

# **City of Westland, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2013**

**City of Westland, Michigan**  
**Financial Report**  
**June 30, 2013**

Mayor William R. Wild

**City Council**

James Godbout, President  
Adam Hammons, President Pro Tem  
Christine Cicirelli-Bryant  
Michael Kehrer  
Bill Johnson  
Meriem Kadi  
Dewey Reeves

**City Administration**

Deputy Mayor	Jade Smith
CATV/Community Relations	Craig Welkenbach
City Assessor	Aaron Powers
City Clerk	Eileen DeHart
Community Development Programs	Joanne Campbell
Computer Information Systems Director	Daniel Bourdeau
Controller	Devin Adams
Economic Development Director	Lori Fodale
Finance Director	Steven J. Smith
Fire Chief	Michael J. Reddy
Law	Jim Fausone
Personnel Director	Cindy King
Police Chief	Jeff Jedrusik
Public Service	Kevin L. Buford
Planning/Building	Bruce Thompson
Senior Resources Director	Barbara Marcum
Water and Sewer Superintendent	Ben McCusker
Budget Director	Thelma Kubitskey

# **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, 2013 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.

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

To the City Council  
City of Westland, Michigan

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, 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, 2013 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 \$39,300,000 (representing approximately 28 percent of net position) at June 30, 2013 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.

### ***Other Matters***

#### *Required Supplemental Information*

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

#### *Other Information*

Our audit was conducted for the purpose of forming 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.

To the City Council  
City of Westland, Michigan

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 9, 2013 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 City of Westland, Michigan's internal control over financial reporting and compliance.

*Flente & Moran, PLLC*

December 9, 2013

# **City of Westland, Michigan**

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## **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, 2013 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, 2013:

- Although taxable value again decreased in the year, tax revenue, our largest revenue source, increased more than \$1,000,000 from the previous fiscal year. This was mainly due to the additional library millage in the current year, increasing the mills levied for the library from .9477 in the previous fiscal year to 1.9377 mills in the current fiscal year.
- State-shared revenue from the State of Michigan, our second largest revenue source, increased by approximately \$200,000 from the previous fiscal year. Revenue from this source has only increased one other time in the previous 10 years. The City complied with all three requirements of the States' Economic Vitality Incentive Program (EVIP) and received \$1,252,157 in what was formerly known as statutory revenue sharing.
- Court revenue increased approximately \$950,000 from the previous year. This is the first year since fiscal year ended June 30, 2010 that the Court has had an increase in revenue.
- The City continues to utilize grant money, where available, to help fund programs and equipment purchases. The police department received several grants from the Justice Department for needed capital purchases. The fire department was awarded a safer grant in the prior year for \$1.8 million for two years which allowed the department to hire nine new firefighters. The City is looking to extend this grant.
- The City entered into two new installment purchase agreements during the year for the purchase of the new city hall and a new fire truck in the amounts of \$1,600,000 and \$259,214, respectively.
- The total net position related to the City's governmental activities decreased by approximately \$11.3 million. In addition, fund balances for the governmental funds decreased by approximately \$2.4 million during the year. The General Fund unassigned fund balance increased by \$711,000.

### **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	
	2013	2012	2013	2012	2013	2012
<b>Assets</b>						
Current assets	\$ 20,098,191	\$ 21,461,025	\$ 16,145,886	\$ 15,322,903	\$ 36,244,077	\$ 36,783,928
Noncurrent assets	217,964,281	222,180,437	75,409,727	76,525,129	293,374,008	298,705,566
Total assets	238,062,472	243,641,462	91,555,613	91,848,032	329,618,085	335,489,494
<b>Liabilities</b>						
Current liabilities	8,255,132	9,965,143	3,526,329	8,334,166	11,781,461	18,299,309
Long-term liabilities	49,313,268	41,841,594	11,390,535	7,607,333	60,703,803	49,448,927
Total liabilities	57,568,400	51,806,737	14,916,864	15,941,499	72,485,264	67,748,236
<b>Net Position</b>						
Net investment in capital assets	209,533,286	214,705,156	70,081,953	67,002,318	279,615,239	281,707,474
Restricted	10,329,589	12,020,456	272,500	320,000	10,602,089	12,340,456
Unrestricted (deficit)	(39,368,803)	(34,890,887)	6,284,296	8,584,215	(33,084,507)	(26,306,672)
Total net position	<b>\$ 180,494,072</b>	<b>\$ 191,834,725</b>	<b>\$ 76,638,749</b>	<b>\$ 75,906,533</b>	<b>\$ 257,132,821</b>	<b>\$ 267,741,258</b>

The City's combined net position decreased 4.0 percent from a year ago - decreasing from \$267,741,258 to \$257,132,821. This is generally a result of depreciation of the City's capital assets. For the year ended June 30, 2013, depreciation expense was approximately \$10,030,000.

Unrestricted net position in governmental activities - the part of net position that can be used to finance operations - is currently at a deficit of \$39,368,803 for governmental activities. This is generally a result of the accrual of the compensated absences of City employees and other postemployment benefits, which will be paid from future revenue sources. This accrual is approximately \$42,800,000.

# 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	
	2013	2012	2013	2012	2013	2012
<b>Net Position - Beginning of year</b>	\$ 191,834,725	\$ 209,235,852	\$ 75,906,533	\$ 76,676,828	\$ 267,741,258	\$ 285,912,680
<b>Revenue</b>						
Program revenue:						
Charges for services	19,727,110	17,362,378	26,918,046	25,952,150	46,645,156	43,314,528
Operating grants and contributions	9,225,664	8,494,357	-	-	9,225,664	8,494,357
Capital grants and contributions	260,511	1,216,071	77,782	47,896	338,293	1,263,967
General revenue:						
Property taxes	25,636,248	25,451,435	-	-	25,636,248	25,451,435
State-shared revenue	7,407,491	7,199,162	-	-	7,407,491	7,199,162
Interest	111,208	104,236	21,544	19,631	132,752	123,867
Gain on sale of fixed assets	2,485	2,000	-	-	2,485	2,000
Other revenue	238,932	167,163	-	-	238,932	167,163
Total revenue	62,609,649	59,996,802	27,017,372	26,019,677	89,627,021	86,016,479
<b>Program Expenses</b>						
General government	14,774,698	14,585,138	-	-	14,774,698	14,585,138
Public safety	37,066,091	37,784,653	-	-	37,066,091	37,784,653
Public works	15,116,767	17,885,486	-	-	15,116,767	17,885,486
Community and economic development	2,409,377	1,891,040	-	-	2,409,377	1,891,040
Cultural and recreation	4,407,122	4,938,180	-	-	4,407,122	4,938,180
Interest on long-term debt	176,247	313,432	-	-	176,247	313,432
Water and sewer	-	-	24,785,156	23,289,972	24,785,156	23,289,972
Total program expenses	73,950,302	77,397,929	24,785,156	23,289,972	98,735,458	100,687,901
<b>Extraordinary Items</b>						
	-	-	(1,500,000)	(3,500,000)	(1,500,000)	(3,500,000)
<b>Change in Net Position</b>	<b>(11,340,653)</b>	<b>(17,401,127)</b>	<b>732,216</b>	<b>(770,295)</b>	<b>(10,608,437)</b>	<b>(18,171,422)</b>
<b>Net Position - End of year</b>	<b>\$ 180,494,072</b>	<b>\$ 191,834,725</b>	<b>\$ 76,638,749</b>	<b>\$ 75,906,533</b>	<b>\$ 257,132,821</b>	<b>\$ 267,741,258</b>

### Governmental Activities

The City's total governmental revenue increased by approximately \$2,600,000. The increase, which represents approximately 4.4 percent, was primarily due to an increase in tax revenue and charges for services.

Expenses decreased by approximately \$3,450,000 during the year. This was mainly due to the decreased road construction including the completion of the Glenwood Road project early during the year.

# **City of Westland, Michigan**

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## **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 March 1, 2012, the City Council raised the fixed cost to \$24.50 per bill and raised water and sewer rates by 1.67 percent and 9.02 percent, respectively. On March 1, 2013, the City Council switched from a flat rate fixed cost of \$24.50 per bill for all meters to a variable rate fixed cost ranging from \$27.00 to \$3,000.00 per bill dependent on meter size. Additionally, water and sewer rates increased by 1.92 percent and 6.00 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 fund for 2013 is the General 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 \$29.8 million in 2013. 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 \$7,700,000. This was mainly due to the increase of 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. Several of the amendments were to account for additional funding into the City's self-insurance program as well as additional funding to hire part-time public service aids to assist the police department. 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 \$10,990,874 to \$8,639,328.

As of June 30, 2013, the City had a total of approximately \$294.0 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**

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## **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, 2013:

- \$2,175,000 of land and buildings in relation to the purchase of the new city hall
- \$275,000 of land in relation to the purchase of the new fire station
- \$500,000 of other tools and equipment related to the purchase of rescue vehicles
- \$600,000 of other tools and equipment related to the purchase of police and fire equipment
- 300,000 of other tools and equipment related to the purchase of library collection
- 550,000 of other tools and equipment related to the purchase of computer equipment and software
- \$250,000 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, 2014 takes into consideration a continued slow-moving economic climate. The taxable values of both residential and commercial property are expected to decline again for the tax year 2014; this has been a trend over the last several years. We will continue to see Michigan tax tribunal cases resolved with additional negative impacts on existing taxable values. Many of the tribunal cases are located in the TIFA and DDA districts which will decrease the tax capture they receive. These reductions will also continue to affect the General Fund in a negative manner. The state-shared revenue will be monitored closely as the State of Michigan continues to redefine the way the statutory revenue is distributed. Moving forward, the City will comply with the three components of the State of Michigan requirements for receiving the Economic Vitality Incentive Program (EVIP) funds. This will allow the City to receive its portion of the statutory revenue that the State had previously eliminated. 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**

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

As discussed above, the fiscal year ended June 30, 2014 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, 2013

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 11,760,331	\$ 4,174,062	\$ 15,934,393	\$ 1,609,057
Investments (Note 3)	-	-	-	184,948
Receivables - Net (Note 4)	7,555,729	12,049,967	19,605,696	182,932
Due from component units	515,396	-	515,396	-
Due from primary government	-	-	-	4,687
Internal balances	250,190	(250,190)	-	-
Inventories	10,588	143,061	153,649	-
Prepaid costs and other assets	5,957	28,986	34,943	-
Restricted assets (Note 6)	-	272,500	272,500	-
Land held for resale	985,234	-	985,234	-
Capital assets - Net (Note 5):				
Not being depreciated	3,335,379	-	3,335,379	90,000
Depreciable - Net	213,643,668	75,137,227	288,780,895	1,788,391
Total assets	238,062,472	91,555,613	329,618,085	3,860,015
<b>Liabilities</b>				
Accounts payable	1,696,086	1,925,606	3,621,692	219,473
Due to component units	4,687	-	4,687	-
Due to primary government	-	-	-	515,396
Deposits	-	392,127	392,127	-
Accrued and other liabilities	2,276,809	124,005	2,400,814	169,564
Noncurrent liabilities:				
Due within one year:				
Compensated absences (Note 8)	2,489,057	225,195	2,714,252	-
Provision for claims (Note 10)	552,451	209,788	762,239	-
Current portion of long-term debt (Note 8)	1,236,042	649,608	1,885,650	-
Due in more than one year:				
Compensated absences (Note 8)	5,651,842	-	5,651,842	-
Provision for claims (Note 10)	2,772,993	3,431,662	6,204,655	-
Net other postemployment benefits liability (Note 17)	34,678,714	3,553,207	38,231,921	-
Long-term debt - Net of current portion (Note 8)	6,209,719	4,405,666	10,615,385	-
Total liabilities	57,568,400	14,916,864	72,485,264	904,433
<b>Net Position</b>				
Net investment in capital assets	209,533,286	70,081,953	279,615,239	1,878,391
Restricted for:				
Retirement system	2,509,000	-	2,509,000	-
Road improvements	3,671,435	-	3,671,435	-
Library operations	2,128,108	-	2,128,108	-
Other (Note 14)	2,021,046	272,500	2,293,546	-
Unrestricted	(39,368,803)	6,284,296	(33,084,507)	1,077,191
Total net position	\$ 180,494,072	\$ 76,638,749	\$ 257,132,821	\$ 2,955,582

# City of Westland, Michigan

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	Program Revenue				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Functions/Programs</b>					
Primary government:					
Governmental activities:					
General government	\$ 14,774,698	\$ 8,210,864	\$ -	\$ -	
Public safety	37,066,091	8,129,913	1,603,304	108,451	
Public works	15,116,767	1,273,144	4,712,139	152,060	
Community and economic development	2,409,377	-	1,604,684	-	
Cultural and recreation	4,407,122	2,113,189	1,305,537	-	
Interest on long-term debt	176,247	-	-	-	
Total governmental activities	73,950,302	19,727,110	9,225,664	260,511	
Business-type activities - Water and sewer	24,785,156	26,918,046	-	77,782	
Total primary government	<b>\$ 98,735,458</b>	<b>\$ 46,645,156</b>	<b>\$ 9,225,664</b>	<b>\$ 338,293</b>	
Component units	<b>\$ 2,150,780</b>	<b>\$ -</b>	<b>\$ 16,895</b>	<b>\$ -</b>	

## General revenue:

Property taxes  
 State-shared revenue  
 Interest and sundry  
 Other income  
 Gain on sale of fixed assets

Total general revenue

## Extraordinary Items (Note 9)

## Change in Net Position

**Net Position** - Beginning of year

**Net Position** - End of year

**Statement of Activities**  
**Year Ended June 30, 2013**

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (6,563,834)	\$ (6,563,834)	\$ -	\$ -
(27,224,423)	(27,224,423)		-
(8,979,424)	(8,979,424)		-
(804,693)	(804,693)		-
(988,396)	(988,396)		-
(176,247)	(176,247)		-
(44,737,017)	(44,737,017)		-
-	2,210,672	2,210,672	-
(44,737,017)	2,210,672	(42,526,345)	-
-	-	-	(2,133,885)
25,636,248	-	25,636,248	2,448,324
7,407,491	-	7,407,491	-
111,208	21,544	132,752	4,820
238,932	-	238,932	3,500
2,485	-	2,485	-
33,396,364	21,544	33,417,908	2,456,644
-	(1,500,000)	(1,500,000)	-
(11,340,653)	732,216	(10,608,437)	322,759
191,834,725	75,906,533	267,741,258	2,632,823
<b>\$ 180,494,072</b>	<b>\$ 76,638,749</b>	<b>\$ 257,132,821</b>	<b>\$ 2,955,582</b>

# City of Westland, Michigan

## Governmental Funds Balance Sheet June 30, 2013

	General Fund	Nonmajor Funds	Total
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 4,916,474	\$ 6,843,857	\$ 11,760,331
Receivables - Net (Note 4)	6,354,473	1,201,256	7,555,729
Due from component units	515,396	-	515,396
Due from other funds (Note 7)	2,247,067	308,759	2,555,826
Inventory	10,588	-	10,588
Prepaid costs and other assets	-	5,957	5,957
Land held for resale	-	985,234	985,234
<b>Total assets</b>	<b>\$ 14,043,998</b>	<b>\$ 9,345,063</b>	<b>\$ 23,389,061</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 1,164,332	\$ 531,754	\$ 1,696,086
Due to component units	4,687	-	4,687
Due to other funds	439,170	1,866,466	2,305,636
Accrued and other liabilities	1,910,897	41,412	1,952,309
Deferred revenue (Note 4)	1,667,870	208,309	1,876,179
<b>Total liabilities</b>	<b>5,186,956</b>	<b>2,647,941</b>	<b>7,834,897</b>
<b>Fund Balances</b>			
Nonspendable - Prepays/Inventory	10,588	5,957	16,545
Restricted:			
Retirement system	2,509,000	-	2,509,000
Road improvements	-	3,543,406	3,543,406
Cable grant	70,920	-	70,920
Community development	-	985,234	985,234
Parks and recreation	388,900	-	388,900
Drug forfeiture activities	-	14,549	14,549
Library	-	2,041,871	2,041,871
Street lighting	-	105,078	105,078
800 MHZ Fund	-	1,027	1,027
Metroact Broadband	235,403	-	235,403
Assigned - Computer and energy improvements	80,000	-	80,000
Unassigned	5,562,231	-	5,562,231
<b>Total fund balances</b>	<b>8,857,042</b>	<b>6,697,122</b>	<b>15,554,164</b>
<b>Total liabilities and fund balances</b>	<b>\$ 14,043,998</b>	<b>\$ 9,345,063</b>	<b>\$ 23,389,061</b>

# **City of Westland, Michigan**

## **Governmental Funds** **Reconciliation of the Balance Sheet to the Statement of** **Net Position** **June 30, 2013**

**Fund Balance Reported in Governmental Funds** \$ 15,554,164

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	216,979,047
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	(3,325,444)
Deferred revenue is reported in the governmental funds, but not in the government-wide statements	1,876,179
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(7,445,761)
Accrued interest on long-term liabilities is not reported in the funds	(44,500)
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	(8,140,899)
Net other postemployment benefit obligation is not recorded as a liability in the funds	(34,678,714)
Net pollution remediation liability is not recorded as a liability in the funds	<u>(280,000)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 180,494,072</u></b>

# City of Westland, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2013

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>			
Property taxes	\$ 21,393,524	\$ 2,779,846	\$ 24,173,370
Licenses and permits	1,241,256	-	1,241,256
Federal sources	776,054	1,713,818	2,489,872
State sources	9,113,908	5,088,242	14,202,150
Charges for services	7,035,859	-	7,035,859
Court fines and fees	4,757,448	-	4,757,448
Interest income	93,319	17,568	110,887
Other revenue:			
Special assessments	-	1,531,855	1,531,855
Local sources	2,147,452	329,122	2,476,574
Cable franchise fees	1,634,781	-	1,634,781
Refund of captured property taxes	1,263,164	199,739	1,462,903
Other income	3,541,600	117,730	3,659,330
Total revenue	52,998,365	11,777,920	64,776,285
<b>Expenditures</b>			
Current:			
General government	16,328,214	232,342	16,560,556
Street lighting	2,396	1,535,732	1,538,128
Public safety	33,025,200	396,037	33,421,237
Highway, streets, and drains	-	3,452,758	3,452,758
Sanitation	4,368,287	-	4,368,287
Community and economic development	875,867	1,623,498	2,499,365
Cultural and recreation	1,870,114	2,468,963	4,339,077
Debt service	204,213	1,184,137	1,388,350
Total expenditures	56,674,291	10,893,467	67,567,758
<b>Excess of Revenue (Under) Over Expenditures</b>			
	(3,675,926)	884,453	(2,791,473)
<b>Other Financing Sources (Uses)</b>			
Face value of debt issue	1,859,214	-	1,859,214
Proceeds from sale of capital assets	2,485	-	2,485
Transfers in (Note 7)	22,000	2,227,209	2,249,209
Transfers out (Note 7)	(635,523)	(1,613,686)	(2,249,209)
Total other financing sources	1,248,176	613,523	1,861,699
<b>Net Change in Fund Balances</b>			
Fund Balances - Beginning of year	(2,427,750)	1,497,976	(929,774)
Fund Balances - End of year	\$ 8,857,042	\$ 6,697,122	\$ 15,554,164

# **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, 2013**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ (929,774)</b>
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	(4,428,110)
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	701,268
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	(34,077)
Changes in liabilities incurred but not reported are not recorded in the governmental funds	(190,887)
Repayment of debt principal is an expenditure in the governmental funds, but not in the government-wide statements (where it reduces long-term debt)	1,185,454
Proceeds from long-term debt provide current financial resources to governmental funds, but debt increases long-term liabilities in the statement of net position	(1,859,214)
Change in accrued interest on long-term debt is not recorded in the governmental funds	(22,690)
Changes to investment in joint ventures are not recorded in the governmental funds, but are recorded in the statement of activities	74,614
Change in other postemployment benefit liability is not recorded in the governmental funds	(6,381,467)
Change in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities	544,230
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ (11,340,653)</u></b>

# City of Westland, Michigan

## Proprietary Funds Statement of Net Position June 30, 2013

	Enterprise Fund - Water and Sewer
<b>Assets</b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 4,174,062
Receivables - Net	12,049,967
Due from other funds	9,683
Inventories	143,061
Prepaid costs and other assets	<u>28,986</u>
<b>Total current assets</b>	<b>16,405,759</b>
<b>Noncurrent assets:</b>	
Restricted assets (Note 6)	272,500
Capital assets - Net (Note 5)	<u>75,137,227</u>
<b>Total noncurrent assets</b>	<b><u>75,409,727</u></b>
<b>Total assets</b>	<b>91,815,486</b>
<b>Liabilities</b>	
<b>Current liabilities:</b>	
Accounts payable	1,925,606
Due to other funds	259,873
Escrow deposits and other	392,127
Accrued and other liabilities	124,005
Compensated absences	225,195
Provision for claims (Note 10)	209,788
Current portion of long-term debt	<u>649,608</u>
<b>Total current liabilities</b>	<b>3,786,202</b>
<b>Noncurrent liabilities:</b>	
Provision for claims (Notes 9, 10, and 13)	3,431,662
Net other postemployment benefits liability (Note 17)	3,553,207
Long-term debt - Net of current portion	<u>4,405,666</u>
<b>Total noncurrent liabilities</b>	<b><u>11,390,535</u></b>
<b>Total liabilities</b>	<b><u>15,176,737</u></b>
<b>Net Position</b>	
Net investment in capital assets	70,081,953
Restricted (Note 14)	272,500
Unrestricted	<u>6,284,296</u>
<b>Total net position</b>	<b><u>\$ 76,638,749</u></b>

# City of Westland, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2013

	<u>Enterprise Fund - Water and Sewer</u>
<b>Operating Revenue</b>	
Water and sewer	\$ 25,463,624
Penalties	1,361,239
Other	<u>93,183</u>
	26,918,046
<b>Operating Expenses</b>	
Cost of water	4,929,705
Cost of sewage disposal	8,843,858
Sundry	386,622
Wage and fringe benefits	4,327,727
Contracted services	3,570,853
Operating supplies	253,636
Repairs and maintenance	642,219
Rent, insurance claims, and other	52,742
Depreciation	<u>1,597,590</u>
	24,604,952
<b>Operating Income</b>	2,313,094
<b>Nonoperating Revenue (Expenses)</b>	
Interest income	21,544
Interest expense	<u>(180,204)</u>
	(158,660)
<b>Income - Before contributions</b>	2,154,434
<b>Capital Contributions - Lines donated by developers</b>	77,782
<b>Extraordinary Items (Note 9)</b>	<u>(1,500,000)</u>
<b>Change in Net Position</b>	732,216
<b>Net Position - Beginning of year</b>	<u>75,906,533</u>
<b>Net Position - End of year</b>	<u><u>\$ 76,638,749</u></u>

# City of Westland, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2013

	Enterprise Fund - Water and Sewer
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 27,117,604
Payments to suppliers	(18,537,558)
Payments to employees	(3,227,702)
Internal activity - Payments from other funds	(868,885)
Claims paid	<u>(2,000,000)</u>
Net cash provided by operating activities	2,483,459
<b>Cash Flows from Capital and Related Financing Activities</b>	
Purchase of capital assets	(451,906)
Principal and interest paid on long-term debt	<u>(839,192)</u>
Net cash used in capital and related financing activities	(1,291,098)
<b>Cash Flows from Investing Activities - Interest received on investments and other assets</b>	<u>21,544</u>
<b>Net Increase in Cash and Cash Equivalents</b>	1,213,905
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>3,232,657</u>
<b>Cash and Cash Equivalents - End of year</b>	<b><u>\$ 4,446,562</u></b>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>	
Cash and cash equivalents	\$ 4,174,062
Restricted assets (Note 6)	<u>272,500</u>
Total cash and cash equivalents	<b><u>\$ 4,446,562</u></b>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>	
Operating income	\$ 2,313,094
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	1,597,590
Changes in assets and liabilities:	
Receivables	199,558
Inventories	(11,326)
Accounts payable	153,403
Due to others	(868,885)
Accrued and other liabilities	<u>(899,975)</u>
Net cash provided by operating activities	<b><u>\$ 2,483,459</u></b>

**Noncash Activities** - During the year ended June 30, 2013, developers donated \$77,782 of water and sewer lines to the City.

# City of Westland, Michigan

## Fiduciary Funds Statement of Net Position June 30, 2013

	Pension Trust	Fund - Police	and Fire	Retirement	Agency Funds
<b>Assets</b>					
Cash and cash equivalents (Note 3)	\$ 128,528	\$ 2,684,151			
Investments (Note 3):					
U.S. government securities	6,032,195				-
Common stock	62,919,050				-
Corporate bonds	16,359,714				-
Real estate	8,566,428				-
Mutual funds	41,729,229				-
Securities lending - Mutual funds	2,912,598				-
Closely held - Equity	6,507,014				-
Accrued interest and other assets	354,153				-
 Total assets	 145,508,909	 <b>\$ 2,684,151</b>			
<b>Liabilities</b>					
Accounts payable	1,029,678	\$ -			
Due to other governmental units	-	955,960			
Accrued and other liabilities	-	1,728,191			
Obligations under securities lending agreements	3,069,323				-
 Total liabilities	 4,099,001	 <b>\$ 2,684,151</b>			
 <b>Net Position Held in Trust for Pension and Other Employee Benefits</b>	 <b>\$ 141,409,908</b>				

# City of Westland, Michigan

## Fiduciary Funds Statement of Changes in Plan Net Position Year Ended June 30, 2013

	Pension Trust Fund - Police and Fire Retirement
<b>Additions</b>	
Investment income (loss):	
Interest and dividends	\$ 3,114,614
Net increase in fair value of investments	8,606,506
Investment-related expenses	<u>(902,403)</u>
Net investment income	10,818,717
Employer contributions - Pension	4,990,887
Employee contributions and service credits	<u>90,439</u>
Total additions	15,900,043
<b>Deductions - Benefit payments</b>	<u>12,513,203</u>
<b>Net Increase</b>	3,386,840
<b>Net Position Held in Trust for Pension and Other Employee Benefits -</b>	
Beginning of year	<u>138,023,068</u>
<b>Net Position Held in Trust for Pension and Other Employee Benefits - End of year</b>	<u><b>\$ 141,409,908</b></u>

# City of Westland, Michigan

## Component Units Statement of Net Position June 30, 2013

	Downtown Development Authority	Economic Development Corporation	Local Development Finance Authority	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Total
<b>Assets</b>						
Cash and cash equivalents (Note 3)	\$ 1,140,236	\$ 4,339	\$ 174,849	\$ 190,217	\$ 99,416	\$ 1,609,057
Investments (Note 3)	-	-	-	184,948	-	184,948
Receivables - Net	16,895	-	-	166,037	-	182,932
Due from primary government	1,053	16	1,428	2,190	-	4,687
Capital assets - Net	<u>1,606,113</u>	-	-	<u>272,278</u>	-	<u>1,878,391</u>
Total assets	2,764,297	4,355	176,277	815,670	99,416	3,860,015
<b>Liabilities</b>						
Accounts payable	75,118	-	19,350	125,005	-	219,473
Due to primary government	673	270	775	439,262	74,416	515,396
Accrued and other liabilities	<u>66,824</u>	-	-	<u>102,740</u>	-	<u>169,564</u>
Total liabilities	<u>142,615</u>	270	20,125	<u>667,007</u>	<u>74,416</u>	<u>904,433</u>
<b>Net Position</b>						
Net investment in capital assets	1,606,113	-	-	272,278	-	1,878,391
Unrestricted	<u>1,015,569</u>	4,085	156,152	(123,615)	25,000	<u>1,077,191</u>
Total net position	<b>\$ 2,621,682</b>	<b>\$ 4,085</b>	<b>\$ 156,152</b>	<b>\$ 148,663</b>	<b>\$ 25,000</b>	<b>\$ 2,955,582</b>

# City of Westland, Michigan

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	Program Revenue			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	
<b>Component Units</b>					
Downtown Development Authority - Operations	\$ 679,990	\$ 16,895	\$ -	\$ (663,095)	
Economic Development Corporation - Operations	270	-	-	-	
Local Development Finance Authority - Operations	327,463	-	-	-	
Tax Increment Finance Authority - Operations	1,068,641	-	-	-	
Brownfield Redevelopment Authority - Operations	74,416	-	-	-	
<b>Total component units</b>	<b>\$ 2,150,780</b>	<b>\$ 16,895</b>	<b>\$ -</b>	<b>(663,095)</b>	
General revenue:					
Property taxes				1,287,297	
Interest income				1,070	
Other income				3,500	
				<b>1,291,867</b>	
<b>Change in Net Position</b>					
<b>Net Position - Beginning of year</b>				<b>1,992,910</b>	
<b>Net Position - End of year</b>				<b>\$ 2,621,682</b>	

**Component Units  
Statement of Activities  
Year Ended June 30, 2013**

<b>Net (Expense) Revenue and Changes in Net Position</b>					
Local					
<b>Economic Development Corporation</b>	<b>Development Finance Authority</b>	<b>Tax Increment Finance Authority</b>	<b>Brownfield Redevelopment Authority</b>	<b>Total</b>	
\$ -	\$ -	\$ -	\$ -	\$ (663,095)	
(270)	-	-	-	(270)	
-	(327,463)	-	-	(327,463)	
-	-	(1,068,641)	-	(1,068,641)	
-	-	-	(74,416)	(74,416)	
(270)	(327,463)	(1,068,641)	(74,416)	(2,133,885)	
-	143,044	918,567	99,416	2,448,324	
16	1,428	2,306	-	4,820	
-	-	-	-	3,500	
16	144,472	920,873	99,416	2,456,644	
(254)	(182,991)	(147,768)	25,000	322,759	
4,339	339,143	296,431	-	2,632,823	
<b>\$ 4,085</b>	<b>\$ 156,152</b>	<b>\$ 148,663</b>	<b>\$ 25,000</b>	<b>\$ 2,955,582</b>	

# **City of Westland, Michigan**

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## **Notes to Financial Statements** **June 30, 2013**

### **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 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**

- a. 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.
- b. 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.

# **City of Westland, Michigan**

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## **Notes to Financial Statements** **June 30, 2013**

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

- c. 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.
- d. 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.

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

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. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

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

# **City of Westland, Michigan**

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## **Notes to Financial Statements** **June 30, 2013**

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

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

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

**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 23 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is collected within 60 days of the end of the current fiscal period.

Property taxes, special assessments, state-shared revenue, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Sales taxes collected and held by the State at year end on behalf of the City also are recognized as revenue. All other revenue items, such as fines and permits, are considered to be available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

# **City of Westland, Michigan**

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## **Notes to Financial Statements** **June 30, 2013**

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

The City reports the following major governmental fund:

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fiduciary activities:

**Fiduciary Funds** - 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 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Amounts reported as program revenue 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. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the City's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the City's policy to spend funds in this order: committed, assigned, and unassigned.

# **City of Westland, Michigan**

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## **Notes to Financial Statements** **June 30, 2013**

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**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.

**Property Taxes** - Property taxes are levied 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 2012 taxable valuation of the City totaled approximately \$1.67 billion, on which ad valorem 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 2.0000 mills for sanitation. The ad valorem taxes levied raised approximately \$10.8 million for City operations, approximately \$3.2 million for operation of the library, approximately \$7.5 million for the Police and Fire Pension Fund, and approximately \$3.3 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.

# City of Westland, Michigan

## Notes to Financial Statements June 30, 2013

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

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

**Restricted Assets** - The 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.

**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 a life of one year or more. 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.

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

Roads and sidewalks	30-40 years
Buildings and improvements	20-40 years
Water and sewer distribution system	5-100 years
Tools and equipment	2-40 years

**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. Under the City's policy, employees earn sick and vacation time based on time of service with the City. All vacation and sick pay is accrued when incurred in the government-wide financial statements. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

# City of Westland, Michigan

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## Notes to Financial Statements June 30, 2013

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

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. The face amount of debt issued is reported as other financing sources in the governmental fund-based statements.

**Pension and Other Postemployment Benefit Costs** - The City offers both pension and retiree healthcare 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.

**Net Position** - In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to incorporate deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. This statement impacted the format and reporting of the balance sheet. The City implemented GASB No. 63 during the year.

Net position is comprised of three categories: (1) net investment in capital assets, (2) restricted, and (3) unrestricted. Each component of net position is reported separately on the statement of net position.

- i. *Net Investment in Capital Assets* - This category consists of capital assets (including restricted capital assets), net of accumulated depreciation and reduced by any outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, and improvements of those assets.
- ii. *Restricted* - This category equals the restricted cash of the City and consists of net assets restricted in their use by (1) external groups such as grantors, creditors, or laws and regulations of other governments or (2) law through constitutional provisions or enabling legislation.
- iii. *Unrestricted* - This category includes all of the remaining net assets that do not meet the definition of the other two categories.

# **City of Westland, Michigan**

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## **Notes to Financial Statements** **June 30, 2013**

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

**Fund Equity** - In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the City Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the City Council.
- **Assigned:** Intent to spend resources on specific purposes expressed by the City Council
- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

**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, expenses, and other changes in net position 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:

# **City of Westland, Michigan**

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## **Notes to Financial Statements** **June 30, 2013**

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

Cumulative shortfall at July 1, 2012	\$ (2,369,261)
Current year permit revenue	1,109,052
Related expenses	<u>883,497</u>
Current year overage	<u>225,555</u>
Cumulative shortfall at June 30, 2013	<u><u>\$ (2,143,706)</u></u>

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

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

The 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 six banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in 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") (see Note 11) 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, 2013, only United States currency was received as collateral. The City then converts that cash received as collateral into other investments.

# **City of Westland, Michigan**

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## **Notes to Financial Statements** **June 30, 2013**

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

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.

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, 2013 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, 2013, 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, 2013 was \$3,069,323 and \$2,981,270, 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 \$19,124,187 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 \$2,339,302 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, the City had no investment securities which were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

# **City of Westland, Michigan**

## **Notes to Financial Statements** **June 30, 2013**

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

#### **Interest Rate Risk**

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

At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity (Years)
<b>Pension funds:</b>		
U.S. Treasury	\$ 2,526,679	20.37
U.S. government agency securities	3,663,180	23.30
Corporate securities	16,202,051	9.92
Component units - U.S. Treasury securities	339,461	3.09

#### **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
<b>Fiduciary funds:</b>			
Corporate securities (pension)	\$ 3,409,246	A	S&P
Corporate securities (pension)	1,193,734	AA	S&P
Corporate securities (pension)	1,674,876	AAA	S&P
Corporate securities (pension)	803,413	B	S&P
Corporate securities (pension)	2,725,790	BB	S&P
Corporate securities (pension)	5,332,528	BBB	S&P
Corporate securities (pension)	1,062,465	NR	S&P
Foreign bonds (pension)	1,236,891	A	S&P
Foreign bonds (pension)	179,840	AA	S&P
Foreign bonds (pension)	143,268	AAA	S&P
Foreign bonds (pension)	335,670	BB	S&P
Foreign bonds (pension)	1,519,628	BBB	S&P
Foreign bonds (pension)	733,707	NR	S&P
U.S. government agency securities (pension)	467,062	AA	S&P
U.S. government agency securities (pension)	5,722,795	NR	S&P

# City of Westland, Michigan

## Notes to Financial Statements June 30, 2013

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

#### 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, 2013, the City had investments in iShares Barclays Aggregate Bond Fund and Loomis Sayles Small Midcap Core Trust comprising 5.92 percent and 5.53 percent of total investments, respectively.

### Note 4 - Receivables

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

	Total					
	General Fund	Nonmajor Funds	Governmental Activities	Business-type Activities	Total Primary Government	Component Units
<b>Receivables:</b>						
Property taxes receivable	\$ 842,691	\$ 107,193	\$ 949,884	\$ 1,366,448	\$ 2,316,332	\$ -
Special assessments	-	122,072	122,072	-	122,072	-
Customer receivables	-	-	-	10,682,220	10,682,220	-
Interest	297,241	-	297,241	1,299	298,540	154,512
Other receivables	419,828	-	419,828	-	419,828	28,420
Due from other governmental units	4,794,713	971,991	5,766,704	-	5,766,704	-
<b>Total receivables</b>	<b>\$ 6,354,473</b>	<b>\$ 1,201,256</b>	<b>\$ 7,555,729</b>	<b>\$ 12,049,967</b>	<b>\$ 19,605,696</b>	<b>\$ 182,932</b>

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

	Revenue Not Available	Revenue Not Earned
General Fund - Personal property tax	\$ 842,691	\$ -
General Fund - CGAP	357,439	-
General Fund - Joint dispatch	230,116	-
General Fund - E-911 wireless revenue	237,624	-
Local Roads Fund - Special assessment revenue	122,072	-
Other nonmajor governmental funds - Library personal property tax	86,237	-
<b>Total</b>	<b>\$ 1,876,179</b>	<b>\$ -</b>

# City of Westland, Michigan

## Notes to Financial Statements June 30, 2013

### Note 5 - Capital Assets

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

	Balance July 1, 2012	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2013
<b>Governmental Activities</b>					
Capital assets not being depreciated:					
Land	\$ 2,340,379	\$ -	\$ 995,000	\$ -	\$ 3,335,379
Construction in progress	1,726,141	(1,726,141)	-	-	-
Subtotal	4,066,520	(1,726,141)	995,000	-	3,335,379
Capital assets being depreciated:					
Roads and sidewalks	742,749,078	1,726,141	36,989	13,213,184	731,299,024
Buildings and improvements	18,122,419	-	651,914	-	18,774,333
Other tools and equipment	25,200,281	-	2,320,452	143,790	27,376,943
Subtotal	786,071,778	1,726,141	3,009,355	13,356,974	777,450,300
Accumulated depreciation:					
Roads and sidewalks	543,850,911	-	6,956,051	13,213,184	537,593,778
Buildings and improvements	6,086,721	-	310,825	-	6,397,546
Other tools and equipment	18,793,509	-	1,165,589	143,790	19,815,308
Subtotal	568,731,141	-	8,432,465	13,356,974	563,806,632
Net capital assets being depreciated	217,340,637	1,726,141	(5,423,110)	-	213,643,668
Net capital assets	\$ 221,407,157	\$ -	\$ (4,428,110)	\$ -	\$ 216,979,047
	Balance July 1, 2012	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2013
<b>Business-type Activities</b>					
Capital assets being depreciated -					
Water and sewer distribution systems	\$ 112,057,497	\$ -	\$ 529,688	\$ 23,411	\$ 112,563,774
Accumulated depreciation -					
Water and sewer distribution systems	35,852,368	-	1,597,590	23,411	37,426,547
Net capital assets	\$ 76,205,129	\$ -	\$ (1,067,902)	\$ -	\$ 75,137,227

# City of Westland, Michigan

## Notes to Financial Statements June 30, 2013

### Note 5 - Capital Assets (Continued)

	Balance July 1, 2012	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2013
<b>Component Units</b>					
Capital assets not being depreciated -					
Land	\$ 90,000	\$ -	\$ -	\$ -	\$ 90,000
Capital assets being depreciated:					
DDA improvements	2,341,493	-	-	-	2,341,493
TIFA improvements	391,958	-	-	-	391,958
Subtotal	2,733,451	-	-	-	2,733,451
Accumulated depreciation:					
DDA improvements	708,305	-	117,075	-	825,380
TIFA improvements	95,527	-	24,153	-	119,680
Subtotal	803,832	-	141,228	-	945,060
Net capital assets being depreciated	1,929,619	-	(141,228)	-	1,788,391
Net capital assets	\$ 2,019,619	\$ -	\$ (141,228)	\$ -	\$ 1,878,391

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

#### Governmental activities:

General government	\$ 1,013,757
Public safety	280,741
Public works	7,039,147
Recreation and culture	98,820
Total governmental activities	\$ 8,432,465

Business-type activities - Enterprise Fund - Water and sewer	\$ 1,597,590
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### Note 6 - Restricted Assets

Restricted assets at June 30, 2013 consist of \$272,500 of cash in the Water and Sewer Fund for the following purposes:

	Business-type Activities
Bond reserve for 1998 Water and Sewer Revenue Bonds	\$ 187,500
Bond reserve for 2006 Water and Sewer Revenue Bonds	85,000
Total restricted assets	\$ 272,500

# **City of Westland, Michigan**

## **Notes to Financial Statements** **June 30, 2013**

### **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	\$ 256,897
	Other nonmajor governmental funds	<u>1,990,170</u>
	Total General Fund	2,247,067
Other nonmajor governmental funds	Other governmental funds	158,667
	Water and Sewer Fund	2,976
	General Fund	<u>147,116</u>
	Total other nonmajor governmental funds	308,759
Water and Sewer Fund	General Fund	<u>9,683</u>
	Total interfund activity	<u>\$ 2,565,509</u>

# **City of Westland, Michigan**

## **Notes to Financial Statements** **June 30, 2013**

### **Note 7 - Interfund Balances and Operating Transfers (Continued)**

Receivable Fund	Payable Fund	Amount
<b>Due to/from Primary Government and Component Units</b>		
Primary government - General Fund	Component unit - Tax Increment Finance Authority	\$ 439,262
	Component unit - Brownfield Redevelopment Authority	74,416
	Component unit - Local Development Finance Authority	775
	Component unit - Downtown Development Authority	673
	Component unit - Economic Development Corporation	<u>270</u>
	Total primary government - General Fund	515,396
Component unit - Tax Increment Finance Authority	Primary government - General Fund	2,190
Component unit - Local Development Finance Authority	Primary government - General Fund	1,428
Component unit - Downtown Development Authority	Primary government - General Fund	1,053
Component unit - Economic Development Corporation	Primary government - General Fund	<u>16</u>
	Total due/from primary government	<u>4,687</u>
	Total	\$ <u>520,083</u>

# **City of Westland, Michigan**

## **Notes to Financial Statements** **June 30, 2013**

### **Note 7 - Interfund Balances and Operating Transfers (Continued)**

The composition of operating transfers is as follows:

Operating Transfer Out	Operating Transfer In	Amount
<b>Advances from/to Other Funds</b>		
General Fund	Other governmental funds (1)	\$ 588,924
	Other governmental funds (4)	<u>46,599</u>
	Total General Fund	635,523
Other governmental funds	General Fund (3)	22,000
	Other governmental funds (1)	745,213
	Other governmental funds (2)	<u>846,473</u>
	Total other governmental funds	<u>1,613,686</u>
	Total operating transfers	<u>\$ 2,249,209</u>

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

### **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 City.

# City of Westland, Michigan

## Notes to Financial Statements June 30, 2013

### Note 8 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
General obligation bonds:							
1998 Michigan Transportation Fund Bonds	4.500%	\$400,000	\$ 800,000	\$ -	\$ 400,000	\$ 400,000	\$ 400,000
2004 Michigan Transportation Fund Bonds	3.000%-4.000%	\$250,000-\$300,000	2,000,000	-	250,000	1,750,000	250,000
2005 Building Authority Refunding Bonds	4.000%-5.000%	\$305,000-\$500,000	3,080,000	-	310,000	2,770,000	305,000
Installment purchase agreement:							
2009 recycle containers	5.980%	\$115,840-\$146,135	762,047	-	109,305	652,742	115,840
2013 New City Hall			-	1,600,000	-	1,600,000	75,000
2013 Fire Truck			-	259,214	-	259,214	83,499
Other equipment	5.600%	\$6,703-\$7,103	59,954	-	46,149	13,805	6,703
Total governmental bonds			6,702,001	1,859,214	1,115,454	7,445,761	1,236,042
Compensated absences			8,685,129	2,375,859	2,920,089	8,140,899	2,489,057
Total governmental activities			\$ 15,387,130	\$ 4,235,073	\$ 4,035,543	\$ 15,586,660	\$ 3,725,099
<b>Business-type Activities</b>							
Revenue bonds:							
1998 Water and Sewer Revenue Bonds	3.875%-3.900%	\$200,000-\$250,000	\$ 1,325,000	\$ -	\$ 200,000	\$ 1,125,000	\$ 200,000
2006 Water and Sewer Revenue Bonds	3.875%-3.900%	\$275,000-\$300,000	1,125,000	-	275,000	850,000	275,000
General obligation bonds:							
2010 State Revolving Fund Loan	2.500%	\$25,000-\$35,000	512,794	-	25,000	487,794	25,000
2010 Strategic Water Quality Initiatives Loan	2.500%	\$105,000-\$155,000	2,472,183	-	105,000	2,367,183	105,000
Installment purchase agreement -							
Other equipment	4.800%	\$40,562-\$133,907	267,834	-	42,537	225,297	44,608
Compensated absences			208,478	192,212	175,495	225,195	225,195
Total business-type activities			\$ 5,911,289	\$ 192,212	\$ 823,032	\$ 5,280,469	\$ 874,803

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 1,236,042	\$ 270,236	\$ 1,506,278	\$ 649,608	\$ 166,121	\$ 815,729
2015	926,243	224,812	1,151,055	656,782	140,974	797,756
2016	979,452	183,594	1,163,046	793,907	115,595	909,502
2017	932,890	142,093	1,074,983	390,000	83,874	473,874
2018	941,134	104,244	1,045,378	390,000	69,124	459,124
2019-2023	1,775,000	165,410	1,940,410	770,000	234,372	1,004,372
Thereafter	655,000	44,135	699,135	1,404,977	35,124	1,440,101
Total	\$ 7,445,761	\$ 1,134,524	\$ 8,580,285	\$ 5,055,274	\$ 845,184	\$ 5,900,458

Total interest incurred related to governmental and business-type activities for the year approximated \$296,000 and \$180,000, respectively. No interest was incurred during the year for the component units.

# **City of Westland, Michigan**

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## **Notes to Financial Statements June 30, 2013**

### **Note 8 - Long-term Debt (Continued)**

**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 \$2,200,900. During the current year, net revenue of the system was \$1,990,872 compared to the annual debt requirements of \$578,431.

### **Note 9 - Other Liabilities**

**Environmental Cleanup** - Central City Park has been closed due to environmental contamination since 2007. As of the report date, the park is not owned or controlled by the City; however, it is expected to be deeded to the City by the County in the near future. During a previous year, 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 City made the first payment of \$70,000 as scheduled in November 2012. The remaining balance of \$280,000 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.

**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 fiscal year ended June 30, 2012, the City recorded a liability of \$3,500,000 based on an estimate of the damages the City would be held responsible for. In March 2013, the lawsuit was settled with total damages to the City of \$5,000,000, of which \$1,250,000 was in the form of water bill credits to affected residents. The additional expense was recorded in 2013. The first scheduled cash payment of \$2,000,000 was paid by the City on June 4, 2013. The outstanding balance of cash payments due at June 30, 2013 is \$1,750,000 and will be paid in 2014.

# **City of Westland, Michigan**

## **Notes to Financial Statements** **June 30, 2013**

### **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 four fiscal years.

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

The City estimates the liability for general liability 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, 2013 and 2012 were as follows:

	General Liability		Workers' Compensation		Health Insurance Claims	
	2013	2012	2013	2012	2013	2012
Estimated liability - Beginning of year	\$ 1,826,011	\$ 1,311,226	\$ 1,794,829	\$ 617,000	\$ 104,626	\$ 83,224
Estimated claims incurred, including changes in estimates	1,579,416	1,915,689	833,369	1,550,762	7,065,600	6,139,241
Claim payments	(1,521,916)	(1,400,904)	(279,819)	(372,933)	(7,435,222)	(6,117,839)
Estimated liability - End of year	<u>\$ 1,883,511</u>	<u>\$ 1,826,011</u>	<u>\$ 2,348,379</u>	<u>\$ 1,794,829</u>	<u>\$ (264,996)</u>	<u>\$ 104,626</u>

# City of Westland, Michigan

## Notes to Financial Statements June 30, 2013

### Note 11 - Defined Benefit Pension Plan

#### Police and Fire Retirement System

**Plan Description** - The Police and Fire Pension Plan is a single-employer defined benefit pension plan that is administered by the City of Westland Police and Fire Employees' Retirement System; this plan covers all full-time police and fire employees of the City. The system provides retirement, health care, disability, and death benefits to plan members and their beneficiaries. At June 30, 2012, the date of the most recent actuarial valuation, membership consisted of 220 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 147 current active employees. The plan does not issue a separate financial report.

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

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

**Funding Commitment** - When the system enters into various investments, it may not completely fund the entire investment at the beginning. Rather, it enters into commitments to fund remaining capital amounts at certain points in time. At June 30, 2013, the remaining capital funding commitment for the system is approximately \$1,320,000.

**Annual Pension Costs** - For the year ended June 30, 2013, the City's annual pension cost of \$4,990,887 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		
	2011	2012	2013
Annual pension costs (APC)	\$ 4,137,201	\$ 4,494,952	\$ 4,990,887
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
Net pension obligation	\$ -	\$ -	\$ -

# **City of Westland, Michigan**

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## **Notes to Financial Statements** **June 30, 2013**

### **Note 11 - Defined Benefit Pension Plan (Continued)**

**Funded Status and Funding Progress** - As of June 30, 2012, the most recent actuarial valuation date, the plan was 82.0 percent funded. The actuarial accrued liability for benefits was \$181,989,998 and the actuarial value of assets was \$149,304,993, resulting in an underfunded actuarial accrued liability of \$32,685,005. The covered payroll (annual payroll to active employees covered by the plan) was \$10,609,537 and the ratio of the underfunded actuarial accrued liability to the covered payroll was 308.5 percent.

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multi-year 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, 2012, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.50 investment rate of return, (b) projected salary increases of 4.00 percent per year 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.

**Reserves** - As of June 30, 2013, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 626,730
Reserve for retired benefit payments	126,033,118

### **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.

# **City of Westland, Michigan**

## **Notes to Financial Statements** **June 30, 2013**

### **Note 11 - Defined Benefit Pension Plan (Continued)**

**Annual Pension Costs** - For the year ended June 30, 2013, the City's annual pension cost of \$3,899,035 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, 2010, 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 26 years.

#### **Three-year Trend Information**

	<b>Fiscal Years Ended June 30</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>General Employees' Retirement System:</b>			
Annual pension costs (APC)	\$ 3,550,609	\$ 3,115,379	\$ 4,124,906
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	\$ -	\$ -	\$ -
<b>Actuarial Valuation as of December 31</b>			
	<b>2010</b>	<b>2011</b>	<b>2012</b>
Actuarial value of assets	\$ 57,465,343	\$ 56,636,806	\$ 55,450,156
Actuarial accrued liability (AAL) (entry)	\$ 104,515,192	\$ 109,980,544	\$ 112,765,537
Unfunded AAL (UAAL)	\$ 47,049,849	\$ 53,343,738	\$ 57,315,381
Funded ratio	55 %	51 %	49 %
Covered payroll	\$ 7,969,308	\$ 7,377,631	\$ 7,076,423
UAAL as a percentage of covered payroll	590 %	723 %	810 %

### **Note 12 - 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.

# **City of Westland, Michigan**

## **Notes to Financial Statements** **June 30, 2013**

### **Note 12 - Joint Ventures (Continued)**

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 13 - 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.

### **Note 14 - 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:

	<u>Total Governmental Activities</u>	<u>Total Business-type Activities</u>
Restricted Cable Commission projects	\$ 70,920	\$ -
Public safety - E-911	219,935	-
Public safety - Drug forfeiture	14,549	-
Parks and recreation	388,900	-
Metroact Broadband	235,403	-
Street lighting	105,078	-
800 MHZ Fund	1,027	-
Community development	985,234	-
Revenue bonds	-	272,500
<b>Total</b>	<b>\$ 2,021,046</b>	<b>\$ 272,500</b>

### **Note 15 - Commitments**

The City has entered into several construction and maintenance contracts totaling \$6,358,369. As of June 30, 2013, the City has not recorded expenditures relating to these projects, as the work has not yet been performed.

# **City of Westland, Michigan**

## **Notes to Financial Statements** **June 30, 2013**

### **Note 16 - 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. A transfer of the facility to the City has not occurred as of June 30, 2013.

### **Note 17 - Other Postemployment Benefits**

**Plan Description** - The City provides retiree healthcare benefits to eligible employees and their spouses. This is a single employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements.

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

**Funding Progress** - For the year ended June 30, 2013, the City has estimated the cost of providing retiree healthcare 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	1,388,219
Less adjustment to the annual required contribution	<u>(1,276,599)</u>
Total annual OPEB cost	13,932,870
Amounts contributed - Payments of current premiums	<u>(6,550,255)</u>
Increase in net OPEB obligation	7,382,615
OPEB obligation - Beginning of year	<u>30,849,306</u>
OPEB obligation - End of year	<u>\$ 38,231,921</u>

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Costs	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

# City of Westland, Michigan

## Notes to Financial Statements June 30, 2013

### Note 17 - Other Postemployment Benefits (Continued)

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 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.

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 9 percent initially, reduced by decrements to an ultimate rate of 5 percent after nine 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.

# **City of Westland, Michigan**

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## **Notes to Financial Statements** **June 30, 2013**

### **Note 18 - Upcoming Accounting Pronouncements**

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the City as of fiscal year 2013-2014.

In June 2012, GASB Statement No. 67, *Financial Reporting for Pension Plans*, was issued by the Governmental Accounting Standards Board. This new standard, which replaces the requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, establishes standards for financial reporting that outline the basic framework for separately issued pension plan financial reports and specifies the required approach to measuring the liability of employer(s) and certain nonemployer contributing entities, about which information is required to be disclosed. GASB Statement No. 67 is required to be adopted for years beginning after June 15, 2013. For the City of Westland, Michigan, this standard will be adopted for the year ending June 30, 2014.

In June 2012, the GASB issued 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**

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# City of Westland, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 20,228,962	\$ 20,228,962	\$ 21,393,524	\$ 1,164,562
Licenses and permits	1,236,400	1,299,663	1,241,256	(58,407)
Federal sources	784,901	832,081	776,054	(56,027)
State sources	7,934,574	9,337,746	9,113,908	(223,838)
Charges for services	6,953,079	7,426,879	7,035,859	(391,020)
Court fines and fees	3,750,000	4,450,000	4,757,448	307,448
Interest income	75,000	75,000	93,010	18,010
Other	10,981,902	10,231,902	9,557,037	(674,865)
<b>Total revenue</b>	<b>51,944,818</b>	<b>53,882,233</b>	<b>53,968,096</b>	<b>85,863</b>
<b>Expenditures</b>				
Current:				
General government:				
Legislative	108,400	108,400	106,012	2,388
Executive	664,319	664,319	664,021	298
Computer information systems	653,251	783,251	761,844	21,407
Law	700,000	750,000	788,377	(38,377)
Finance	1,461,708	1,509,696	1,502,471	7,225
Assessment	321,120	321,120	323,180	(2,060)
City clerk	797,406	881,406	799,454	81,952
City hall and grounds	247,795	345,115	282,185	62,930
Personnel	329,083	329,083	317,437	11,646
Housing	620,998	620,998	612,353	8,645
Insurance and bonds	1,740,000	2,140,000	2,119,775	20,225
General government	5,454,519	5,591,719	5,731,748	(140,029)
Community development	463,316	463,316	460,143	3,173
<b>Total general government</b>	<b>13,561,915</b>	<b>14,508,423</b>	<b>14,469,000</b>	<b>39,423</b>
Public safety:				
Police	15,341,996	15,490,356	15,355,001	135,355
Joint dispatch	1,347,021	1,354,021	1,427,400	(73,379)
Fire	13,073,106	14,037,322	13,281,221	756,101
Police and Fire Retirement Board	150,000	150,000	37,730	112,270
District Court	2,928,102	2,928,102	2,920,433	7,669
<b>Total public safety</b>	<b>32,840,225</b>	<b>33,959,801</b>	<b>33,021,785</b>	<b>938,016</b>
Highway maintenance	1,813,036	1,813,036	1,642,365	170,671
Sanitation	4,656,367	4,669,967	4,368,287	301,680
Youth Assistance Program	911,329	911,329	875,867	35,462
Recreation and culture:				
Parks and recreation	849,614	889,614	887,739	1,875
Ice arena	298,015	298,015	271,126	26,889
Senior resources	429,621	429,621	388,263	41,358
Golf course	343,802	343,802	322,986	20,816
<b>Total recreation and culture</b>	<b>1,921,052</b>	<b>1,961,052</b>	<b>1,870,114</b>	<b>90,938</b>
Debt service	204,213	204,213	204,213	-
<b>Total expenditures</b>	<b>55,908,137</b>	<b>58,027,821</b>	<b>56,451,631</b>	<b>1,576,190</b>
<b>Excess of Expenditures Over Revenue</b>	<b>(3,963,319)</b>	<b>(4,145,588)</b>	<b>(2,483,535)</b>	<b>1,662,053</b>

# City of Westland, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets	\$ 50,000	\$ 50,000	\$ 2,485	\$ (47,515)
Transfers in	620,000	620,000	422,000	(198,000)
Transfers out	(245,952)	(245,952)	(292,496)	(46,544)
Total other financing sources	<u>424,048</u>	<u>424,048</u>	<u>131,989</u>	<u>(292,059)</u>
<b>Net Change in Fund Balance</b>	<b>(3,539,271)</b>	<b>(3,721,540)</b>	<b>(2,351,546)</b>	<b>1,369,994</b>
<b>Fund Balance - Beginning of year</b>	<b>10,990,874</b>	<b>10,990,874</b>	<b>10,990,874</b>	<b>-</b>
<b>Fund Balance - End of year</b>	<b><u>\$ 7,451,603</u></b>	<b><u>\$ 7,269,334</u></b>	<b><u>\$ 8,639,328</u></b>	<b><u>\$ 1,369,994</u></b>

# City of Westland, Michigan

## Required Supplemental Information Police and Fire Pension System Schedule of Funding Progress Year Ended June 30, 2013 (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
	6/30/06	\$ 128,700	\$ 134,600	\$ 5,900	95.6 %	\$ 12,600	46.8 %		
6/30/07	\$ 140,800	\$ 141,200	\$ 400	99.7	\$ 12,700	3.1			
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			

### Schedule of Employer Contributions

Fiscal Year Ended	Actuarial Valuation Date	Annual	
		Required Contribution *	Percentage Contributed
6/30/07	6/30/06	\$ 4,281,154	100 %
6/30/08	6/30/07	\$ 5,085,329	100
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

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

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2012, the latest actuarial valuation, 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, 2013

**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, 2013 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:

	Total Revenue	Total Expenditures
<b>General Fund:</b>		
Amounts per operating statement	\$ 52,998,365	\$ 56,674,291
Reimbursements from other funds recorded as revenue	1,642,365	1,642,365
Proceeds from the issuance of long-term debt reduce corresponding expenditures in the budget statement	-	(1,859,214)
E-911 Fund	(448,490)	(3,415)
Metro Act - Broadband Fund	(224,144)	(2,396)
Amounts per budget statement	<u>\$ 53,968,096</u>	<u>\$ 56,451,631</u>

**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
<b>General Fund:</b>			
Law	\$ 750,000	\$ 788,377	\$ (38,377)
Assessment	321,120	323,180	(2,060)
General government	5,591,719	5,731,748	(140,029)
Joint dispatch	1,354,021	1,427,400	(73,379)

## **Other Supplemental Information**

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# City of Westland, Michigan

	Personnel Services		Supplies	
	Budget	Actual	Budget	Actual
<b>General Government</b>				
Legislative	\$ 96,318	\$ 94,465	\$ 1,932	\$ 3,165
City clerk	653,766	562,230	22,237	17,593
Executive	643,001	646,881	7,375	5,507
Assessment	2,520	2,280	4,600	5,415
Computer information systems	201,300	204,478	51,900	50,040
General - Law	-	-	-	-
Finance	1,297,008	1,270,960	69,000	87,570
City hall and grounds	-	-	28,800	54,406
General government	3,120,000	3,303,312	50,000	40,189
General maintenance	196,842	190,678	435,850	534,778
Planning	311,230	304,795	6,200	1,870
Economic development	278,898	262,918	2,700	2,342
Community development programs	408,198	407,041	4,350	3,150
Housing development	620,998	612,353	-	-
Insurance and bonds	40,000	40,455	-	-
Personnel	318,283	306,445	1,950	1,157
Total general government	8,188,362	8,209,291	686,894	807,182
<b>Public Safety</b>				
District Court	2,397,902	2,405,921	94,500	117,445
Police	14,302,816	14,121,501	133,800	119,869
Fire	12,111,170	11,203,508	155,000	160,852
Police and Fire Retirement Board	-	-	-	-
Joint dispatch	1,349,521	1,351,239	3,500	5,661
Total public safety	30,161,409	29,082,169	386,800	403,827
<b>Highways and Streets</b>				
	1,239,936	1,194,378	281,500	306,806
<b>Building Authority Debt - Tower - Operating transfer</b>				
	-	-	-	-
<b>Sanitation</b>				
	389,861	174,911	2,400	1,363
<b>Cultural and Recreation</b>				
Youth assistance	-	-	14,150	3,256
Senior resource department	267,372	261,897	52,900	39,588
Parks and recreation	180,290	176,984	35,200	34,361
Golf course	-	-	41,500	29,115
Cable	-	-	439,809	437,037
Historical committee	-	-	1,150	196
Ice arena	-	-	37,100	27,771
Total cultural and recreation	447,662	438,881	621,809	571,324
<b>Debt Service</b>				
Total expenditures and other operating transfers	<u>\$ 40,427,230</u>	<u>\$ 39,099,630</u>	<u>\$ 1,979,403</u>	<u>\$ 2,090,502</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, 2013**

Services and Charges			Capital Outlay		Debt Service		Total*	
Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	
\$ 10,150	\$ 8,382	\$ -	\$ -	\$ -	\$ -	\$ 108,400	\$ 106,012	
205,403	219,631	-	-	-	-	881,406	799,454	
13,943	11,633	-	-	-	-	664,319	664,021	
314,000	315,485	-	-	-	-	321,120	323,180	
212,114	192,389	317,937	314,937	-	-	783,251	761,844	
750,000	788,377	-	-	-	-	750,000	788,377	
143,688	143,941	-	-	-	-	1,509,696	1,502,471	
316,315	227,779	-	-	-	-	345,115	282,185	
416,748	432,367	50,000	5,717	-	-	3,636,748	3,781,585	
139,004	139,300	-	-	-	-	771,696	864,756	
581,350	510,053	-	-	-	-	898,780	816,718	
3,397	3,429	-	-	-	-	284,995	268,689	
50,768	49,952	-	-	-	-	463,316	460,143	
-	-	-	-	-	-	620,998	612,353	
2,100,000	2,079,320	-	-	-	-	2,140,000	2,119,775	
8,850	9,835	-	-	-	-	329,083	317,437	
5,265,730	5,131,873	367,937	320,654	-	-	14,508,923	14,469,000	
435,700	397,067	-	-	-	-	2,928,102	2,920,433	
998,740	1,064,313	55,000	49,318	-	-	15,490,356	15,355,001	
770,565	772,491	1,000,587	1,144,370	-	-	14,037,322	13,281,221	
150,000	37,730	-	-	-	-	150,000	37,730	
1,000	500	-	70,000	-	-	1,354,021	1,427,400	
2,356,005	2,272,101	1,055,587	1,263,688	-	-	33,959,801	33,021,785	
291,600	141,181	-	-	-	-	1,813,036	1,642,365	
-	-	-	-	245,952	245,897	245,952	245,897	
4,277,706	4,192,013	-	-	-	-	4,669,967	4,368,287	
897,179	872,611	-	-	-	-	911,329	875,867	
109,299	86,778	-	-	-	-	429,571	388,263	
201,300	214,884	-	-	-	-	416,790	426,229	
302,302	293,871	-	-	-	-	343,802	322,986	
21,500	12,545	-	-	-	-	461,309	449,582	
9,915	11,732	-	-	-	-	11,065	11,928	
260,915	243,355	-	-	-	-	298,015	271,126	
1,802,410	1,735,776	-	-	-	-	2,871,881	2,745,981	
-	-	-	-	204,214	204,213	204,214	204,213	
<b>\$ 13,993,451</b>	<b>\$ 13,472,944</b>	<b>\$ 1,423,524</b>	<b>\$ 1,584,342</b>	<b>\$ 450,166</b>	<b>\$ 450,110</b>	<b>\$ 58,273,774</b>	<b>\$ 56,697,528</b>	

# City of Westland, Michigan

Special Revenue Funds						
	Major Roads Fund	Local Roads Fund	Community Development Block Grant	Street Lighting	Drug Forfeiture	Library
<b>Assets</b>						
Cash and cash equivalents	\$ 1,490,520	\$ 2,316,815	\$ 382,284	\$ 133,277	\$ 111,158	\$ 2,301,321
Receivables - Net	578,486	323,096	89,989	-	-	179,336
Due from other funds	158,667	2,976	141,577	-	826	4,713
Prepaid expenses and other assets	5,957	-	-	-	-	-
Assets held for resale	-	-	985,234	-	-	-
<b>Total assets</b>	<b>\$ 2,233,630</b>	<b>\$ 2,642,887</b>	<b>\$ 1,599,084</b>	<b>\$ 133,277</b>	<b>\$ 111,984</b>	<b>\$ 2,485,370</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 29,762	\$ 17,607	\$ 158,051	\$ 20,735	\$ 21,710	\$ 279,889
Due to other funds	604,669	553,044	455,799	7,464	75,725	35,961
Accrued and other liabilities	-	-	-	-	-	41,412
Deferred revenue	-	122,072	-	-	-	86,237
<b>Total liabilities</b>	<b>634,431</b>	<b>692,723</b>	<b>613,850</b>	<b>28,199</b>	<b>97,435</b>	<b>443,499</b>
<b>Fund Balances</b>						
Nonspendable - Major roads	5,957	-	-	-	-	-
Restricted:						
Roads	1,593,242	1,950,164	-	-	-	-
Community development	-	-	985,234	-	-	-
Drug forfeiture	-	-	-	-	14,549	-
Library	-	-	-	-	-	2,041,871
Street Lighting	-	-	-	105,078	-	-
800 MHZ	-	-	-	-	-	-
<b>Total liabilities and fund balances</b>	<b>\$ 2,233,630</b>	<b>\$ 2,642,887</b>	<b>\$ 1,599,084</b>	<b>\$ 133,277</b>	<b>\$ 111,984</b>	<b>\$ 2,485,370</b>

**Other Supplemental Information**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2013**

Special Revenue Funds	Debt Service Funds			Total Nonmajor Governmental Funds
	Motor Vehicle	Building		
	Highway	Authority		
800 MHZ	Newburgh	Refunding		
\$ 108,482	\$ -	\$ -	\$ 6,843,857	
30,349	-	-	1,201,256	
-	-	-	308,759	
-	-	-	5,957	
-	-	-	985,234	
<b>\$ 138,831</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,345,063</b>	
\$ 4,000	\$ -	\$ -	\$ 531,754	
133,804	-	-	1,866,466	
-	-	-	41,412	
-	-	-	208,309	
137,804	-	-	2,647,941	
-	-	-	5,957	
-	-	-	3,543,406	
-	-	-	985,234	
-	-	-	14,549	
-	-	-	2,041,871	
-	-	-	105,078	
1,027	-	-	1,027	
<b>\$ 138,831</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,345,063</b>	

# City of Westland, Michigan

Special Revenue Funds						
	Major Roads Fund	Local Roads Fund	Community Development Block Grant	Street Lighting	Drug Forfeiture	Library
<b>Revenue</b>						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,779,846
Federal sources	-	-	1,713,818	-	-	-
State sources	3,392,555	1,214,105	-	-	390,456	91,126
Interest income	2,813	5,196	421	116	398	8,504
Other revenue:						
Special assessments	-	43,502	-	1,488,353	-	-
Local sources	142,635	-	-	-	-	81,008
Refund of captured property taxes	-	-	-	-	-	199,739
Other income	-	-	-	-	2,000	26,794
Total revenue	3,538,003	1,262,803	1,714,239	1,488,469	392,854	3,187,017
<b>Expenditures</b>						
Current:						
General government	-	-	-	-	-	-
Street lighting	-	-	-	1,535,732	-	-
Public safety	-	-	-	-	396,037	-
Highway, streets, and drains	1,815,106	1,637,652	-	-	-	-
Community and economic development	-	-	1,623,498	-	-	-
Cultural and recreation	-	-	-	-	-	2,468,963
Debt service	-	-	-	-	-	-
Total expenditures	1,815,106	1,637,652	1,623,498	1,535,732	396,037	2,468,963
<b>Excess of Revenue Over (Under) Expenditures</b>	1,722,897	(374,849)	90,741	(47,263)	(3,183)	718,054
<b>Other Financing Sources (Uses)</b>						
Transfers in	-	846,473	46,599	150,000	-	-
Transfers out	(1,591,686)	-	-	(20,000)	-	-
Total other financing (uses) sources	(1,591,686)	846,473	46,599	130,000	-	-
<b>Net Change in Fund Balances</b>	131,211	471,624	137,340	82,737	(3,183)	718,054
<b>Fund Balances - Beginning of year</b>	1,467,988	1,478,540	847,894	22,341	17,732	1,323,817
<b>Fund Balances - End of year</b>	<b>\$ 1,599,199</b>	<b>\$ 1,950,164</b>	<b>\$ 985,234</b>	<b>\$ 105,078</b>	<b>\$ 14,549</b>	<b>\$ 2,041,871</b>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures,**  
**and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2013**

Special Revenue Funds	Debt Service Funds			Total Nonmajor Governmental Funds
	Motor Vehicle	Building		
	Highway Debt - Newburgh	Authority Debt - 2005 Refunding		
800 MHZ				
\$ -	\$ -	\$ -	\$ 2,779,846	
-	-	-	1,713,818	
-	-	-	5,088,242	
120	-	-	17,568	
				1,531,855
105,479	-	-	329,122	
-	-	-	199,739	
88,936	-	-	117,730	
				11,777,920
194,535	-	-		
232,342	-	-	232,342	
-	-	-	1,535,732	
-	-	-	396,037	
-	-	-	3,452,758	
				1,623,498
-	-	-	2,468,963	
-	745,213	438,924	1,184,137	
232,342	745,213	438,924	10,893,467	
(37,807)	(745,213)	(438,924)	884,453	
-	745,213	438,924	2,227,209	
(2,000)	-	-	(1,613,686)	
(2,000)	745,213	438,924	613,523	
(39,807)	-	-	1,497,976	
40,834	-	-	5,199,146	
<b>\$ 1,027</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,697,122</b>	

# **City of Westland, Michigan**

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**Other Supplemental Information  
Combining Balance Sheet  
Fiduciary Funds - Agency Funds  
June 30, 2013**

	<b>Agency Funds</b>			
	<b>Trust and Agency</b>	<b>Undistributed Tax Collection</b>	<b>District Court</b>	<b>Total</b>
<b>Assets - Cash and cash equivalents</b>	<b>\$ 1,516,869</b>	<b>\$ 841,523</b>	<b>\$ 325,759</b>	<b>\$ 2,684,151</b>
<b>Liabilities</b>				
Due to other governmental units	\$ -	\$ 841,523	\$ 114,437	\$ 955,960
Accrued and other liabilities	<u>1,516,869</u>	<u>-</u>	<u>211,322</u>	<u>1,728,191</u>
<b>Total liabilities</b>	<b>\$ 1,516,869</b>	<b>\$ 841,523</b>	<b>\$ 325,759</b>	<b>\$ 2,684,151</b>

# **City of Westland, Michigan**

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**Federal Awards**  
**Supplemental Information**  
**June 30, 2013**

# **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 basic 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, 2013 and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 9, 2013, which contained an unmodified opinion on the basic financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited basic financial statements subsequent to December 9, 2013.

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 basic financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Plante & Moran, PLLC*

December 9, 2013

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 the 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 basic 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, 2013 and related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 9, 2013. 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 basic 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 basic 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; 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 Management and 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 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 2013-001 and 2013-002 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 2013-003 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Westland, Michigan's basic 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*.

We also noted certain matters that we have reported to management of the City of Westland, Michigan in a separate letter dated December 9, 2013.

### **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 of Westland, Michigan's responses were not subjected to the auditing procedures applied in the audit of the basic 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 & Moran, PLLC*

Ann Arbor, Michigan  
December 9, 2013

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, 2013. 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, 2013.

**Report on Internal Control Over Compliance**

The 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.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*

Ann Arbor, Michigan  
December 9, 2013

# City of Westland, Michigan

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2013

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	\$ 905,076
Neighborhood Stabilization Program I	14.218	B-08-MN-26-0016	139,094
Neighborhood Stabilization Program 3 - Passed through Wayne County, Michigan	14.218	N/A	<u>272,991</u>
Subtotal CDBG Entitlement Grants Cluster			1,317,161
Home Investment Partnerships Program	14.239	M10-MC260218	<u>433,621</u>
Total U.S. Department of Housing and Urban Development			1,750,782
U.S. Department of Energy - ARRA - Energy Efficiency and Conservation Block Grant Award			
U.S. Department of Transportation - Office of Highway Safety Cluster Programs - State and Community Highway Safety	20.600	PT-12-23 & PT-13-17	13,119
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	2008-DJ-BX-1068	25,807
Edward Byrne Memorial Justice Assistance Grant Program - Passed through Wayne County, Michigan	16.738	2009-DJ-BX-0788	10,118
Office of Justice Programs - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) - Program/Grants to Units of Local Government - Passed through Wayne County, Michigan	16.804	2009-SB-B9-1422	<u>20,400</u>
Subtotal JAG Grants Cluster			56,325
Office of Justice Programs Bulletproof Vest Partnership	16.607	N/A	<u>4,041</u>
Total U.S. Department of Justice			60,366
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		64,698
U.S. Department of Homeland Security - Assistance to Firefighters Grant	97.044	EMW-2010-FH-00752	775,351
U.S. Department of Agriculture - Food Distribution	10.550	ERP-337.20	<u>23,648</u>
Total federal awards			<u>\$ 2,698,022</u>

# **City of Westland, Michigan**

## **Notes to Schedule of Expenditures of Federal Awards** **Year Ended June 30, 2013**

### **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, 2013. 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 position, 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 Grant Entitlement Cluster	14.218	\$ 24,400

### **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, 2013 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	\$ 23,648

# **City of Westland, Michigan**

## **Schedule of Findings and Questioned Costs**

### **Year Ended June 30, 2013**

#### **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 Grant Entitlement Cluster
97.044	Assistance to Firefighters

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, 2013**

### **Section II - Financial Statement Audit Findings**

Reference Number	Finding
2013-001	<p><b>Finding Type</b> - Material weakness</p> <p><b>Criteria</b> - 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.</p> <p><b>Condition</b> - During the City's financial statement audit for the year ended June 30, 2013, it was noted the City had difficulty closing its year-end books. Although the records were in much better shape than the prior year, many entries were developed by the City in conjunction with the work being done on the audit. The City was required to post many entries in order for its financial statements to be correctly stated.</p> <p><b>Context</b> - Significant journal entries were required to be made to the City's funds after the audit commenced on September 9, 2013.</p> <p><b>Cause</b> - As in prior years, the City had difficulties closing its books at year end. At the start of the audit, the accounting records contained several account balances that had not yet been adjusted to the appropriate amounts.</p> <p><b>Effect</b> - 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.</p> <p><b>Recommendation</b> - The City should attempt to post all entries required to close out the books prior to the audit.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The City has added personnel and will focus on improving year-end reporting prior to the audit.</p>

# **City of Westland, Michigan**

## **Schedule of Findings and Questioned Costs (Continued)** **Year Ended June 30, 2013**

### **Section II - Financial Statement Audit Findings (Continued)**

Reference Number	Finding
2013-002	<p><b>Finding Type</b> - Material weakness</p> <p><b>Criteria</b> - Per generally accepted accounting principles, investments should be recorded at fair market value.</p> <p><b>Condition</b> - 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.</p> <p><b>Context</b> - 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.</p> <p><b>Cause</b> - The audit team noted little review throughout the year of the value of the alternative investments. Plante &amp; 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.</p> <p><b>Effect</b> - Adjustments were suggested by the auditors in order for the City's financial statements to accurately reflect the fair market value of these investments.</p> <p><b>Recommendation</b> - The City should evaluate the values of these alternative investments periodically and record the necessary adjustments before the commencement of the audit.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - 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.</p>

# **City of Westland, Michigan**

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## **Schedule of Findings and Questioned Costs (Continued)**

### **Year Ended June 30, 2013**

#### **Section II - Financial Statement Audit Findings (Continued)**

Reference Number	Finding
2013-003	<p><b>Finding Type</b> - Significant deficiency</p> <p><b>Criteria</b> - Capital assets should be correctly tracked with the appropriate depreciation calculated.</p> <p><b>Condition</b> - During the City's financial statement audit for the year ended June 30, 2013, it was noted the City had difficulty tracking their fixed assets in excel and many of the formulas had to be corrected.</p> <p><b>Context</b> - When reviewing the capital assets schedules prepared for the City, adjustments were required to be made to properly reflect the ending value of the assets.</p> <p><b>Cause</b> - The audit team noted that the client's use of excel to track fixed assets often caused issues in calculating the value of assets and the corresponding depreciation.</p> <p><b>Effect</b> - Adjustments were required to agree the ending balance of the assets to the schedules. Additionally, adjustments to the excel formulas were required to ensure that they were properly calculating.</p> <p><b>Recommendation</b> - The City is in the process of inputting all existing assets into their new software. Once all assets are transferred, no additional issues should exist.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The City is in the process of correcting the issue by using new software to track its capital assets.</p>

#### **Section III - Federal Program Audit Findings**

None

# **City of Westland, Michigan**

## **Summary Schedule of Prior Audit Findings Year Ended June 30, 2013**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b>Audit findings that have been fully corrected:</b>					
2012	2012-5	In accordance with the Assistance to Fire Fighters program information and grant agreement, the City is required to submit a biannual report that describes the current expenditures and reimbursements received from federal funds. The City had incurred expenditures relating to the federal grant through the year ended June 30, 2012, but only reported amounts through the last request of reimbursement dated June 8, 2012.	97.044	None	The City noted this error for 2012 and reported the full amount through June 30, 2013 in the CY. This was corrected during the year.
2012	2012-6	Per the guidance issued by the Department of Homeland Security for the 2010 awards as well as the grant agreement, the City cannot request reimbursement for certain ineligible overtime costs. During the year ended June 30, 2012, the City charged certain ineligible overtime costs and other costs not incurred on behalf of the employees covered by the SAFER award, to the grant.	97.044	7794	The City evaluated the overtime charged to the grant and reduced the amount requested in the first draw for 2013. Going forward, no overtime was charged to the grant. This was corrected during the year.

# **City of Westland, Michigan**

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**Report to the City Council**  
**June 30, 2013**

December 9, 2013

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, 2013 and have issued our report thereon dated December 9, 2013. 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 9, 2013

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**



Michael J. Swartz



Brian J. Camiller

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

December 9, 2013

## **Section I - Communications Required Under AU 260**

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated July 9, 2013, 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 9, 2013 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 22, 2013.

### **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 9, 2013

No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2013.

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 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 9, 2013

### ***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, 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 9, 2013.

### ***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.

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

December 9, 2013

## **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:

- The City has made significant progress recently related to consolidation of services, most notably the agreements with other communities related to the fire, dispatch, and parks and recreation services. We encourage you to continue considering regional efforts to reduce the cost of service and to provide operational efficiency.
- As of June 30, 2013, total unassigned fund balance in the General Fund is \$5,562,231, or 9.8 percent of 2012-2013 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.

While the total General Fund fund balance did decrease from the prior year by approximately \$2.5 million, this was as a result of the use of the special tax levy reserves as discussed below. The unrestricted fund balance of the General Fund increased over the prior year balance by approximately \$640,000.

- During the fiscal year 2013, the City used the remaining funds restricted for sanitation. At June 30, 2012, this restriction was \$1,496,000, which 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 2013, sanitation-related expenditures exceeded sanitation-related revenues by approximately \$1,535,000. The 2013-2014 budget projects an additional excess of sanitation-related expenses over revenues of approximately \$965,000. Options to balance the sanitation revenue and expenditures should focus on cost reductions and discussion of the remaining sanitation levy millage capacity. The City still has the ability to raise the sanitation millage by 0.4305 mills, and has done so which will generate an additional \$671,000 at the City's current taxable value in the following fiscal year.

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

December 9, 2013

As of June 30, 2013, the City has a fund balance of approximately \$2,446,000 that is restricted for the pension and retiree healthcare premiums of the police and fire departments. This is a decrease of \$1,683,000 from the prior year. This balance is 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, 2012, it was noted that costs increased significantly for the 2013 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 89 percent to 82 percent as of the most recent valuation date of June 30, 2012. The City has the ability to use the remaining fund balance as well as increase the PA 345 millage as necessary in order to continue funding the pension system at actuarially determined rates.

- 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), and a significant balance of accrued sick and vacation payable will continue to challenge the financial success of the City. As you start to prepare for the budget preparation process for the 2014/2015 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. 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.

#### **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.
- As of June 30, 2013, the Trust and Agency Fund holds \$448,643 in tree planting and tree replacement funds. We encourage the City to ask legal counsel to provide guidance on the ability to utilize this money for any tree planting or landscaping activity related to future development projects, such as park or facility renovations.

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

December 9, 2013

- During the audit, it was noted that there were invoices received by the various department heads that were not being submitted to finance timely for review. With the City offices now moving to a centralized location, we recommend that all invoices be sent to finance for distribution to the department heads for approval. This will ensure the invoices are entered timely into the accounts payable system.

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

December 9, 2013

### **Section III - Legislative and Informational Items**

#### **Revenue Sharing**

The State's FY 2013-2014 budget agreement has been reached and has put in place new requirements for CIP (County Incentive Program) and EVIP (Economic Vitality Incentive Program) compliance in the coming year. As you will note below, there are changes to each of the three categories with the most dramatic change to the newly titled Category 3: Unfunded Accrued Liability Plan. The agreement also provides for a 4.8 percent increase for CIP and EVIP. Below are the new requirements in effect for the upcoming year:

#### **Category 1 - Accountability and Transparency - Due date was 10/1/13**

- Produce a citizens guide, including recognition of unfunded liabilities
- Produce a performance dashboard
- Publish a detail debt service listing which includes, at a minimum, the following:
  - Issuance date, issuance amount, type of debt instrument
  - Listing of all revenues pledged to finance debt service by debt instrument
  - Listing of the annual payment amounts
- Publish a projected budget report including current and succeeding year and assumptions used

Note: All four of the above items must be made available in the city, village, township, or county clerk's office or posted on a publicly accessible website. In addition, all items shall be submitted directly to the State Department of Treasury.

#### **Category 2 - Consolidation of Services - Due date 2/1/14**

- Produce a consolidation plan and make it readily available in the city, village, township, or county clerk's office or posted on a publicly accessible website, in addition to submitting it to the State Department of Treasury.
- If first-time filer of a consolidation plan:
  - Include any previous service cooperations, collaborations, consolidations, innovations, or privatizations with an estimated cost savings for each.
  - Include one or more new proposals to increase the level of cooperation, collaboration, consolidation, innovation, or privatization within jurisdiction or with others. The timeline to implement and potential savings are also required.
- For all other than first-time filers:
  - Must include an update on all previous initiatives addressing:
    - Whether the previously proposed plans were fully implemented
    - Barriers experienced in implementing the proposals
    - Estimated timeline of steps to accomplish the proposed plans
  - Include one or more new proposals to increase the level of cooperation, collaboration, consolidation, innovation, or privatization within jurisdiction or with others. The timeline to implement and potential savings are also required.
    - If no new initiatives identified, must address why it is not feasible to enter into any new consolidation efforts

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

December 9, 2013

Category 3 - Unfunded Accrued Liability Plan (UALP) - Due date 6/1/14

If the most recent audited financial report includes unfunded accrued liabilities for employee pensions or other postemployment benefits, a plan to lower all unfunded accrued liabilities must be completed with the following elements:

- Listing of all previous actions taken to reduce unfunded accrued liabilities. This should include an estimated cost savings.
- Detailed plan of how the previous actions will continue to be implemented and maintained
- A list of additional actions that could be taken
- In the event that no actions have been taken to reduce the liabilities, an explanation as to why this is the case and what potential actions could be taken.
- Note that any actuarial assumption changes and issuance of debt do not qualify as a new proposal.
- The plan shall be readily available in the city, village, township, or county clerk's office or posted on a publicly accessible website. In addition, the entity should certify with the Department of Treasury that the plan is publicly available.
- If there are no unfunded accrued liabilities, the unit must certify to the Department of Treasury by the deadline and explain why none exist.

**Personal Property Tax**

The personal property tax was repealed by the passing of several bills during the Legislature's lame duck session in December. This repeal is contingent upon a statewide vote in August 2014 to allow for a shifting of the use tax to a reimbursement fund. Key provisions of the act phase out the industrial portion of the tax over a nine-year period beginning in 2016. Also, businesses with less than \$40,000 taxable value in industrial and commercial personal property in any jurisdiction would no longer pay the tax. For the July 2013 and December 2013 levies, it will be business as usual and communities will continue to levy as they normally have. However, for the July 2014 levy, this will change. Communities will not be able to levy businesses with less than \$40,000 taxable value in industrial and commercial personal property. If during the statewide vote in August 2014, the proposed personal property tax legislation fails, for future levies the less than \$40,000 taxable value will no longer be in effect. If this is the case, the communities will not be able to recover the amounts that were not levied in the July 2014 levy for the taxable values less than \$40,000 for industrial and commercial personal property; this will just be lost.

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

December 9, 2013

As for the impact on local communities, in short, those local governments that would lose at least 2.3 percent of their property tax base as a result of the changes would be eligible to be reimbursed at 80 percent of the revenue the personal property tax currently provides. This reimbursement would come from the Metropolitan Area Authority, a newly created entity led by five members appointed by the governor. This authority would be responsible for distributing the use tax collections as well as monies generated from expiring tax credits.

In addition, local governments would have the option to assess a special assessment on industrial property (referred to as Essential Services Assessments). This assessment would not require local voter approval and would reimburse police, fire, ambulance services, and jail operations to ensure they receive 100 percent of the funding that they now get from the personal property tax.

When working through upcoming budgets and longer-term projections, please keep these items in mind. The final act has not yet been published by the State.

The Michigan Municipal League has developed a tool to aid communities in calculating the potential impact of the personal property tax cuts:

<http://www.mml.org/advocacy/inside208/post/PPT-calculation-spreadsheet-available.aspx>

### **Retro-pay Prohibition**

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.

Recently, the House Local Government Committee held a second hearing on a new bill introduced this past summer that would amend PA 54 of 2012, the law prohibiting retroactive wage increases, to exempt police officers and firefighters. This proposed legislation did not pass during the lame duck session in December and will most likely be reintroduced in 2013.

### **Pension Obligation Bonds and Other Postemployment Benefits Obligation Bonds**

Michigan Public Act 329 of 2012 was passed on October 17, 2012 with immediate effect. The act allows communities that meet certain criteria to issue bonds to fund all or a portion of their unfunded pension and other postemployment benefits (OPEB) liabilities. The bonds are called pension obligation bonds or other postemployment benefits obligation bonds and are collectively referred to as "benefit bonds."

These bonds are subject to federal taxation but are tax exempt by the State of Michigan and must be issued prior to December 31, 2014. The bonds are issued by ordinance or resolution and do not require a vote of the people.

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

December 9, 2013

Municipalities must meet all of the following key requirements (the act also states additional requirements) in order to be eligible to issue benefit bonds:

- Prior to issuance, the municipality must obtain approval from the State Department of Treasury. In addition, the municipality must publish a notice of intent to issue the security.
- Be assigned a credit rating of AA rating or higher by one of the nationally recognized rating agencies (Standards & Poor's, Moody's, or Fitch)
- The issued security shall be rated investment grade by a nationally recognized rating agency.
- The property taxes necessary to meet the debt service obligation may not exceed the limit authorized by law.
- Have a legal capacity to issue the obligation as these bonds are not exempt from legal debt limitations
- Relative to the pension plan, have partial or complete cessation of accruals to a defined benefit plan or closed the defined benefit plan to new or certain existing employee groups and implemented a defined contribution plan (this requirement does not apply to the retiree healthcare, or OPEB plan)
- The municipality shall covenant with bond holders and the State that it will not, after the issuance of benefit bonds and while the bonds are outstanding, rescind any action taken for the cessation of accruals to a defined benefit plan or complete closure of defined benefit plans for new and existing employees.

### **Michigan's Public Pension Systems - Impact of PA 347 of 2012**

In December 2012, Governor Rick Snyder signed Public Act 347 of 2012 into law. This legislation makes some significant changes that will impact all public retirement systems in Michigan. Amending Public Act 314 of 1965, these new rules are meant to provide greater flexibility to these systems as to how funds are invested while at the same time imposing additional requirements aimed at transparency and accountability. These changes, which went into effect in March 2013, are summarized below:

#### **Changes to Allowable Investment Vehicles**

Generally, rather than making it more restrictive, the new rules raise the maximums for several investment categories, such as real estate and global equities. As an example, the limitations within the "basket clause" are increasing by 10 percentage points, with most plans now allowed to invest between 15 percent and 20 percent within this section, depending upon plan size. Monitoring under these new limitations will continue to be important. Toward this end, plans will need to ensure their investment consultants, advisors, and managers are "on board" with the changes.

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### **Spending Limitations**

This act would limit the amount of spending on professional training, education, and travel. Under the legislation, the retirement system's board of trustees would be required to adopt an annual budget for professional training and education, including travel. This budget will be capped at the lesser of \$150,000 or an amount equal to \$12,000 multiplied by the number of board members, with professional training, education, and travel costs not to exceed \$30,000 for any one board member.

### **Additional Documentation and Reporting Requirements**

Additional transparency reporting requirements for retirement systems, investment fiduciaries, and investment service providers are being imposed by this new public act. First, the legislation would require the publication by the plan of a Summary Annual Report (SAR). Although similar reporting requirements exist in the old legislation, this act requires more detailed reporting than what we are used to.

The SAR would include several additional disclosures, including the following: names of investment service providers, the system's itemized budget (including professional training, education, and travel), disclosure of the system's investment returns, and numerous pieces of information from the system's most recent annual actuarial valuation report. The system is required to make its SAR available to plan participants and citizens via posting to its website if the system has a website or, alternatively, would require the plan sponsor to post it to their website.

In addition, investment service providers are now required to give the investment fiduciary a complete written disclosure of all fees or other compensation associated with its relationship with the retirement system. This disclosure would be required both before providing any investment services as well as on an annual ongoing basis. Finally, financial records of the system must be retained for a minimum six-year period.

### **Michigan Qualifying Statement Revisions and Changes to Filing Process**

Bulletin 6 was recently issued by the State Department of Treasury and is 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](http://www.michigan.gov/municipalfinance). You can also find Bulletin 6 by following this same link.

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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. Starting May 1, 2013, there is only one way in which a Qualifying Statement can be submitted, as follows:

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](http://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.
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)**

In recent weeks, cities, villages, and road commissions in Michigan began receiving notices from MDOT about a new reporting requirement due each September 30, starting in 2014. 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 new 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, 2014:

- 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:

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- 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.
- 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 that proposes changes to the individual and spousal coverage limit from \$11,000 to \$13,455.
- 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.

### **Senate Bill 542 Increases the Hard-cap Limit for Individual and Spouse Coverage**

On October 8, 2013, the Senate passed a five-bill package (SB 541-545) in an effort to clarify PA 152 of 2011. SB 542 has perhaps the most direct financial impact on communities.

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**SB 542** - This bill modifies 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 proposed bill increases the dollar-cap for individual and spouse coverage from the current limit under PA 152 of \$11,000 to \$13,455. This would apply for all medical plan coverage years beginning in calendar year 2013 according to the current language. The \$13,455 cap would be 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 bill may result 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 Senate's version of 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 if this bill is passed; they would become part of that calculation.

The bill also would define "family coverage" as "individual-plus-one-nonspouse-dependent coverage."

Below is a summary of the remaining related bills that passed the Senate:

**SB 541** - This bill more clearly states that employer contributions to a healthcare fund for plans that are only available to the employee or elected official after retirement or separation of service (HSAs) are not considered costs of a public employer's medical benefit plan. This was the original intent of the legislature and therefore this amendment would be applied retroactively. In addition, the legislative analysis by the House Fiscal Agency states the bill would define the "medical benefit plan coverage year" to be "the 12-month period after the effective date of the contractual or self-insured medical coverage plan that a public employer provides to its employees or public officials."

Several items would be excluded from the calculation of the public employer's total annual medical benefit costs including the following:

- Any amount paid directly or indirectly for the assessment levied pursuant to the Health Insurance Claims Act, 2011 PA 142 (MCL 550.1731 to 550.1741)
- Amounts paid by the employer as a tax or fee under the federal Patient Protection and Affordable Care Act
- Payments made to employees or elected officials in lieu of medical benefits
- Any employee of elected official that declines coverage

**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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**SB 544 and SB 545** - These two bills work to clarify the language regarding a public employer's ability under PA 152 to exempt themselves from the act requirements. SB 544 requires the effective date of the act (September 27, 2011) to be the date that on or after any new collective bargaining agreement must comply with the act. Additionally, SB 545 states that a 2/3 vote by the governing body is required by the governing body prior to the beginning of each medical benefit plan year in order to exempt itself.