

City of Midland, Michigan
Notes to Financial Statements
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting entity

The City of Midland is a municipal corporation governed by an elected five-member City Council (the "Council"), which biannually selects one of its members to serve as mayor. The City operates under a council-manager form of government. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations and data from these units are therefore combined with data from the primary government.

Blended Component Unit

Midland Downtown Development Authority – The Midland Downtown Development Authority (MDDA) was established in 1987 for the purpose of maintaining and renovating the downtown Midland area. The MDDA is administered by a 12-person board, which is appointed by the City Council. Funding for the MDDA is provided by a two-mill levy on property within the district and by tax increment financing. All projects initiated by the MDDA are considered public improvements to the City's infrastructure, parks, or parking facilities. Since the MDDA is used exclusively as a financing source for City facilities, it has been blended into the financial statements of the City as a Special Revenue Fund. The MDDA has a June 30 year end.

Center City Authority – The Center City Authority (CCA) was established in May 2008 for the purpose of capturing incremental tax revenues generated in the district to reinvest them in the district thus enhancing the area's business climate. The CCA is administered by a seven-member board, which is appointed by the City Council. Funding for the CCA mainly comes from tax increment financing from properties located within the CCA district. All projects initiated by the CCA will be considered public improvements by the City facilities, it has been blended into the financial statements as a special revenue fund. The CCA has a June 30 year end.

Joint ventures

Saginaw-Midland Municipal Water Supply Corporation – The Saginaw-Midland Municipal Water Supply Corporation (SMMWSC), located approximately 13.5 miles east of the City of Midland, is an Authority incorporated by the Cities of Midland and Saginaw, Michigan, under Act 233, Public Acts of Michigan, 1955, as amended. The SMMWSC is administered by a six-member board of trustees, each community appointing three members, and is empowered to prepare, adopt, and submit to the legislative bodies of each municipality an annual budget covering estimated revenues, proposed expenditures, and the necessary funds required from each municipality for the next fiscal year.

Funding for the acquisition of property and for the development and improvement of the water supply system is provided by sale of SMMWSC negotiable bonds secured by the full faith and credit of each municipality in a ratio based upon predetermined capacity reserves; 20/43rds for the City of Midland and 23/43rds for the City of Saginaw. Funding for operations is provided by sale of water to the two communities on a consumption basis. The City's equity in the SMMWSC is accounted for in the Water Fund, which is included in the business-type activities column of the statement of net position.

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A summary of the financial information for the year ended June 30, 2014 follows:

Total assets and deferred outflows of resources	\$ 39,283,432
Total liabilities	14,590,642
Equity - City of Midland	11,485,019
Equity - City of Saginaw	13,207,771
Total revenues	5,809,214
Total expenses	4,410,015
Net income	1,399,199

At June 30, 2014, total outstanding bonded debt of the SMMWSC was \$12,695,000. The City was obligated for \$5,904,651 of this total.

Midland City/County Joint Building Authority – The City’s ownership interest in the Midland City/County Joint Building Authority is accounted for in the governmental activities column of the statement of net position. The Authority was created as a financing vehicle for the Midland Law Enforcement Center. The Law Enforcement Center is leased from the Joint Building Authority (JBA) by the City of Midland Police Department, the Midland County Sheriff Department, and the Midland County Central Dispatch Authority. The JBA is governed by a three-person board with the City and County each appointing one member and with the third member being mutually appointed. Additional information concerning the Joint Building Authority and its lease with the City is detailed later in the notes.

Complete financial statements, which are audited for the Saginaw-Midland Municipal Water Supply Corporation and the Midland City/County Joint Building Authority, are available from the City Clerk’s office.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating parties in the near future for any of the above organizations.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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.

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Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, excluding agency funds which have no measurement focus. Revenues are 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales and motor fuel taxes collected and held by the State at fiscal year end on behalf of the City are also recognized as revenue of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and

available only when cash is received by the government.

The City reports the following major governmental funds:

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

The Major Street Fund accounts for state shared revenues from gas and weight taxes and property taxes levied for expenditures relating to construction activities, repairs, and maintenance of all major streets and trunklines.

The Community Development Block Grant Fund accounts for grant revenues from the Department of Housing and Urban Development to be used for residential and other capital improvements.

The Grace A. Dow Memorial Library Fund accounts for property taxes, library services revenue and a General Fund subsidy to be used for providing library services to the citizens of Midland

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water supply system, capital additions and retirement of bonds.

The Wastewater Fund accounts for the operation and maintenance of the City's sewage disposal system, capital additions and retirement of bonds.

The Sanitary Landfill Fund accounts for the operation and maintenance of the City's trash and garbage disposal system.

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The Civic Arena Fund accounts for the operations and maintenance of the City's ice arena facility, capital additions, and retirement of debt.

The City reports the following nonmajor governmental funds:

Special Revenue Funds

Local Street Fund accounts for the maintenance and construction of streets designated by the Michigan Department of Transportation as local streets.

Center City Authority Fund accounts for the economic growth in the City Center as it becomes a destination for endless possibilities to eat, shop, and explore.

Stormwater Management Fund accounts for storm sewer maintenance, open drain cleaning, and county drain assessments related to storm water management within the City.

Dial-A-Ride Fund accounts for the City's Dial-A-Ride transportation system.

Downtown Development Authority Fund accounts for property taxes levied by and authority established for the purpose of maintaining and renovating the downtown Midland area.

Midland Community Television Fund accounts for franchise fees generated by an agreement with a local cable company to support two public access channels operated by the City.

Special Activities Fund accounts for various types of activities that are specifically funded by outside parties, not appropriate to be accounted for in any other Special Revenue Fund, and for which the City is the benefactor of those activities.

Midland Housing Fund is used to account for a housing rehabilitation trust, which was established by a local foundation.

Debt Service Fund

The Debt Service Fund accounts for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

Permanent Fund

The Cemetery Fund is used to account for the Midland Cemetery perpetual care principal and interest earnings.

The City reports the following nonmajor proprietary funds:

Washington Woods Fund accounts for the operation and maintenance of one of the City's senior housing rental properties.

Riverside Place Fund accounts for the operation and maintenance of one of the City's senior housing rental properties.

The Currie Municipal Golf Course Fund accounts for the operation and maintenance of the City's golf course.

The Parking Fund accounts for the operations of the City's metered and leased parking spaces and downtown parking structure.

Additionally, The City reports the following internal service funds:

The Information Services Fund accounts for the operations of the City's Information Services Department.

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The Store Revolving Fund accounts for the revenue and expenses associated with inventory items consumed by various departments and not specific to any one department.

The Equipment Revolving Fund accounts for rental charges of City-owned equipment to other City departments.

The Municipal Service Center Fund accounts for the operations of the City's Service Center building.

The Renewable Energy Services Fund was created to account for the activities related to the City's gas-to-energy project. Gases from the City's landfill will be captured and converted to electric energy, which will be sold to outside entities. Savings created by this operation will be rebated back to other City funds based upon their electricity consumption.

The Property and Liability Insurance Fund accounts for insurance expenses resulting from property and liability claims.

The Health Insurance Fund accounts for revenues and expenses of the City's self-insurance program for health insurance along with the contributions toward postemployment healthcare benefits.

The Special Assessment Revolving Fund accounts for the funding of the City's special assessment projects.

The Municipal Service Annex Fund accounts for the operations of the City's Municipal Service Annex building.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Because these funds represent trust responsibilities of the City, these assets are restricted in purpose and do not represent discretionary assets of the City. The City's only fiduciary fund in the current year is the Police and Fire Retirement Fund. The City's fiduciary activities are reported in separate

statements of fiduciary net position and changes in fiduciary net position.

The Agency Funds account for assets held by the City in a trustee capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results in operations. The City administers the following Agency Funds:

The Payroll Fund is used to account for all benefits charged and all deductions withheld during payroll processing until payments are remitted.

The Midland Downtown Business Association Fund accounts for special assessments charged to property owners within the Authority district for promotion of this area. The City acts as an agent for the financial management of this authority.

The DDA Façade Improvements Fund accounts for loans to businesses in the Downtown Development Authority business district. The funding for these loans was provided by a grant from the Rollin M. Gerstacker Foundation.

The Tax Collection Fund is used to account for taxes collected on behalf of other governmental units.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net position or equity

Deposits and investments – Cash and cash equivalents are considered to be 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 based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances 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.”

Property tax receivables are shown as net of allowance for uncollectible amounts totaling \$128,200. The property tax receivable allowance at June 30, 2014 equals 100 percent of outstanding property taxes over two years old, 50 percent of outstanding property taxes two years old, and 10 percent of outstanding property taxes one year old.

Properties are assessed annually as of December 31, and property taxes are billed and become a lien on July 1 of the following year. These taxes are due on September 15 with a final collection date of February 28 before they are added to the county tax roll. The City also bills and collects an amount each December, primarily for schools, County, and college. Also included in the December billing is a tax administration fee, which is revenue to the City. The December billing is due February 14 with a final collection date of February 28. Penalties and interest are assessed on payments received after the due date.

The 2013 taxable valuation of the City totaled \$2,325,703,249 on which ad valorem taxes consisted of 12.58 mills for the City's operating purposes, 1.0 mills for Library services, 1.22 for pension savings, and .28 mills for debt levies. This resulted in \$28,935,324 for operating expenses, \$2,320,794 for the Library, \$2,835,758 for pension savings, and \$649,788 for debt service, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

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Inventories and prepaid items – Inventories are valued at cost, on an average cost method. 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 the government-wide and fund financial statements.

Restricted assets – Certain resources are set aside for debt service on the City’s Enterprise Fund general obligation bonds and are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Additionally, certain resources are set aside for closure and postclosure costs for the enterprise landfill operation and are classified as restricted assets because their use is limited by applicable State regulations.

Assets held for resale – include properties acquired with the express intent of resale. Properties are recorded at cost in the governmental funds. At year end, the City’s Major Street fund held property with the intent of selling or exchanging it for road right-of-way property for future street expansion projects.

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

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Projects with total costs of less than \$10,000 are considered repairs and are reported as expenses in the year incurred. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Building improvements	20 years
Land improvements	50 years
Roads and sidewalks	20 to 30 years
Water and sewer distribution systems	50 years
Vehicles	3 to 10 years
Equipment	10 years
Library circulation materials	5 years
Computer equipment	4 years

Deferred outflows of resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period.

Compensated absences – It is the City’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay is fully vested when earned, and sick pay is conditionally vested upon completion of 10 years of service. Upon retirement, employees are paid accumulated vacation and one-half of unused sick days at their hourly rate as of their retirement date.

All sick and vacation pay is accrued when incurred in the government-wide, and proprietary fund financial statements. A liability for the entire amount, current and long term is accrued in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – assets that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts constrained on use imposed by the City's highest level of decision-making, its City Council. A fund balance commitment may be established, modified, or rescinded by a resolution of the City Council.

Assigned – amounts intended to be used for specific purposes, as determined by City Council. The City Council annually approves a resolution granting the City's Assistant City Manager for Financial Services the authority to assign funds. In governmental funds other than the general fund, the assigned fund balance represents the amount that is not restricted or committed which indicates that these resources are, at a minimum, intended to be used for the purpose of that fund.

The governmental funds have an assigned fund balance as of June 30, 2014 for the following purposes:

General Fund Encumbrances	\$ 1,587,549
Stormwater Management	470,344
Midland Community Television	<u>1,059,306</u>
	<u>\$ 3,117,199</u>

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the City's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

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Encumbrances

The following encumbrances are reported within assigned and restricted fund balance in the governmental funds:

General	\$ 1,587,549
Major Street	1,858,845
Grace A. Dow Memorial Library	258,256
Nonmajor Governmental	1,617,880

Use of estimates

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

Comparative data

Comparative data is not included in the City's financial statements.

Subsequent events

Management has evaluated subsequent events through December 18, 2014, which is the date the financial statements were available to be issued.

Adoption of new accounting standards

Statement 67, replaces the requirements of Statements 25 and 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements 25 and 50 remain applicable for pensions that are not administered through trust or equivalent arrangements. Statement 67 changed how public employee pension plans calculate and report their total pension liability. Statement 67 was effective for the year ended June 30, 2014

Statement 70, addresses the accounting and disclosure of situations in which one government offers a financial guarantee on behalf of another government, not-for-profit organization, private entity, or individual without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). A government that extends a nonexchange financial guarantee will be required to recognize a liability when qualitative factors and/or historical data indicate that it is "more likely than not" that the government will be required to make a payment on the guarantee. It further requires governments to disclose any outstanding financial guarantees in the notes to the financial statements. Statement 70 was effective for the year ended June 30, 2014.

Upcoming adoption of new accounting standards

The Governmental Accounting Standards Board has issued *Statement 68 Accounting and Financial Reporting for Pensions*. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. The effect of these changes has not been determined. Statement 68 is effective for the year ending June 30, 2015.

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The Governmental Accounting Standards Board has also issued *Statement 69, Government Combinations and Disposals of Government Operations, and Statement 71, Pension Transition for Contributions Made Subsequent to the Measurement Date.*

Statement 69 provides detailed requirements for the accounting and disclosure of various types of government combinations, such as mergers, acquisitions, and transfers of operations. The guidance available previously was limited to nongovernmental entities, and therefore did not provide practical examples for situations common in government-specific combinations and disposals. The accounting and disclosure requirements for these events vary based on whether a significant payment is made, the continuation or termination of services, and the legal structure of the new or continuing entity. Statement 69 is effective for the year ending June 30, 2015.

Statement 71, improves accounting and financial reporting by addressing an issue in Statement 68, *Accounting and Financial Reporting of Pensions*, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities. Statement 71 should be applied simultaneously with the provisions of Statement 68.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

State construction code act

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection on building construction renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, 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 follows:

Shortfall at July 1, 2013	\$ (540,503)
Current year building permit revenue	421,698
Related expenses:	
Direct costs	\$ 442,656
Estimated indirect costs	<u>26,559</u>
Total construction code expenses	<u>469,215</u>
Cumulative shortfall at June 30, 2014	<u><u>\$ (588,020)</u></u>

Budgetary information

The City is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund, Special Revenue Funds, and Debt Service Fund. All annual appropriations lapse at the end of the fiscal year, except as noted.

On or before the second Monday in April, the City Manager presents the proposed budget to the City Council for review. The City holds public hearings and a final budget must be prepared and adopted no

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later than the fourth Monday in May. During the current year, the budget was amended in a legally permissible manner.

The City Council approves the annual budget, which is prepared at the functional level.

Deficit net position

The City has accumulated unassigned and unrestricted net position deficits in the Currie Municipal Golf Course Fund, Civic Arena Fund, and Dial-A-Ride Fund. Deficit elimination plans are on file with the Michigan Department of Treasury for the Curried Municipal Golf Course Fund and the Civic Arena Fund, and the Dial-A-Ride Fund deficit is a result of problems in the Federal Transit Administration's (FTA) accounting system which delayed reimbursement. Funding to cover the deficit was received from the FTA after the 60-day availability measure cutoff.

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 associates 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; United States government of federal agency obligations; 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 rates as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City Council has designated nine financial institutions for the deposit of local unit funds. The investment policy adopted by the City in accordance with Public Act 20 of 1943 (as amended) authorizes investments in U.S. Treasuries, U.S. agencies and instrumentalities, certificates of deposit, commercial paper (meeting certain rating and maturity requirements), repurchase agreements, investment pools, bankers' acceptances of U.S. banks, and mutual funds. Repurchase agreements must be signed with the bank or dealer and must contain provisions comparable to those outlined in the Public Security Association's model Master Repurchase Agreement. The City Treasurer may invest in investment pools organized under the Surplus Funds Investment Pool Act of 1982 and under the Urban Cooperation Act of 1967.

For Mutual Funds, the City Treasurer may invest in funds registered under the Investment Company Act of 1940. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share and investment vehicles that are legal for direct investment by a public corporation.

The above-mentioned City investment policy applies to all financial assets of the City except for its Post Retirement Health Care and the Police and Fire Retirement System Fund, which are organized and administered separately. Investments are made pursuant to provisions of the Public Employee Retirement System Investment Act of 1965. Michigan Public Act 314 of 1965 and Michigan Public Act 149 of 1999, as amended, authorize investments 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.

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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 \$49,280,364 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 its funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

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

Investment	Fair Value	Weighted Average Maturity
Commercial Paper	\$ 10,821,490	0.314
Corporate Bonds	12,146,084	7.790
FHLM	419,442	2.689
FNMA	622,627	29.551
Municipal Obligation	1,668,659	2.504
U.S. Treasury Notes	2,833,150	2.907

Credit Risk – State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy does not 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	Organization
Commercial Paper	\$ 10,821,490	A1	S & P
Corporate bonds	754,385	A	S & P
Corporate bonds	2,613,686	A-	S & P
Corporate bonds	772,606	A+	S & P
Corporate bonds		AA	S & P
Corporate bonds	179,981	AA-	S & P
Corporate bonds	361,512	AA+	S & P
Corporate bonds	583,682	AAA	S & P
Corporate bonds	41,760	B	S & P
Corporate bonds	82,185	B-	S & P
Corporate bonds	609,127	B+	S & P
Corporate bonds	370,085	BB+	S & P
Corporate bonds	2,855,497	BBB	S & P
Corporate bonds	589,903	BBB-	S & P
Corporate bonds	1,555,622	BBB+	S & P
Corporate bonds	776,014	N / A	N / A
FHLM	419,442	AA+	S & P
FNMA	622,627	N / A	N / A
Money market funds	951,859	N / A	N / A
Municipal obligation	362,725	AA	S & P
Municipal obligation	218,422	AA-	S & P
Municipal obligation	343,229	AA+	S & P
Municipal obligation	16,041	AAA	S & P
Municipal obligation	583,882	N / A	N / A
Mutual funds	2,675,677	N / A	N / A
Pooled funds	274,741	N / A	N / A

City of Midland, Michigan
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NOTE 4 - RECEIVABLES

The only receivables not expected to be collected within one year are as follows:

	Due After One Year
Primary government	
Special assessments	\$ 420,965

The receivables are included in the Special Assessment Revolving Fund.

NOTE 5 - UNEARNED REVENUE

Governmental activities report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, unearned revenue are as follows:

Primary Government	
Grants	\$ 111,798
Utility overpayments	11,022
Other revenue	11,578
Total	\$ 134,398

NOTE 6 - CAPITAL ASSETS

Capital assets activity of the City for the year ended June 30, 2014 was as follows:

	Beginning Balance	Transfers	Increases	Decreases	Ending Balance
Governmental activities					
Capital assets not being depreciated					
Land	\$ 5,408,374	\$ -	\$ 70,587	\$ 1,653	\$ 5,477,308
Construction in progress	1,619,491	-	7,079,220	5,184,872	3,513,839
Total capital assets not being depreciated	7,027,865	-	7,149,807	5,186,525	8,991,147
Capital assets being depreciated					
Major and local roads	69,550,734	-	1,829,804	-	71,380,538
Sidewalks	5,625,435	-	50,000	-	5,675,435
Buildings	30,274,738	-	2,610,295	4,711	32,880,322
Land improvements	25,696,794	-	293,483	-	25,990,277
Library circulation materials	4,571,808	-	-	-	4,571,808
Equipment	15,430,722	-	1,055,621	1,018,275	15,468,068
Vehicles	15,411,518	-	1,780,573	1,078,895	16,113,196
Total capital assets being depreciated	166,561,749	-	7,619,776	2,101,881	172,079,644
Less accumulated depreciation for					
Major and local roads	35,020,707	-	2,767,626	-	37,788,333
Sidewalks	3,105,362	-	216,445	-	3,321,807
Buildings	13,094,630	-	641,272	3,235	13,732,667
Land improvements	7,714,398	(46,236)	539,000	-	8,207,162
Library circulation materials	3,856,708	-	274,804	-	4,131,512
Equipment	9,093,439	51,737	1,116,054	1,015,005	9,246,225
Vehicles	9,656,669	(5,501)	1,308,813	1,054,593	9,905,388
Total accumulated depreciation	81,541,913	-	6,864,014	2,072,833	86,333,094
Net capital assets being depreciated	85,019,836	-	755,762	29,048	85,746,550
Governmental activities capital assets, net	\$ 92,047,701	\$ -	\$ 7,905,569	\$ 5,215,573	\$ 94,737,697

City of Midland, Michigan
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	Beginning Balance	Transfers	Increases	Decreases	Ending Balance
Business-type activities					
Capital assets not being depreciated					
Land	\$ 2,793,794	\$ (16,000)	\$ -	\$ -	\$ 2,777,794
Construction in progress	<u>1,112,310</u>	<u>-</u>	<u>2,649,676</u>	<u>2,937,863</u>	<u>824,123</u>
Total capital assets not being depreciated	<u>3,906,104</u>	<u>(16,000)</u>	<u>2,649,676</u>	<u>2,937,863</u>	<u>3,601,917</u>
Capital assets being depreciated					
Water and sewer lines	89,111,265	-	2,680,298	8,300	91,783,263
Building and building improvements	84,276,809	16,000	742,511	41,820	84,993,500
Land improvements	8,403,534	-	644,462	-	9,047,996
Landfill improvements	12,897,891	-	201,437	-	13,099,328
Equipment	9,054,362	-	134,621	865,146	8,323,837
Vehicles	<u>2,030,452</u>	<u>-</u>	<u>-</u>	<u>70,240</u>	<u>1,960,212</u>
Total capital assets being depreciated	<u>205,774,313</u>	<u>16,000</u>	<u>4,403,329</u>	<u>985,506</u>	<u>209,208,136</u>
Less accumulated depreciation for					
Water and sewer lines	36,301,773	-	1,747,926	2,650	38,047,049
Building and building improvements	40,543,641	-	1,795,778	15,617	42,323,802
Land improvements	2,084,158	-	162,078	-	2,246,236
Landfill improvements	8,787,818	-	228,336	-	9,016,154
Equipment	5,694,671	-	561,419	835,339	5,420,751
Vehicles	<u>1,260,813</u>	<u>-</u>	<u>124,265</u>	<u>70,240</u>	<u>1,314,838</u>
Total accumulated depreciation	<u>94,672,874</u>	<u>-</u>	<u>4,619,802</u>	<u>923,846</u>	<u>98,368,830</u>
Net capital assets being depreciated	<u>111,101,439</u>	<u>16,000</u>	<u>(216,473)</u>	<u>61,660</u>	<u>110,839,306</u>
Business-type capital assets, net	<u>\$ 115,007,543</u>	<u>\$ -</u>	<u>\$ 2,433,203</u>	<u>\$ 2,999,523</u>	<u>\$ 114,441,223</u>

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

Governmental activities:

General government	\$ 198,979
Public safety	426,231
Public works	4,882,548
Sanitation	214,200
Parks and recreation	465,175
Library	442,950
Airport	76,172
Transportation	141,820
Other functions	<u>15,939</u>

Total governmental activities

\$ 6,864,014

Business-type activities:

Civic Arena	\$ 344,051
Landfill	584,535
Senior Housing	461,710
Golf course	184,276
Parking system	36,980
Wastewater	1,595,377
Water	<u>1,412,873</u>

Total business-type activities

\$ 4,619,802

City of Midland, Michigan
Notes to Financial Statements
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NOTE 7 - CONSTRUCTION COMMITMENTS

The City had active construction projects as of June 30, 2014. The projects included sidewalk, streets, landfill, renewable energy, wastewater, and water system projects.

At year end, the City's commitments with contractors were as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
General construction projects	\$ 379,039	\$ 38,510
Street projects	2,810,496	1,489,352
Storm projects	118,671	94,562
Library projects	2,558,180	11,749
Wastewater projects	46,763	524,220
Water projects	<u>264,682</u>	<u>194,788</u>
Total	<u>\$ 6,177,831</u>	<u>\$ 2,353,181</u>

NOTE 8 - INTERFUND RECEIVABLES, PAYABLE, AND TRANSFER

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sanitary Landfill	Renewable Energy Services	\$ 21,047
Community Development Block Grant	Midland Housing	<u>112,983</u>
		<u>\$ 134,030</u>

The balance owing from the Midland Housing Fund to the Community Development Block Grant (CDBG) Fund represents remaining balances on mortgages subsidized by the CDBG fund. The remaining interfund balance resulted from loans made for working capital purposes.

Advances at year end are as follows:

<u>Advances to other funds</u>	<u>Advances from other funds</u>	<u>Amount</u>
Sanitary Landfill	Renewable Energy Services	<u>\$ 351,436</u>

Payments of \$20,910 including interest at .5% are due annually for the advance between the Sanitary Landfill Fund and Renewable Energy Services Fund. Future principal payments are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2015	\$ 21,047
2016	21,153
2017	21,258
2018	21,365
2019	21,472
2020-2024	108,979
2025-2029	111,731
2030-2031	<u>45,478</u>
	<u>\$ 372,483</u>

City of Midland, Michigan
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The detail for interfund transfers is as follows:

	Transfers Out													Total
	General	Major Street Fund	CDBG	Local Street Fund	Special Activities	DDA Fund	Debt Service Fund	Riverside Place Fund	Currie Golf Course Fund	Wastewater Fund	Water Fund	Municipal Service Center Fund	Special Assessment Revolving Fund	
Transfers in:														
General Fund	\$ -	\$ -	\$ 2,719	\$ -	\$ 9,699	\$ -	\$ -	\$ -	\$ 22,385	\$ -	\$ -	\$ -	\$ 18,000	\$ 52,803
Library	659,660	-	-	-	-	-	-	-	-	-	-	-	-	659,660
Local Street Fund	-	1,650,000	-	-	-	-	-	-	-	-	-	-	-	1,650,000
Storm Water Management Fund	510,000	83,234	-	115,516	-	-	-	-	-	-	-	-	-	708,750
Dial-a-Ride Fund	554,688	-	-	-	-	-	-	-	-	-	-	-	-	554,688
Debt Service Fund	1,821,216	-	-	-	-	-	-	-	-	-	-	-	-	1,821,216
Civic Arena Fund	425,000	-	-	-	-	-	-	-	-	-	-	-	-	425,000
Washington Woods Fund	-	-	37,723	-	-	-	10,000	-	-	-	-	-	-	47,723
Currie Golf Course Fund	540,000	-	-	-	-	-	-	-	-	-	-	-	-	540,000
Parking Fund	21,500	-	-	-	45,000	-	-	-	-	-	-	-	-	66,500
Wastewater Fund	-	-	-	-	-	870,424	-	-	-	-	-	-	-	870,424
Stores Revolving Fund	-	-	-	-	-	-	-	-	-	-	72,934	-	-	72,934
Equipment Revolving Fund	-	-	-	-	-	-	-	8,472	-	-	-	-	-	8,472
Municipal Service Center Fund	200,000	-	-	-	-	-	-	-	-	-	-	-	-	200,000
Renewable Energy Fund	-	-	-	-	-	-	-	-	-	50,000	75,000	-	-	125,000
Total	\$ 4,732,064	\$ 1,733,234	\$ 40,442	\$ 115,516	\$ 9,699	\$ 45,000	\$ 870,424	\$ 10,000	\$ 30,857	\$ 50,000	\$ 75,000	\$ 72,934	\$ 18,000	\$ 7,803,170

The transfers from the General Fund to the Stormwater Management Fund, Library Fund, Dial-A-Ride Fund, Civic Arena Fund, Currie Municipal Golf Course Fund, and Parking Fund represent the use of unrestricted resources to finance these programs, in accordance with the budgetary authorizations. The transfer from the General Fund to the Municipal Service Center Fund is for parking lot replacement.

The transfers from the Major Street Fund to the Local Street Fund represent the sharing of gas and weight tax in accordance with Act 51, as well as sharing the 1-mill County Road Millage that is accounted for in the City's Major Street Fund. Both the Major Street Fund and the Local Street Fund transfer funding to the Stormwater Management Fund to offset roadside drainage costs that are accounted for in that fund. The transfer from the Debt Service Fund to the Wastewater Fund is necessary to transfer an additional millage for debt retirement to the Wastewater fund, which is the fund that accounts for the related debt. The transfer from the Downtown Development Authority to the Parking Fund is an annual contribution made by the DDA to help fund parking enforcement and related activities within the downtown district.

City of Midland, Michigan
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The transfers from the Water and Wastewater Funds to the Renewable Energy Fund were to provide operating assistance until the fund becomes self supportive in accordance with budgetary authorization. The transfers from the CDBG Fund to the General Fund and Washington Woods Fund are for grant funding as approved by HUD. The transfers from the Riverside Place Fund to the Washington Woods Fund, from the Special Assessment Revolving Loan Fund to the General Fund, and from the Special Activities Fund to the General Fund represent fund transfers in accordance with budgetary authorization. The transfers from Currie Municipal Golf Course Fund to the General Fund, from Wastewater Fund to Equipment Revolving Fund, and from Municipal Service Center Fund to Stores Revolving Fund are for the reallocation of assets and personnel.

NOTE 9 - LEASES

Operating leases

The City leases its police facility and landfill equipment under non-cancelable operating leases. Total costs for such leases were \$388,799 for the year ended June 30, 2014. According to the terms of its lease with the Midland City/County Joint Building Authority, the City's obligation for operating leases amounts to 64.8 percent of total operating expenses of the police facility.

The future minimum lease payments for these leases, including estimates of obligations under the police facility lease, are as follows:

<u>Year ending June 30,</u>	
2015	\$ 321,343
2016	174,463
2017	180,727
2018	186,149
2019	191,733
2020 - 2014	<u>1,048,475</u>
	<u>\$ 2,102,890</u>

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City of Midland, Michigan
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NOTE 10 - LONG-TERM DEBT

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Bonds and notes payable									
General obligation bonds									
2008 Judgment Funding Bonds	\$ 17,890,000	Sept. 2023	4.000 - 4.375%	\$1,130,000 - \$1,545,000	\$ 13,025,000	\$ -	\$ 1,085,000	\$ 11,940,000	\$ 1,130,000
2010 Renewable Energy*	6,000,000	October 2030	2.50%	\$255,000 - \$375,000	5,525,000	-	245,000	5,280,000	255,000
Bond discount - Renewable Energy					(141,493)	-	(14,150)	(127,343)	-
Total bonds payable					18,408,507	-	1,315,850	17,092,657	1,385,000
Compensated absences					3,421,472	1,690,382	1,536,880	3,574,974	1,626,115
Total governmental activities					<u>\$ 21,829,979</u>	<u>\$ 1,690,382</u>	<u>\$ 2,852,730</u>	<u>\$ 20,667,631</u>	<u>\$ 3,011,115</u>
Business-type activities									
Bonds and notes payable									
General obligation bonds									
2001 Sewer Construction - State Revolving Fund	\$ 5,130,000	May 2022	2.50%	\$260,000 - \$304,063	\$ 2,519,063	\$ -	\$ 255,000	\$ 2,264,063	\$ 260,000
2004 Civic Arena	6,500,000	May 2014	3.75%	\$175,000	175,000	-	175,000	-	-
2005 Sewer Refunding Bonds	9,480,000	May 2021	3.65 - 4.15%	\$860,000 - \$1,085,000	7,600,000	-	830,000	6,770,000	860,000
2012 Civic Arena Refunding Bonds	4,550,000	May 2030	.70 - 3.55%	\$260,000 - \$304,063	4,485,000	-	45,000	4,440,000	225,000
Total bonds payable					14,779,063	-	1,305,000	13,474,063	1,345,000
Compensated absences					921,847	438,697	459,546	900,998	396,596
Landfill closure and postclosure					3,689,000	101,000	-	3,790,000	-
Total business-type activities					<u>\$ 19,389,910</u>	<u>\$ 539,697</u>	<u>\$ 1,764,546</u>	<u>\$ 18,165,061</u>	<u>\$ 1,741,596</u>

*Recorded in internal service funds.

Compensated absences are normally liquidated by the fund in which the individual employees are budgeted.

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On May 19, 2008, the City Council authorized the issuance of \$17,890,000 limited tax general obligation judgment bonds for the purpose of paying a part of a tax refund to The Midland Cogeneration Venture (MCV), as ordered by the Michigan Tax Tribunal's Consent Judgment, dated April 18, 2008. The sale of the bonds occurred on June 17, 2008, with the City taking possession of the proceeds on July 10, 2008, and issuing the refund to MCV on July 17, 2008. Future funding for this bond's debt service will come from the General Fund.

The 2001 Sewer Construction Bonds were approved by the voters in a general election held on February 22, 2000. The City Council has approved a resolution to levy a millage to pay approximately 60 percent of the principal and interest cost of these bonds. The 40 percent balance of the obligation is to be repaid by fees from the users of the municipal sanitary sewage collection and treatment system. The proceeds were being used for construction of sewer facilities recorded in the Wastewater Fund. On September 12, 2005, General Obligation Unlimited Tax Bonds were issued to refund \$9,025,000 of the outstanding bond.

On December 3, 2001, the City Council authorized issuance of general obligation limited tax bonds, series 2001, in the principal sum not to exceed \$5,130,000. The purpose of this issuance was to fund the construction of a storm water retention basin at the wastewater treatment plant. User fees will fund 40 percent of the principal and interest on these bonds and the remaining 60 percent will be funded by a millage that the City has levied. The full faith and credit and the limited taxing power of the City are pledged for payment of the principal and interest thereon.

On August 9, 2004, the City Council approved the sale of \$6.5 million in limited tax general obligation bonds for the construction of a new civic arena. The final payment will be made in the year 2030. The total cost of the civic arena project was approximately \$10.3 million, with the balance of the funding coming primarily from area foundations. The project was completed in the fall of 2005. On June

13, 2012, General Obligation Unlimited Tax Bonds were issued to refund \$4,325,000 of the outstanding bond.

On September 13, 2005, the City issued \$9,480,000 of General Obligation Unlimited Tax Refund Bonds. The bonds were issued pursuant to resolutions adopted by the City Council on July 11, 2005 and August 22, 2005, and provide for an average interest rate of 3.95 percent. The proceeds of these bonds were used to advance refund \$9,025,000 of outstanding 2001 General Obligation Unlimited Bonds with an average interest rate of 5.07 percent.

On June 13, 2012, the City issues \$4,550,000 of General Obligation Unlimited Tax Refund Bonds. The bonds provide for an interest rate of .70 to 3.55 percent. The proceeds of these bonds were used to advance refund \$4,325,000 of outstanding 2004 General Obligation Unlimited Bonds with an interest rate of 3.75 to 4.75 percent.

The City has pledged its full faith and credit on the bonded indebtedness of the Saginaw-Midland Municipal Water Supply Corporation, a jointly owned raw water system described in Note 1 – Summary of Significant Accounting Policies.

By statute, the City's general obligation debt is restricted to 10 percent of the equalized value of all property in the City. Certain obligations, such as water revenue refunding bonds, are not subject to this limitation. At June 30, 2014, the City's general obligation debt statutory and legal debt limit amounted to \$255,859,200 and the indebtedness subject to the limitation aggregated \$30,566,720.

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

Fiscal Year	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 1,385,000	\$ 625,722	\$ 1,345,000	\$ 445,120
2016	1,435,000	574,084	1,390,000	403,147
2017	1,485,000	520,522	1,440,000	358,874
2018	1,540,000	463,510	1,485,000	311,742
2019	1,600,000	404,247	1,530,000	261,822
2020 - 2024	7,330,000	1,027,180	4,374,063	627,050
2025 - 2029	1,705,000	182,298	1,565,000	219,968
2030 - 2033	740,000	12,921	345,000	12,248
	<u>\$ 17,220,000</u>	<u>\$ 3,810,484</u>	<u>\$ 13,474,063</u>	<u>\$ 2,639,971</u>

Deferred Amount of Debt Refunding

The City issued bonds in 2012 to advance refund and retire previously issued term bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt. This amount is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through the fiscal year.

Deferred amount on refunding activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Less deferred charge on defeasance	\$ (656,683)	\$ -	\$ (60,424)	\$ (596,259)

Defeased Debt

In prior years, the City has defeased a bond issued by creating separate irrevocable trust funds. New debt has been issued and the net proceeds of the refunding was placed in a special escrow account and invested in securities of the U.S. Government and its agencies. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded bonds are considered to be defeased. Accordingly, the trust account assets and liability for the defeased bonds are not included in the City's financial statements. At June 30, 2014, \$4,165,000 of bonds outstanding are considered defeased.

NOTE 11 - LANDFILL CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require the City to place a final cover on its sanitary landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and post closure care costs as operating expense in each period based on landfill capacity used as of each balance sheet date. The \$3,790,000 reported as landfill closure and post closure care liability at June 30, 2014 represents the cumulative amount reported to date based on the use of 100 percent of the capacity of Area A (32 acres closed in 1993) and cells 1 through 13 (40.2 acres closed in 2005), cell 14 (12.6 acres), 82 percent of the estimated capacity of cell 15, and 20 percent of the estimated capacity of cell 16.

The City will recognize the remaining estimated cost of closure and post closure care of \$962,047 as the remaining capacity of cells 15 and 16 are filled.

City of Midland, Michigan
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These amounts are based on what it would cost to perform all closure and postclosure care in current dollars. The City expects to reach 100 percent capacity in cell 15 during the fiscal year ending June 2017 and in cell 16 during the fiscal year ending June 30, 2023. The actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by State and Federal laws and regulations to make contributions to a Trust to finance closure and postclosure care. The City is in compliance with these requirements, and at June 30, 2014, cash and cash equivalents in the amount of \$2,182,960 were held for these purposes, and reported as restricted assets on the balance sheet. The City expects that future inflation costs will be paid from interest earnings on these contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

The City has also entered into an agreement to provide a letter of credit in favor of the State of Michigan to fulfill certain bonding requirements imposed upon the City, by Michigan law.

NOTE 12 - RESTRICTED ASSETS

Cash and cash equivalents are restricted within the Water and Wastewater Funds for future debt service obligations in the amounts of \$92,975 and \$1,179,372, respectively. Within each of these funds, an offsetting liability “payable from restricted assets” designates the separation of these assets from unreserved assets. In addition, the Landfill Fund has \$2,182,960 of restricted assets that are for closure and postclosure costs. The Water Fund also has \$25,000 of restricted assets for emergency repair.

NOTE 13 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Police and fire pension system

Plan Description – The Police and Fire Pension System is a single-employer defined benefit pension plan that is administered by the City of Midland Police and Fire Employees Retirement System. This plan covers all police and fire employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2013, the date of the most recent actuarial valuation, membership consisted of 132 retirees and beneficiaries currently receiving benefits, 3 inactive and non-retired members, and 88 current active employees. The plan does not issue a separate financial report.

Funding policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the City’s collective bargaining units and requires a contribution from the employees of 8 percent of gross wages from all employees. The City’s funding policy provides for biweekly employee contributions and monthly employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings. The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Contributions – Plan member contributions are recognized in the period in which the contributions are 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

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Accounting policy – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System has been determined on the same basis as they are reported by the City. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

As of December 31, 2013, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 5,920,251
Reserve for employer contributions	6,860,484
Reserve for retired benefit payment	46,516,151

Three year trend information:

Year Ended December 31,	Annual Pension Cost APC	Percentage of APC Contribution	Net Pension Obligation
2011	\$ 2,263,124	100%	None
2012	2,581,577	100%	None
2013	2,572,418	100%	None

Net pension liability – The City's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation dated December 31, 2013 using the following actuarial assumptions applied to all periods included in the measurement:

Inflation	4%	
Salary increases	4% to 9.2%	including inflation
Investment rate of return	7%	net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Mortality Table projected 10 years. The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period of 2002-2017, with an additional table added in the 2011 valuation for members hired after July 1, 2011.

City of Midland, Michigan
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The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-term Projected Rate of Return
U.S. large cap equity	30.00%	6.50%
U.S. mid cap	8.00%	7.10%
U.S. small cap	8.00%	7.70%
International/EM equity	19.00%	6.40%
Cored fixed income	35.00%	0.60%

A single discount rate of 7.00 percent was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 7.00 percent and municipal bond rate of 4.29 percent. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position and future contributions was projected to be sufficient to finance the benefit payments through 2052. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2052, and the municipal bond rate was applied to all benefit payments after that date.

Changes in net pension liability:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Opening balances	\$ 74,686,393	\$ 53,984,169	\$ 20,702,224
Changes for the year			
Service cost	1,797,535	-	1,797,535
Interest	5,121,712	-	5,121,712
Employer contributions	-	2,572,418	(2,572,418)
Employee contributions	-	552,073	(552,073)
Net investment income	-	8,630,757	(8,630,757)
Benefit payments, including refunds of employee contributions	(4,835,686)	(4,835,686)	-
Other	-	1,783	(1,783)
Net changes	2,083,561	6,921,345	(4,837,784)
Closing balances	\$ 76,769,954	\$ 60,905,514	\$ 15,864,440

The City's annual money-weighted rate of return, net of investment expenses is 16.19%. The plan's net position as a percent of total pension liability is 79.34%

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Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 6.60 percent, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is one percentage point lower or one percentage point higher:

	1% Decrease 6.00%	Current Single Rate 7.00%	1% Increase 8.00%
Total pension liability	\$ 85,896,310	\$ 76,769,954	\$ 69,134,397
Plan fiduciary net position	60,905,514	60,905,514	60,905,514
Net pension liability	<u>\$ 24,990,796</u>	<u>\$ 15,864,440</u>	<u>\$ 8,228,883</u>

Municipal Employee's Retirement System of Michigan – Defined Benefit Retirement Plan

Plan description – The City of Midland participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all employees of the City other than police and fire employees and employees hired on or after July 1, 2005. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917 or on the web at <http://www.mersofmich.com>.

Funding policy – The obligation to contribute to and maintain the system for these employees was established primarily by negotiation with the City's collective bargaining units and requires a contribution from employees ranging from 0 percent to 5 percent of gross wages. The City's funding policy provides for monthly employee and employer

contributions at actuarially determined rates.

Annual pension costs – For year ended December 31, 2013, the City's annual pension cost of \$5,211,852 or the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2013, using the entry actual age actuarial funding method. Significant actuarial assumptions used include: 1) an 8% investment rate of return; 2) projected salary increases of 4.5 percent per year, compounded annually; 3) additional projected salary increases of 0 percent to 4.5 percent per year, attributable to seniority/merit, and 4) the assumption that benefits will increase after retirement by 2.5 percent annually, non-compounded. Both 1) and 2) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a 10-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 25 years.

Three year trend information:

Year Ended December 31,	Annual Pension Cost APC	Percentage of APC Contribution	Net Pension Obligation
2011	\$ 4,071,168	100%	None
2012	5,085,348	100%	None
2013	5,211,852	100%	None

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Schedule of Funding Progress

Actuarial Valuation Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio (Percent)	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/2011	\$ 80,472,212	\$ 122,875,414	\$ 42,403,202	65%	\$ 9,897,469	428.4%
12/31/2012	80,096,999	126,095,128	45,998,129	64%	9,227,199	498.5%
12/31/2013	80,921,968	130,626,274	49,704,306	62%	8,741,747	568.6%

Municipal Employee’s Retirement System of Michigan – Defined Contribution Retirement Plan

The City of Midland participates in the Municipal Employee’s Retirement System of Michigan (MERS) defined contribution plan for all employees hired on or after July 1, 2005, with the exception of police and fire employees. In the defined contribution plan, benefits depend solely on the amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council resolution, the City contributes 5 percent of the employee’s gross earnings in the plan. The employee is fully vested after five years of service or at age 65.

The City’s total payroll during the current year was \$23,720,428. The current year contribution was calculated based on covered payroll of \$4,820,892, resulting in an employer contribution of \$241,047. Employee contributions were \$0.

International City/County Management Association (ICMA) – RC 457 – Deferred Compensation Plan

The City also participates in an ICMA-RC 457 deferred compensation plan for all employees hired on or after July 1, 2005, with the exception of police and fire employees. In the deferred compensation plan, benefits depend solely on the amounts contributed to the plan

plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council resolution, the City will contribute up to 7 percent of the employee’s wages with 100 percent matching of the employee wage contributions, in 1 percent increments.

The City’s total payroll during the current year was \$23,720,428. The current year contribution was calculated based on covered payroll of \$4,820,892, resulting in an employer contribution of \$252,998 and employee contributions of \$252,998.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The City of Midland provides postemployment healthcare coverage under a traditional insured plan to retired employees and their qualified spouses and other dependents, as mandated by collective bargaining agreements. Each agreement contains variations of the following general guidelines. Most employees fall into one of the following general groups:

The first group of employees will be enrolled in the comprehensive medical plan available at the time of retirement. The City will pay 100 percent of the premium for retiree, spouse, and family.

The second group of employees will be eligible for continued medical coverage when they retire from the City, providing they pay 50 percent of the premium. The City will pay the other 50 percent.

The third group, employees hired on or after July 1, 2005, excluding police and fire employees, will not be eligible to be included in the City’s group health insurance plan. For those employees, the City will contribute 2 percent of the employee’s wages into a healthcare savings program.

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The City funds the retiree health insurance on a “pay as you go” basis. The net cost to the City of providing postemployment health care coverage follows:

<u>Year</u>	<u>Number of Retirees</u>	<u>Amount</u>
2012	372	\$ 4,715,365
2013	358	4,617,438
2014	379	4,829,226

For the fiscal year, the City of Midland transferred \$171,857 to Municipal Employee’s Retirement System of Michigan (MERS) Retiree Health Funding Vehicle. MERS acts as a fiduciary, investing and managing funds for the future payment of postemployment healthcare coverage for the City of Midland.

The covered wages for the retiree health post employment for the fiscal year were \$12,751,993.

Health Care Savings Program

The City of Midland participates in the Municipal Employee’s Retirement System of Michigan (MERS) healthcare savings program for all employees hired on or after July 1, 2005, with the exception of police and fire employees. In the healthcare savings program, benefits depend solely on the amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council resolution, the City contributes 2 percent of the employee’s gross earnings in the program. The employee is fully vested after three years of service.

The City’s total payroll during the current year was \$23,720,428. The current year contribution was calculated based on covered payroll of \$4,820,892, resulting in an employer contribution of \$96,418.

Police employees hired on or after July 1, 2011 are not eligible to participate in the City retiree health insurance plan. Employees hired after these dates participate in a Health Care Savings Program. Contributions in the program consist of 2% of the employee’s wages by the City and employees for a total of 4%. The 2% employee contribution is mandatory. A vesting period of 3 years will apply for all employer contributions to the Health Care Savings Program.

The current year contribution was calculated based on a covered payroll of \$502,378, resulting in an employer contribution of \$10,048 and employee contributions of \$10,048.

Fire employees hired on or after November 14, 2011 are not eligible to participate in the City retiree health insurance plan. In lieu of participation in the City retiree health insurance plan, employees shall participate in a Health Savings Account (HSA) to accumulate funds for post-employment health care costs. The City shall contribute 2% of compensation to the HSA. An employee contribution to the HAS will not be available effective July 1, 2013.

The current year contribution was calculated based on a covered payroll of \$256,952 resulting in an employer contribution of \$5,139 and employee contributions of \$0.

Other Postemployment Benefits

Plan description. The City of Midland’s Retiree Healthcare Plan (the “Plan”) is a single-employer defined benefit healthcare plan administered by the City. The Plan provides 100% of health insurance benefits to eligible retirees and their dependents. The benefit is provided upon general administrative employees attaining 55 years of age, with 20 years of service to the City, and public safety employees are eligible with 25 years of service regardless of age. The City established a retirement health savings trust to account for the Plan.

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Funding policy. The contribution requirements of Plan members and the City are established and may be amended by the City Council. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City. For the year ended June 30, 2014, the City contributed \$5,103,471 to the plan which was the Annual Required Contribution (ARC). Beginning with the fiscal year ending June 30, 2009, the City was required to begin recognizing expenses for OPEB costs in the government-wide and proprietary fund financial statements based on an actuarially determined annual required contribution (ARC).

Annual OPEB Cost and Net OPEB Obligation. The City's other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarially accrued liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's net OPEB obligation:

Annual required contribution	\$ (5,103,471)
Contributions made to OPEB Trust	<u>5,103,471</u>
Change in net OPEB obligation	-
Net OPEB liability, beginning of year	<u>-</u>
Net OPEB liability, end of year	<u>\$ -</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2014 is as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 5,103,471	100%	\$ -

Funded status and funding progress. As of June 30, 2012 the date of the most recent actuarial valuation, the Plan was 37.8% funded. The actuarial accrued liability for benefits was \$76,021,289, and the actuarial value of assets was \$28,750,211, resulting in an unfunded actuarial accrued liability (UAAL) of \$47,271,678.

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.

Actuarial methods and assumptions. 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 the 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

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actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2012 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions includes: (a) a rate of return on investments of 8.0%; (b) projected salary increases of 4.5% attributable to inflation; (c) additional projected salary increases ranging from .3% to 8.4%, depending on age, attributable to seniority/merit; and (d) projected healthcare benefit increases of 4.5% to 9%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over 28 years. The plan is open.

NOTE 15 - CLAIMS, LITIGATION, AND OTHER CONTINGENCIES

In the normal course of its activities, the City becomes a party in various legal actions. Although some actions have been brought for large amounts, the City has not generally experienced significant losses or cost. City management is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

NOTE 16 - ENTERPRISE FUND CONTRACTUAL REVENUE

The City supplies large quantities of water to Dow Chemical Company and Dow Corning Corporation under contractual arrangements with each company. Under the Dow Chemical Supplemental Agreement

dated March 1, 1979, and the Dow Corning Agreement dated July 15, 1985, the companies agree to pay for the variable cost of industrial grade water. In addition, the companies agree to pay a percentage of certain fixed costs, including the principal and interest costs on debt incurred by the City related to plant expansions necessary to meeting the companies' special requirements. These fixed cost payments are due in monthly installments until the bonds of the Saginaw-Midland Municipal Water Supply Corporation are paid in full.

The payment percentage is based upon the cost of the facilities required to meet the companies' exact capacity requirements relative to the total cost of the City's initial capacity requirements.

The percentage of the bond principal and interest payments reimbursed by each company follows:

	Percentage	
	Dow Chemical Company	Dow Corning Corporation
1998 Saginaw-Midland - Water Revenue Refinancing Bonds	34.00%	4.20%
2002 Saginaw-Midland - Water Revenue Refinancing Bond	34.00%	4.20%
2006 Saginaw-Midland - Water Revenue Bonds	34.00%	4.20%
2009 Saginaw-Midland - Water Revenue Bonds	34.00%	4.20%

Total payments received under these agreements during the fiscal year were \$448,865, consisting of principal and interest of \$400,508 and \$48,357, respectively. These payments have been recorded as nonoperating revenue in the City's Enterprise Funds. Under the terms of these agreements, no equity accrues to either company.

Under the terms of the agreement with Dow Chemical Company, the Water Fund shall retain in a Dow Chemical Emergency Repair and Maintenance Fund, \$25,000 to fund Dow's share of non-budgeted repair, replacement, or improvements.

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NOTE 17 - URBAN COOPERATION ACT AGREEMENT

Effective December 30, 1992, the City entered into a 30-year interlocal public agency agreement with the Township of Midland, as authorized by the provisions of Public Act 7 of the Public Acts of the State of Michigan of 1967 (Ex Sess) [MSA 5.4088(1) et seq; MCLA 124.501 et seq].

The agreement provides for (1) the orderly and uncontested annexation to the City of certain property then located in the Township; (2) future sharing, through the year 2022, of revenues derived from the City's levy of property taxes on certain property to be annexed under the agreement; (3) beginning in September 1993, and continuing through the year 2012, the sharing of revenues derived from the City's levy of property taxes on certain commercial and industrial property already located within the City; and (4) extension, at City cost, of water and sewer services by the City to the Township boundary.

The City's obligation under provision 3 above shall cease if and when total cumulative payments there under reach \$15,000,000. The amount of revenue sharing due to the Township by the City under this agreement during the year ended June 30, 2014 was \$134,489. The total cumulative payments from the City through June 30, 2014 were \$3,820,126.

NOTE 18 - RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for liability and property claims, airport liability, and pension fiduciary liability claims; it participates in the Michigan Municipal Workers' Compensation Pool for employee injury claims.

The Michigan Municipal League risk pool programs operate as common risk-sharing/management programs for local units of government in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Beginning July 1, 2007, the City started a self-insurance program for health insurance, which is accounted for in the Health Insurance Fund (Internal Service Fund). An independent administrator (BCBS) processes the daily claims. The City has a \$40,000 stop-loss, per contract. There were no reductions to insurance coverage from the prior year. The cost for health care is charged out to other City funds through its payroll system based upon illustrative rates generated by BCBS. These charges, together with employee withholdings, are the source of revenue to the Health Insurance Fund. Settled claims for the past three years, including the current year, as well as the prior two years relating to the commercial health insurance, have not exceeded the amount of insurance coverage.

The City estimates the liability for healthcare claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported.

The estimated liability for the past two fiscal years is as follows:

	2014	2013
Unpaid claims - Beginning of year	\$ 958,743	\$ 997,077
Incurred claims, including claims incurred but not reported	8,678,159	8,057,389
Claims paid	(8,565,139)	(8,095,723)
Unpaid claims - End of year	\$ 1,071,763	\$ 958,743