in capital assets	209,422,520	69,507,586	278,930,106	1,603,809
Restricted for:				
Road improvements	3,791,705	-	3,791,705	-
Library operations	2,158,918	-	2,158,918	-
Other (Note 13)	2,659,654	225,000	2,884,654	-
Unrestricted	(32,916,657)	9,197,472	(23,719,185)	(6,001,270)
Total net position	\$ 185,116,140	\$ 78,930,058	\$ 264,046,198	\$ (4,397,461)

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

City of Westland, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 16,098,093	\$ 7,077,462	\$ -	\$ 6,846,864
Public safety	38,418,046	9,428,644	1,814,487	1,503,804
Public works	18,770,314	1,249,122	5,340,697	6,441
Community and economic development	2,136,418	-	1,759,534	-
Cultural and recreation	4,584,972	2,176,601	1,211,478	-
Interest on long-term debt	190,597	-	-	-
Total governmental activities	80,198,440	19,931,829	10,126,196	8,357,109
Business-type activities - Water and sewer	25,886,568	27,997,829	-	162,120
Total primary government	<u>\$ 106,085,008</u>	<u>\$ 47,929,658</u>	<u>\$ 10,126,196</u>	<u>\$ 8,519,229</u>
Component units	<u>\$ 10,814,557</u>	<u>\$ -</u>	<u>\$ 2,555</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue				
Interest and sundry				
Other income				
Gain on sale of fixed assets				
Total general revenue				
Special Items (Note 15)				
Change in Net Position				
Net Position - Beginning of year				
Net Position - End of year				

Statement of Activities Year Ended June 30, 2014

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (2,173,767)	\$ -	\$ (2,173,767)	\$ -
(25,671,111)	-	(25,671,111)	-
(12,174,054)	-	(12,174,054)	-
(376,884)	-	(376,884)	-
(1,196,893)	-	(1,196,893)	-
(190,597)	-	(190,597)	-
(41,783,306)	-	(41,783,306)	-
-	2,273,381	2,273,381	-
(41,783,306)	2,273,381	(39,509,925)	-
-	-	-	(10,812,002)
24,134,703	-	24,134,703	3,436,201
7,612,168	-	7,612,168	-
76,851	17,928	94,779	21,928
743,934	-	743,934	830
104,480	-	104,480	-
32,672,136	17,928	32,690,064	3,458,959
13,733,238	-	13,733,238	-
4,622,068	2,291,309	6,913,377	(7,353,043)
180,494,072	76,638,749	257,132,821	2,955,582
\$ 185,116,140	\$ 78,930,058	\$ 264,046,198	\$ (4,397,461)

City of Westland, Michigan

Governmental Funds Balance Sheet June 30, 2014

	General Fund	Capital Projects Fund	Nonmajor Funds	Total
Assets				
Cash and cash equivalents (Note 3)	\$ 5,764,990	\$ 8,870,663	\$ 7,158,041	\$ 21,793,694
Receivables - Net (Note 4)	4,097,723	-	1,299,718	5,397,441
Due from component units	130	-	-	130
Due from other funds (Note 7)	1,423,910	-	73,574	1,497,484
Inventory	9,588	-	-	9,588
Prepaid costs and other assets	37,000	-	2,979	39,979
Land held for resale	-	-	1,305,319	1,305,319
Note receivable (Note 15)	3,167,104	-	-	3,167,104
Total assets	\$14,500,445	\$ 8,870,663	\$ 9,839,631	\$33,210,739
Liabilities				
Accounts payable	\$ 1,352,689	\$ 783,488	\$ 385,244	\$ 2,521,421
Due to other funds	73,574	-	1,421,496	1,495,070
Accrued and other liabilities	2,465,416	-	45,588	2,511,004
Unearned revenue (Note 4)	151,071	-	-	151,071
Total liabilities	4,042,750	783,488	1,852,328	6,678,566
Deferred Inflows of Resources -				
Unavailable revenue (Note 4)	4,842,834	-	180,624	5,023,458
Fund Balances				
Nonspendable - Prepaids/Inventory	46,588	-	2,979	49,567
Restricted:				
Roads	-	-	3,697,172	3,697,172
Cable grant	53,450	-	-	53,450
Community development	-	-	1,473,356	1,473,356
Parks and recreation	209,370	-	-	209,370
Drug forfeiture activities	-	-	31,620	31,620
Library	-	-	2,069,848	2,069,848
Street lighting	-	-	176,549	176,549
800 MHZ Fund	-	-	355,155	355,155
Metroact Broadband	250,422	-	-	250,422
Assigned - Capital projects	-	8,087,175	-	8,087,175
Unassigned	5,055,031	-	-	5,055,031
Total fund balances	5,614,861	8,087,175	7,806,679	21,508,715
Total liabilities, deferred inflows of resources, and fund balances	\$14,500,445	\$ 8,870,663	\$ 9,839,631	\$33,210,739

City of Westland, Michigan

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

Fund Balance Reported in Governmental Funds	\$	21,508,715
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		216,125,919
Other long-term liabilities, such as incurred but not reported liabilities, do not present a claim on current financial resources and are not reported as fund liabilities		(1,834,705)
Deferred inflows of resources are reported in the governmental funds, but not in the government-wide statements		5,023,458
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		(7,292,576)
Long-term liabilities are not due and payable in the current period and are not reported in the funds		(6,703,399)
Accrued interest on long-term liabilities is not reported in the funds		(42,389)
Net other postemployment benefit obligation is not recorded as a liability in the funds		(41,458,883)
Net pollution remediation liability is not recorded as a liability in the funds		(210,000)
Net Position of Governmental Activities	\$	<u>185,116,140</u>

City of Westland, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2014

	General Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Property taxes	\$ 20,148,861	\$ -	\$ 2,681,486	\$ 22,830,347
Licenses and permits	1,272,437	-	-	1,272,437
Federal sources	1,403,794	-	1,767,727	3,171,521
State sources	9,092,310	-	6,094,457	15,186,767
Charges for services	7,079,851	-	-	7,079,851
Court fines and fees	4,635,765	-	-	4,635,765
Interest income	57,424	49	18,826	76,299
Other revenue:				
Special assessments	-	-	1,569,472	1,569,472
Local sources	3,249,831	-	383,121	3,632,952
Cable franchise fees	1,675,459	-	-	1,675,459
Refund of captured property taxes	1,138,050	-	166,306	1,304,356
Other income	3,936,758	-	367,205	4,303,963
Total revenue	53,690,540	49	13,048,600	66,739,189
Expenditures				
Current:				
General government	13,837,895	1,065,065	348,310	15,251,270
Street lighting	2,502	-	1,446,502	1,449,004
Public safety	35,671,066	27,488	923,732	36,622,286
Highway, streets, and drains	-	-	4,222,826	4,222,826
Sanitation	4,321,783	756,000	-	5,077,783
Community and economic development	856,287	-	1,280,131	2,136,418
Cultural and recreation	2,007,197	-	3,044,001	5,051,198
Debt service	369,402	-	1,138,050	1,507,452
Total expenditures	57,066,132	1,848,553	12,403,552	71,318,237
Excess of Revenue (Under) Over Expenditures	(3,375,592)	(1,848,504)	645,048	(4,579,048)
Other Financing Sources (Uses)				
Face value of debt issue	493,680	-	-	493,680
Proceeds from sale of capital assets	104,240	-	-	104,240
Transfers in (Note 7)	220,000	-	2,133,063	2,353,063
Transfers out (Note 7)	(684,509)	-	(1,668,554)	(2,353,063)
Total other financing sources	133,411	-	464,509	597,920
Special Items (Note 15)	-	9,935,679	-	9,935,679
Net Change in Fund Balances	(3,242,181)	8,087,175	1,109,557	5,954,551
Fund Balances - Beginning of year	8,857,042	-	6,697,122	15,554,164
Fund Balances - End of year	<u>\$ 5,614,861</u>	<u>\$ 8,087,175</u>	<u>\$ 7,806,679</u>	<u>\$ 21,508,715</u>

City of Westland, 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	\$	5,954,551
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation		(8,244,823)
Capital assets contributed to the City are recorded as revenue in the statement of activities but are not recognized in the governmental funds		7,391,695
Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end		3,177,797
Special assessment revenue is recorded in the statement of activities when the assessment is set; it is not reported in the funds until collected or collectible within 60 days of year end		(30,518)
Changes in liabilities incurred but not reported are not recorded in the governmental funds		1,490,739
Repayment of debt principal is an expenditure in the governmental funds, but not in the government-wide statements (where it reduces long-term debt)		1,306,042
Proceeds from long-term debt provide current financial resources to governmental funds, but debt increases long-term liabilities in the statement of net position		(493,680)
Change in accrued interest on long-term debt is not recorded in the governmental funds		2,111
Change in other postemployment benefit liability is not recorded in the governmental funds		(6,780,169)
Change in accumulated employee sick and vacation pay is recorded when earned in the statement of activities		848,323
Change in Net Position of Governmental Activities	\$	4,622,068

City of Westland, Michigan

Proprietary Funds Statement of Net Position June 30, 2014

	Enterprise Fund - Water and Sewer
Assets	
Current assets:	
Cash and cash equivalents	\$ 6,184,922
Receivables - Net	10,746,057
Inventories	149,819
Prepaid costs and other assets	28,986
Total current assets	17,109,784
Noncurrent assets:	
Restricted assets (Note 6)	225,000
Capital assets - Net (Note 5)	73,913,252
Total noncurrent assets	74,138,252
Total assets	91,248,036
Liabilities	
Current liabilities:	
Accounts payable	1,799,638
Due to other funds	2,414
Escrow deposits and other	366,429
Accrued and other liabilities	155,024
Compensated absences	240,161
Provision for claims (Note 10)	105,179
Current portion of long-term debt	656,781
Total current liabilities	3,325,626
Noncurrent liabilities:	
Provision for claims (Notes 9, 10, and 12)	714,708
Net other postemployment benefits liability (Note 20)	4,528,759
Long-term debt - Net of current portion	3,748,885
Total noncurrent liabilities	8,992,352
Total liabilities	12,317,978
Net Position	
Net investment in capital assets	69,507,586
Restricted (Note 13)	225,000
Unrestricted	9,197,472
Total net position	\$ 78,930,058

City of Westland, Michigan

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

	Enterprise Fund - Water and Sewer
Operating Revenue	
Water and sewer	\$ 25,780,952
Penalties	1,758,988
Other	457,889
	<hr/>
Total operating revenue	27,997,829
Operating Expenses	
Cost of water	5,143,131
Cost of sewage disposal	9,014,040
Sundry	141,020
Wage and fringe benefits	4,849,640
Contracted services	3,902,385
Operating supplies	246,794
Repairs and maintenance	718,133
Rent, insurance claims, and other	15,601
Depreciation	1,688,953
	<hr/>
Total operating expenses	25,719,697
Operating Income	2,278,132
Nonoperating Revenue (Expenses)	
Interest income	17,928
Interest expense	(166,871)
	<hr/>
Total nonoperating expenses	(148,943)
Income - Before contributions	2,129,189
Capital Contributions - Lines donated by developers	162,120
	<hr/>
Change in Net Position	2,291,309
Net Position - Beginning of year	76,638,749
	<hr/>
Net Position - End of year	\$ 78,930,058

City of Westland, Michigan

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

	Enterprise Fund - Water and Sewer
Cash Flows from Operating Activities	
Receipts from customers	\$ 29,301,739
Payments to suppliers	(19,763,543)
Payments to employees	(3,828,103)
Internal activity - Payments to other funds	(247,776)
Claims paid	(2,397,548)
Net cash provided by operating activities	3,064,769
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(302,858)
Principal and interest paid on long-term debt	(816,479)
Net cash used in capital and related financing activities	(1,119,337)
Cash Flows from Investing Activities - Interest received on investments and other assets	17,928
Net Increase in Cash and Cash Equivalents	1,963,360
Cash and Cash Equivalents - Beginning of year	4,446,562
Cash and Cash Equivalents - End of year	<u><u>\$ 6,409,922</u></u>
Balance Sheet Classification of Cash and Cash Equivalents	
Cash and cash equivalents	\$ 6,184,922
Restricted assets (Note 6)	225,000
Total cash and cash equivalents	<u><u>\$ 6,409,922</u></u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 2,278,132
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	1,688,953
Changes in assets and liabilities:	
Receivables	1,303,910
Inventories	(6,758)
Accounts payable	(125,968)
Due to others	(247,776)
Accrued and other liabilities	(1,825,724)
Net cash provided by operating activities	<u><u>\$ 3,064,769</u></u>

Noncash Activities - During the year ended June 30, 2014, developers donated \$162,120 of water and sewer lines to the City.

City of Westland, Michigan

Fiduciary Funds Statement of Net Position June 30, 2014

	Pension Trust Fund - Police and Fire Retirement	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ -	\$ 2,474,879
Investments (Note 3):		
U.S. government securities	6,696,552	-
Common stock	61,602,525	-
Corporate bonds	15,241,998	-
Real estate	9,449,333	-
Mutual funds	55,828,987	-
Securities lending - Mutual funds	1,896,739	-
Closely held - Equity	13,339,315	-
Accrued interest and other assets	279,474	-
Total assets	164,334,923	<u><u>\$ 2,474,879</u></u>
Liabilities		
Accounts payable	1,158,280	\$ -
Due to other governmental units	-	1,038,007
Accrued and other liabilities	-	1,436,872
Obligations under securities lending agreements	2,028,308	-
Due to brokers	267,213	-
Total liabilities	3,453,801	<u><u>\$ 2,474,879</u></u>
Net Position Held in Trust for Pension Benefits	<u><u>\$ 160,881,122</u></u>	

City of Westland, Michigan

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

	Pension Trust Fund - Police and Fire Retirement
Additions	
Investment income (loss):	
Interest and dividends	\$ 3,721,216
Net increase in fair value of investments	24,325,926
Investment-related expenses	<u>(1,044,009)</u>
Net investment income	27,003,133
Employer contributions - Pension	5,813,007
Employee contributions and service credits	<u>116,709</u>
Total additions	32,932,849
Deductions - Benefit payments	<u>13,461,635</u>
Net Increase	19,471,214
Net Position Held in Trust for Pension Benefits - Beginning of year	<u>141,409,908</u>
Net Position Held in Trust for Pension Benefits - End of year	<u>\$ 160,881,122</u>

City of Westland, Michigan

Component Units Statement of Net Position June 30, 2014

	Downtown Development Authority	Economic Development Corporation	Local Development Finance Authority	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Total
Assets						
Cash and cash equivalents (Note 3)	\$ 1,998,455	\$ -	\$ 254,281	\$ 249,008	\$ 75,588	\$ 2,577,332
Investments (Note 3)	-	-	-	180,455	-	180,455
Receivables - Net	-	-	-	132,899	-	132,899
Restricted assets (Note 6)	-	-	-	10,132,526	-	10,132,526
Capital assets - Net	4,649,611	-	-	254,198	-	4,903,809
Total assets	6,648,066	-	254,281	10,949,086	75,588	17,927,021
Liabilities						
Accounts payable	742,277	-	-	1,416,457	-	2,158,734
Due to primary government	65	-	-	65	-	130
Accrued and other liabilities	69,370	-	-	296,248	-	365,618
Current portion of long-term debt	225,000	-	-	-	-	225,000
Long-term debt - Net of current portion	3,075,000	-	-	16,500,000	-	19,575,000
Total liabilities	4,111,712	-	-	18,212,770	-	22,324,482
Net Position						
Net investment in capital assets	1,349,611	-	-	254,198	-	1,603,809
Unrestricted	1,186,743	-	254,281	(7,517,882)	75,588	(6,001,270)
Total net position	\$ 2,536,354	\$ -	\$ 254,281	\$ (7,263,684)	\$ 75,588	\$ (4,397,461)

City of Westland, Michigan

		Program Revenue		Net (Expense) Revenue and Changes in Net Position
		Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority
Component Units	Expenses			
Downtown Development Authority - Operations	\$ 1,539,595	\$ 2,555	\$ -	\$ (1,537,040)
Economic Development Corporation - Operations	4,099	-	-	-
Local Development Finance Authority - Operations	40,712	-	-	-
Tax Increment Finance Authority - Operations	9,068,131	-	-	-
Brownfield Redevelopment Authority - Operations	162,020	-	-	-
Total component units	\$ 10,814,557	\$ 2,555	\$ -	(1,537,040)
General revenue:				
Property taxes				1,449,165
Interest income				2,547
Other income				-
Total general revenue				<u>1,451,712</u>
Change in Net Position				(85,328)
Net Position - Beginning of year				<u>2,621,682</u>
Net Position - End of year				<u>\$ 2,536,354</u>

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

Net (Expense) Revenue and Changes in Net Position				
Economic Development Corporation	Local Development Finance Authority	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Total
\$ -	\$ -	\$ -	\$ -	\$ (1,537,040)
(4,099)	-	-	-	(4,099)
-	(40,712)	-	-	(40,712)
-	-	(9,068,131)	-	(9,068,131)
-	-	-	(162,020)	(162,020)
(4,099)	(40,712)	(9,068,131)	(162,020)	(10,812,002)
-	137,645	1,636,945	212,446	3,436,201
14	749	18,456	162	21,928
-	447	383	-	830
14	138,841	1,655,784	212,608	3,458,959
(4,085)	98,129	(7,412,347)	50,588	(7,353,043)
4,085	156,152	148,663	25,000	2,955,582
<u>\$ -</u>	<u>\$ 254,281</u>	<u>\$ (7,263,684)</u>	<u>\$ 75,588</u>	<u>\$ (4,397,461)</u>

City of Westland, Michigan

Notes to Financial Statements June 30, 2014

Note I - Summary of Significant Accounting Policies

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

Reporting Entity

The City of Westland, Michigan (the "City") is governed by an elected mayor and 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. 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, and separate financial statements are not issued.

The City of Westland Building Authority is governed by a three-member board that is appointed by the mayor and approved by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings. The activity of the City of Westland Building Authority is reported within the Building Authority Debt - 2005 Refunding Debt Service Fund.

Discretely Presented Component Units

Local Development Finance Authority - The Local Development Finance Authority and the Tax Increment Finance Authority were created to promote economic growth and business development within the community. The Local Development Finance Authority governing body consists of 11 individuals. The mayor appoints seven of these individuals, and the other four individuals are made up of one member appointed by the County Board of Commissioners, one representative of the local community college, and two members appointed by the local school district. The Tax Increment Finance Authority's governing bodies each consist of nine individuals. These individuals are all appointed by the mayor and confirmed by the City Council. In addition, each Authority's budget is subject to approval by the City Council. The Local Development Finance Authority does not issue its own financial statements.

Economic Development Corporation - The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to residents of the City. The Corporation's governing body consists of nine individuals who are appointed by the mayor and confirmed by the City Council. The Economic Development Corporation does not issue its own financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Downtown Development Authority - The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of 11 individuals, is appointed by the mayor and confirmed by the City Council. In addition, the Authority's budget is subject to approval by the City Council. The Downtown Development Authority does not issue its own financial statements.

Brownfield Redevelopment Authority - The Brownfield Redevelopment Authority was created to remediate contaminated properties located within the City and to promote economic growth for these properties through the use of a state-approved revolving loan fund. The properties included are listed as contaminated by the Environmental Protection Agency. The Authority's governing body, which consists of nine individuals, is appointed by the mayor and confirmed by the City Council. In addition, the Authority's budget is subject to approval by the City Council. The Brownfield Redevelopment Authority does not issue its own financial statements.

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.

Note I - Summary of Significant Accounting Policies (Continued)

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

Fund Accounting

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

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

- **The General Fund** is the City's primary operating fund; it accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund.
- **The Capital Projects Fund** was created for the purpose of accounting for capital projects within the City.

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

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

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 Police and Fire Retirement Pension Trust Fund accounts for the activities of the police and fire employees' retirement system, which accumulates resources for pension and benefit payments to qualified police and fire employees.
- The trust and agency funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. Agency funds 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 and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental 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.

Furthermore, 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, some property taxes, special assessments, and 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, Cash Equivalents, and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Methods Used to Value Investments - Investments are reported at fair value or estimated fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments. The fair value of real estate investments is based on periodic appraisals as well as the judgment of independent real estate advisors and management. Investments that do not have an established market value are reported at estimated fair value as determined by the plan's management. Approximately 28 percent of the plan's assets are not publicly traded and therefore do not have a readily determinable market value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ significantly from the values that would have been used had a ready market for these securities existed. The difference could be material.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the City believes all receivables will be collected.

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.

City of Westland, Michigan

Notes to Financial Statements June 30, 2014

Note I - Summary of Significant Accounting Policies (Continued)

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.

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

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

Capital Asset Class	Lives
Roads and sidewalks	30-40 years
Buildings and improvements	20-40 years
Water and sewer distribution systems	5-100 years
Tools and equipment	2-40 years

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

Deferred Outflows/Inflows of Resources

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

Note I - Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues from multiple sources: grants, special assessments, delinquent personal property tax, and long-term receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumption

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

Fund Balance Flow Assumption

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

Fund Balance Policies

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

Note I - Summary of Significant Accounting Policies (Continued)

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

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. 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

Property taxes are levied and become a lien on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on August 15, with the final collection date of February 28 before they are added to the delinquent county tax rolls.

The 2013 taxable valuation of the City totaled \$1.58 billion (a portion of which is abated and a portion of which is captured by the TIFA and DDA), on which taxes levied consisted of 6.4834 mills for the City's operating purposes, 1.9377 mills for operation of the library, 4.5000 mills for the Police and Fire Pension Fund, and 2.4300 mills for sanitation. The ad valorem taxes levied raised approximately \$10.3 million for City operations, approximately \$3.1 million for operation of the library, approximately \$7.2 million for the Police and Fire Pension Fund, and approximately \$3.9 million for sanitation. Portions of the amounts levied have been captured by the tax increment financing authorities reported in the component units. These amounts, net of the amounts reported by the component units, are recognized in the respective General Fund and Special Revenue Fund financial statements as taxes receivable or 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. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. Generally, the funds that report each employee's compensation (the General Fund and Water and Sewer fund primarily) are used to liquidate this obligation.

Proprietary Funds Operating Classification - Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Fund and internal service funds are charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Note 2 - Stewardship, Compliance, and Accountability

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

Cumulative shortfall at July 1, 2013	\$ (2,143,706)
Current year permit revenue	1,128,701
Related expenses	<u>1,196,468</u>
Current year shortfall	<u>(67,767)</u>
Cumulative shortfall at June 30, 2014	<u>\$ (2,211,473)</u>

Note 3 - Deposits and Investments

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

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

As permitted by state statutes and under the provisions of a securities lending authorization agreement, the City of Westland's Police and Fire Employees' Retirement System (the "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 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. The City then converts that cash received as collateral into other investments.

The System does not impose a limit 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.

Note 3 - Deposits and Investments (Continued)

The City of Westland's Police and Fire Employees' 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 pools 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 System had no credit risk exposure to borrowers. The collateral held (at cost) and the fair market value of the underlying securities on loan for the System as of June 30, 2014 was \$2,028,308 and \$1,983,100, respectively.

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 \$29,509,076 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. At year end, the component units had \$12,390,439 of bank deposits that were uninsured and uncollateralized.

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, no investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not 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 Westland, Michigan

Notes to Financial Statements June 30, 2014

Note 3 - Deposits and Investments (Continued)

At year end, the City had the following investments:

Investment	Fair Value	Weighted Average Maturity (years)
Pension funds:		
U.S. Treasury	\$ 3,522,820	7.24
U.S. government agency securities	3,719,901	24.37
Corporate securities	14,695,829	10.10
Component units - U.S. Treasury securities	313,354	2.35

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
Fiduciary funds:			
Corporate securities (pension)	\$ 2,705,926	A	S&P
Corporate securities (pension)	578,529	AA	S&P
Corporate securities (pension)	1,113,866	AAA	S&P
Corporate securities (pension)	857,780	B	S&P
Corporate securities (pension)	2,385,889	BB	S&P
Corporate securities (pension)	5,496,425	BBB	S&P
Corporate securities (pension)	1,557,493	NR	S&P
Foreign bonds (pension)	1,289,950	A	S&P
Foreign bonds (pension)	188,970	AA	S&P
Foreign bonds (pension)	274,592	AAA	S&P
Foreign bonds (pension)	354,300	BB	S&P
Foreign bonds (pension)	1,563,881	BBB	S&P
Foreign bonds (pension)	698,620	NR	S&P
U.S. government agency securities (pension)	607,896	AA	S&P
U.S. government agency securities (pension)	97,907	BB	S&P
U.S. government agency securities (pension)	6,536,918	NR	S&P

Concentration of Credit Risk - The City places no limit on the amount it may invest in any one issuer. For the year ended June 30, 2014, the City had investments in iShares Aggregate Bond Fund, Loomis Sayles Small Midcap Core Trust, and Enhanced RAFI International LP comprising 9.60 percent, 6.15 percent, and 5.12 percent of total investments, respectively.

City of Westland, Michigan

Notes to Financial Statements June 30, 2014

Note 4 - Receivables

The City's receivables of governmental activities are as follows:

	General Fund	Capital Projects Fund	Nonmajor Funds	Total Governmental Activities	Business-type Activities	Total Primary Government	Component Units
Receivables:							
Property taxes receivable	\$ 851,625	\$ -	\$ 150,057	\$ 1,001,682	\$ 1,390,296	\$ 2,391,978	\$ -
Special assessments	-	-	91,554	91,554	-	91,554	-
Customer receivables	20,269	-	-	20,269	9,354,462	9,374,731	-
Interest	221,785	-	-	221,785	1,299	223,084	132,899
Other receivables	1,100,984	-	-	1,100,984	-	1,100,984	-
Due from other governmental units	1,903,060	-	1,058,107	2,961,167	-	2,961,167	-
Total receivables	<u>\$ 4,097,723</u>	<u>\$ -</u>	<u>\$ 1,299,718</u>	<u>\$ 5,397,441</u>	<u>\$ 10,746,057</u>	<u>\$ 16,143,498</u>	<u>\$ 132,899</u>

The delinquent real property taxes of the City are purchased by the County of Wayne. The County issues tax notes, the proceeds of which were used to pay the City for these property taxes. These taxes have been recorded as revenue for the current year.

The City considers all receivables to be collectible and has not recorded an allowance for doubtful accounts.

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

	Revenue Not Available	Revenue Not Earned
General Fund - Personal property tax	\$ 851,625	\$ -
General Fund - First contact program	54,650	-
General Fund - E-911 wireless revenue	139,000	-
General Fund - Advanced engineering fees	-	151,071
General Fund - Transfer receivables	3,797,559	-
Local Roads Fund - Special assessment revenue	91,554	-
Other nonmajor governmental funds - Library personal property tax	89,070	-
Total	<u>\$ 5,023,458</u>	<u>\$ 151,071</u>

City of Westland, 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 and Adjustments	Balance June 30, 2014
Governmental Activities				
Capital assets not being depreciated - Land	\$ 3,335,379	\$ -	\$ -	\$ 3,335,379
Capital assets being depreciated:				
Roads and sidewalks	731,299,024	814,586	14,093,492	718,020,118
Building and improvements	18,774,333	7,410,168	-	26,184,501
Other tools and equipment	27,376,943	4,112,746	981,962	30,507,727
Subtotal	777,450,300	12,337,500	15,075,454	774,712,346
Accumulated depreciation:				
Roads and sidewalks	537,593,778	10,744,384	14,093,492	534,244,670
Building and improvements	6,397,546	682,753	-	7,080,299
Other tools and equipment	19,815,308	1,763,491	981,962	20,596,837
Subtotal	563,806,632	13,190,628	15,075,454	561,921,806
Net capital assets being depreciated	213,643,668	(853,128)	-	212,790,540
Net capital assets	\$ 216,979,047	\$ (853,128)	\$ -	\$ 216,125,919
Business-type Activities				
Capital assets being depreciated -				
Water and sewer distribution systems	\$ 112,563,774	\$ 464,978	\$ 23,411	\$ 113,005,341
Accumulated depreciation -				
Water and sewer distribution systems	37,426,547	1,688,953	23,411	39,092,089
Net capital assets	\$ 75,137,227	\$ (1,223,975)	\$ -	\$ 73,913,252
Component Units				
Capital assets not being depreciated -				
Land	\$ 90,000	\$ -	\$ -	\$ 90,000
Capital assets being depreciated:				
DDA improvements	2,341,493	3,191,089	-	5,532,582
TIFA improvements	391,958	-	-	391,958
Subtotal	2,733,451	3,191,089	-	5,924,540
Accumulated depreciation:				
DDA improvements	825,380	147,591	-	972,971
TIFA improvements	119,680	18,080	-	137,760
Subtotal	945,060	165,671	-	1,110,731
Net capital assets being depreciated	1,788,391	3,025,418	-	4,813,809
Net capital assets	\$ 1,878,391	\$ 3,025,418	\$ -	\$ 4,903,809

City of Westland, 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	\$ 1,568,129
Public safety	557,206
Public works	10,898,711
Recreation and culture	<u>166,582</u>
Total governmental activities	<u>\$ 13,190,628</u>
Business-type activities - Enterprise Fund - Water and sewer	<u>\$ 1,688,953</u>

Note 6 - Restricted Assets

Restricted assets at June 30, 2014 consist of \$225,000 of cash in the Water and Sewer Fund and unspent bond proceeds in the Tax Increment Finance Authority Fund for the following purposes:

	Business-type Activities	Component Units
Bond reserve for 1998 Water and Sewer Revenue Bonds	\$ 167,500	\$ -
Bond reserve for 2006 Water and Sewer Revenue Bonds	57,500	-
Unspent bond proceeds from Tax Increment Financing Bonds	<u>-</u>	<u>10,132,526</u>
Total restricted assets	<u>\$ 225,000</u>	<u>\$ 10,132,526</u>

Note 7 - Interfund Balances and Operating Transfers

The composition of interfund receivables and payables balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water and Sewer Fund	\$ 2,414
	Other nonmajor governmental funds	<u>1,421,496</u>
	Total General Fund	1,423,910
Other nonmajor governmental funds	General Fund	<u>73,574</u>
	Total interfund activity	<u>\$ 1,497,484</u>

City of Westland, Michigan

Notes to Financial Statements June 30, 2014

Note 7 - Interfund Balances and Operating Transfers (Continued)

Receivable Fund	Payable Fund	Amount
Due to/from Primary Government and Component Units		
Primary government - General Fund	Component unit - Tax Increment Finance Authority	\$ 65
	Component unit - Downtown Development Authority	65
	Total primary government - General Fund	<u>\$ 130</u>

The composition of operating transfers is as follows:

Operating Transfer Out	Operating Transfer In	Amount
General Fund	Other governmental funds (1)	\$ 614,075
	Other governmental funds (4)	<u>70,434</u>
	Total General Fund	684,509
Other governmental funds	General Fund (3)	25,000
	Other governmental funds (1)	718,975
	Other governmental funds (2)	<u>924,579</u>
	Total other governmental funds	<u>1,668,554</u>
	Total operating transfers	<u>\$ 2,353,063</u>

- (1) Transfer for debt service
- (2) Transfer for local road construction and maintenance
- (3) Transfer for capital improvements
- (4) Transfer for general operations

City of Westland, Michigan

Notes to Financial Statements June 30, 2014

Note 8 - 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.

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
1998 Michigan Transportation Fund Bonds			\$ 400,000	\$ -	\$ 400,000	\$ -	\$ -
2004 Michigan Transportation Fund Bonds	3.000%-4.000%	\$300,000	1,750,000	-	250,000	1,500,000	300,000
2005 Building Authority Refunding Bonds	4.000%-5.000%	\$330,000-\$500,000	2,770,000	-	305,000	2,465,000	330,000
Installment purchase agreement:							
2009 recycle containers	5.980%	\$122,768-\$146,135	652,742	-	115,840	536,902	122,768
2013 New City Hall	2.600%	\$80,000-\$145,000	1,600,000	-	75,000	1,525,000	80,000
2013 Fire Truck	3.440%	\$86,372-\$89,343	259,214	-	83,499	175,715	86,372
Other equipment	5.600%	\$7,102	13,805	-	6,703	7,102	7,102
2014 Police Cars	2.500%	\$162,371-\$166,759	-	493,680	-	493,680	162,371
Total governmental bonds			7,445,761	493,680	1,236,042	6,703,399	1,088,613
Compensated absences			8,140,899	3,969,185	4,817,508	7,292,576	2,783,811
Total governmental bonds			\$ 15,586,660	\$ 4,462,865	\$ 6,053,550	\$ 13,995,975	\$ 3,872,424
Business-type Activities							
Revenue bonds:							
1998 Water and Sewer Revenue Bonds	3.875%-3.900%	\$200,000-\$250,000	\$ 1,125,000	\$ -	\$ 200,000	\$ 925,000	\$ 200,000
2006 Water and Sewer Revenue Bonds	3.900%	\$275,000-\$300,000	850,000	-	275,000	575,000	275,000
General obligation bonds:							
2010 State Revolving Fund Loan	2.500%	\$25,000-\$35,000	487,794	-	25,000	462,794	25,000
2010 Strategic Water Quality Initiatives Loan	2.500%	\$110,000-\$317,183	2,367,183	-	105,000	2,262,183	110,000
Installment purchase agreement - Other equipment	4.800%	\$46,781-\$133,908	225,297	-	44,608	180,689	46,781
Compensated absences			225,195	223,095	208,129	240,161	240,161
Total business-type activities			\$ 5,280,469	\$ 223,095	\$ 857,737	\$ 4,645,827	\$ 896,942
Component Unit Activities							
General obligation bonds:							
2013 Tax Increment Financing Bonds - City Hall and Fire Station	3.000%-5.250%	\$0-\$1,285,000	\$ -	\$ 16,500,000	\$ -	\$ 16,500,000	\$ -
2014 Downtown Development Bonds - Farmer's Market	3.500%	\$225,000-\$325,000	-	3,300,000	-	3,300,000	225,000
Total bonds payable			\$ -	\$ 19,800,000	\$ -	\$ 19,800,000	\$ 225,000

City of Westland, Michigan

Notes to Financial Statements June 30, 2014

Note 8 - Long-term Debt (Continued)

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			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 1,088,613	\$ 231,438	\$ 1,320,051	\$ 656,781	\$ 140,974	\$ 797,755	\$ 225,000	\$ 877,268	\$ 1,102,268
2016	1,144,002	188,041	1,332,043	793,908	115,595	909,503	815,000	869,394	1,684,394
2017	1,099,649	144,331	1,243,980	390,000	83,874	473,874	855,000	843,818	1,698,818
2018	941,135	104,244	1,045,379	390,000	69,124	459,124	880,000	810,868	1,690,868
2019	845,000	64,410	909,410	145,000	54,374	199,374	905,000	776,918	1,681,918
2020-2024	1,050,000	116,730	1,166,730	790,000	215,122	1,005,122	5,100,000	3,374,332	8,474,332
2025-2029	535,000	28,665	563,665	890,000	111,872	1,001,872	5,200,000	2,239,436	7,439,436
Thereafter	-	-	-	349,977	12,804	362,781	5,820,000	939,210	6,759,210
Total	\$ 6,703,399	\$ 877,859	\$ 7,581,258	\$ 4,405,666	\$ 803,739	\$ 5,209,405	\$ 19,800,000	\$ 10,731,244	\$ 30,531,244

Total interest incurred related to governmental and business-type activities and component units for the year approximated \$269,000, \$167,000, and \$421,000, respectively.

Future Revenue Pledged for Debt Payments - The City has pledged substantially all revenue of the Water and Sewer Fund, net of operating expenses, to repay the above water and sewer revenue bonds. Proceeds from the bonds provided financing for the construction of the water supply and sewage disposal systems. The bonds are payable solely from the net revenue of the water and sewer system. The remaining principal and interest to be paid on the bonds total \$1,042,125. During the current year, net revenue of the system was \$1,508,977 compared to the annual debt requirements of \$558,775.

Note 9 - Other Liabilities

Environmental Cleanup - Central City Park has been closed due to environmental contamination since 2007. During a previous year, the County deeded the property to the City and the City and County came to a shared agreement and remediation plan. According to the agreement, the City paid the County \$765,000 during fiscal year 2011 and then will reimburse the County an additional \$350,000, in total, over the next five years, beginning November 2012. The remaining balance of \$210,000 is recorded on the government-wide statements. According to the contract, the City of Westland shall be responsible for any additional costs that are incurred during the remediation process that are above the County's contribution of \$1,500,000. As of the report date, the remediation is underway and it is the City's belief that additional costs, if any, will not be material.

Note 9 - Other Liabilities (Continued)

Sanitation System Overflow - On June 5, 2010, the City experienced a 100-year rain event. As a result, the City's sanitation system lines backed up and approximately 500 residents filed claims for flood damage. The City was served on September 7, 2010 with a class action lawsuit for those claims. On May 25, 2011, the City experienced another 100-year rain event. As a result, the City's sanitation system lines backed up again and approximately 270 homes were affected. The City participated in court-ordered facilitation. In March 2013, the lawsuit was settled with total damages to the City of \$5,000,000, of which \$3,750,000 was for cash payments and \$1,250,000 was in the form of water bill credits to affected residents, to be distributed evenly over fiscal years 2014, 2015, and 2016. During 2014, due to the amount of credits actually used by residents, the City reduced the liability by \$647,584. The full cash balance was paid in 2014 and the remaining liability for water credits was properly recorded at year end.

Note 10 - 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 is self-insured for medical claims and participates in the Michigan Municipal Risk Management Authority (the "Authority") risk pool for claims relating to property loss, torts, and errors and omissions; the City is uninsured for 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.

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

City of Westland, Michigan

Notes to Financial Statements June 30, 2014

Note 10 - Risk Management (Continued)

The City estimates the liability for general liability claims, workers' compensation claims, and health insurance claims that have been incurred through the end of the fiscal year, including those claims that have been reported as well as those that have not yet been reported. The estimate for the general liability, workers' compensation, and health claims are all included in the government-wide statement of net position allocated between governmental and business-type activities. Changes in the estimated liabilities for the years ended June 30, 2014 and 2013 were as follows:

	General Liability		Workers' Compensation		Health Insurance Claims	
	2014	2013	2014	2013	2014	2013
Estimated liability - Beginning of year	\$ 1,883,511	\$ 1,826,011	\$ 2,348,379	\$ 1,794,829	\$ (264,996)	\$ 104,626
Estimated claims incurred, including changes in estimates	1,217,148	1,579,416	(909,699)	833,369	7,048,605	7,065,600
Claim payments	(1,740,782)	(1,521,916)	(407,283)	(279,819)	(6,921,901)	(7,435,222)
Estimated liability - End of year	<u>\$ 1,359,877</u>	<u>\$ 1,883,511</u>	<u>\$ 1,031,397</u>	<u>\$ 2,348,379</u>	<u>\$ (138,292)</u>	<u>\$ (264,996)</u>

Note 11 - Joint Ventures

The City participates in the Nankin Transit Commission with the City of Garden City, the City of Inkster, and the City of Wayne. The City appoints two members to the Nankin Transit Commission's governing board, which then approves the annual budget.

The City also participates in the Central Wayne County Sanitation Authority with the City of Dearborn Heights, the City of Garden City, the City of Inkster, and the City of Wayne. The City appoints one member to the Central Wayne County Sanitation Authority's board, which then approves the annual budget.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Nankin Transit Commission and the Central Wayne County Sanitation Authority can be obtained from their administrative offices at William J. Engle Memorial Building, 37137 Marquette St., Westland, MI 48185 and 3759 Commerce Court, Wayne, MI 48184, respectively.

Note 12 - Contingent Liabilities

Open Litigation - Several other claims have been filed against the City; however, litigation for those claims is still in the very early stages and the outcome cannot be determined at this time. The City is vigorously defending its position and does not believe any of these cases will result in a material liability. No liability has been recorded related to this litigation at this time.

City of Westland, Michigan

Notes to Financial Statements June 30, 2014

Note 13 - Restricted Net Position

In addition to net position restricted for retirement system, sanitation, road improvements, and library operations, net position has been restricted for the following purposes:

	Total Governmental Activities	Total Business-type Activities
Restricted Cable Commission projects	\$ 53,450	\$ -
Public Safety-E-911	109,732	-
Public Safety- Drug Forfeiture	31,620	-
Parks and Recreation	209,370	-
Metroact Broadband	250,422	-
Street Lighting	176,549	-
800 MHZ Fund	355,155	-
Community Development	1,473,356	-
Revenue Bonds	-	225,000
Total	\$ 2,659,654	\$ 225,000

Note 14 - Commitments

The City has entered into several construction and maintenance contracts totaling \$5,969,773. As of June 30, 2014, the City has not recorded expenditures relating to these projects, as the work has not yet been performed.

Note 15 - Acquisition of Assets

Upon repayment of all liabilities associated with the Elderly Housing Corporation facility, the assets of the Corporation are to revert back to the City. The mortgage was paid off in November 2008. During 2014, City Council approved a resolution to take ownership of the assets and liabilities of the Corporation. This included cash, escrows, and other operating assets and liabilities netting to \$1,695,520 and fixed assets with a value of \$12,100,000. The City then sold the fixed assets to an unrelated entity for \$12,100,000 with closing costs totaling \$62,282. The City received \$8,870,614 of cash and provided financing to the purchasing entity of \$3,167,104. The \$3,167,104 note receivable and an additional \$630,455 of other receivables from the transferring entity are recorded as deferred inflows of resources at the governmental fund level in the General Fund. All cash activity related to the transfer and sale of assets at June 30, 2014 was recorded in the Capital Projects Fund.

City of Westland, Michigan

Notes to Financial Statements June 30, 2014

Note 16 - Defined Benefit Pension Plan

Municipal Employees' Retirement System of Michigan

Plan Description - The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City other than police and fire employees. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48197.

Funding Policy - The obligation to contribute to and maintain the MERS for these employees was established by negotiation with the City's competitive bargaining units and requires no contribution from the employees.

Annual Pension Costs - For the year ended June 30, 2014, the City's annual pension cost of \$4,366,557 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial calculation at December 31, 2011, using the entry age cost method. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return, (b) projected salary increases of 4.5 percent per year to 17.50 percent per year, attributable to seniority/merit, and (c) postretirement benefit increases of 2.50 percent annually. Both (a) and (b) include an inflationary component of 4.50 percent. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 25 years.

Three-year Trend Information

	Fiscal Years Ended June 30		
	2012	2013	2014
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 3,115,379	\$ 4,124,906	\$ 4,366,557
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Valuation as of December 31		
	2011	2012	2013
Actuarial value of assets	\$ 56,636,806	\$ 55,450,156	\$ 55,364,925
Actuarial accrued liability (AAL) (entry)	\$ 109,980,544	\$ 112,765,537	\$ 116,937,134
Unfunded AAL (UAAL)	\$ 53,343,738	\$ 57,315,381	\$ 61,572,209
Funded ratio	51 %	49 %	47 %
Covered payroll	\$ 7,377,631	\$ 7,076,423	\$ 7,555,355
UAAL as a percentage of covered payroll	723 %	810 %	815 %

City of Westland, Michigan

Notes to Financial Statements June 30, 2014

Note 17 - City Pension Cost and Related Asset/Obligation - Police and Fire Retirement System

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 \$5,813,007 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)	\$ 5,813,007	\$ 4,990,887	\$ 4,494,952
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
Net pension obligation	-	-	-

Funding Status and Funding Progress - As of June 30, 2013, the most recent actuarial valuation date, the plan was 75 percent funded. The actuarial accrued liability for benefits was \$192,556,612, and the actuarial value of assets was \$14,441,629, resulting in an unfunded actuarial accrued liability of \$48,143,983. The covered payroll (annual payroll to active employees covered by the plan) was \$10,198,898, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 472.5 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 entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.50 percent investment rate of return, (b) projected salary increases of 4.00 percent to 8.00 percent per year, depending on age, attributable to seniority/merit, and (c) a one-time adjustment of 5.00 percent after six years of retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 20 years.

Note 18 - Pension Plan Description, Reserves, and Investments

Police and Fire Retirement System

Plan Administration - The Police and Fire Pension Board administers the City of Westland Police and Fire Retirement System (the "Plan") - a single employer defined benefit pension plan that provides pensions for all full-time police and fire employees of the City. Benefit terms have been established by contractual agreements between the City and the various employee union representation; amendments are subject to the same process.

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

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

Inactive plan members or beneficiaries currently receiving benefits	239
Inactive plan members entitled to but not yet receiving benefits	2
Active plan members	144

Benefits Provided - The pension plan provides retirement, disability, and death benefits. Benefit terms are established by applicable employee union contracts and may be amended by the City through agreement with the applicable employee union.

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, City's contribution was a flat dollar contribution of \$5,813,007.

In accordance with law, 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.

City of Westland, Michigan

Notes to Financial Statements June 30, 2014

Note 18 - Pension Plan Description, Reserves, and Investments (Continued)

The employee reserve is credited as employee contributions are received throughout the year; the Plan maintains a record of the amount contributed by each employee, and credits interest annually at a rate of 1.7 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.

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

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

	<u>Required Reserve</u>	<u>Amount Funded</u>
Retiree reserve	\$ 662,909	\$ 662,909
Employee reserve	143,692,269	143,692,269
Employer reserve	N/A	16,252,944

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 Pension Board's adopted asset allocation policy as of June 30, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	26.00%
International equity	8.00
Emerging Markets equity	5.00
Investment Grade US fixed	18.00
High Yield fixed income	7.00
International fixed income	5.00
Hedge funds	10.00
Private equity	5.00
Real estate	9.00
Infrastructure	5.00
Cash or cash equivalents	2.00

City of Westland, Michigan

Notes to Financial Statements June 30, 2014

Note 18 - Pension Plan Description, Reserves, and Investments (Continued)

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 18.59 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 19 - Net Pension Liability of the City

The City reports pension expense based on funding requirements, as directed by GASB 27. Beginning next year, the City will adopt GASB 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:

Total pension liability	\$ 196,375,558
Plan fiduciary net position	<u>(160,881,122)</u>
City's net position liability	<u>\$ 35,494,436</u>
Plan fiduciary net position as a percentage of the total pension liability	81.9 %

Actuarial Assumptions - The June 30, 2014 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	4.0-8.0 % average, including inflation
Investment rate of return	7.5 % net of pension plan investment expense, including inflation

Mortality rates were based on the experience-based table of rates that are specific to the type of eligibility condition. RP-2000 Male (unadjusted) and Female (unadjusted) Healthy Life Mortality Table projected 20 years.

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.

Note 19 - Net Pension Liability of the City (Continued)

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.

Based on those assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate incorporates a municipal bond rate which was 4.29 percent. The source of that bond rate was published by the Federal Reserve. The long-term expected rate of return was applied to projected benefit payments from 2014-2053 and the municipal bond rate was applied to the remaining periods.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of December 31, 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.

Asset Class	Long-term Expected Real Rate of Return
Domestic equity	6.20%
International equity	6.10
Emerging Markets Equity	7.30
Investment Grade US Fixed	1.70
High Yield Fixed Income	4.90
International Fixed Income	2.00
Hedge Funds	4.50
Private Equity	9.40
Real Estate	6.20
Infrastructure	7.00
Cash	0.80

City of Westland, Michigan

Notes to Financial Statements June 30, 2014

Note 19 - Net Pension Liability of the City (Continued)

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability of the City	\$ 58,946,312	\$ 35,494,436	\$ 17,727,652

Note 20 - Other Postemployment Benefits

Plan Description - The City provides retiree health care benefits to eligible employees and their spouses.

This is a single employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements.

Funding Policy - The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (i.e., the obligation may be financed on a "pay-as-you-go basis").

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, 2013. 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)	\$ 13,821,250
Interest on the prior year's net OPEB obligation	1,720,436
Less adjustment to the annual required contribution	<u>(1,582,104)</u>
Total annual OPEB cost	13,959,582
Amounts contributed - Payments of current premiums	<u>(6,203,861)</u>
Increase in net OPEB obligation	7,755,721
OPEB obligation - Beginning of year	<u>38,231,921</u>
OPEB obligation - End of year	<u>\$ 45,987,642</u>

City of Westland, Michigan

Notes to Financial Statements June 30, 2014

Note 20 - Other Postemployment Benefits (Continued)

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Costs	Employer Contributions Percentage OPEB Costs Contributed	Net OPEB Obligation
6/30/09	6/30/08	\$ 12,115,852	39.5	\$ 7,331,278
6/30/10	6/30/08	12,445,760	35.9	15,307,135
6/30/11	6/30/11	12,769,427	36.8	23,378,403
6/30/12	6/30/11	12,798,630	41.6	30,849,306
6/30/13	6/30/13	13,932,870	47.0	38,231,921
6/30/14	6/30/13	13,959,582	44.0	45,987,642

The funding progress of the plan as of the most recent valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/08	\$ -	\$ 181,861,454	\$ 181,861,454	-	\$ 20,474,568	888.2
6/30/11	-	216,389,936	216,389,936	-	15,986,830	1,353.6
6/30/13	-	235,582,416	235,582,416	-	15,531,926	1,516.8

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented 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 20 - Other Postemployment Benefits (Continued)

In the June 30, 2013 actuarial valuation, the projected unit credit with linear proration to decrement cost method was used. The actuarial assumptions included a 4.5 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 8.5 percent initially, reduced by decrements to an ultimate rate of 5 percent after eight years. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis over 30 years.

Note 21 - 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 liabilities have been reclassified, as indicated:

Item	Amount	Prior Reporting Classification/Treatment	New Classification After Adoption of GASB 65
Property taxes billed, but which were levied for next year's budget	\$ 940,695	Liability	Deferred inflow of resources
Grant resources received before the time requirements have been met	54,650	Liability	Deferred inflow of resources
Revenue in governmental funds not collected within 60 days of year end	4,028,113	Liability	Deferred inflow of resources

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

Note 22 - 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 Westland, 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	\$ 20,438,545	\$ 20,438,545	\$ 20,148,861	\$ (289,684)
Licenses and permits	1,236,150	1,339,700	1,272,437	(67,263)
Federal sources	1,092,315	1,867,315	1,403,794	(463,521)
State sources	8,786,349	9,008,768	9,092,310	83,542
Charges for services	7,609,079	7,675,839	7,079,851	(595,988)
Court fines and fees	4,000,000	4,155,500	4,635,765	480,265
Interest income	75,000	75,000	56,894	(18,106)
Other	10,897,849	11,268,153	10,938,103	(330,050)
Total revenue	54,135,287	55,828,820	54,628,015	(1,200,805)
Expenditures				
Current:				
General government:				
Legislative	101,200	101,200	101,191	9
Executive	695,964	695,964	675,868	20,096
Computer information systems	621,690	726,102	785,136	(59,034)
Law	800,000	800,000	809,178	(9,178)
Finance	1,621,739	1,621,739	1,541,770	79,969
Assessment	329,671	339,671	338,743	928
City clerk	822,029	822,029	723,682	98,347
City hall and grounds	215,175	305,975	272,461	33,514
Personnel	413,034	398,334	361,755	36,579
Housing	655,540	655,540	591,166	64,374
Insurance and bonds	1,640,000	1,640,000	1,419,212	220,788
General government	5,680,295	5,987,633	5,764,318	223,315
Community development	482,445	478,209	453,415	24,794
Total general government	14,078,782	14,572,396	13,837,895	734,501
Public safety:				
Police	16,037,439	16,087,353	16,040,609	46,744
Joint dispatch	1,919,240	2,743,575	2,627,510	116,065
Fire	13,229,524	13,298,364	13,321,525	(23,161)
Police and Fire Retirement Board	150,000	150,000	53,160	96,840
District Court	3,061,442	3,216,942	3,131,055	85,887
Total public safety	34,397,645	35,496,234	35,173,859	322,375
Highway maintenance	1,787,133	1,908,700	2,126,478	(217,778)
Sanitation	4,229,250	4,229,250	4,321,783	(92,533)
Youth Assistance Program	907,729	907,729	856,287	51,442
Recreation and culture:				
Parks and recreation	849,007	849,007	779,579	69,428
Ice arena	297,215	478,974	467,408	11,566
Senior resources	447,327	447,327	439,685	7,642
Golf course	343,302	343,302	320,525	22,777
Total recreation and culture	1,936,851	2,118,610	2,007,197	111,413
Debt service	255,340	255,340	369,402	(114,062)
Total expenditures	57,592,730	59,488,259	58,692,901	795,358
Excess of Expenditures Over Revenue	(3,457,443)	(3,659,439)	(4,064,886)	(405,447)

City of Westland, Michigan

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

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	\$ 50,000	\$ 50,000	\$ 104,240	\$ 54,240
Transfers in	495,000	495,000	500,000	5,000
Transfers out	(239,000)	(239,000)	(234,975)	4,025
Total other financing sources	<u>306,000</u>	<u>306,000</u>	<u>369,265</u>	<u>63,265</u>
Net Change in Fund Balance	(3,151,443)	(3,353,439)	(3,695,621)	(342,182)
Fund Balance - Beginning of year	<u>8,639,328</u>	<u>8,639,328</u>	<u>8,639,328</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 5,487,885</u></u>	<u><u>\$ 5,285,889</u></u>	<u><u>\$ 4,943,707</u></u>	<u><u>\$ (342,182)</u></u>

City of Westland, Michigan

Required Supplemental Information Police and Fire Pension System Schedule of Funding Progress Year Ended June 30, 2014 (000s omitted)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded/ Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	AAL (UAAL) as a Percentage of Covered Payroll
6/30/08	\$ 152,600	\$ 147,000	\$ (5,600)	103.8	\$ 12,900	(43.4)
6/30/09	155,400	154,000	(1,400)	100.9	13,000	(10.8)
6/30/10	156,500	168,900	12,400	92.7	11,000	112.7
6/30/11	155,600	175,300	19,700	88.8	11,000	179.1
6/30/12	149,300	182,000	32,700	82.0	10,600	308.5
6/30/13	144,400	192,600	48,200	75.0	10,200	472.5

Schedule of Employer Contributions

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
6/30/09	6/30/08	\$ 4,738,178	100
6/30/10	6/30/09	3,829,140	100
6/30/11	6/30/10	4,137,201	100
6/30/12	6/30/11	4,494,952	100
6/30/13	6/30/12	4,990,887	100
6/30/14	6/30/13	5,813,007	100

* 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, is as follows:

Actuarial cost method	Entry age actuarial
Amortization method	Level percent of payroll
Amortization period (perpetual)	20 years
Asset valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	4.0%-8.0%
* Includes inflation at	4.0%
Cost of living adjustments	One-time adjustment of 5% after six years of retirement

City of Westland, Michigan

Note to Required Supplemental Information Year Ended June 30, 2014

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all special revenue funds, except that reimbursements to the General Fund from other funds have been included in revenue, rather than as a reduction of expenditures. The City adopts each fund's budget individually, so budgeted amounts in the General Fund include only General Fund activity, not including the funds rolled into the Combining General Fund as a result of GASB No. 54. As a result, the revenue and expenditures of these funds are not included in the General Fund budget.

The annual budget is prepared by the City management and submitted to the City Council by April 1 of each year. The budget is adopted by the City Council at the first council meeting in June. Subsequent amendments are approved by the City Council. Amendments may be made by the City Council up until the last day of the fiscal year. The General Fund budget, including the District Court, has been adopted on a departmental basis. The other funds' budgets have been adopted at the fund level; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

Unexpended appropriations lapse at year end. The amount of encumbrances outstanding at June 30, 2014 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

A reconciliation of the budgetary comparison schedules to the fund-based statement of changes in fund balance is as follows:

	<u>Total Revenue</u>	<u>Total Expenditures</u>
General Fund:		
Amounts per operating statement	\$ 53,690,540	\$ 57,066,132
Reimbursements from other funds recorded as revenue	2,126,478	2,126,478
Proceeds from the issuance of long-term debt reduce corresponding expenditures in the budget statement	-	(493,680)
E-911 Fund	(526,482)	(3,527)
Metro Act - Broadband Fund	<u>(212,521)</u>	<u>(2,502)</u>
Amounts per budget statement	<u>\$ 55,078,015</u>	<u>\$ 58,692,901</u>

City of Westland, Michigan

Note to Required Supplemental Information (Continued)

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

	Budget	Actual	Variance
General Fund:			
Computer information systems	\$ 726,102	\$ 785,136	\$ (59,034)
Law	800,000	809,178	(9,178)
Fire	13,298,364	13,321,525	(23,161)
Highway maintenance	1,908,700	2,126,478	(217,778)
Sanitation	4,229,250	4,321,783	(92,533)
Debt service	255,340	369,402	(114,062)

City of Westland, Michigan

Required Supplemental Information Schedule of Changes in the City Net Pension Liability and Related Ratios Last Ten Fiscal Years (Prospectively built from 2014)

	2014
Total Pension Liability	
Service cost	\$ 3,222,792
Interest	14,057,789
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds	(13,461,635)
Net Change in Total Pension Liability	3,818,946
Total Pension Liability - Beginning of year	192,556,612
Total Pension Liability - End of year	\$ 196,375,558
Plan Fiduciary Net Position	
Contributions - Employer	\$ 5,813,007
Contributions - Member	116,709
Net investment income	27,003,133
Administrative expenses	-
Benefit payments, including refunds	(13,461,635)
Other	-
Net Change in Plan Fiduciary Net Position	19,471,214
Plan Fiduciary Net Position - Beginning of year	141,409,908
Plan Fiduciary Net Position - End of year	\$ 160,881,122
City's Net Pension Liability - Ending	\$ 35,494,436
Plan Fiduciary Net Position as a % of Total Pension Liability	81.93 %
Covered Employee Payroll	\$ 10,198,898
City's Net Pension Liability as a % of Covered Employee Payroll	348.0 %

City of Westland, Michigan

Required Supplemental Information Schedule of City Contributions Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	\$ 5,813,007	\$ 4,990,887	\$ 4,494,952	\$ 4,137,201	\$ 3,829,140	\$ 4,738,178	\$ 5,085,329	\$ 4,281,154	\$ 4,069,216	\$ 3,287,050
Contributions in relation to the actuarially determined contribution	5,813,007	4,990,887	4,494,952	4,137,201	3,829,140	4,738,178	5,085,329	4,281,154	4,069,216	3,287,050
Contribution Deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 10,198,898	\$10,609,537	\$10,840,217	\$10,939,952	\$12,951,032	\$12,862,009	\$12,661,870	\$12,580,386	\$11,291,224	\$11,388,275
Contributions as a Percentage of Covered Employee Payroll	57.0 %	47.0 %	41.5 %	37.8 %	29.6 %	36.8 %	40.2 %	34.0 %	36.0 %	28.9 %

Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined valuation rates were calculated as of June 30 each year, which is one year prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method Entry age actuarial cost method

Amortization method Level percent of payroll

Remaining amortization period 20 years, closed

Asset valuation method Five-year smoothed market

Inflation 4.0%

Salary increases 4.0%-8.0% including inflation

Investment rate of return 7.5%

Mortality Experience-based table of rates that are specific to the type of eligibility condition. RP-2000 Males (unadjusted) and Females (unadjusted) Healthy Life Mortality Table projected 20 years.

Other information

City of Westland, Michigan

Required Supplemental Information Schedule of Investment Returns Last Ten Fiscal Years (Prospectively built from 2014)

	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	18.6 %

City of Westland, Michigan

Required Supplemental Information OPEB System Schedule Year Ended June 30, 2014 (000s omitted)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/08	\$ -	\$181,861,454	\$181,861,454	-	\$ 20,474,568	888.2
6/30/11	-	216,389,936	216,389,936	-	15,986,830	1,353.6
6/30/13	-	235,582,416	235,582,416	-	15,531,926	1,516.8

City of Westland, Michigan

Required Supplemental Information Pension System Schedule MERS Plan Year Ended June 30, 2014

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/11	\$ 56,636,806	\$ 109,980,544	\$ 53,343,738	51.5	\$ 7,377,631	723.0
12/31/12	55,450,156	112,765,537	57,315,381	49.2	7,076,423	809.9
12/31/13	55,450,156	112,765,537	57,315,381	49.2	7,076,423	809.9

Other Supplemental Information

City of Westland, Michigan

	Personnel Services		Supplies	
	Budget	Actual	Budget	Actual
General Government				
Legislative	\$ 96,318	\$ 98,281	\$ 1,932	\$ 2,644
City clerk	730,742	614,273	22,237	18,386
Executive	678,769	660,293	7,400	8,213
Assessment	2,520	2,100	4,600	3,024
Computer information systems	210,346	194,037	79,192	99,373
General - Law	-	-	-	-
Finance	1,393,781	1,329,757	69,000	64,840
City hall and grounds	-	-	28,800	17,637
General government	3,268,500	2,921,307	50,000	42,470
General maintenance	214,402	210,195	450,000	545,710
Planning	456,739	426,607	6,200	5,433
Economic development	297,015	290,165	2,700	3,668
Community development programs	345,265	346,180	4,350	5,258
Housing development	655,540	591,166	-	-
Insurance and bonds	40,000	-	-	-
Personnel	326,254	313,594	1,950	1,402
Total general government	8,716,191	7,997,955	728,361	818,058
Public Safety				
District Court	2,589,886	2,561,193	97,506	120,364
Police	14,808,453	14,686,000	96,800	109,925
Fire	12,145,304	12,023,132	155,500	168,567
Police and Fire Retirement Board	-	-	-	-
Joint dispatch	1,841,200	1,847,808	3,700	3,131
Total public safety	31,384,843	31,118,133	353,506	401,987
Highways and Streets	1,210,500	1,189,162	401,500	466,835
Building Authority Debt - Tower - Operating transfer	-	-	-	-
Sanitation	-	-	250	233
Cultural and Recreation				
Youth assistance	-	-	14,150	3,925
Senior resource department	285,588	286,334	53,400	55,582
Parks and recreation	133,099	132,175	35,200	30,777
Golf course	-	-	41,500	29,891
Cable	-	-	448,308	438,284
Historical committee	-	-	1,150	-
Ice arena	-	-	37,100	27,733
Total cultural and recreation	418,687	418,509	630,808	586,192
Debt Service	-	-	-	-
Total expenditures and other operating transfers	<u>\$ 41,730,221</u>	<u>\$ 40,723,759</u>	<u>\$ 2,114,425</u>	<u>\$ 2,273,305</u>

* The "total" column represents the budget as adopted on a departmental basis. The additional detail presented here is for information purposes only.

Other Supplemental Information
Schedule of Expenditures - Budget and Actual
General Fund
Year Ended June 30, 2014

Services and Charges		Capital Outlay		Debt Service		Total*	
Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
\$ 2,950	\$ 266	\$ -	\$ -	\$ -	\$ -	\$ 101,200	\$ 101,191
69,050	91,023	-	-	-	-	822,029	723,682
9,795	7,362	-	-	-	-	695,964	675,868
332,551	333,619	-	-	-	-	339,671	338,743
308,544	364,523	128,020	127,203	-	-	726,102	785,136
800,000	809,178	-	-	-	-	800,000	809,178
158,958	147,173	-	-	-	-	1,621,739	1,541,770
277,175	254,824	-	-	-	-	305,975	272,461
408,948	380,007	100,000	100,000	-	-	3,827,448	3,443,784
151,404	137,446	-	-	-	-	815,806	893,351
578,550	697,914	-	-	-	-	1,041,489	1,129,954
3,175	3,396	-	-	-	-	302,890	297,229
128,594	101,977	-	-	-	-	478,209	453,415
-	-	-	-	-	-	655,540	591,166
1,600,000	1,419,212	-	-	-	-	1,640,000	1,419,212
70,130	46,759	-	-	-	-	398,334	361,755
4,899,824	4,794,679	228,020	227,203	-	-	14,572,396	13,837,895
487,650	407,756	41,900	41,742	-	-	3,216,942	3,131,055
962,100	927,452	220,000	317,232	-	-	16,087,353	16,040,609
809,720	920,477	187,840	209,349	-	-	13,298,364	13,321,525
150,000	53,160	-	-	-	-	150,000	53,160
4,340	2,755	894,335	773,816	-	-	2,743,575	2,627,510
2,413,810	2,311,600	1,344,075	1,342,139	-	-	35,496,234	35,173,859
296,700	470,481	-	-	-	-	1,908,700	2,126,478
-	-	-	-	239,000	234,975	239,000	234,975
4,229,000	4,321,550	-	-	-	-	4,229,250	4,321,783
893,579	852,362	-	-	-	-	907,729	856,287
108,339	97,769	-	-	-	-	447,327	439,685
192,300	147,724	-	-	-	-	360,599	310,676
301,802	290,634	-	-	-	-	343,302	320,525
28,000	23,886	-	-	-	-	476,308	462,170
10,950	6,733	-	-	-	-	12,100	6,733
260,115	260,146	181,759	179,529	-	-	478,974	467,408
1,795,085	1,679,254	181,759	179,529	-	-	3,026,339	2,863,484
-	-	-	-	255,340	369,402	255,340	369,402
\$ 13,634,419	\$ 13,577,564	\$ 1,753,854	\$ 1,748,871	\$ 494,340	\$ 604,377	\$ 59,727,259	\$ 58,927,876

City of Westland, Michigan

	Special Revenue Funds					
	Major Roads Fund	Local Roads Fund	Community Development Block Grant	Street Lighting	Drug Forfeiture	Library
Assets						
Cash and cash equivalents	\$ 1,667,140	\$ 2,835,433	\$ 191,017	\$ 228,803	\$ 33,616	\$ 2,073,158
Receivables - Net	575,599	298,217	-	-	-	199,621
Due from other funds	-	-	73,574	-	-	-
Prepaid expenses and other assets	2,979	-	-	-	-	-
Assets held for resale	-	-	1,305,319	-	-	-
Total assets	\$2,245,718	\$3,133,650	\$ 1,569,910	\$ 228,803	\$ 33,616	\$2,272,779
Liabilities						
Accounts payable	\$ 215,847	\$ 60,625	\$ 38,508	\$ -	\$ 1,996	\$ 68,268
Due to other funds	708,078	603,113	58,046	52,254	-	5
Accrued and other liabilities	-	-	-	-	-	45,588
Total liabilities	923,925	663,738	96,554	52,254	1,996	113,861
Deferred Inflows of Resources -						
Unavailable revenue	-	91,554	-	-	-	89,070
Fund Balances						
Nonspendable - Major roads	2,979	-	-	-	-	-
Restricted:						
Roads	1,318,814	2,378,358	-	-	-	-
Community development	-	-	1,473,356	-	-	-
Drug forfeiture	-	-	-	-	31,620	-
Library	-	-	-	-	-	2,069,848
Street lighting	-	-	-	176,549	-	-
800 MHZ	-	-	-	-	-	-
Total fund balances	1,321,793	2,378,358	1,473,356	176,549	31,620	2,069,848
Total liabilities, deferred inflows of resources, and fund balances	\$2,245,718	\$3,133,650	\$ 1,569,910	\$ 228,803	\$ 33,616	\$2,272,779

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

Debt Service Funds			
800 MHZ	Motor Vehicle Highway Debt - Newburgh	Building Authority Debt - 2005 Refunding	Total Nonmajor Governmental Funds
\$ 128,874	\$ -	\$ -	\$ 7,158,041
226,281	-	-	1,299,718
-	-	-	73,574
-	-	-	2,979
-	-	-	1,305,319
\$ 355,155	\$ -	\$ -	\$ 9,839,631
\$ -	\$ -	\$ -	\$ 385,244
-	-	-	1,421,496
-	-	-	45,588
-	-	-	1,852,328
-	-	-	180,624
-	-	-	2,979
-	-	-	3,697,172
-	-	-	1,473,356
-	-	-	31,620
-	-	-	2,069,848
-	-	-	176,549
355,155	-	-	355,155
355,155	-	-	7,806,679
\$ 355,155	\$ -	\$ -	\$ 9,839,631

City of Westland, Michigan

	Special Revenue Funds					
	Major Roads Fund	Local Roads Fund	Community Development Block Grant	Street Lighting	Drug Forfeiture	Library
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,681,486
Federal sources	-	-	1,767,727	-	-	-
State sources	3,712,197	1,332,354	-	-	940,276	109,630
Interest income	5,014	6,065	526	460	427	6,080
Other revenue:						
Special assessments	-	36,959	-	1,532,513	-	-
Local sources	-	-	-	-	-	86,975
Refund of captured property taxes	-	-	-	-	-	166,306
Other income	-	-	-	-	100	21,501
Total revenue	3,717,211	1,375,378	1,768,253	1,532,973	940,803	3,071,978
Expenditures						
Current:						
General government	-	-	-	-	-	-
Street lighting	-	-	-	1,446,502	-	-
Public safety	-	-	-	-	923,732	-
Highway, streets, and drains	2,351,063	1,871,763	-	-	-	-
Community and economic development	-	-	1,280,131	-	-	-
Cultural and recreation	-	-	-	-	-	3,044,001
Debt service	-	-	-	-	-	-
Total expenditures	2,351,063	1,871,763	1,280,131	1,446,502	923,732	3,044,001
Excess of Revenue Over (Under) Expenditures	1,366,148	(496,385)	488,122	86,471	17,071	27,977
Other Financing Sources (Uses)						
Transfers in	-	924,579	-	-	-	-
Transfers out	(1,643,554)	-	-	(15,000)	-	-
Total other financing (uses) sources	(1,643,554)	924,579	-	(15,000)	-	-
Net Change in Fund Balances	(277,406)	428,194	488,122	71,471	17,071	27,977
Fund Balances - Beginning of year	1,599,199	1,950,164	985,234	105,078	14,549	2,041,871
Fund Balances - End of year	\$ 1,321,793	\$2,378,358	\$ 1,473,356	\$ 176,549	\$ 31,620	\$2,069,848

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
	Motor Vehicle Highway Debt - Newburgh	Building Authority Debt - 2005 Refunding	Nonmajor Governmental Funds
800 MHZ			
\$ -	\$ -	\$ -	\$ 2,681,486
-	-	-	1,767,727
-	-	-	6,094,457
254	-	-	18,826
-	-	-	1,569,472
296,146	-	-	383,121
-	-	-	166,306
345,604	-	-	367,205
642,004	-	-	13,048,600
348,310	-	-	348,310
-	-	-	1,446,502
-	-	-	923,732
-	-	-	4,222,826
-	-	-	1,280,131
-	-	-	3,044,001
-	718,975	419,075	1,138,050
348,310	718,975	419,075	12,403,552
293,694	(718,975)	(419,075)	645,048
70,434 (10,000)	718,975 -	419,075 -	2,133,063 (1,668,554)
60,434	718,975	419,075	464,509
354,128	-	-	1,109,557
1,027	-	-	6,697,122
\$ 355,155	\$ -	\$ -	\$ 7,806,679

City of Westland, Michigan

Other Supplemental Information Combining Balance Sheet Fiduciary Funds - Agency Funds June 30, 2014

	Agency Funds			
	Trust and Agency	Undistributed Tax Collection	District Court	Total Agency Funds
Assets - Cash and cash equivalents	\$ 1,238,076	\$ 932,106	\$ 304,697	\$ 2,474,879
Liabilities				
Due to other governmental units	\$ -	\$ 932,106	\$ 105,901	\$ 1,038,007
Accrued liabilities and other	1,238,076	-	198,796	1,436,872
Total liabilities	\$ 1,238,076	\$ 932,106	\$ 304,697	\$ 2,474,879

City of Westland, Michigan

**Federal Awards
Supplemental Information
June 30, 2014**

City of Westland, Michigan

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Report on Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133

Independent Auditor's Report

To the City Council
City of Westland, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Westland, 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's basic financial statements. We issued our report thereon dated December 18, 2014 which contained unmodified opinions on the above referenced opinion units within the City's financial statements. Our audit was conducted for the purpose of forming opinions on the financial statement that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to December 18, 2014.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

December 18, 2014

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the City Council
City of Westland, Michigan

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Westland, 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's basic financial statements, and have issued our report thereon dated December 18, 2014. The financial statements of the District Court Funds of District No. 18 were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Westland, Michigan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

To the City Council
City of Westland, Michigan

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or a detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2014-001, 2014-002, 2014-003, and 2014-004 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2014-005 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Westland, Michigan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Westland, Michigan's Responses to Findings

The City of Westland, Michigan's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Morse, PLLC

December 18, 2014

Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance

Independent Auditor's Report

To the City Council
City of Westland, Michigan

Report on Compliance for Each Major Federal Program

We have audited the City of Westland, Michigan's (the "City") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. The City of Westland, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Westland, Michigan's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Westland, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Westland, Michigan's compliance.

To the City Council
City of Westland, Michigan

Opinion on Each Major Federal Program

In our opinion, the City of Westland, Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 2014-006. Our opinion on each major federal program is not modified with respect to these matters.

The City of Westland, Michigan's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The City of Westland, Michigan's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Management of the City of Westland, Michigan is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Westland, Michigan's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

To the City Council
City of Westland, Michigan

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding 2014-006, that we consider to be a significant deficiency.

The City of Westland, Michigan's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Westland, Michigan's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

December 18, 2014

City of Westland, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
CDBG Entitlement Grants Cluster:			
Community Development Block Grants/Entitlement Grant	14.218	B-10-MC-26-0017	\$ 825,950
Neighborhood Stabilization Program I	14.218	B-08-MN-26-0016	7,655
Neighborhood Stabilization Program 3 - Passed through Wayne County, Michigan	14.218	N/A	<u>313,725</u>
Subtotal CDBG Entitlement Grants Cluster			1,147,330
HOME Investment Partnerships Program	14.239	M10-MC260218	<u>452,886</u>
Total U.S. Department of Housing and Urban Development			1,600,216
U.S. Department of Transportation - Office of Highway Safety Cluster Programs - State and Community Highway Safety	20.600	PT-13-17 & PT14-25	31,461
U.S. Department of Justice:			
JAG Program Cluster - Bureau of Justice Assistance:			
Edward Byrne Memorial Justice Assistance Grant Program - Passed through Wayne County, Michigan	16.738	2010 DJ-BX-1068	13,414
Edward Byrne Memorial Justice Assistance Grant Program - Passed through Wayne County, Michigan	16.738	2011 DJ-BX-2481	<u>18,723</u>
Subtotal JAG Grants Cluster			32,137
Office of Justice Programs Bulletproof Vest Partnership	16.607	N/A	<u>4,216</u>
Total U.S. Department of Justice			36,353
U.S. Department of Health and Human Services - Block Grants for Prevention and Treatment of Substance Abuse - Passed through the Southeast Michigan Community Alliance	93.959		62,005
U.S. Department of Homeland Security:			
Assistance to Firefighters Grant	97.044	EMW-2010-FH-00752	448,696
Assistance to Firefighters Grant	97.044	EMW-2011-FR-00561	<u>860,956</u>
Total U.S. Department of Homeland Security			1,309,652
U.S. Department of Agriculture - Food Distribution	10.550	ERP-337.20	<u>18,757</u>
Total federal awards			<u>\$ 3,058,444</u>

City of Westland, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

Note 1 - Basis of Presentation and Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Westland, Michigan under programs of the federal government for the year ended June 30, 2014. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-87, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Because the Schedule presents only a selected portion of the operations of the City of Westland, Michigan, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows, if applicable, of the City of Westland, Michigan. Pass-through entity identifying numbers are presented where available.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the Schedule, federal awards were provided to subrecipients as follows:

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grants Entitlement Cluster	14.218	\$ 21,040

Note 3 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

Summary of Noncash Assistance - The grantee received the following noncash assistance during the year ended June 30, 2014 that is included on the schedule of expenditures of federal awards:

<u>Federal Program</u>	<u>CFDA Number</u>	<u>Description</u>	<u>Amount</u>
U.S. Department of Agriculture	10.550	Food Distribution	\$ <u>18,757</u>

City of Westland, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
14.218	Community Development Block Grants Entitlement Cluster
14.239	HOME Investment Partnerships Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

City of Westland, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings

Reference

Number

Finding

2014-001 **Finding Type** - Material weakness

Criteria - Management's goal is to have workpaper preparation completed for the auditors and to present the trial balance ready for audit, in accordance with generally accepted accounting principles.

Condition - While progress over the prior year was made, the account balances did require significant analysis and adjustment after the beginning of the audit. The City was required to post many entries in order for its financial statements to be correctly stated.

Context - Significant journal entries were required to be made to the City's funds after the audit commenced on September 8, 2014.

Cause - The City had been making great progress taking more responsibility for closing the annual records and getting ready for the audit. Unfortunately, the effort surrounding the building construction and move-in addition to the budget director vacancy near the beginning of the audit resulted in the City again having difficulty closing its year-end books. At the start of the audit, the accounting records contained several account balances that had not yet been adjusted to the appropriate amounts.

Effect - As a result, certain transactions were not originally recorded in audit records or were recorded incorrectly prior to the audit process and material adjustments, both in number and size, were required.

Recommendation - The City should attempt to post all entries required to close out the books prior to the audit.

Views of Responsible Officials and Planned Corrective Actions - The City is in the process of adding additional personnel and will focus on improving year-end reporting prior to the audit.

City of Westland, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings (Continued)

Reference

Number

Finding

2014-002 **Finding Type** - Material weakness

Criteria - Per generally accepted accounting principles, investments should be recorded at fair market value.

Condition - The City of Westland Police and Fire Retirement System is invested in several alternative investments whose fair market values cannot be traced to any published indices. The fair market value is based on estimates and judgments from the investment's management. The City does not have a routine process in place for reviewing fair market value and for adjusting the City's general ledger to it.

Context - When reviewing the fair market value of the alternative investments in the Police and Fire Retirement System, adjustments were required to be made to properly reflect the fair market value as of year end. This adjustment was approximately \$935,000, or 2 percent of the alternative investment balance.

Cause - The audit team noted little review throughout the year of the value of the alternative investments. Plante & Moran, PLLC also had difficulties in obtaining sufficient evidence to value the alternative investments in the Westland Police and Fire Retirement System. The audit team applied additional procedures in order to obtain proper audit evidence to support the recorded values.

Effect - Less than material adjustments were suggested by the auditors in order for the City's financial statements to accurately reflect the fair market value of these investments. Without proper review procedures, however, material errors may be made and go undetected.

Recommendation - The City should evaluate the values of these alternative investments periodically and record the necessary adjustments before the commencement of the audit.

Views of Responsible Officials and Planned Corrective Actions - The City will review processes and make the necessary adjustments to record the fair market value of these investments before the commencement of the audit.

City of Westland, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2014-003	<p>Finding Type - Material weakness</p> <p>Criteria - Year-end cut-off is to be reviewed to ensure expenditures are matched with the appropriate period, in accordance with generally accepted accounting principles.</p> <p>Condition - During the City's financial statement audit for the year ended June 30, 2014, there was a significant amount of construction in progress. It was noted that several invoices for work performed in the fiscal year were not properly accrued for due to the construction crossing over after year end.</p> <p>Context - Journal entries totaling approximately \$600,000 were needed to properly reflect the invoices in the current period.</p> <p>Cause - Review procedures related to cut-off were lacking and certain invoices received after year end were not identified.</p> <p>Effect - As a result, certain invoices of a material amount were improperly excluded from the activity in the year under audit.</p> <p>Recommendation - The City should ensure all invoices are reviewed to ensure expenditures are matched with the appropriate period.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will review cut-off processes to ensure future amounts are recorded properly.</p>

City of Westland, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings (Continued)

Reference

Number

Finding

2014-004 **Finding Type** - Material weakness

Criteria - The City should provide auditors a complete schedule of federal awards that properly reflects the activity recorded in the general ledger accounts.

Condition - The City was unable to provide an accurate schedule of expenditures of federal awards (SEFA) which reflected the activity recorded in the general ledger accounts.

Context - An incomplete SEFA was presented at the beginning of the audit. During the performance of the A-133 single audit, it was noted that not all expenditures from federal sources were accurately included on the SEFA. It was also noted that additional adjustments were recorded in the general ledger to reflect current year grant activity. These adjustments were immaterial but necessary to properly reflect the grant activity.

Cause - There is a lack of review processes in the preparation of the SEFA and supporting schedules. The reconciliation between the general ledger and the SEFA was not complete.

Effect - Adjustments were required to both the SEFA and general ledger in order to present a complete and accurate SEFA. Without proper reporting and reconciliation of the SEFA, material amounts could go unreported or material adjustments could be undetected.

Recommendation - We recommend a review process of all federal activity be performed to ensure all amounts are included on the SEFA.

Views of Responsible Officials and Planned Corrective Actions - The City agrees with this recommendation and will begin to perform a review process.

City of Westland, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings (Continued)

Reference

Number

Finding

2014-005 **Finding Type** - Significant deficiency

Criteria - The City is required to report inventory held for sale at the lower of cost or market, in accordance with generally accepted accounting principles.

Condition - During the City's financial statement audit for the year ended June 30, 2014, it was noted that the City did not properly track and summarize costs and market values of its Neighborhood Stabilization Grant, Community Development Block Grant, and HOME Program homes held for resale.

Context - After the inventory schedule was provided to the audit team, significant updates were needed to this schedule to appropriately reflect the true cost and market value of the inventory. An adjustment of approximately \$300,000 to the general ledger was also needed to appropriately reflect the financial statements.

Cause - The City performed little review on the inventory schedule to ensure it was appropriately reflecting cost and market value.

Effect - As a result, the inventory balance reported was improperly stated and adjustments were required.

Recommendation - The City should review and update the inventory schedule continuously to ensure the information on it is accurate. The City should then ensure the financial statements properly reflect the balance.

Views of Responsible Officials and Planned Corrective Actions - The City will review the schedule to ensure it is updated and correct and matches the financial statements.

City of Westland, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section III - Federal Program Audit Findings

Reference

Number

Finding

2014-006 **Program Name** - I4.218 - Entitlement Grants Cluster - Community Development Block Grant (do not impact NSP 1 or NSP 3)

Pass-through Entity - None

Finding Type - Significant deficiency and material noncompliance with laws and regulations

Criteria - Section 215.43 of the Code of Federal Regulations states that to ensure free competition, all procurement solicitations shall clearly set forth all requirements that the bidder or offeror shall fulfill in order for the bid or offer to be evaluated by the recipient. Section 215.45 of the Code of Federal Regulations stipulates that some form of cost or price analysis should be made and documented in the procurement files in connection with every procurement action.

Condition - The City procured contractors on a general basis without specifying individual project requirements as required by the Code of Federal Regulations.

Questioned Costs - None

Context - Knowing the specific requirements of a certain project may have altered the bid process for certain bidders. In addition, a specific cost or price analysis was not performed for each project, since each project was not procured. As a result, a specific project may not have been awarded to what would have been the lowest bidder, all other things being equal.

Cause and Effect - The City's review process did not prevent this overall bid process from being applied to projects using federal funds. Because of this, projects using federal funds may or could have been awarded to contractors who would not otherwise have been the most responsive bidder.

Recommendation - The City should request and award bids for each federally funded project on an individual basis.

Views of Responsible Officials and Planned Corrective Actions - The client is in the process of evaluating its procurement process for federally funded projects to ensure free competition.

City of Westland, Michigan

**Report to the City Council
June 30, 2014**

December 18, 2014

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

We have audited the financial statements of the City of Westland, Michigan (the "City") as of and for the year ended June 30, 2014 and have issued our report thereon dated December 18, 2014. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Required Communications with Those Charged with Governance

Section II - Other Recommendations and Related Information

Section III - Legislative and Informational Items

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the mayor and members of the City Council.

Section II presents recommendations related to internal control, procedures, and other matters noted during our current year audit. These comments are offered in the interest of helping the City in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

Section III contains updated legislative and informational items that we believe will be of interest to you.

In addition to the comments and recommendations in this letter, our observations and comments regarding the City of Westland's internal control, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This report is included in the supplemental schedule of federal awards, and we recommend that the matters we have noted there receive your careful consideration.

We would like to take this opportunity to thank the City's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the City Council and management of the City of Westland and is not intended to be and should not be used by anyone other than these specified parties.

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

December 18, 2014

We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Michael J. Swartz", with a stylized flourish at the end.

Michael J. Swartz

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

December 18, 2014

Section I - Communications Required Under AU 260

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 16, 2014, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the City of Westland, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the City of Westland's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the City of Westland, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated December 18, 2014 regarding our consideration of the City of Westland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 16, 2014.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Westland, Michigan are described in Note I to the financial statements.

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

December 18, 2014

As described in Note 21, the City changed accounting policies as a result of the implementation of GASB Statements No. 65 and No. 67. Accordingly, the accounting changes have been retrospectively applied to prior periods presented as if the policies had always been used.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements include the historical cost of the City's infrastructure (roads and buildings), net other postemployment benefits obligation, incurred but not reported claims of workers' compensation, general liability and health insurance, the valuation of the alternative investments in the Police and Fire Pension Fund, the estimated liability related to legal proceedings, and the estimated liability recorded for potential Michigan Tax Tribunals and future county chargebacks. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We are required to inform those charged with governance of any serious difficulties encountered in dealing with management related to the performance of the audit. The audit team had difficulties obtaining sufficient evidence to value certain alternative investments in the Westland Police and Fire Retirement System. We were unable to adequately corroborate the value of the pension system investment in Intercontinental Real Estate Investment Fund III, LLC.

The City's year-end adjustments to the accounting records and schedule of expenditures of federal awards were not yet complete at the start of the audit. The City provided many necessary journal entries to close the year during the course of the audit. In addition, the audit team provided significant accounting assistance during the course of the audit by suggesting necessary adjustments to properly close the year.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

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

December 18, 2014

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

The following material misstatements detected as a result of audit procedures were corrected by management. Several entries made relating to fixed assets, accounts payable, debt, and retirement systems, although not material individually, were material in the aggregate.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 18, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Section II - Other Recommendations and Related Information

During our audit, we noted areas where we believe there are opportunities for the City to further strengthen internal control or to increase operating efficiencies. Our observations on those areas are presented for your consideration below:

- As of June 30, 2014, total unassigned fund balance in the General Fund is \$5,055,861, or 8.9 percent of 2013-2014 expenditures. Like most cities, the City's continuing challenge will be to contain costs in the face of generally flat or declining revenue streams. We commend the City for the actions taken to date to address the issue, including the creation of the General Fund forecast, exploring alternative staffing models, conducting a study of health insurance arrangements, offering early retirement incentives, cost-sharing arrangements with other cities, etc. We continue to stress to the City the importance of improving operational efficiencies and continuing cost-cutting efforts.
- At June 30, 2014, the City had no remaining funds restricted for sanitation. This restriction in previous years represented the cumulative surplus of property taxes raised by the City's sanitation millage and other sanitation-related revenue in excess of expenditures to date. During 2014, sanitation-related expenditures exceeded sanitation-related revenues by approximately \$950,000. The 2014-2015 budget projects an excess of sanitation-related revenues over expenses of approximately \$180,000. This budgeted surplus is due mainly to additional mills levied of .4305 and an increase in taxable values.

During fiscal year 2014, the City used the remaining funds restricted for the pension and retiree healthcare premiums of the police and fire departments. At June 30, 2013, this restriction was \$2,509,000, which represented the cumulative surplus of property taxes raised by the City's dedicated Public Act 345 retirement millage. In the actuarial valuation report from Gabriel, Roeder, Smith & Company dated June 30, 2013, it was noted that costs increased significantly for the 2014 fiscal year and are projected to further increase due to the phase-in of market losses in recent years, investments performing under expectation, and the large number of retirees who purchased service and retired early. It was also noted that the funding of the Police and Fire Retirement System decreased from 82 percent to 75 percent as of the most recent valuation date of June 30, 2013. The City has the ability to increase the PA 345 millage as necessary in order to continue funding the pension system at actuarially determined rates.

The MERS (Municipal Employees' Retirement System) valuation at December 31, 2013 noted a funded ratio of 47 percent for the general employees' retirement. This percentage has declined over the past 15 years. During the 2015 fiscal year, the City is beginning to make an additional 5 percent contribution to match employee contributions. This additional contribution is a step in the right direction to increase the funding ratio, but further additional contributions may be necessary depending on rates of return, retirements, and other factors.

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

December 18, 2014

- The City administration and City Council have worked well together over the last several years on taking the necessary steps to continue balancing the annual budget while providing comprehensive services. The need to work cohesively to tackle budget matters will continue. Long-term issues such as the underfunded pension obligations, the unfunded retiree healthcare obligation (OPEB), significant balance of accrued sick and vacation payable, infrastructure challenges relative to water and sewer lines and local roads, and other matters impacting services to the City residents and businesses will continue to challenge the financial success of the City. As you start to prepare for the budget preparation process for the 2015/2016 fiscal year end and review other infrastructure needs of the City, we encourage you to pay close attention to the City's five-year plan in order to evaluate the impact of long-term options.
- For several years now, the City of Westland has performed a comprehensive annual review of the water and sewer rates charged to customers and implemented necessary rate increases in order to keep pace with costs passed to the City from the City of Detroit and Wayne County. As a result of these rate increases, the Water and Sewer Fund has shown significant improvements in its net cash position. This puts the Water and Sewer Fund in a much stronger financial position to allow it to deal with infrastructure matters as they arise. Regarding infrastructure, the City is also taking progressive steps to upgrade water lines and water meters to help prevent future water loss. We encourage the City to continue monitoring the water and sewer system and continue making adjustments to the rate structure as necessary to maintain or further improve the financial condition of the fund.
- The City makes an effort to maintain the conditions of its local road infrastructure by tracking road conditions and upgrading as necessary. To more effectively concentrate these efforts on roads with the greatest need, P&M recommends the City look into offering residents the option, through special assessments, to upgrade roads with the most impact on them.

Other Items Noted During the Audit

- During the audit, it was noted that the City functions under an informal capitalization policy. The City should consider implementing a written, council-approved capitalization policy.
- The City has begun the process of converting fixed assets to the BS&A fixed asset module. We recommend that the City complete this process in the next fiscal year. Conversion to BS&A fixed assets will eliminate formula errors due to manual entry on spreadsheets, which is the current method of tracking fixed assets, as well as streamline the process of recording purchases and depreciation which will result in operating efficiencies for the City.

Section III - Legislative and Informational Items

Revenue Sharing

The State of Michigan's 2014-2015 budget eliminates the Economic Vitality Incentive Program (EVIP) for cities, villages, and townships. EVIP created the need for communities to meet certain requirements to obtain what had been the statutory portion of state-shared revenue.

The statutory revenue sharing will now be called "City, Village, and Township Revenue Sharing (CVTRS)" The total appropriation for revenue sharing is \$23 million less than originally proposed. The decrease is a result of the May revenue estimation conference, which showed declines in the State's projected revenue. Year to year, there is still an overall increase to the appropriation for this portion of revenue sharing.

The City of Westland received approximately \$7.6 million under the EVIP program. Under the CVTRS program, the City is projected to receive \$7.8 million. Along with the increase of \$200,000, the CVTRS program eliminates 2/3 of the administrative burden that was associated with the EVIP program by only making one requirement as opposed to three in order to receive the payments.

There will be an increase of \$13 million to the City, Village, and Township Revenue Sharing. Key provisions of the new revenue sharing formula are as follows:

- I. The CVTRS revenue sharing for cities, villages, and townships that are currently receiving EVIP will be as follows:
 - a. For those with a population greater than 7,500 - the greater of a payment that is equal to the prior year (fiscal year 2013-2014) payment plus 3.05 percent or a total payment equal to \$2.64659 per capita. The State estimates that only about 15 local units will receive more using the per capita formula; all others will see a 3.05 percent increase.
 - b. Communities with populations less than 7,500 will simply receive a payment equal to an increase of 3.05 percent over their 2013-2014 EVIP payment.
2. An additional appropriation of \$5.8 million will be available for one-time funding to cities, villages, and townships that are newly eligible. These communities will receive a per capita payment of \$2.64659.

Constitutional Revenue Sharing - Communities will also see an increase of 2.4 percent in their constitutional revenue-sharing payment.

County Incentive Program - Counties still have to participate in the County Incentive Program (CIP), which is basically the EVIP. The good news is that an additional \$65.4 million was appropriated for counties. As a result, it is expected that counties will receive full funding when CIP payments (20 percent) and county revenue sharing (80 percent) are combined.

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In addition to the dollars above, \$8 million has been set aside to help financially distressed cities. The funds will be applied for and disbursed through a grant-type program by the Department of Treasury.

The State has published the estimated payments for each community for 2014-2015 at the following link: [State Shared Revenue 2014-2015 estimates](#)

It is important to note that the CVTRS program will still require communities to complete the accountability and transparency documents including the following:

- A citizen's guide of its most recent local finances (including recognition of its unfunded liabilities)
- A performance dashboard
- A debt service report containing a detailed listing of its debt service requirements including at a minimum:
 - o The issuance date
 - o Issuance amount
 - o Type of debt instrument
 - o Listing of all revenues pledged to finance debt service by instrument
 - o Listing of the annual payment amounts
- Projected budget report including at a minimum:
 - o Current fiscal year
 - o Projection for the immediately following fiscal year
 - o Revenues and expenditures as well as an explanation of assumptions

These documents are to be made available for public viewings either in the municipality's clerk's office or posted for public internet access. In addition, all of the above documents must be submitted to the Department of Treasury. The accountability and transparency requirements apply to ALL eligible cities, villages, townships, and counties. The Department of Treasury will post and distribute to all eligible local units the detailed guidance by October 1.

The dashboard will now be due December 1 (which is a change from the October 1 deadline under EVIP). Therefore, the October payment will be made to all eligible local units (under EVIP, local units were only eligible if they certified by October 1). Under CVTRS, if a local unit does not certify by December 1, it will forfeit the December payment. By certifying by the first day of any payment month subsequent to December, a local unit can qualify for that month's payment.

Personal Property Tax

Significant personal property tax legislation has recently passed. Key provisions of the new acts include:

- I. In August 2014, Michigan voters overwhelmingly approved Proposal 1. As a result, there will be a shift in use tax dollars to create a replacement fund. The eligible manufacturing exemption described below will occur, and the \$40,000 Small Taxpayer Exemption under PA 48 of 2012 will be effective for 2014 and subsequent tax years.

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2. The much-talked-about local Essential Services Assessment (ESA) will be replaced with a State-assessed ESA, which is actually a tax but is being referred to as an assessment simply so that it is recognized as the substitute for the local ESA.
3. The new bills increase the reimbursement to local units for lost personal property tax revenue to an amount stated as 100 percent replacement.

Two key provisions under the previous personal property tax reform legislation (PA 408 of 2012) remain. Businesses will benefit from the following provisions:

1. Under PA 408 of 2012, businesses with less than \$40,000 of combined industrial and commercial personal property TV (\$80,000 true cash value) would not have to file PPT returns or pay any personal property tax. This provision remains unchanged in these new bills. This exemption begins with the 2014 tax year (December 31, 2013 assessments).
2. "Eligible Manufacturing" property would be exempt from PPT. This would be phased in beginning in 2016 (December 31, 2015 assessment date), with the following provisions:
 - a. Any property purchased subsequent to December 31, 2012 would be exempt immediately effective in 2016.
 - b. Property purchased prior to December 31, 2012 would be reduced to zero by its 10th year of existence (should take nine years).

Determining the Amount of Community Loss:

Communities will first need to calculate their losses. Losses are classified as either debt loss or non-debt loss, as follows:

- **Debt Loss** - Debt loss is defined as the amount of ad valorem and dedicated taxes that go toward debt that are lost as a result of the personal property tax exemption. During FY 2014-2015 and 2015-2016, revenue distributed by the newly created Local Community Stabilization Authority (LCSA) would equal either a community's debt loss or, in the case of a TIF, the small taxpayer loss. Through the 2015-2016 fiscal year, the losses are limited to the impact of the \$40,000 small business exemption. When the phase-out of Eligible Manufacturing property would begin to occur when tax bills go out in 2016, the debt loss (and corresponding reimbursement) will increase.
- **Non-debt Loss** - Non-debt loss is calculated using the lowest rate of each individual millage levied in the period between 2012 and the year immediately preceding the current year. This will exclude debt millage. The department will compute the loss by comparing the current year taxable value of commercial and industrial property to the taxable value that existed at December 31, 2012 (2013 tax year). In 2016, cities will be reimbursed for non-debt loss for 2014 and 2015 related to the small taxpayer exemption loss. This is for cities only. For 2014 and 2015, townships will be getting reimbursed for the debt loss related to the small business exemption, but not the other losses created by the small business exemption. Starting in 2016, all municipalities are reimbursed for non-debt loss.

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Reimbursement Mechanisms:

Beginning in 2015-2016, the LCSA would reimburse local units. Reimbursements to communities for the losses comes from two funding sources:

- **Use Tax Shift** - A portion of use tax will shift to the LCSA.
- **Essential Services Reimbursement** - Beginning in 2015-2016, the LCSA would receive a portion of the use tax as well as the full Essential Services Assessments in which to reimburse local units. This assessment is set at a prescribed millage rate based on the acquisition cost of property (depreciation will no longer apply). The rate is set at 2.4 mills for a property's first five years; then 1.25 mills for the next five; then 0.9 mills thereafter. Essential services are defined as ambulance, fire, and police services as well as jail operations. This includes the cost of related pension funding.

The losses described by the bill are to be paid in order of this priority: school debt; Intermediate School District losses; school operations; government essential services; debt and TIFA forgone increases; and all other reimbursements (defined below). In theory, if there is not enough money available, the lower priority items may not be fully reimbursed. However, the department has indicated that they expect the fund to have enough to cover all reimbursements.

All other reimbursements - These reimbursements come from the use tax and would also begin in 2015-2016 and initially be proportional to each local unit's share of total "qualified losses", taking into account the losses of all municipalities. Over time, the reimbursement will shift to be based on each entity's share of eligible manufacturing personal property (based on the amount used in the ESA calculation above). Beginning in FY 2017-2018, 5 percent of the revenue would be distributed proportionally based on each local unit's share of eligible manufacturing personal property. The 5 percent portion would increase in 5 percent increments in each subsequent year. By FY 2036-2037, all revenue in the last category of reimbursements would be distributed based on the local unit's share of eligible manufacturing personal property. In short, in the beginning, the reimbursement is closely tied to the amount of lost personal property taxes, but over time, the community's reimbursement will be tied to the level of eligible manufacturing personal property.

Retro-Pay Prohibition - Proposed Changes

Public Act 54 of 2011, which was signed by the governor on June 7, 2011, prohibits retroactive pay on an expired contract and calls for employees working under an expired agreement to bear the cost of any increased healthcare costs until a new contract is in effect. During that period, the public employer is authorized to make payroll deductions necessary to pay the increased cost of maintaining those benefits.

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The Legislature has been working over the past two years to pass a bill to amend PA 54 of 2011 to allow those who are eligible to negotiate contracts under PA 312 of 1969 to be exempt from PA 54. HB 5097 of 2013, which has now been signed into law by the governor as PA 301 of 2014, provides for exceptions to the retro-pay prohibition for public safety personnel that are subject to compulsory arbitration of labor disputes under PA 312 of 1969. The passing of this legislation would mean that police, fire, and emergency medical personnel would be eligible to receive retroactive increases in compensation (this includes wage or benefit increases and step increases) that cover the period after a bargaining agreement expires and before a new agreement is in place if those higher benefit levels are a result of arbitration under PA 312 or included in a negotiated bargaining agreement after expiration of their collective bargaining agreement. In addition, these employees would only be required to pay increases in insurance benefits after a collective bargaining agreement expired and before a new agreement is in place that would not exceed the amount of the employee's share under the Publicly Funded Health Insurance Contribution Act.

Michigan Qualifying Statement Revisions and Changes in Filing Process

Bulletin 6 was issued by the State Department of Treasury and was effective beginning May 1, 2013. The bulletin details out the revisions made to the form, changes in the electronic filing process, and provides information on the new process to submit a reconsideration request.

The Qualifying Statement is now Form 5047. The new form and link to the online filing are available at: www.michigan.gov/municipalfinance. You can also find Bulletin 6 by following this same link.

Several minor changes have been made to the form including the following: additional question asking for the municipality's six-digit municode, information buttons to provide added instruction, and elimination of the requirement to include SEV and population. In addition, changes were made to help ease the completion of the form such as the elimination of certain questions which were duplicative of information that the Department of Treasury already had at its disposal (i.e., audit filing date) as well as separating out compound questions to ease the process of responding to them.

The more significant change, however, is with the electronic filing process. Since May 1, 2013, there is now only one way in which a Qualifying Statement can be submitted:

1. The form is now a PDF that can be downloaded and saved. The form is fillable allowing preparers to type in responses and save the form with answers intact.
2. The PDF will be uploaded via the Department of Treasury website. The upload page is: www.michigan.gov/municipalfinance. Once you are on the webpage, choose the Online Qualifying Statement link.
3. The State has a set naming convention that should be used for each uploaded file. The file should be named as follows: municipality's six-digit municode + fiscal year + the words "QStmt" (example: 7830402012QStmt). Please note, the system will only accept ONE Qualifying Statement per fiscal year per municipality.

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4. Municipalities will NOT be able to use the same username and password that they used for filings prior to May 1, 2013. The State has directed each municipality to call the Local Audit and Finance Division at 517.373.3227 to obtain a new username and password.

The Bulletin also allows the Qualifying Statement to be filed by an individual other than the Chief Administrative Officer (CAO) as long as the CAO is made aware and takes full responsibility for the filing. The filer will be asked to indicate whether they are the CAO or the designee at the time the Qualifying Statement is filed.

EVIP-like Requirements Tied to Act 51 Monies (Public Act 506 of 2012)

A new reporting requirement by MDOT that was originally due each September 30, starting in 2014, has been delayed. Senate Bill 882 passed and has been sent to the governor for signature and will delay implementation until September 30, 2015. This requirement is a result of Public Act 506 of 2012 which places EVIP-like limitations on pension and healthcare benefits paid to transportation employees. For the purposes of this Act, "transportation employee" means an employee paid in whole or in part through Act 51 revenues or who is engaged in work funded through Act 51 revenues.

The act requires local units receiving Act 51 money for the construction or maintenance of roads to comply with one of the following conditions by September 30, 2015:

- I. Develop and publicize a transportation employee compensation plan that the local agency intends to implement with any new, modified, or extended employment contracts or agreements. This compensation plan must include all of the following:
 - For new employee hires, the employer contribution toward retirement plans must be capped at 10 percent of base salary.
 - Defined benefit pension plans may use a maximum multiplier of 1.5 percent of final average compensation if postemployment healthcare is provided and 2.25 percent if postemployment healthcare is not provided.
 - For defined benefit pension plans, the final average compensation must be calculated using a minimum of three years of compensation and must not include more than 240 hours of paid leave. Overtime hours cannot be used in calculating final average compensation.
 - The employer contribution for health care coverage for new employee hires is capped at 80 percent of the employee's premium or must be competitive with the new state preferred provider organization health plan on a per-employee basis.

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2. Comply with Public Act 152 of 2011, which requires public employers to place hard caps on the amounts they contribute toward healthcare costs with an option to elect an 80 percent contribution cap rather than a hard cap. These hard caps are adjusted annually for inflation. The caps in 2012 were \$5,000 for single coverage, \$11,000 for individual and spousal coverage, and \$15,000 for family coverage. See below for a discussion of Senate Bill 542, which proposes changes to the individual and spousal coverage limit from \$11,000 to \$13,455.
3. Certify that the local road agency does not offer medical benefits to its transportation employees or elected public officials.

If a local unit receiving Act 51 money does not certify that it complies with one of the above criteria by September 30 of each year, the Department of Transportation may withhold Act 51 distributions until compliance is established.

Act 506 also requires local road agencies to maintain a searchable website (accessible to the public) that includes the current budget, the number of active transportation employees by job classification and wage rate, a financial performance dashboard, the names and contact information of the governing body, and a copy of the annual certification provided to MDOT.

For communities that are already complying with the requirements of Public Act 152 of 2011, we do not expect this new legislation to have a significant impact on operations since it essentially just creates a new reporting requirement; however, please contact your audit team if you would like to talk through the details of the act and your community's compliance.

Amendments to Public Act 152 of 2011 (Health Care Limitations)

On December 11, 2013, legislation was passed (formerly SB 541-545) in an effort to clarify PA 152 of 2011. These amendments are effective immediately. SB 542 and 543 have perhaps the most direct financial impact on communities.

SB 542: This bill modified the current law which allows employers to opt between a percentage-based cap or a dollar limit (hard cap) on employee health insurance premiums. The bill increases the dollar cap for individual and spouse coverage from the current limit under PA 152 of \$11,000 to \$13,455. This applies for all medical plan coverage years beginning in calendar year 2013 according to the current language. The \$13,455 cap is increased annually for any changes in medical CPI on an annual basis. Please keep in mind that if your coverage year began after January 1, 2013, this could have resulted in an unanticipated additional cost of \$2,455 per employee. Several communities have questioned this aspect but it does not appear to have been addressed in the bill.

Currently, PA 152 excludes elected officials from the number of employees in the dollar cap formula. This would no longer be the case; they would become part of that calculation.

SB 543: This bill applies only to those public employers that adopt the 80/20 percentage-based option. It clarifies that all public employers (excluding the State) have to have support of a 2/3 vote by the governing body prior to the start of each medical benefit plan coverage year. If this does not occur, the public employer would then have to follow the hard cap requirement.

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New Rules Governing Management of Federal Programs

In December 2013, the Office of Management and Budget (OMB) issued long-awaited reforms to the compliance requirements that must be followed by non-federal entities receiving federal funding. All entities receiving federal dollars will need to understand the changes made as a result of these reforms and may be required to make some changes to their internal procedures, processes, and controls.

These reforms impact three key areas of federal grants management:

1. **Audit Requirements** - For fiscal years beginning on or after January 1, 2015, the threshold for obtaining a federal awards audit will increase from the current threshold of \$500,000 of annual federal spending to \$750,000. There will also be significant changes to the criteria for qualifying as a low-risk auditee and a reduction in the number of major programs required to be tested for some clients.
2. **Cost Principles** - Effective December 26, 2014, the grant reforms related to cost principles go into effect. Not only were certain changes made to allowable costs under this new guidance, but there were significant changes in the area of time and effort reporting and indirect costs.
3. **Administrative Requirements** - Also effective December 26, 2014, non-federal entities receiving federal funding must adhere to new rules related to administering federal awards. Most notably, these requirements may impact the City's procurement systems, including maintaining written conflict of interest policies and disclosures.

These revisions are clearly the most significant change to occur to federal grants management in recent history. Entities receiving federal funding will need to carefully digest these changes. Plante & Moran, PLLC has been on the cutting edge of these reforms, offering our clients free webinars, checklists, and other tools to aid in implementation. The City will need to ensure that the implementation of the new regulations occurs in a timely and complete manner. Plante & Moran, PLLC has many experts in this area and welcomes any questions or needs you may have in this area.

New Pension Standards

Beginning with the City's June 30, 2014 year end, two new accounting standards issued by the Governmental Accounting Standards Board (GASB) will significantly impact the City's financial statements. GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, significantly revise the current accounting and reporting requirements for pensions, both from an employer perspective as well as from a plan perspective.

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Employers providing defined benefit pensions to their employees must now recognize their unfunded pension benefit obligation as a liability for the first time, and must more comprehensively and comparably measure the annual costs of pension benefits. The Statements also enhance accountability and transparency through revised and expanded note disclosures and required supplemental information (RSI). As a result of implementing these two new standards, the City's net pension asset will be replaced by a net pension liability, resulting in a significant impact to the City's governmental and business-type activities. In addition, the City will also have to determine if the annual required contributions should be calculated using the assumption stipulated by GASB Statement No. 67 or if the actuary should continue to calculate the funding requirements using the same assumptions used in recent years.

Significant coordination between the City, the actuary, and Plante & Moran, PLLC will be required in order to implement these pronouncements effectively. GASB Statement No. 67 was required to be adopted for the City's June 30, 2014 year end and GASB Statement No. 68 one year later. We are happy to work with the City over the next two years to ensure smooth implementations of the new standards. We also encourage City personnel to view the free webinars available on Plante & Moran, PLLC's website, if you have not already done so.

Potential Change in Audited Financial Statement Due Date

Senate Bill 949 of 2014 was recently introduced. Among other things, the bill changes the due date for audits.

- The audit deadline would be moved to 150 days from 180 days (effective for fiscal years ending after June 30, 2014).
- If the deadline cannot be met, the State can move in and either perform or contract for and charge the local unit for the audit services.
- There would be a requirement that budgets conform to the Uniform Chart of Accounts.
- The biennial audit exception for units under 4,000 population would be removed.
- Very specific language is added to say a unit cannot adopt or operate under a deficit budget, nor incur an operating deficit. If a unit is operating under a deficit, the State is to be notified. In that situation, a deficit elimination plan is due to the State within 90 days. Failure to comply will allow the State to withhold state funds as is necessary to gain compliance.