

City of Eastpointe, Michigan

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

City of Eastpointe, Michigan

Contents

Introductory Section

Letter of Transmittal	i-xvii
-----------------------	--------

Financial Section

Report Letter	1-3
---------------	-----

Management's Discussion and Analysis	4-11
--------------------------------------	------

Basic Financial Statements

Government-wide Financial Statements:

Statement of Net Position	12
Statement of Activities	13-14

Fund Financial Statements:

Governmental Funds:

Balance Sheet	15
Reconciliation of the Balance Sheet to the Statement of Net Position	16
Statement of Revenue, Expenditures, and Changes in Fund Balances	17
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18

Proprietary Funds:

Statement of Net Position	19
Statement of Revenue, Expenses, and Changes in Net Position	20
Statement of Cash Flows	21

Fiduciary Funds:

Statement of Net Position	22
Statement of Changes in Net Position	23

Component Units:

Statement of Net Position	24
Statement of Activities	25-26

Notes to Financial Statements	27-57
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City of Eastpointe, Michigan

Contents (Continued)

Required Supplemental Information	58
Budgetary Comparison Schedule - General Fund	59
Budgetary Comparison Schedule - Major Special Revenue Funds	60-62
Retirement System Schedule of Funding Progress	63
Retiree Healthcare System Schedule of Funding Progress and Employer Contributions	64
Note to Required Supplemental Information	65-66
Retirement System Schedule of Investment Returns	67
Retirement System Schedule of Changes in the City Net Pension Liability and Related Ratios	68
Retirement System Schedule of City Contributions	69
Other Supplemental Information	70
Nonmajor Governmental Funds:	
Combining Balance Sheet	71-72
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	73-74
Fiduciary Funds:	
Combining Statement of Net Position	75-76
Combining Statement of Changes in Net Position	77



December 1, 2014

To the Honorable Mayor, Members of the City Council, and the Citizens of
the City of Eastpointe, Michigan

The financial report of the City of Eastpointe, Michigan (the “City”) as of and for the year ended June 30, 2014 is hereby submitted as mandated by the City Charter and State Statute, Public Act 2 of 1968. The City Charter and State Statute require that the City of Eastpointe, Michigan issue annually a report on its financial position and activity, and that this report be audited by an independent firm of certified public accountants. The financial statements and supplemental schedules contained herein have been audited by Plante & Moran, PLLC, certified public accountants. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management.

To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the City of Eastpointe, Michigan. All disclosures necessary to enable the reader to gain an understanding of the City of Eastpointe, Michigan’s activities have been included.

The financial report is presented in two sections: introductory and financial. The introductory section, which is unaudited, includes this letter of transmittal. The financial section includes the government-wide financial statements, fund financial statements and schedules, as well as the independent auditor's report on these financial statements and schedules. The required supplemental section includes management’s discussion and analysis and information on the pension plan. Other supplemental information includes combining and individual fund financial statements.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management’s discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Eastpointe, Michigan’s MD&A can be found immediately following the report of the independent auditor.

City Profile and Economic Conditions

Regional Settings

The City of Eastpointe, Michigan is located near the southeast corner of Macomb County, adjacent to the southern boundary of Macomb County and north of the city of Detroit. Freeway access to the southeast Michigan region is provided by Interstate-94 (I-94) and Interstate-696 (I-696). In addition, regional access is available using the bus system of the Suburban Mobility Authority for Regional Rapid Transit (SMART) system.

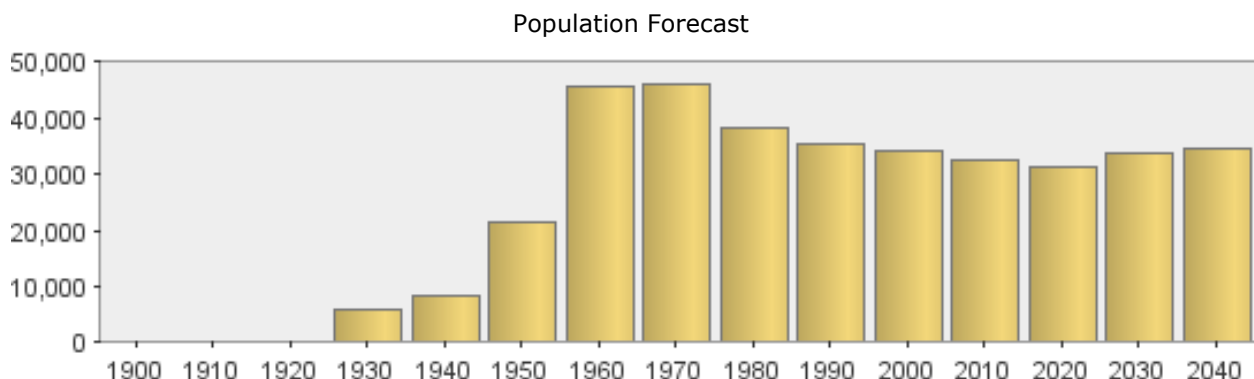
Local Economy

Eastpointe has grown and prospered significantly as one of southeastern Michigan's earliest and strongest suburban communities. The City of Eastpointe, Michigan continues to welcome residents, businesses, and visitors alike to a vibrant and diverse community. The City is ideally located in southeastern Michigan, within Macomb County and proud of the initiative to "Make Macomb Your Home." Eastpointe provides a full range of services to residents, visitors, and the business community and is conveniently located for employers and employees alike at the intersection of I-94 and I-696 and is centered by the Gratiot Corridor "M-3 the Place to Be." Macomb County continues to rank high in per capita income, employment opportunities, and overall quality of life.

The City of Eastpointe, Michigan exemplifies the best in Macomb County through its high value to cost City services, road system, active community place-making efforts and organizations, and a variety of opportunities for residents and the business community. It is an aggressively fiscally managed and solid community with many advantages because of its affordable housing mix, business climate, and convenient access to other business and residential areas in southeastern Michigan.

There are more than 800 commercial and industrial businesses and service enterprises within the City's 5.0 square miles. The City is proud to have a majority of small businesses, as well as more than 60 major companies within its borders, such as BMW and Porsche dealerships, CVS Pharmacy, Walgreen, Family Dollar, and Olive Garden.

Forecasted and Current Demographics



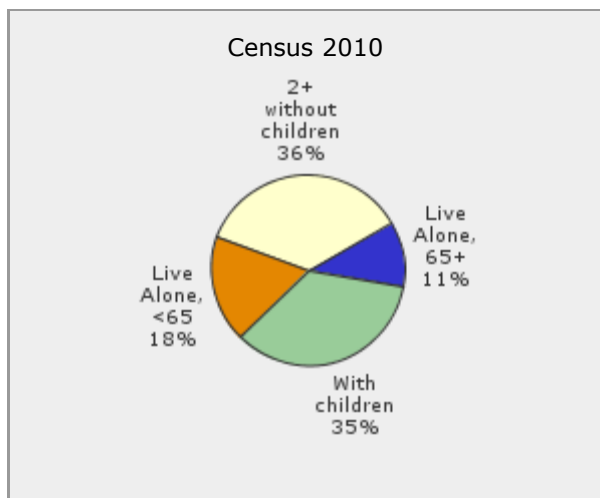
Note for Eastpointe: Name changed in 1992 from City of East Detroit. East Detroit incorporated as a city in 1929 from Village of Halfway. Village of Halfway incorporate in 1924 from part of Erin Township. Population numbers not available prior to 1924 as area was part of Erin Township.

Population and Households	Census 2010	Change 2000-2010	Pct Change 2000-2010	SEMCOG Jul 2014	SEMCOG 2040
Total Population	32,442	-1,635	-4.8%	33,315	34,467
Group Quarters Population	21	-58	-73.4%	21	25
Household Population	32,421	-1,577	-4.6%	33,294	34,442
Housing Units	13,796	-169	-1.2%	13,773	-
Households (Occupied Units)	12,557	-1,038	-7.6	12,721	13,687
Residential Vacancy Rate	9.0%	6.3%	-	7.6%	-
Average Household Size	2.58	0.08	-	2.62	2.52

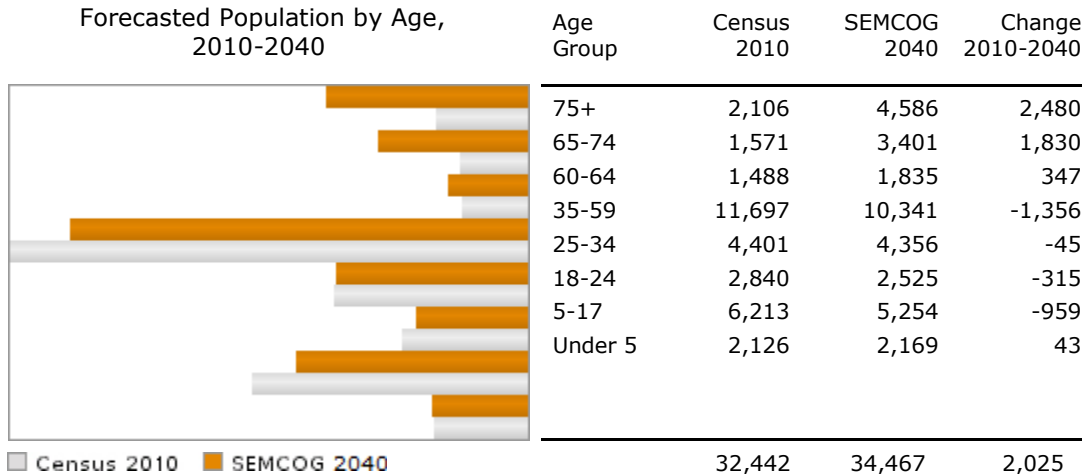
Components of Population Change	Annual Average	
	2000-2005	2006-2010
Natural Increase (Births - Deaths)	31	96
Births	410	526
Deaths	379	430
Net Migration (Movement In - Movement Out)	-149	-358
Population Change (Natural Increase + Net Migration)	-118	-261

Source: Michigan Department of Community Health
Vital Statistics, U.S. Census Bureau, and SEMCOG.

Household Types



Household Types	Census 2000	Census 2010	Pct Change 2000-2010
With seniors 65+	4,246	2,963	-30.2%
Without seniors	9,349	9,594	2.6%
Two or more persons without children	5,188	4,567	-12.0%
Live alone, 65+	1,878	1,345	-28.4%
Live alone, under 65	2,041	2,263	10.9%
With children	4,488	4,382	-2.4%
Total Households	13,595	12,557	-7.6%

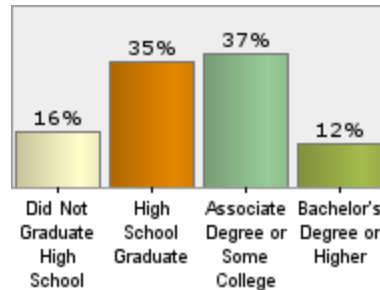


Senior and Youth Population	Census 2000	Census 2010	Pct Change 2000-2010	SEMCOG 2040	Pct Change 2010-2040
65 and over	5,607	3,677	-34.4%	7,987	117.2%
Under 18	8,333	8,339	0.1%	7,423	-11.0%
5 to 17	6,161	6,213	0.8%	5,254	-15.4%
Under 5	2,172	2,126	-0.1%	2,169	2.0%

Note: Population by age changes over time because of the aging of people into older age groups, the movement of people, and the occurrence of births and deaths.

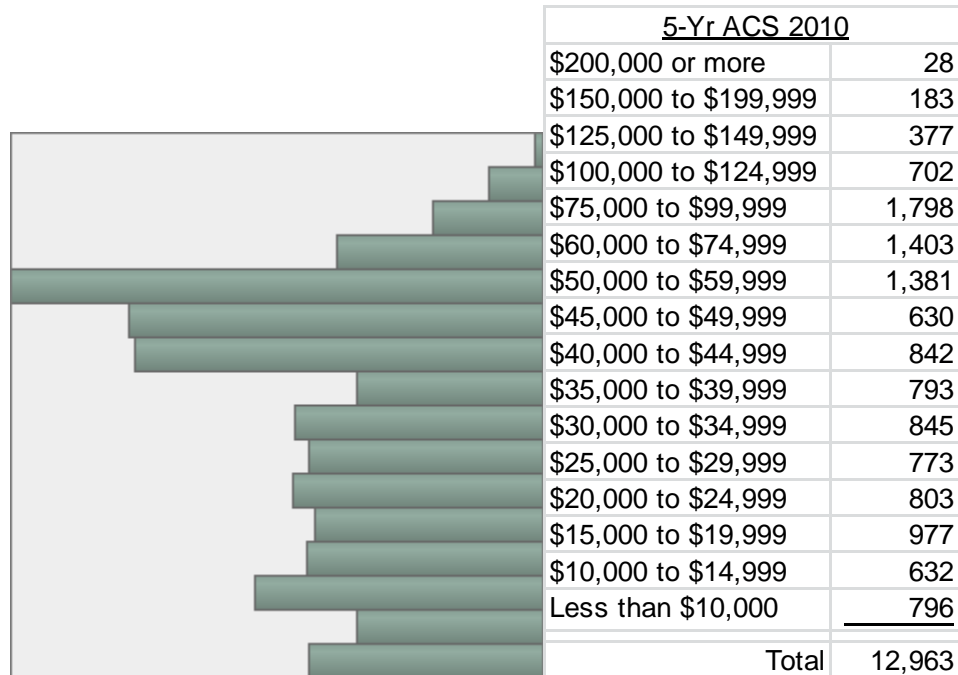
Race and Hispanic Origin	Census 2000		Census 2010		Percentage Point Chg 2000-2010
Non-Hispanic	33,624	98.7%	31,765	97.9%	-0.8%
White	31,094	91.2%	20,898	64.4%	-26.8%
Black	1,594	4.7%	9,503	29.3%	24.6%
Asian	295	0.9%	346	1.1%	0.2%
Multi-Racial	484	1.4%	838	2.6%	1.2%
Other	157	0.5%	180	0.6%	0.1%
Hispanic	453	1.3%	677	2.1%	0.8%
Total Population	34,077	100.0%	32,442	100.0%	0.0%

Highest Level of Education*	5-Yr ACS 2010	Percentage Point Chg 2000-2010
Graduate / Professional Degree	4.4%	1.0%
Bachelor's Degree	7.9%	-0.0%
Associate Degree	7.8%	1.6%
Some College, No Degree	29.3%	6.4%
High School Graduate	34.8%	-4.2%
Did Not Graduate High School	15.9%	-4.8%



* Population age 25 and over

Annual Household Income



Poverty	Census 2000		5-Yr ACS 2010		Percentage Point Chg 2000 - 2010
Persons in Poverty	2,174	6.4%	4,242	12.9%	6.5%
Households in Poverty	930	6.8%	1,414	10.9%	4.1%

Local Economic Base

Eastpointe is a full-service community. It has sound infrastructure, stable values, and has many advantages accruing to it because of its housing mix and business climate. City officials proudly point to the fact that almost 91 percent of the buildings are single-family homes or condominiums.

The diversity of the City's economic base is reflected in its building stock:

Single family homes*	12,699	Homes
Condominiums - 9 complexes*	331	Units
Senior citizen towers - 2 buildings	200	Units
Rental apartments - 36 complexes	2600	Units
Shopping centers (174,644 sq. ft.)	4	Centers
Hotel/Motels - 2 properties	208	Rooms
Offices (409,932 sq. ft.)	99	Buildings
Commercial (gas station/retail/restaurants, etc.)	463	Buildings
Light industrial (202,453 sq. ft.)	12	Buildings
Total units/buildings	16,616	

* Single-family homes range in value from \$40,000 to in excess of \$80,000.

Tax Base Composition

The principal source of revenues to fund the City's operations is the property tax (50 percent of total 2013-2014 General Fund revenues). The property tax revenues are a result of applying the millage rate set by City Council within the restrictions of state law to the taxable value of real and personal property located within the City. The tables below illustrate the diversity of the City's tax base, including the DDA district, which was the basis for property tax revenue for the fiscal year 2013-2014 budget.

By Class	Taxable Value	Percent
Real property	\$ 394,541,110	91.7
Personal property	35,883,810	8.3
Total	\$ 430,424,920	100.0

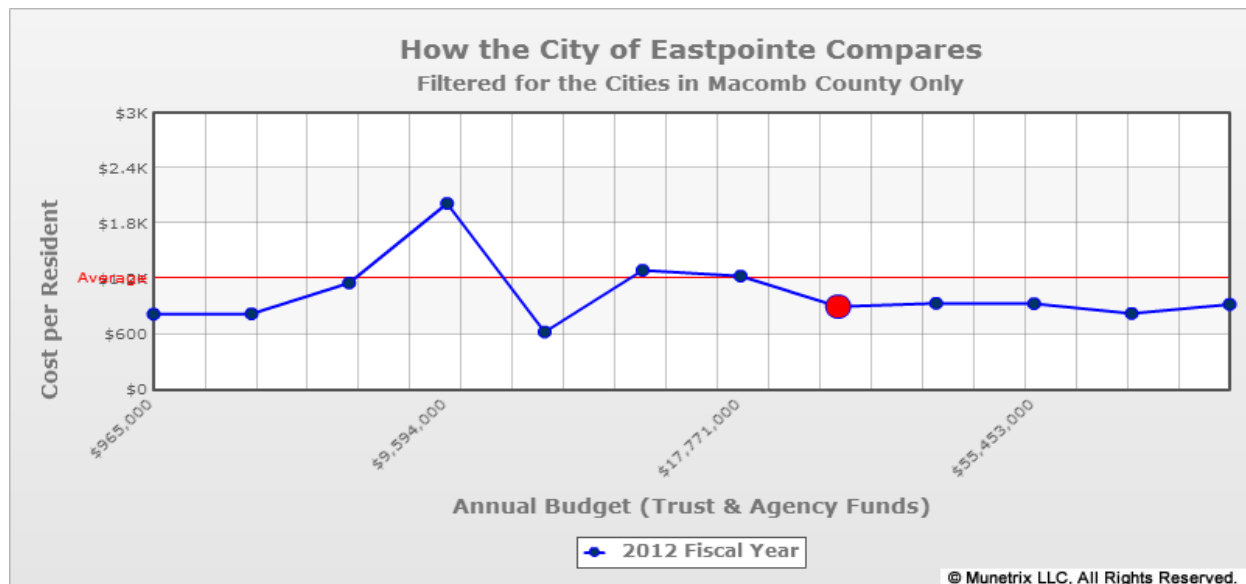
By Use	Taxable Value	Percent
Residential	\$ 319,492,743	74.2
Commercial	85,607,147	19.9
Industrial	2,870,330	0.7
Utility	22,454,700	5.2
Total	\$ 430,424,920	100.0

Major Achievements and Result of Operations for 2013/2014

Recent years have not been without challenges, which will remain in the foreseeable future. Despite serious financial constraints, there were significant achievements in fiscal year 2013-2014 with more anticipated in the years ahead.

The City of Eastpointe, Michigan is a City that lies within Macomb County in the SEMCOG Regional Planning Area of Michigan. The 2012 Population reported 32,442 citizens.

Of the 90 Cities within SEMCOG, the City of Eastpointe, Michigan, with total expenditures of \$29,134,410, places 26 in terms of total expenditures for fiscal year 2012. The City spent \$898 per capita; \$318 less than the Regional Average for Cities and Townships. (left to right: Memphis \$623, Richmond \$821, Centerline \$1152, Utica \$2017, Mt. Clemens \$623, Region Average \$1216, Fraser \$1227, Roseville \$932, St. Clair Shores \$929, Sterling Heights \$824, Warren \$921)



During the preparation of this budget, the City credit rating was reviewed resulting in a continued rating of A+ by Standard and Poor's citing in part:

We consider management very strong. We revised Eastpointe's Financial Management Assessment score to "strong" from "good" based on the new policies adopted by management in early 2012. Management provides quarterly updates of budget and investment performance to the council. The city undertakes detailed departmental budgeting with frequent review of major revenue and expenditure assumptions. The city maintains a formal 10-year capital improvement plan that is incorporated into the annual budget and a comprehensive five-year financial management plan. The city also has formal debt management and fund balance policies. It has a policy of maintaining committed emergency, operating, and budget stabilization reserves at 1 percent, 4.4 percent, and 10 percent of the average actual general fund revenues, respectively, for the preceding five fiscal years. There is no specific goal for the unassigned fund balance.

Some of the major achievements for 2013-2014 are as follows:

- Used our valuable professional staff to remain a viable results oriented municipal service organization for years to come.
- Reduced labor costs but to a level that still encourages continued professional world-class service from all career employees by extending all five labor agreements for one year with a "hard cap" on healthcare premium costs.
- Continued current levels of service retaining 105 full-time career employees.

- Created durable post-employment benefit plans and a high performance pension program for all employees terminating the local pension plan and preparing to transfer all assets and administrative operations to the Michigan Municipal Retirement System.
- Supplemented the city delivered services with managed competitive for profit services by entering into a three-year agreement for parks and public works maintenance services and completing the one-third reduction of full-time city employees.
- Benefitted from continued maintenance efforts and revenue by increasing water and sewer rates by only 3.1 percent as Detroit Water Sewage increase rates 6-10 percent.
- Managed the restructuring of city government in compliance within City Council's adopted multi-year plan, a plan for a viable Eastpointe City Government for five years.
- Prepared to transition to a significantly reduced public safety level of service operating within the available revenue left to use for operations by June 2015. This will involve a restructuring, reducing \$4 million in expenses for public safety (police, fire), our last option in downsizing. This is in order to fit revenue under the present system of property tax and state supported revenues. Transitional activity included in the proposed budget planned for the August 2014 election and the renewal of supplemental police and fire millage.

Development

Significant investment in public infrastructure projects were completed in 2013-2014. Key examples include these projects:

Water main replacement projects:

- Aggression and 8 mile PRV and Gratiot watermain (8 Mile to Toepfer)
- Wilmont from 9 mile to Rosetta, Oak Wilmot to Kelly, Rosetta Wilmot to Kelly, Rosetta Kelly to Marine, Kelly Oak to Rosetta
- Owen, Senrau, Nicolai, Evergreen, Hofer, Aurora, and Liscomb
- Toepfer-Gratiot to Kelly
- Donald-Toepfer to Stephens

Over 26,300 feet of water main replaced.

Sewer repair projects:

- Johnston-Spindler to Biscayne, Raven to East of Johnston

Road Projects:

Major Streets

- Stephens road reconstruction from aggression to Tuscany
- Stephens road resurfacing Tuscany to Kelly
- N. Bound Kelly Rd., reconstruction, Toepfer to 9 mile road

Local Streets

- Johnston-Spindler to Biscayne and Spindler, Raven to East of Johnston
- Petersburg-Norton to Spindler
- Almond from Norton, 550 feet south

Private/Public project provided by grant funds to the City and in conjunction with our partnership with Macomb County Brownfield Authority resulted in a \$2 million project involving commercial mall development at 9 mile and Kelly. The City obtained and supported the project with a \$400,000 grant.

In support of private development, the City MEDQ loan provides funds in cooperation with our partner Macomb County to Brownfield/DEQ to assist with private projects.

Departmental Services and Accomplishments

The City of Eastpointe, Michigan has been operating under the council-manager form of government since 1929. The city manager is the chief administrative officer of the City government, responsible for the efficient and effective management of all operations of the City. The city manager appoints all department heads and employees of the City except the city attorney and finance director. The city manager also appoints the members of the Housing Commission and the Downtown Development Authority (DDA) and serves as a voting member on the DDA. The City manager serves as the City Clerk and Director of Personnel of the City, as well as Administrative Officer and Secretary to the City of Eastpointe Employees' Retirement System. The city manager prepares the City's annual budget for submission to the City Council and administers the budget after City Council adoption. The office of the city manager is also responsible for economic development and information technology services.

The management office is responsible for human resource planning, recruitment, and selection; human resource development; compensation and benefits; safety and health; and employee and labor relations. This office also is responsible for developing, implementing, and interpreting personnel policies that are consistent with the needs and objectives of the City of Eastpointe, Michigan. The city manager serves as the director of personnel in accordance with the City Charter and the assistant city manager serves as the secretary to the Civil Service Commission.

The office administers the City's purchasing programs and coordinates the purchase of all goods and services for the City of Eastpointe, Michigan. Purchasing is the centralized function through which all city departments must request goods and vendors may be placed on the bidders' list by submitting their request in writing or by email to the purchasing department. The assistant city manager is the purchasing agent for the City.

The information technology office is responsible for supporting the City's wide area network (WAN) and computer-related functions. Examples of key services provided include installation and support of microcomputers, technical support liaison for all hardware and software, water and tax bill production, and assistance in setting the technological direction for the City.

District Court

The 38th District Court, Eastpointe, was established by the State of Michigan to render judicial decisions for the citizens of the City. The state is divided into judicial districts, each of which is an administrative unit subject to the control of the Supreme Court of the State of Michigan.

Jurisdiction of the District Court includes all felonies, misdemeanors, civil infractions, and civil and small claim cases. The District Court Judge, who is an employee of the State of Michigan and elected by local voters, supervises the District Court employees.

Downtown Development Authority

The DDA follows the DDA Design Framework Plan and the National Mainstreet Program objectives. The Authority operates under a seven-person board of directors appointed by the city manager. Promotion goals for the Authority in 2013-2014 included sponsorship of the farmers market, visible banner identification for the same market, paver replacement in the district, and streetscape cleaning and improvements district-wide as special events. Expenditure activity related programs included upgrades as required to decorative street lighting, display of hanging flower baskets, and painting of fire hydrants.

Finance Department

The finance department consists of two distinct but intertwined functions: treasury and accounting.

The accounting activities include preparing a line item budget in accordance with generally accepted accounting principles. The preparation is coordinated with the city manager and department heads. When completed, it is presented to City Council for adoption.

Accounting maintains complete and accurate financial reporting through general ledger activities, in accordance with generally accepted accounting principles. An annual audit is required of the City's books, performed by an independent auditor experienced in GAAP accounting practices. The City is required to implement into its audit practices any pronouncements that are handed down to local units of government by the Governmental Accounting Standards Board (GASB).

In preparation for the annual audit, the accounting function has the responsibility of reviewing line items and analyzing the accuracy of revenue and expenditure allocations. It is necessary to have the books complete and supporting schedules available in a timely manner for the purpose of auditor review and to correctly present the financial position of all City activities.

Accounting also includes paying the obligations of the City through the accounts payable process and paying employee and retiree obligations through the payroll process. Both activities require significant compliance activities with federal and state government reporting requirements.

Accounting enrolls individuals in, and maintains, employee benefits, including health, dental, optical, and life insurance. In addition to pension payments, retiree other postemployment benefits (OPEB) are administered, which include health and dental insurance and pension death benefits.

The Treasury function involves billing, collecting, and recording City funds. The major items processed are the billing and collecting of property taxes and the monthly billing and collecting for the water/sewer system. Additional activities include billing and collecting miscellaneous/special assessment items.

The Treasury maintains accurate accounting records, providing a clear audit trail for all receipts deposited into City bank accounts. All receipts are balanced daily.

The Treasury processes and maintains information for tax billings, including mortgage company requests, deferment requests, special assessments and Board of Review, MTT, and state tax commission adjustments. Property transfer information is coordinated with the assessing department.

Tax rolls are reconciled annually with Macomb County records. Delinquent taxes are processed and submitted to the Macomb County treasurer's office for further collection efforts. Pertinent tax billing and collection information is available on the City's webpage and is provided to citizens, homeowners, mortgage, and title companies upon request.

Monthly water/sewer billings are processed by the Treasury. Billings are based on actual usage with data coordinated with the water/sewer department. Final billings are generated off-cycle when requested by property owners and title companies. Pertinent water/sewer billing and collection information is available on the City's webpage and is provided to citizens, homeowners, mortgage, and title companies upon request.

The role of the Treasury function is to accurately and timely invoice for funds due to the City of Eastpointe, Michigan, collect, receipt, and deposit funds paid to the City, and then make available the necessary funds to meet the City's expenditure obligations. Any funds temporarily available in excess of current city obligations are to be invested in minimal risk instruments that will produce the highest return.

The mission of the finance department is to accurately record and report City financial activities in a timely manner and in accordance with GAAP. Its other mission is meeting and understanding the business needs of both the people and the City. In partnership with other departments, we create a working environment in which cooperation, teamwork, and creativity are encouraged and valued.

The finance department prepares and maintains the City's financial statements in compliance with the requirements of the Governmental Accounting Standards Board. The finance department is responsible for all accounting, pension administration, and Treasury functions. In addition, the department also assists in budget development, implementation, maintenance, and control.

The City assessor's office is responsible for the appraisal of all real estate and personal property for property tax purposes. There are approximately 13,845 real property descriptions and 1,281 personal property accounts contained in the City's mass appraisal files.

The Assessing office operates under the provisions of the General Property Tax Act of 1893, as amended, and applicable local charter provisions. In addition, the department maintains and monitors the "principal residence" status of all property throughout the City as well as tracking property transfers.

The assessor is responsible for development of special assessment district rolls used to fund many infrastructure improvements. The assessing department also defends all assessments before the Michigan tax tribunal and supports some economic development programs.

Police Department

The police department strives to preserve and protect life and property in Eastpointe through its two operating bureaus. The majority of the department's staffing, equipment, and financial resources are allocated to the Road Patrol Bureau. The bureau's role is to establish a communication network through community policing, suppress crime, maintain order, and respond to emergencies and calls for assistance.

The investigative bureau includes trained professional investigators who are responsible for researching, solving, and successful prosecution of crimes.

The accident investigation team's officers, through training in traffic and motor carrier enforcement, work to reduce traffic accidents by determining causes and making recommendations for changes in traffic regulations and enforcing overweight and safe vehicle statutes to protect the City's roadways.

Finally, the auxiliary services unit is responsible for helping citizens who wish to become more involved in and aware of methods of crime prevention in their community. Auxiliary services consist primarily of volunteers supervised by a police lieutenant.

Fire Department

The fire department is responsible for the protection of life and property from the ravages of fire. The fire department responds to residential, commercial, and industrial fires with specialized equipment designed to meet the needs of the particular fire. In addition, the department is able to respond to hazardous materials incidents, confined space rescue, and trench rescue.

The fire department provides advance life support emergency medical services in cases of sudden illness or injury. Licensed paramedics, working under the direction of a base hospital physician, provide quality pre-hospital emergency care.

The fire prevention division is involved in the enforcement of state laws and City ordinances that relate to fire protection and prevention. In addition, the department inspects commercial and industrial buildings and multiple-unit dwellings for fire code violations. The division also conducts fire investigations and aids in the fire prevention effort through the development and presentation of public fire education programs.

Department of Development Public Works and Services

Development and Building Services Division

The building services division enforces building codes and zoning codes. This division administers the Michigan building and housing code, issuing permits for construction and reconstruction. This office receives construction permit applications, reviews construction plans and documents, and issues the appropriate permits for the erection and alteration of residential, commercial, and industrial buildings.

This division administers all work of the Planning Commission and Zoning Board of Appeals. The field work includes administration of the rental registration and inspection program, the vacant structure registration, sidewalk, and dangerous building programs.

Code enforcement is administered through this division, including violations and regulatory enforcement of blight, rodent, and property maintenance compliance including long grass, refuse, and weed regulations.

Streets Division

The Department of Public Services - Streets Division is responsible for maintaining the miles of streets within the City. The streets division is responsible for handling all street cleaning, snow and ice removal, tree trimming, street signs, and open drain repair. The streets division is upgrading street signs with a high density facing for a safer, more visible sign. The streets division will be performing both targeted and generalized concrete repair as part of the neighborhood road improvement program that was initiated in 1997.

Public Services Division

The motor pool program is responsible for maintaining all City vehicles and related equipment. The motor pool division keeps individual records on each vehicle and piece of equipment to help determine whether the cost of repair is justified as the need arises. The equipment is also inspected for safety problems, thereby protecting the employees and the general public. The motor pool division is also responsible for keeping adequate vehicle and equipment parts in stock and updated. The motor pool division also orders gasoline and diesel fuel and oversees the work done on all emergency backup generators.

The solid waste program of public services supervises the contracted WMI and is responsible for the collection of refuse and recyclables, brush chipping, street sweeping, leaf pickup, litter disposal, and catch basin cleanout. The City has established a mandatory recycling program. Recycled materials include metals, telephone books, magazines, paper, plastics, glass, tin, Christmas trees, batteries, grass clippings, and leaves.

Department of Public Works - Parks Division

The parks division is responsible for the maintenance of all City parks. In addition, the parks division performs landscaping duties, as well as sidewalk and parking lot maintenance for all City buildings. The parks division is also responsible for mowing, responding to tree service calls, removal of unsafe or dead trees, and oversight of the mowing contractor. All athletic field sites are prepared for use and maintained by the parks division.

Department of Public Services - Water and Sewer Division

The water and sewer division is responsible for providing water distribution and sewage collection to the City's citizens and businesses. The process begins with the purchase of water from the Detroit water and sewerage department. The water and sewer division handles the installation, repair, and reading of all water meters. The water and sewer division does all repair work on water and sewer mains, gate wells, maintenance, and catch basin structures; all cleaning of sewer mains, catch basins, gate wells, and culverts; and all other related services. The water and sewer division handles all repair work, including pavement and landscape repairs arising from water main breaks and/or sewer trench settlement. The process ends with the City paying the Macomb County Drain Commission for the treatment of sewage that enters its facilities and transmission of the sewage via the Southeast Macomb Sanitary District of which the City is a collaborative member.

Library Department

The library department is a multi-faceted service agency involved in meeting the community's needs for information in a variety of formats. Demand for educational, recreational, and cultural materials is met with a constantly updated collection of books, periodicals, pamphlets, videos, compact discs, and books on tape.

The library department's ability to provide information is further enhanced by its membership in The Suburban Library Cooperative (SLC). This membership allows for the electronic inter-loan of items from other SLC members. These items are then delivered to Eastpointe for patron pickup.

A myriad of additional services is offered by the library. Personal computers, with internet access, are available for use by patrons as well as Wi-Fi access to reference material. A liaison is maintained with the City's schools and classroom visits are arranged. Art exhibits are scheduled regularly and speakers, films, book reviews, and children's programming are offered year round.

The Reporting Entity and Services Provided

The City of Eastpointe, Michigan has defined its financial reporting entity in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). The City of Eastpointe, Michigan includes all the funds, agencies, boards, commissions, and authorities that are controlled by or dependent on the mayor and City Council. Based on these criteria, the Municipal Building Authority, Downtown Development Authority, and the Economic Development Corporation have been included in this report.

The City of Eastpointe, Michigan provides a full range of services including police and fire protection; sanitation services; the construction and maintenance of highways, streets, and infrastructure; planning and zoning; library services; recreational activities; and cultural events. In addition, water and sewer services are provided under an Enterprise Fund concept, with user charges set by the City Council to ensure adequate coverage of operating expenses and payments on outstanding debt.

Financial Information

Management of the City is responsible for establishing and maintaining internal control designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City adopted a balanced FY 2013-2014 General Fund/public safety budget. The City will use \$1,494,330 of the fund balance in FY 2013-2014. The slow-down in the economy, including a loss of more than 7 percent of taxable property values, cuts in State revenue sharing, and increases in expenditures for health insurance and pension costs will seriously affect the budgets. However, with the implementation of employee benefit controls and reductions, initial restructuring, and new fiscal controls and modifications to programs, this use of the fund balance was less than the projected use of \$3,210,670..

Long-term Financial Planning

The City Council has adopted the financial management plan and following financial policies to guide the process for long-term financial decisions: (1) debt management policy - provides guidelines for borrowing money-to-finance projects, (2) cash management policy - provides guidelines for the day-to-day handling of cash and investments, (3) capital improvement policy - sets capitalization thresholds and parameters for capital asset purchases, and (4) investment policy - provides guidelines for investment of the City's liquid assets.

As the City faces a slower economy, additional funding sources will have to be found to fund field service operations and large capital projects. This may include additional taxes, which can only be raised by a vote of the people. Other sources of revenue may include grants or raising fees. These challenges will be met using the financial policies above.

Federal Financial Assistance

As a recipient of federal financial assistance, the City is also responsible for ensuring that an adequate internal control system is in place to ensure compliance with applicable laws and regulations related to those programs. The internal control systems are evaluated periodically by management to achieve these objectives. The City is required to have a single audit in FY 2013-2014 to test these controls because it received more than \$500,000 in federal assistance as required by the Federal Office of Management and Budget (OMB) Circular A-133.

Budgeting Controls

In accordance with state law, the City's budget is prepared on the modified accrual basis for governmental-type funds, and its accounting records are also maintained on that basis. Under modified accrual accounting, revenues are recorded when they are both measurable and available. Expenditures are recorded when a liability is incurred, except for interest on long-term debt and accrued vacation benefits. Governmental fund types, such as the City's General Fund, special revenue funds, debt service funds, and capital projects funds, are reported on the modified accrual basis. The City's Enterprise Fund, internal service funds, and Pension Trust Fund are reported on the full accrual basis, under which revenues are recorded when earned and expenses are recorded when incurred.

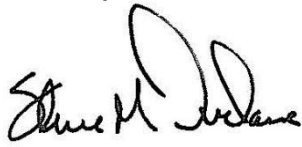
The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. Activities of the General Fund are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the department level for the General Fund, special revenue funds, and certain debt service funds. However, for internal accounting purposes, budgetary control is maintained by object class (line account) for all funds. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Purchase orders that would create an over-encumbrance are not written until additional appropriations are available. Encumbered accounts lapse at year end. However, any encumbrances outstanding at June 30, 2014 are reported as reservations of fund balances.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

The preparation of the financial report on a timely basis was made possible by the dedicated service of the entire staff of the department of finance, Office of City Management, and our independent auditors, Plante & Moran, PLLC, certified public accountants. Each of them has our sincere thanks and compliments for professional work performed.

In closing, without the leadership and support of the City Council, preparation of this report would not have been possible.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve M. Duchane". The signature is fluid and cursive, with a large, stylized initial "S".

Steve M. Duchane
City Manager

A handwritten signature in black ink, appearing to read "Randall Blum". The signature is fluid and cursive, with a large, stylized initial "R".

Randall Blum
Director of Finance

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Eastpointe, 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 Eastpointe, Michigan (the "City") as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the City of Eastpointe, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Honorable Mayor and
Members of the City Council
City of Eastpointe, 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 Eastpointe, Michigan as of June 30, 2014 and the respective changes in its financial position and cash flows, where applicable, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the basic financial statements, in 2014, the City adopted new accounting guidance of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred inflows and outflows of resources, certain items that were previously reported as assets and liabilities. Our opinion is not modified with respect to this matter.

In addition, as discussed in Note 2, in 2014, the City adopted the new accounting guidance of GASB Statement No. 67, *Financial Reporting for Pension Plans*. Adopting GASB Statement No. 67 resulted in significant changes to the defined benefit pension plan related note disclosures and required supplemental information schedules. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

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

Other Information

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

To the Honorable Mayor and
Members of the City Council
City of Eastpointe, 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.

The transmittal letter has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2014 on our consideration of the City of Eastpointe, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Eastpointe, Michigan's internal control over financial reporting and compliance.

Plante & Moran, PLLC

December 1, 2014

City of Eastpointe, Michigan

Management's Discussion and Analysis

The City of Eastpointe, Michigan's (the "City") management's discussion and analysis (MD&A) is a narrative overview of the City's financial activities and performance as of and for the fiscal year ended June 30, 2014. Please read it in conjunction with the City's financial statements and notes to the financial statements.

Financial Highlights

- The City's combined total net position is reported as \$80.0 million for the fiscal year ended June 30, 2014, compared to \$76.3 million last fiscal year.
- In the City's governmental activities, revenue generated \$25.2 million, while expenses totaled \$23.7 million.
- In the City's business-type activities, program revenue generated \$11.2 million, while operating expenses totaled \$9.7 million and capital investment in the City's water system totaled \$4.7 million.
- The total cost of all of the City's programs, including governmental activities and business-type activities, was \$33.7 million, down \$1.2 million from last fiscal year; this compares to a \$2.3 million decrease last year.
- Total net position increased \$3.7 million, largely due to investments in infrastructure, specifically roads, water main, and drains.

Government-wide Statements

The MD&A is followed by the City's basic financial statements, which are comprised of two sections. The first two statements, entitled government-wide statement of net position followed by the government-wide statement of activities, are financial statements that represent the City as a whole and provide a long-term perspective regarding the City's overall financial status. The statement of net position includes all of the City's assets and liabilities as described in Notes 5 and 8, respectively, to the financial statements. The difference between the City's assets and liabilities is "net position," which is a way to measure the financial health of the City as it fluctuates from one year to the next. The statement of activities reports all of the current year's earned revenue and accrued expenses, regardless of when cash is received or paid, and represents the change in net position from one year to the next.

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

The City's activities are separated into three categories: governmental and business-type activities, which represent the City's total financial performance, followed by the component unit financial information.

- The governmental activities column reports the City's basic services, including general administration, public safety, public works, and parks and recreation.
- Business-type activities represent those activities for which the City charges fees to customers to cover the cost of services. The City's water and sewer system is the only business-type activity reported.
- The City has two discretely presented component units included in this report as follows: the Downtown Development Authority and the Economic Development Corporation. Although legally separate, these component units are important because the City is financially accountable for them. Further information regarding the purpose of each component unit is found in Note I to the financial statements.

Fund Financial Statements

The City's fund financial statements are similar to the historical presentation; however, this section individually discloses only those funds designated as the City's "major" funds. All nonmajor funds are aggregated into one column. These statements provide a higher level of detail than the government-wide statements and continue to illustrate how the services provided by the City were financed in the short term as well as what remains for future spending. The City has three types of funds that are used to keep track of specific sources of funding and spending for particular purposes as follows:

- **Governmental Funds** - The majority of the City's basic services included in the governmental funds not only focus on how cash and other financial assets can readily be converted to cash flow in and out, but also what year-end balances are available to finance future City programs. Because this information does not include the additional long-term focus of the government-wide statements, reconciliation statements are provided to explain the differences between the two methods of reporting. Pages 16 and 18 illustrate this concept.
- **Proprietary Funds** - Services for which the City charges customers fees are reported in this fund type. This fund type provides both the short- and long-term financial information comparable to the business-type activity in the government-wide statements. The Water and Sewer Fund is an enterprise fund, which typically charges residents usage fees and accounts for the cost of operations.

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

- **Fiduciary Funds** - The Trust Fund and agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individual, private organizations, other governments, and other city funds. The City is responsible for ensuring the assets reported in these funds are used for their intended purpose. The City's fiduciary activities are reported in a separate statement of fiduciary net position. Fiduciary activities are excluded from the City's government-wide statements because these assets are not available to finance City operations.

Financial Analysis of the City as a Whole

Statement of Net Position - The City's combined net position increased 4.9 percent, or \$3.7 million, from \$76.3 million in 2013 to \$80.0 million in 2014. The net position for the governmental activities increased from \$30.9 million in 2013 to \$32.4 million in 2014. The increase can be attributed mainly to an increase in district court fines of \$0.3 million and a decrease in public works expenses of \$1.4 million due to the timing of expenses incurred on local street projects. The current level of unrestricted net position for governmental activities is \$5.8 million, or about 24.4 percent of expenses. The net position of the business-type activity increased from \$45.4 million in 2013 to \$47.6 million in 2014, or \$2.2 million. The primary change is due to an increase in capital assets of \$4.7 million. Last fiscal year, the net position of the business-type activities increased by \$4.0 million. The year-over-year change is primarily due to less current year income associated with the City's equity investment in the Southeast Macomb Sanitary District. The unrestricted net position increased by \$0.5 million, or 2.9 percent in the business-type activity.

The City's assets totaled \$104.1 million in 2014, increased by \$6.4 million from 2013. This relates to an increase in net current assets of \$1.8 million, or 6.3 percent and an increase in net capital assets of \$4.1 million, or 6.8 percent. The primary change in net current assets is due to an increase in cash and investments by \$1.6 million. The primary change in net capital assets is due to the addition of assets related to water and sewer of \$4.7 million.

The City's total liabilities increased \$2.7 million, or 12.8 percent, to \$24.1 million in 2014. This is primarily due to the increase in long-term liabilities associated with the Clean Water Revolving Fund in the business-type activities.

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

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

	Governmental Activities			Business-type Activities			Total		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Assets									
Current assets	\$ 15,861	\$ 15,354	\$ 18,833	\$ 14,793	\$ 13,480	\$ 16,559	\$ 30,654	\$ 28,834	\$ 35,392
Capital assets	23,274	22,347	21,817	42,506	39,249	32,683	65,780	61,596	54,500
Other noncurrent assets	860	648	2,308	6,849	6,611	4,447	7,709	7,259	6,755
Total assets	39,995	38,349	42,958	64,148	59,340	53,689	104,143	97,689	96,647
Liabilities									
Current liabilities	1,391	1,258	2,112	3,117	3,013	1,796	4,508	4,271	3,908
Long-term liabilities	6,187	6,168	7,586	13,413	10,933	10,514	19,600	17,101	18,100
Total liabilities	7,578	7,426	9,698	16,530	13,946	12,310	24,108	21,372	22,008
Net Position									
Net investment in capital assets	19,005	18,726	17,957	29,182	27,478	21,508	48,187	46,204	39,465
Restricted	7,634	5,084	5,652	20	20	20	7,654	5,104	5,672
Unrestricted	5,778	7,113	9,651	18,416	17,896	19,851	24,194	25,009	29,502
Total net position	<u>\$ 32,417</u>	<u>\$ 30,923</u>	<u>\$ 33,260</u>	<u>\$ 47,618</u>	<u>\$ 45,394</u>	<u>\$ 41,379</u>	<u>\$ 80,035</u>	<u>\$ 76,317</u>	<u>\$ 74,639</u>

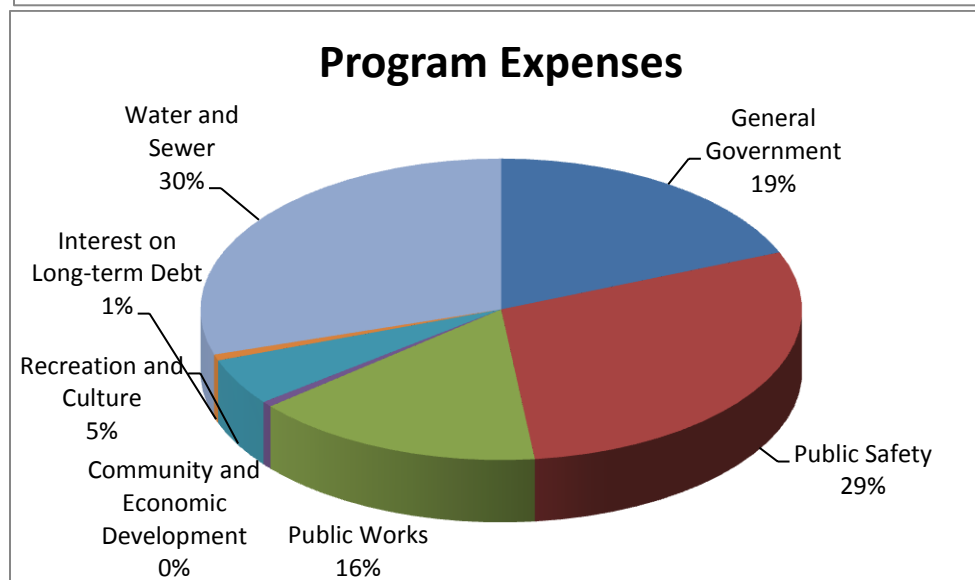
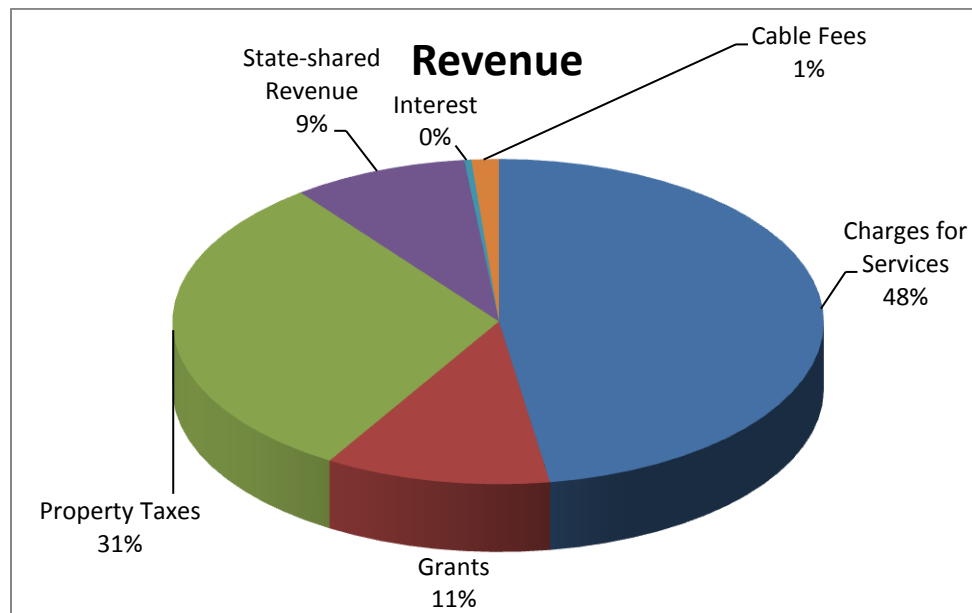
Changes in Net Position - The City's total net position increased by \$3.7 million during the fiscal year ended June 30, 2014. The table below shows the comparison of changes in net position (in millions) to the prior two years:

	Governmental Activities			Business-type Activities			Total		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Revenue									
Program revenue:									
Charges for services	\$ 6,449	\$ 5,865	\$ 4,618	\$ 11,218	\$ 12,283	\$ 11,122	\$ 17,667	\$ 18,148	\$ 15,740
Operating grants and contributions	2,303	2,169	2,142	-	-	-	2,303	2,169	2,142
Capital grants and contributions	1,850	15	409	-	166	-	1,850	181	409
General revenue:									
Property taxes	11,502	12,208	13,987	-	-	-	11,502	12,208	13,987
State-shared revenue	3,236	3,144	3,049	-	-	-	3,236	3,144	3,049
Interest	39	46	85	92	111	92	131	157	177
Cable fees and other	500	564	323	3	-	-	503	564	323
Transfers and other revenue	(706)	(923)	(903)	982	994	991	276	71	88
Total revenue	25,173	23,088	23,710	12,295	13,554	12,205	37,468	36,642	35,915
Program Expenses									
General government	6,354	5,826	8,154	-	-	-	6,354	5,826	8,154
Public safety	9,918	10,397	11,783	-	-	-	9,918	10,397	11,783
Public works	5,296	6,708	5,336	-	-	-	5,296	6,708	5,336
Community and economic development	195	596	155	-	-	-	195	596	155
Recreation and culture	1,694	1,730	2,102	-	-	-	1,694	1,730	2,102
Interest on long-term debt	222	168	174	-	-	-	222	168	174
Water and sewer	-	-	-	10,071	9,539	9,528	10,071	9,539	9,528
Total program expenses	23,679	25,425	27,704	10,071	9,539	9,528	33,750	34,964	37,232
Change in Net Position	<u>\$ 1,494</u>	<u>\$ (2,337)</u>	<u>\$ (3,994)</u>	<u>\$ 2,224</u>	<u>\$ 4,015</u>	<u>\$ 2,677</u>	<u>\$ 3,718</u>	<u>\$ 1,678</u>	<u>\$ (1,317)</u>

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

The City's governmental activities saw an increase in net position in the current year of \$1.5 million. This increase was due primarily to increases in operating and capital grant contributions of \$2.0 million compared to the prior year. Annual revenue for business-type activity exceeded expenses by \$2.2 million, resulting in an increase in net position to \$47.6 million. The following graphs illustrate the primary sources of revenue and expenses for the total primary government of the City of Eastpointe for the year ended June 30, 2014:



City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities - Of the City's total revenue generated for fiscal year 2014, property tax comprises the largest segment, \$11.5 million. Property tax revenue decreased over the prior year by \$0.7 million, or 5.8 percent, which is consistent with the decrease in property taxable values. State-shared revenue is another primary source of revenue for the City, of which we received \$3.2 million; this is an increase of \$0.1 million, or 2.9 percent. Of the charges for service revenue of \$6.4 million, \$2.5 million is associated with court fines and fees, \$1.7 million for garbage collection fees, and \$0.6 million for building department activity. Of the grants and contributions revenue of \$4.1 million, the majority is associated with the governmental activity related to road system improvements in the amount of \$3.9 million. Investment earnings decreased slightly. This is due to the exceptionally low interest rate environment experienced in 2014.

The majority of governmental expense is associated with the public safety function, which is \$9.9 million, or 41.9 percent of governmental activities. Public safety includes police, fire, ambulance, and building inspection services. Public works expenses were \$5.3 million, or 22.3 percent, which includes road improvements. Community and economic development expenses totaled \$0.2 million, or 0.8 percent of governmental activities. Recreation and cultural expenses totaled \$1.7 million, or 7.2 percent, which is related to park operations, recreation programs, and library operations. General government expenses totaled \$6.4 million, or 26.8 percent.

Business-type Activities - The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water service and sewage disposal and treatment, purchased from the City of Detroit, to residents and businesses. Of the City's charges for service revenue, the majority is generated from charges passed on to residents, which is \$11.2 million. Charges for service are offset by water and sewer expenses of \$10.1 million, or 29.8 percent of the City's total expenses, and after capital contributions, the business-type activities have an increased net change in position of \$2.2 million.

Financial Analysis of the City's Funds

An analysis of the City's major funds follows the government-wide financial statements. The fund-level financial statements provide detailed information on the most significant funds, not the City as a whole. In addition to state legislative requirements to maintain separate funds for Act 51 major and local road money, the City creates funds to administer certain dedicated dollars and demonstrate accountability to the citizens for special tax millages voted by citizens or earmarked bond proceeds. The City's major funds for fiscal year 2014 include the General Fund, the Major Streets Fund, the Local Streets Fund, and the Garbage and Rubbish Collection Fund.

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

The General Fund accounts for most of the City's governmental services. In fiscal year 2012, the Public Safety Fund was combined with the General Fund. The most significant expenditures in this fund relate to public safety which totaled \$11.9 million in 2014, an increase of \$0.1 million from 2013. Police and fire services are supported by General Fund contributions and a special public safety millage, all of which are recorded in the General Fund. The Major Streets Fund and Local Streets Fund are supported by state-shared gas and weight taxes. State funding of approximately \$3.3 million and \$0.6 million was reported in 2014 for the Major Streets Fund and Local Streets Fund, respectively.

General Fund/Public Safety Fund (Operations) Budgetary Highlights - Actual operations revenue came in \$0.8 million higher than the amended budget. Revenues were over budget due to higher than anticipated property tax revenue, licenses and permits, and district court fines. Actual operations expenditures came in \$0.9 million below budget. Expenditures were under budget due to delays in filling personnel vacancies from retirements and attrition. In addition, administration continued tighter controls on spending, assessing purchases and exercising cost savings measures which provided positive results. The fund balance for City operations was reduced by \$1.5 million, which was \$1.7 million less than budget. The fund balance for City operations was reduced from \$9.6 million a year ago to \$8.1 million at June 30, 2014.

Capital Asset and Debt Administration - At the end of 2014, the City of Eastpointe had \$65.8 million invested in a wide range of capital assets, including land, buildings, police and fire equipment, computer equipment, and water and sewer lines. The largest asset is infrastructure, which consists of sidewalks, roads within the major and local street system, and water and sewer lines. The value of infrastructure assets, net of depreciation contained in this report, is \$55.6 million for fiscal year 2014.

Debt reported in these financial statements is related to the construction of the above-mentioned infrastructure assets and buildings and is reported as a liability on the statement of net position (see Note 8 for additional information).

Economic Factors and Next Year's Budgets and Rates - The City of Eastpointe's budget for next year reflects a slight increase in the City's taxable value of approximately \$3.1 million, or 0.7 percent. This will produce an increase in tax collections for the City's general and public safety operations of \$0.1 million. It appears the downward pressure on taxable values is subsiding; however, state restrictions prevent the ability for recovery.

During fiscal year 2013, six union contracts were settled and nonunion administrative rules were changed. The employee pay and benefit reductions averaged 17 percent. During fiscal year 2014, the full year impact of these concessions and restructuring reduced operating expenses in excess of \$2.2 million.

In addition, during fiscal year 2014, all six contracts were extended for one year, through June 30, 2015, with additional pension changes for existing employees. Containment of future costs through changes to pension and postretirement healthcare benefits for all existing employees and new hires has been achieved. The continued reductions in revenue will force further personnel cost reductions in coming years.

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

The City's pension system is 56 percent funded with required actuarial determined contributions made by the City on an annual basis. The financial markets returned significant investment improvements and negotiated pension changes should improve the system's funding level. Improved funding levels will positively impact the system's future required contributions.

The City has been able to maintain a sufficient fund balance that will allow a short timeframe for necessary structural changes. In addition to employee concessions, the City migrated from property tax revenues to a user fee for rubbish services and then bid out the rubbish contract, resulting in significant savings and a stable revenue stream. This has shored up the Rubbish Fund and eliminated the need for a General Fund subsidy. The City implemented a street lighting special assessment this year which relieved expenditures from the General Fund. The City continues reviewing revenue options; however, without state restructuring of municipal financing, the City has exhausted its options for improvement.

The City continues reviewing revenue options in light of a lack of state legislative changes. Eastpointe has created an authority with another local community to raise revenues for public safety services. The South Macomb Oakland Regional Services Authority (the "Authority") has approved a ballot issue for public vote in February 2015. If the vote is successful, revenue will be raised and the Authority will contract with Eastpointe and Hazel Park, Michigan to provide fire services for their respective communities. The success of this vote would stabilize the City's finances for many years to come.

The City purchases its water service and disposal and treatment of sewage from the City of Detroit. The City's water and sewer rates are based on anticipated costs of the system in the current fiscal year and system improvements in current and future fiscal years. The Water and Sewer Fund has strong retained earnings and liquid assets. There are major water main and sewer projects scheduled over the next three years which can be sustained with current unrestricted funds. An annual evaluation process is undertaken to determine the amount of increase, if any, that is needed to continue providing water and sewer service to all users in the City.

Contacting the City of Eastpointe's Management - This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of Eastpointe's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the administration offices at the City of Eastpointe, 23200 Gratiot Avenue, Eastpointe, Michigan 48021.

City of Eastpointe, Michigan

Statement of Net Position June 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 4)	\$ 8,307,346	\$ 4,885,229	\$ 13,192,575	\$ 447,143
Investments (Note 4)	4,882,421	7,005,347	11,887,768	-
Receivables:				
Property taxes	86,936	-	86,936	-
Accounts - Net of allowance for doubtful accounts of \$41,366	650,736	2,731,494	3,382,230	-
Accrued interest	2,055	-	2,055	-
Due from other governmental units	1,620,086	-	1,620,086	-
Special assessments	28,582	-	28,582	-
Internal balances	(165,516)	165,516	-	-
Prepaid expenses	124,137	4,700	128,837	-
Restricted assets (Note 6)	527,475	19,885	547,360	-
Investment in joint ventures (Note 19)	(576,459)	6,829,427	6,252,968	-
Capital assets (Note 5):				
Assets not subject to depreciation	1,187,835	616,575	1,804,410	-
Assets subject to depreciation	22,086,169	41,889,556	63,975,725	-
Assets held for sale	523,994	-	523,994	-
Other assets	709,226	-	709,226	-
Total assets	39,995,023	64,147,729	104,142,752	447,143
Liabilities				
Accounts payable	927,592	2,915,855	3,843,447	14,152
Accrued liabilities and other	463,764	201,663	665,427	2,718
Noncurrent liabilities:				
Due within one year:				
Compensated absences (Note 8)	75,000	-	75,000	-
Current portion of long-term debt (Note 8)	761,523	875,634	1,637,157	-
Due in more than one year:				
Compensated absences (Note 8)	401,288	19,071	420,359	-
Other long-term liabilities	266,856	-	266,856	-
Net retiree healthcare obligation (Note 16)	557,164	39,412	596,576	-
Net pension obligation (Note 13)	433,762	29,720	463,482	-
Long-term debt - Net of current portion (Note 8)	3,691,269	12,448,215	16,139,484	-
Total liabilities	7,578,218	16,529,570	24,107,788	16,870
Net position				
Net investment in capital assets	19,005,239	29,182,282	48,187,521	-
Restricted for:				
Roads	5,299,141	-	5,299,141	-
Debt service	173,727	19,885	193,612	-
Library	265,332	-	265,332	-
Drug law enforcement	391,543	-	391,543	-
Capital projects	724,479	-	724,479	-
Garbage and rubbish collection	722,982	-	722,982	-
Street lighting	56,200	-	56,200	-
Unrestricted	5,778,162	18,415,992	24,194,154	430,273
Total net position	\$ 32,416,805	\$ 47,618,159	\$ 80,034,964	\$ 430,273

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

City of Eastpointe, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 6,354,440	\$ 3,158,318	\$ 52,684	\$ -
Public safety	9,917,812	820,935	32,607	-
Public works	5,296,110	2,219,379	2,199,877	1,655,000
Community and economic development	195,000	-	-	195,000
Recreation and culture	1,694,085	249,975	17,579	-
Interest on long-term debt	221,457	-	-	-
Total governmental activities	23,678,904	6,448,607	2,302,747	1,850,000
Business-type activities	10,070,734	11,217,649	-	-
Total primary government	<u>\$ 33,749,638</u>	<u>\$ 17,666,256</u>	<u>\$ 2,302,747</u>	<u>\$ 1,850,000</u>
Component units:				
DDA	\$ 108,361	\$ -	\$ 2,400	\$ -
Economic Development Authority	30,921	-	-	-
Total component units	<u>\$ 139,282</u>	<u>\$ -</u>	<u>\$ 2,400</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenue				
Investment income				
Cable franchise fees				
Other miscellaneous income				
Total general revenues				
Transfers				
Change in Net Position				
Net Position - Beginning of year				
Net Position - End of year				

Statement of Activities Year Ended June 30, 2014

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (3,143,438)	\$ -	\$ (3,143,438)	\$ -
(9,064,270)	-	(9,064,270)	-
778,146	-	778,146	-
-	-	-	-
(1,426,531)	-	(1,426,531)	-
(221,457)	-	(221,457)	-
(13,077,550)	-	(13,077,550)	-
-	1,146,915	1,146,915	-
(13,077,550)	1,146,915	(11,930,635)	-
-	-	-	(105,961)
-	-	-	(30,921)
-	-	-	(136,882)
11,502,055	-	11,502,055	85,928
3,236,459	-	3,236,459	-
38,988	92,106	131,094	898
500,229	-	500,229	-
275,633	2,880	278,513	-
15,553,364	94,986	15,648,350	86,826
(982,255)	982,255	-	-
1,493,559	2,224,156	3,717,715	(50,056)
30,923,246	45,394,003	76,317,249	480,329
\$ 32,416,805	\$ 47,618,159	\$ 80,034,964	\$ 430,273

City of Eastpointe, Michigan

Governmental Funds Balance Sheet June 30, 2014

	General Fund	Major Streets Fund	Local Streets Fund	Garbage and Rubbish Collection Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents (Note 4)	\$ 803,006	\$ 4,233,632	\$ 1,074,873	\$ 533,220	\$ 1,662,615	\$ 8,307,346
Investments (Note 4)	4,882,421	-	-	-	-	4,882,421
Receivables:						
Property taxes	86,936	-	-	-	-	86,936
Special assessments	-	-	-	-	28,582	28,582
Customer	345,250	-	-	305,486	-	650,736
Accrued interest	1,838	217	-	-	-	2,055
Due from other governmental units	1,210,903	312,125	86,273	-	10,785	1,620,086
Due from other funds (Note 7)	58,566	-	-	-	-	58,566
Advances to other funds (Note 7)	324,513	-	-	-	-	324,513
Prepaid expenses	9,371	-	-	-	114,766	124,137
Restricted assets (Note 6)	-	-	-	-	527,475	527,475
Assets held for sale	523,994	-	-	-	-	523,994
Noncurrent receivable	-	-	-	-	300,889	300,889
Total assets	\$ 8,246,798	\$ 4,545,974	\$ 1,161,146	\$ 838,706	\$ 2,645,112	\$ 17,437,736
Liabilities						
Accounts payable	\$ 210,413	\$ 103,472	\$ 291,583	\$ 114,729	\$ 168,594	\$ 888,791
Due to other funds	-	-	-	-	58,566	58,566
Accrued liabilities and other	385,883	4,205	8,719	995	18,003	417,805
Total liabilities	596,296	107,677	300,302	115,724	245,163	1,365,162
Deferred Inflows of Resources						
Unavailable revenue - Property taxes	75,989	-	-	-	-	75,989
Unavailable revenue - Special assessments	22,814	-	-	-	20,705	43,519
Unavailable revenue - Miscellaneous	170,330	-	-	-	-	170,330
Total deferred inflows of resources	269,133	-	-	-	20,705	289,838
Fund Balances						
Nonspendable:						
Assets held for resale	523,994	-	-	-	-	523,994
Prepays	9,371	-	-	-	114,766	124,137
Long-term receivable	324,513	-	-	-	300,889	625,402
Restricted:						
Roads	-	4,438,297	860,844	-	-	5,299,141
Debt service	-	-	-	-	173,727	173,727
Library	-	-	-	-	265,332	265,332
Drug law enforcement	-	-	-	-	391,543	391,543
Capital projects	-	-	-	-	607,617	607,617
Garbage and rubbish collection	-	-	-	722,982	-	722,982
Committed:						
Pension actuarial required contribution	2,430,550	-	-	-	-	2,430,550
Compensated absences	476,287	-	-	-	-	476,287
Budget stabilization	2,044,344	-	-	-	-	2,044,344
Operating reserve	899,511	-	-	-	-	899,511
Emergency reserve	204,434	-	-	-	-	204,434
Assigned:						
Capital projects	-	-	-	-	583,145	583,145
Debt service	-	-	-	-	791	791
Unassigned	468,365	-	-	-	(58,566)	409,799
Total fund balances	7,381,369	4,438,297	860,844	722,982	2,379,244	15,782,736
Total liabilities, deferred inflows of resources, and fund balances	\$ 8,246,798	\$ 4,545,974	\$ 1,161,146	\$ 838,706	\$ 2,645,112	\$ 17,437,736

City of Eastpointe, Michigan

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

Fund Balance Reported in Governmental Funds	\$ 15,782,736
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	21,976,221
Amounts on deposit with the Insurance Authority (MMRMA) are not reported as fund assets	408,337
Investments in joint ventures are not financial resources and are not reported in the funds	(576,459)
Special assessment, personal property tax, and other receivables are expected to be collected over several years and are not available to pay for current year expenditures	289,838
Bonds payable obligations are not due and payable in the current period and are not reported in the funds	(4,452,792)
Long-term portion of uninsured losses is not reported in the funds	(266,856)
Accrued interest is not due and payable in the current period and is not reported in the funds	(40,136)
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	(476,288)
Other postemployment benefit obligation in governmental activities is not reported in the funds	(557,164)
Net pension obligation in governmental activities is not reported in the funds	(433,762)
Internal service funds are included as part of governmental activities	763,130
Net Position of Governmental Activities	<u>\$ 32,416,805</u>

City of Eastpointe, Michigan

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

	General Fund	Major Streets Fund	Local Streets Fund	Garbage and Rubbish Collection Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue						
Property taxes	\$ 8,566,792	\$ -	\$ -	\$ -	\$ 2,935,263	\$ 11,502,055
Licenses and permits	1,278,491	-	-	-	-	1,278,491
Federal grants	32,607	-	-	-	195,000	227,607
State-shared revenue and grants	3,261,467	3,298,666	556,211	-	17,579	7,133,923
Charges for services	628,057	-	-	1,744,637	2,035	2,374,729
Fines and forfeitures	2,464,925	-	-	-	115,010	2,579,935
Investment income	27,067	5,045	1,506	764	4,606	38,988
Rental income	53,251	-	-	-	158,659	211,910
Other:						
Special assessments	-	-	-	-	500,328	500,328
Local donations	27,676	-	-	-	-	27,676
Other miscellaneous income	247,134	500	-	925	72,606	321,165
Total revenue	16,587,467	3,304,211	557,717	1,746,326	4,001,086	26,196,807
Expenditures						
Current:						
General government	5,128,815	-	-	-	-	5,128,815
District court	-	-	-	-	54,099	54,099
Public safety	11,894,272	-	-	-	296,274	12,190,546
Public works	59,147	1,548,167	783,743	1,335,562	1,374,891	5,101,510
Community and economic development	-	-	-	-	195,000	195,000
Recreation and culture	634,943	-	-	-	1,006,692	1,641,635
Capital outlay	-	-	-	-	278,707	278,707
Debt service:						
Principal	-	-	-	-	130,000	130,000
Interest on long-term debt	-	-	-	-	166,175	166,175
Total expenditures	17,717,177	1,548,167	783,743	1,335,562	3,501,838	24,886,487
Excess of Revenue (Under) Over Expenditures	(1,129,710)	1,756,044	(226,026)	410,764	499,248	1,310,320
Other Financing Sources (Uses)						
Face value of debt issue	-	-	-	-	625,000	625,000
Transfers in	-	-	625,000	-	364,620	989,620
Transfers out	(364,620)	(625,000)	-	-	(982,255)	(1,971,875)
Total other financing (uses) sources	(364,620)	(625,000)	625,000	-	7,365	(357,255)
Net Change in Fund Balances	(1,494,330)	1,131,044	398,974	410,764	506,613	953,065
Fund Balances - Beginning of year	8,875,699	3,307,253	461,870	312,218	1,872,631	14,829,671
Fund Balances - End of year	\$ 7,381,369	\$ 4,438,297	\$ 860,844	\$ 722,982	\$ 2,379,244	\$15,782,736

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

City of Eastpointe, Michigan

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

Net Change in Fund Balances - Total Governmental Funds	\$	953,065
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Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	2,218,990
Depreciation expense	(1,870,347)
Net book value of assets disposed of	(7,469)
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	(25,586)
Bond discounts and costs from the issuance of debt. Governmental funds report discounts and issuance costs as expenditures when received rather than capitalizing and amortizing the discount and issuance costs	(625,000)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	130,000
Interest expense is reported in the statement of activities when a liability is incurred; it is reported in the governmental funds only when payment is due	1,815
Bond issuance costs expensed in the current year in the statement of activities due to the adoption of GASB Statement No. 65. Bond issuance costs are an expenditure in the governmental fund at the time the bond issuance costs are paid	(57,097)
Decrease in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment	15,487
Change in estimated general liability and workers' compensation claims are recorded when incurred in the statement of activities	(148,351)
Change in investment in joint ventures is not recorded in the governmental funds	76,512
Change in other postemployment benefit obligation is recorded when incurred in the statement of activities	349,464
Change in net pension obligation is recorded when incurred in the statement of activities	477,294
Internal service funds are included as part of governmental activities	4,782

Change in Net Position of Governmental Activities	\$	<u>1,493,559</u>
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City of Eastpointe, Michigan

Proprietary Funds Statement of Net Position June 30, 2014

	Enterprise Fund Water and Sewer	Governmental Activities Internal Service Fund
Assets		
Current assets:		
Cash and cash equivalents (Note 4)	\$ 4,885,229	\$ -
Investments (Note 4)	7,005,347	-
Customer receivables - Net of allowance for doubtful accounts of \$41,366	2,731,494	-
Prepaid expenses	4,700	-
Total current assets	14,626,770	-
Noncurrent assets:		
Restricted assets (Note 6)	19,885	-
Advances to other funds (Note 7)	165,516	-
Investment in Southeast Macomb Sanitary District (Note 19)	6,829,427	-
Capital assets - Net (Note 5)	42,506,131	1,297,783
Total noncurrent assets	49,520,959	1,297,783
Total assets	64,147,729	1,297,783
Liabilities		
Current liabilities:		
Accounts payable	2,915,855	38,801
Accrued liabilities and other	201,663	5,823
Current portion of long-term debt (Note 8)	875,634	-
Total current liabilities	3,993,152	44,624
Noncurrent liabilities:		
Advances from other funds (Note 7)	-	490,029
Compensated absences (Note 8)	19,071	-
Net OPEB obligation (Note 16)	39,412	-
Net pension obligation (Note 10)	29,720	-
Long-term debt - Net of current portion (Note 8)	12,448,215	-
Total noncurrent liabilities	12,536,418	490,029
Total liabilities	16,529,570	534,653
Net Position		
Net investment in capital assets	29,182,282	1,297,783
Restricted for debt service	19,885	-
Unrestricted	18,415,992	(534,653)
Total net position	\$ 47,618,159	\$ 763,130

City of Eastpointe, Michigan

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

	Enterprise Fund Water and Sewer	Governmental Activities Internal Service Fund
Operating Revenue		
Water sales	\$ 2,195,483	\$ -
Sewage disposal charges	5,718,411	-
Charges for services	2,942,035	707,112
Interest and penalty charges	361,720	-
Total operating revenue	11,217,649	707,112
Operating Expenses		
Water purchases	1,235,391	-
Sewage treatment	4,353,112	-
Operation and maintenance	966,085	276,825
General and administration	1,694,523	227,528
Depreciation	1,416,171	221,354
Total operating expenses	9,665,282	725,707
Operating Income (Loss)	1,552,367	(18,595)
Nonoperating Revenue (Expense)		
Investment income	92,106	-
Interest expense	(405,452)	-
Gain on sale of assets	-	23,377
Other nonoperating revenue	2,880	-
Total nonoperating (expense) revenue	(310,466)	23,377
Income - Before contributions and transfers	1,241,901	4,782
Transfers from Other Funds	982,255	-
Change in Net Position	2,224,156	4,782
Net Position - Beginning of year	45,394,003	758,348
Net Position - End of year	\$ 47,618,159	\$ 763,130

City of Eastpointe, Michigan

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

	Enterprise Fund Water and Sewer	Governmental Activities Internal Service Fund
Cash Flows from Operating Activities		
Receipts from customers	\$ 11,089,877	\$ 707,112
Payments to suppliers	(5,949,099)	(331,616)
Payments to employees	(1,234,826)	(173,670)
Other receipts	5,303	-
Net cash provided by operating activities	3,911,255	201,826
Cash Flows from Noncapital Financing Activities - Scrap metal sales	2,880	-
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of debt	2,405,822	-
Proceeds from sales of capital assets	-	36,238
Purchase of capital assets	(4,673,235)	(819,735)
Principal and interest paid on capital debt	(1,258,030)	-
Transfers from other funds	982,255	324,512
Net cash used in capital and related financing activities	(2,543,188)	(458,985)
Cash Flows from Investing Activities		
Interest received on investments	92,106	-
Purchase of investments	(30,001)	-
Net cash provided by investing activities	62,105	-
Net Increase (Decrease) in Cash and Cash Equivalents	1,433,052	(257,159)
Cash and Cash Equivalents - Beginning of year	3,452,177	257,159
Cash and Cash Equivalents - End of year	\$ 4,885,229	\$ -
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities		
Operating income (loss)	\$ 1,552,367	\$ (18,595)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation	1,416,171	221,354
Changes in assets and liabilities:		
Receivables	150,695	-
Investment in joint venture	(273,164)	-
Prepaid and other assets	34,584	-
Accounts payable and other liabilities	954,095	(1,321)
Accrued and other liabilities	76,507	388
Net cash provided by operating activities	\$ 3,911,255	\$ 201,826

City of Eastpointe, Michigan

Fiduciary Funds Statement of Net Position June 30, 2014

	Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets		
Cash and cash equivalents (Note 4)	\$ 41,460,736	\$ 137,357
Investments (Note 4):		
Equity securities	1,349,428	-
Corporate bonds	30,431	-
Mutual funds	8,847,941	-
Total assets	51,688,536	<u>\$ 137,357</u>
Liabilities		
Accounts payable	65,532	\$ 2,546
Due to other governmental units	-	16,141
Accrued liabilities and other	-	118,670
Total liabilities	65,532	<u>\$ 137,357</u>
Net Position Held in Trust for Pension and Other Employee Benefits	<u>\$ 51,623,004</u>	

City of Eastpointe, Michigan

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

	Pension and Other Employee Benefit Trust Funds
Additions	
Investment income:	
Interest and dividends	\$ 1,774,681
Net increase in fair value of investments	4,950,709
Investment-related expenses	<u>(267,507)</u>
Net investment income	6,457,883
Contributions:	
Employer	6,197,834
Employee	<u>218,791</u>
Total contributions	<u>6,416,625</u>
Total additions	12,874,508
Deductions	
Benefit payments	6,240,213
Health insurance premiums	2,751,567
Administrative expenses	<u>327</u>
Total deductions	<u>8,992,107</u>
Net Increase in Net Position Held in Trust	3,882,401
Net Position - Beginning of year	<u>47,740,603</u>
Net Position - End of year	<u><u>\$ 51,623,004</u></u>

City of Eastpointe, Michigan

Component Units Statement of Net Position June 30, 2014

	Downtown Development Authority	Economic Development Authority	Total
Assets - Cash and cash equivalents (Note 4)	\$ 99,991	\$ 347,152	\$ 447,143
Liabilities			
Accounts payable	13,402	750	14,152
Accrued liabilities and other	1,005	1,713	2,718
Total liabilities	14,407	2,463	16,870
Net Position - Unrestricted	<u>\$ 85,584</u>	<u>\$ 344,689</u>	<u>\$ 430,273</u>

City of Eastpointe, Michigan

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Downtown Development Authority - Community enrichment/development and interest on long-term debt	\$ 108,361	\$ -	\$ 2,400
Economic Development Authority	30,921	-	-
Total governmental activities	<u>\$ 139,282</u>	<u>\$ -</u>	<u>\$ 2,400</u>
General revenue:			
Property taxes			
Interest and other investment earnings			
Total general revenue			
Change in Net Position			
Net Position - Beginning of year			
Net Position - End of year			

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

<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Downtown Development Authority</u>	<u>Economic Development Authority</u>	<u>Total</u>
\$ (105,961)	\$ -	\$ (105,961)
<u>-</u>	<u>(30,921)</u>	<u>(30,921)</u>
(105,961)	(30,921)	(136,882)
85,928	-	85,928
<u>250</u>	<u>648</u>	<u>898</u>
<u>86,178</u>	<u>648</u>	<u>86,826</u>
(19,783)	(30,273)	(50,056)
<u>105,367</u>	<u>374,962</u>	<u>480,329</u>
<u>\$ 85,584</u>	<u>\$ 344,689</u>	<u>\$ 430,273</u>

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note I - Summary of Significant Accounting Policies

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

Reporting Entity

The City of Eastpointe, Michigan operates with the council-manager form of government. It is governed by a city council consisting of a mayor and four council members who are elected at large to overlapping four-year terms. In accordance with the provisions of the City Charter, the City Council appoints, among others, the city manager, who reports directly to the City Council. The city manager is responsible for the administration of the affairs of the City, except those affairs that are the responsibility of other appointed officials. The finance director is appointed by the city manager and is responsible for the administration of the financial affairs of the City, including keeping the supervision of accounts, collections of taxes, and the custody and disbursement of City funds.

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Blended Component Units

The City of Eastpointe Building Authority (the "Building Authority"), an entity legally separate from the City, is governed by a three-member board appointed by the City Council. For financial reporting purposes, the Building Authority is reported as if it were a part of the City's operations because its purpose is to finance and construct buildings for the City. The operations of the Building Authority are reported as nonmajor debt service and capital projects funds.

Discretely Presented Component Units - The City of Eastpointe Downtown Development Authority (the "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 nine individuals, is selected by the city manager and approved by the City Council. In addition, the Authority's budget is subject to approval by the City Council.

Note 1 - Summary of Significant Accounting Policies (Continued)

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

The City has excluded the Housing Commission from this report since the City does not have the ability to impose its will.

Jointly Governed Organization - Jointly governed organizations are discussed in Note 19.

Accounting and Reporting Principles

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

Report Presentation

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

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

Note I - Summary of Significant Accounting Policies (Continued)

For the most part, the effect of interfund activity has been removed from these 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 revenues reported for the various functions concerned.

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

Basis of Accounting

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

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

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

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

Fund Accounting

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

Note 1 - Summary of Significant Accounting Policies (Continued)

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

- General Fund - The General Fund is the primary operating fund. It accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund.
- Major Streets Fund - The Major Streets Fund accounts for maintenance and improvement activities for streets designated as "major" within the City. Funding is provided primarily through state-shared gas and weight taxes.
- Local Streets Fund - The Local Streets Fund accounts for maintenance and improvement activities from streets designated as "local" within the City. Funding is provided primarily through state-shared gas and weight taxes.
- Garbage and Rubbish Collection Fund - The Garbage and Rubbish Collection Fund accounts for waste collection services provided to residents. Funding is provided primarily through user charges.

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

- Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage and storm water collection system. Funding is provided primarily through user charges.
- Internal Service Fund - The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis.

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

- Pension and Other Employee Benefit Trust Funds - The pension and other employee benefit trust funds account for the activities of the employee benefit plans, which accumulate resources for pension and other postemployment benefit payments to qualified employees.
- Agency Funds - The agency funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments.

Note I - Summary of Significant Accounting Policies (Continued)

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

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

Specific Balances and Transactions

Cash, Cash Equivalents, and Investments - Cash and cash equivalents include cash on hand and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund and special revenue funds, debt service funds, and capital projects funds is generally allocated to each fund using a weighted average.

Receivables - All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - 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 City has amounts on deposit with the Macomb County Drain Commission for use in the Lake St. Clair Clean Water Initiative that have been classified as restricted assets. In addition, the City's governmental activities have unspent bond and loan proceeds which are restricted for construction.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note I - Summary of Significant Accounting Policies (Continued)

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

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was capitalized as part of the cost of assets under construction.

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

Capital Asset Class	Lives
Infrastructure	25 years
Water and sewer distribution systems	40 years
Building and building improvements	20 years
Machinery and equipment	5 to 7 years

Assets Held for Sale - The assets held for sale in the General Fund consist of real property purchased for resale. The City purchases the property through the tax reversion process in Macomb County and resells the property for commercial or residential development.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method; bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures. The debt service funds and Water and Sewer Fund are generally used to liquidate the long-term obligations.

Note I - Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The government has one item that qualifies for reporting in this category. The deferred inflows of resources related to unavailable revenue is only reported in the governmental fund balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, special assessments, and miscellaneous revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumption

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

Fund Balance Flow Assumption

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

Note I - Summary of Significant Accounting Policies (Continued)

Fund Balance Policies

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

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

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

The City has adopted a fiscal management plan which contains fund balance requirements for the General Fund. The requirements are based on average revenues for the preceding five years and create a budget stabilization reserve of 10 percent, an operating reserve of 4.4 percent, and an emergency reserve of 1 percent. This is deemed to be the prudent amount to maintain the City's ability to meet obligations as they come due throughout the year. Any use of reserve funds must be approved by the City Council and include a repayment plan.

Property Tax Revenue

Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1 of the following year. These taxes are due without penalty during the period from July 1 through September 1, with the final collection date of February 28, before they are added to the county tax rolls and penalties and interest are assessed.

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

Note I - Summary of Significant Accounting Policies (Continued)

The 2013 taxable valuation of the City totaled \$430 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 12.1754 mills for operating purposes, 2.0000 mills for library services, 7.0000 mills for public safety, and 4.7858 mills for debt service. This resulted in \$5.2 million for operating, \$860,000 for library services, \$3.0 million for public safety, and \$2.0 million for debt service. These amounts are recognized in the respective General, Special Revenue, and Debt Service Fund financial statements as tax revenue.

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

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment - generally when an individual's employment has terminated as of year end. In prior years, the General Fund and Water and Sewer Fund have generally been used to liquidate the liability for compensated absences.

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

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Note 2 - New Accounting Standards

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

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

Item	Amount	Prior Reporting Classification/Treatment	New Classification After Adoption of GASB Statement No. 65
Delinquent personal property taxes not received within 60 days of year end	\$ 75,989	Liability	Deferred inflow of resources
Special assessments levied but not received within 60 days of year end	43,519	Liability	Deferred inflow of resources
Other miscellaneous charges not received within 60 days of year end	170,330	Liability	Deferred inflow of resources
Bond issuance costs	57,097	Asset	Outflow of resources (an expense)

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

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note 3 - Stewardship, Compliance, and Accountability

State Construction Code Act - 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. 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 surplus or shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - July 1, 2013		\$ (3,846,612)
Building permit revenue		303,828
Related expenses:		
Direct costs	\$ 83,999	
Estimated indirect costs	298,731	382,730
Current year shortfall		(78,902)
Cumulative shortfall - June 30, 2014		\$ (3,925,514)

Fund Deficits - The City has accumulated fund deficits in the Internal Service and Street Lighting SAD funds in the amounts of \$44,624 and \$58,566, respectively, as defined by the State of Michigan Department of Treasury. The City expects to use future vehicle and equipment charges to the funds and special assessments to eliminate the deficits.

Note 4 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City 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 Employees' Retirement System, the Employees' Death Benefit Fund, and the Retiree Health Care Fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note 4 - Deposits and Investments (Continued)

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 \$5,878,775 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. The City held deposits in four financial institutions as of June 30, 2014.

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)
Primary Government		
U.S. Treasury securities	\$ 1,910,277	0.73
U.S. government agency securities	3,420,364	1.62
Municipal bonds	4,455,258	0.68
Total	<u>\$ 9,785,899</u>	
Fiduciary Funds - Corporate bonds	<u>\$ 30,431</u>	0.67

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note 4 - Deposits and Investments (Continued)

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

Investment	Fair Value	Rating	Rating Organization
Primary Government			
U.S. Treasury securities	\$ 1,910,277	AA+	Standard & Poor's
U.S. government agency securities	3,420,364	AA+	Standard & Poor's
Municipal bonds	490,830	AAA	Standard & Poor's
Municipal bonds	75,494	AA+	Standard & Poor's
Municipal bonds	720,985	AA	Standard & Poor's
Municipal bonds	1,069,866	AA-	Standard & Poor's
Municipal bonds	303,638	A+	Standard & Poor's
Municipal bonds	997,115	SP-1	Standard & Poor's
Municipal bonds	401,267	Aa2	Moody's
Municipal bonds	295,442	Aa3	Moody's
Municipal bonds	100,621	A1	Moody's
Total	<u>\$ 9,785,899</u>		

Fiduciary Funds - Corporate bonds	<u>\$ 30,431</u>	Not rated	Standard & Poor's
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Concentration of Credit Risk - The City places no limit on the amount it may invest in any one issuer. The City has not invested more than 5 percent of its portfolio with any one issuer.

The City's fiduciary funds subject to Michigan Public Act 347 of 2012, as amended, are limited by law in that investments in any one issuer (other than the U.S. government) may not exceed 5 percent of total investments. At June 30, 2014, there were no investments in any one issuer (other than the U.S. government) that exceeded 5 percent of total investments for the fiduciary funds.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note 5 - Capital Assets

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

	Balance July 1, 2013	Reclassifications	Additions	Disposals	Balance June 30, 2014
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 1,187,835	\$ -	\$ -	\$ -	\$ 1,187,835
Construction in progress	151,424	(151,424)	-	-	-
Subtotal	1,339,259	(151,424)	-	-	1,187,835
Capital assets being depreciated:					
Infrastructure:					
Roads	20,600,167	-	1,504,005	-	22,104,172
Sidewalks	7,313,737	-	74,933	-	7,388,670
Buildings and improvements	15,636,041	151,424	333,899	-	16,121,364
Machinery and equipment	7,296,440	-	1,126,157	(210,787)	8,211,810
Subtotal	50,846,385	151,424	3,038,994	(210,787)	53,826,016
Accumulated depreciation:					
Infrastructure:					
Roads	10,647,124	-	716,171	-	11,363,295
Sidewalks	4,097,668	-	263,853	-	4,361,521
Buildings and improvements	9,018,367	-	564,149	-	9,582,516
Machinery and equipment	6,075,176	-	547,528	(190,189)	6,432,515
Subtotal	29,838,335	-	2,091,701	(190,189)	31,739,847
Net capital assets being depreciated	21,008,050	151,424	947,293	(20,598)	22,086,169
Net capital assets	\$ 22,347,309	\$ -	\$ 947,293	\$ (20,598)	\$ 23,274,004
Business-type Activities					
Capital assets not being depreciated -					
Construction in progress	\$ 6,373	\$ -	\$ 610,202	\$ -	\$ 616,575
Capital assets being depreciated:					
Utility system	56,604,996	-	4,044,438	-	60,649,434
Buildings and improvements	373,978	-	-	-	373,978
Machinery and equipment	423,069	-	18,595	-	441,664
Subtotal	57,402,043	-	4,063,033	-	61,465,076
Accumulated depreciation:					
Utility system	17,484,580	-	1,375,255	-	18,859,835
Buildings and improvements	315,855	-	3,374	-	319,229
Machinery and equipment	358,914	-	37,542	-	396,456
Subtotal	18,159,349	-	1,416,171	-	19,575,520
Net capital assets being depreciated	39,242,694	-	2,646,862	-	41,889,556
Net capital assets	\$ 39,249,067	\$ -	\$ 3,257,064	\$ -	\$ 42,506,131

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note 5 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 1,247,252
Public safety	271,958
Public works	15,487
Judicial	132,286
Recreation and culture	203,364
Internal Service Fund	<u>221,354</u>
Total governmental activities	<u>\$ 2,091,701</u>

Business-type activities - Water and sewer	<u>\$ 1,416,171</u>
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Construction Commitments - The City has active construction projects at year end as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
2012 State Revolving Fund program	\$ 3,730,455	\$ 496,041
Water main replacement	2,761,829	1,732,002
Miscellaneous major and local street repair projects	<u>62,711</u>	<u>300,148</u>
Total	<u>\$ 6,554,995</u>	<u>\$ 2,528,191</u>

Note 6 - Restricted Assets

The City's business-type activities have \$19,885 in funds held by the Macomb County Drain Commission on behalf of the City to be used for the Lake St. Clair Clean Water Initiative, including related debt service. The City's nonmajor governmental funds have unspent bond proceeds of \$203,364, which are restricted for construction. In addition, the City's nonmajor governmental funds have \$324,111 in funds restricted for use on an Eastpointe Brownfield Redevelopment project.

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from Other Funds		
General Fund	Nonmajor governmental funds	<u>\$ 58,566</u>

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note 7 - Interfund Receivables, Payables, and Transfers (Continued)

Receivable Fund	Payable Fund	Amount
Advances from/to Other Funds		
General Fund	Internal Service Fund	\$ 324,513
Water and Sewer Fund	Internal Service Fund	\$ 165,516
Fund Transferred From	Fund Transferred To	Amount
General Fund	Nonmajor governmental funds	\$ 364,620
Major Streets Fund	Local Streets Fund	625,000
Nonmajor governmental funds	Water and Sewer Fund	982,255
Total		\$ 1,971,875

The transfer from the nonmajor governmental funds into the Water and Sewer Fund represents the transfer of property tax revenue restricted for debt service expense incurred by the Water and Sewer Fund. All other transfers provided funding for capital projects, capital acquisitions, and debt service.

Note 8 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bond:							
Building Authority	4.25% -	\$135,000 -					
Maturing through 2033	4.375%	\$280,000	\$ 3,930,000	\$ -	\$ (130,000)	\$ 3,800,000	\$ 135,000
Unamortized premium on issuance			29,315	-	(1,523)	27,792	1,523
MDEQ Brownfield Redevelopment Loan		\$58,396 -					
Maturing through 2028	1.50%	\$66,770	-	625,000	-	625,000	-
Total bonds payable			3,959,315	625,000	(131,523)	4,452,792	136,523
Accumulated compensated absences			491,773	-	(15,485)	476,288	75,000
Uninsured losses (Note 9)			90,851	176,005	-	266,856	-
Total governmental activities			\$ 4,541,939	\$ 801,005	\$ (147,008)	\$ 5,195,936	\$ 211,523

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note 8 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
County Drain Contract:							
Lake St. Clair Clean Water Initiative:							
Amount of issue - \$12,503,481		\$177,406 -					
Maturing through 2030	Various	\$727,665	\$ 7,771,705	\$ 809,760	\$ (1,410,491)	\$ 7,170,974	\$ 582,991
Unamortized premium on issuance			-	35,840	-	35,840	2,240
8 1/2 Mile Relief Drain:							
Amount of issue - \$3,091,679		\$130,403 -					
Maturing through 2030	2.50%	\$179,289	2,753,771	-	(127,687)	2,626,084	130,403
Revenue bonds:							
2013 Clean Water Revolving Fund:							
Amount of issue - \$4,020,000		\$160,000 -	-	-	-	-	-
Maturing through 2033	2.50%	\$250,000	1,245,129	2,405,822	(160,000)	3,490,951	160,000
Total bonds payable			11,770,605	3,251,422	(1,698,178)	13,323,849	875,634
Accumulated compensated absences			15,171	3,900	-	19,071	-
Total business-type activities			<u>\$ 11,785,776</u>	<u>\$ 3,255,322</u>	<u>\$ (1,698,178)</u>	<u>\$ 13,342,920</u>	<u>\$ 875,634</u>

Annual debt service requirements to maturity for the above bond obligations and contracts are as follows (other than unamortized premium on issuance and compensated absences):

Years Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 135,000	\$ 160,544	\$ 295,544	\$ 873,394	\$ 378,393	\$ 1,251,787
2016	140,000	154,700	294,700	895,903	354,594	1,250,497
2017	145,000	148,644	293,644	919,240	329,967	1,249,207
2018	155,000	142,269	297,269	944,359	304,663	1,249,022
2019	160,000	135,575	295,575	965,157	278,185	1,243,342
2020-2024	900,000	568,225	1,468,225	4,685,898	988,526	5,674,424
2025-2029	1,105,000	355,463	1,460,463	2,937,398	451,923	3,389,321
2030-2034	1,060,000	94,938	1,154,938	1,435,879	79,525	1,515,404
Total	<u>\$ 3,800,000</u>	<u>\$ 1,760,358</u>	<u>\$ 5,560,358</u>	<u>\$ 13,657,228</u>	<u>\$ 3,165,776</u>	<u>\$ 16,823,004</u>

Commitments - The City received a Clean Water State Revolving Fund loan from the State of Michigan during fiscal year 2013. The scheduled payments related to the 2013 Clean Water Revolving Fund are included in the annual debt service requirements table above. However, as of June 30, 2014, the City had only drawn down \$3,650,951 of the \$4,020,000 approved loan amount, which is recorded as debt at year end. The difference in the principal outstanding between the debt service requirements table and the debt recorded in the business-type activities is \$333,379.

Note 8 - Long-term Debt (Continued)

County Contractual Obligations - The above contractual obligations to the County are the result of the County issuance of bonds on the City's behalf and other communities involved in the Lake St. Clair Clean Water Initiative Project and the 8 1/2 Mile Drain Relief Project. The City has pledged to raise property taxes, to the extent permitted by law, as necessary to fund the obligations to repay the County. The remaining principal and interest to be paid on the bonds total \$11,880,267. During the current year, total property taxes levied to fund debt obligations of the City were \$2,056,445. Total principal and interest paid by the City for County-issued debt totaled \$982,255.

Refunding - In December 2013, Macomb County issued \$3,615,000 in bonds to refund certain outstanding indebtedness previously issued related to the Lake St. Clair Clean Water Initiative project. The City's portion of the bond issue represents \$809,760, which is recorded in the Water and Sewer Fund. The difference between the cash flows required to service the new debt and complete the refunding is approximately \$85,000. The City estimates its minimum economic gain (difference between the present value of the debt service payments on the old and new debt) is approximately \$65,000.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits and workers' compensation; settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The City participates in the Michigan Municipal Risk Management Authority risk pool for claims other than medical benefits.

The Michigan Municipal Risk Management Authority (the "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 is self-funded for claims up to a retention amount, at which time the City's reinsurance coverage begins. The City estimates the liability for claims that have been incurred through the end of the year, including both those claims that have been reported as well as those that have not been reported.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note 9 - Risk Management (Continued)

Changes in the estimated liability for the past two fiscal years were as follows:

	General Liability, Auto, and Property	
	2014	2013
Estimated liability - Beginning of year	\$ 90,851	\$ 187,492
Estimated claims incurred, including changes in estimates	261,728	6,151
Claim payments	(85,723)	(102,792)
Estimated liability - End of year	<u>\$ 266,856</u>	<u>\$ 90,851</u>

Note 10 - Pension Plan Description

Plan Administration - The City of Eastpointe Employees' Retirement System Board of Trustees administers the Employees' Retirement System (the "Retirement System") - a single-employer defined benefit pension plan that provides pensions for eligible full-time general and public safety employees of the City. On January 28, 2014, the board of trustees approved the transfer of the Retirement System to the Municipal Employees' Retirement System of Michigan. Effective February 18, 2014, the Retirement System was administered by the city manager upon the change in ordinance. The transfer will be completed in the City's fiscal year 2015. Benefit terms have been established by contractual agreements between the City and the various employee union representation; amendments are subject to the same process.

Management of the plan is vested in the board of trustees, which consists of five members - the mayor, a member of the City Council to be selected by the City Council, a citizen who is a taxpayer and resident of the City, to be appointed by the board of trustees, by and with the consent of the City Council, a policeman or fireman to be elected by the policemen and firemen members, and a general member to be elected by the general members.

Plan Membership - At June 30, 2013, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	214
Inactive plan members entitled to but not yet receiving benefits	15
Active plan members	99

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note 10 - Pension Plan Description (Continued)

Benefits Provided - The pension plan provides retirement, disability, and death benefits. Benefit terms are established by ordinances and negotiations with the City's collective bargaining units and may be amended through negotiations with the City's collective bargaining units.

Contributions - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the pension board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the City Charter, union contracts, and plan provisions. For the year ended June 30, 2014, the average active member contribution rate was 5 percent of annual pay, and the City's average contribution rate was 38.1 percent of annual payroll.

Note 11 - Pension Plan Reserves

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

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

The employee reserve is credited as employee contributions are received throughout the year; the plan maintains a record of the amount contributed by each employee. For any employee who terminates before vesting in the pension plan, their balance is returned to them; for those who stay until retirement, the balance is transferred into the retiree reserve.

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

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

	Required Reserve	Amount Funded
Retiree reserve	\$ 73,875,917	\$ 44,452,986
Employee reserve	386,526	386,526
Employer reserve	N/A	-

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note 12 - Pension Plan Investments - Policy and Rate of Return

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

Asset Class	Target Allocation
Domestic equities	35%
International equities	10%
Emerging markets equities	5%
Investment grade U.S. fixed income	20%
High yield fixed income	10%
International fixed income	10%
Hedge funds	10%
Cash or cash equivalents	0%

Rate of Return - For the year ended June 30, 2014, the annual money weighted rate of return on pension plan investments, net of pension plan investment expense, was 12.92 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 13 - City Pension Cost and Related Asset/Obligation

The pension plan does not issue a separate financial report.

Annual Pension Cost and Net Pension Obligation

Annual required contribution	\$ 2,293,841
Interest on net pension obligation	72,884
Adjustment to annual required contribution	<u>(51,707)</u>
Annual pension cost (APC)	2,315,018
Contributions made	<u>(2,762,592)</u>
Decrease in net pension obligation	(447,574)
Net pension obligation - Beginning of year	<u>911,056</u>
Net pension obligation - End of year	<u>\$ 463,482</u>

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note 13 - City Pension Cost and Related Asset/Obligation (Continued)

Annual Pension Cost - For the year ended June 30, 2014, the City's annual pension cost of \$2,315,018 for the plan was exceeded by the City's actual contribution of \$2,762,592. The pension cost for the three most recent years is as follows:

	Fiscal Year Ended June 30		
	2014	2013	2012
Annual pension cost (APC)	\$ 2,315,018	\$ 1,890,674	\$ 2,722,721
Percentage of APC contributed	119.3 %	136.0 %	99.0 %
Net pension obligation	463,482	911,056	1,598,664

Funding Status and Funding Progress - As of June 30, 2013, the most recent actuarial valuation date, the plan was 56.1 percent funded. The actuarial accrued liability for benefits was \$73,739,703, and the actuarial value of assets was \$41,387,698, resulting in an unfunded actuarial accrued liability of \$32,352,005. The covered payroll (annual payroll to active employees covered by the plan) was \$6,817,694, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 474 percent.

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are 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) 8.0 percent investment rate of return, (b) projected salary increases of 3.5-7.0 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 3.5 percent. 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 over an open period of 30 years for police and fire employees and as a level dollar amount over a closed period of 27 years for general employees.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note 14 - Net Pension Liability of the City

The City reports pension expense based on funding requirements, as directed by GASB Statement No. 27. Beginning next year, the City will adopt GASB Statement No. 68, which will require the measurement of pension expense as it is earned, rather than as it is funded.

The net pension liability of the City has been measured as of June 30, 2014 and is composed of the following:

Total pension liability	\$ 74,262,443
Plan fiduciary net position	<u>(44,839,512)</u>
City's net position liability	<u>\$ 29,422,931</u>
Plan fiduciary net position as a percentage of the total pension liability	60.4 %

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

Inflation	3.5 %
Salary increases	3.5 - 6.5 % Average, including inflation
Investment rate of return	8.0 % Net of pension plan investment expense, including inflation

Mortality rates were based on the RP 2000 Mortality Table set forward three years for males and one year for females.

Discount Rate - The discount rate used to measure the total pension liability was 8.0 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

The current valuation uses a discount rate that is 100 percent of the anticipated investment rate of return. The appropriateness of using a blended discount rate is currently being evaluated, given the City's current funding level and contribution methodology. If a revised valuation were issued to reflect the use of a blended discount rate, the total pension liability and, therefore, the net pension liability, would increase and that increase could be material. The impact of a 1 percent decrease in the discount rate, which would likely be close to the change given a blended rate, would result in an increase of \$6,901,258 in the net pension liability of the City.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note 14 - Net Pension Liability of the City (Continued)

Projected Cash Flows

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

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

Asset Class	Long-term Expected Real Rate of Return
Domestic equities	7.30%
International equities	7.20%
Emerging markets equities	7.40%
Investment grade U.S. fixed income	1.80%
High yield fixed income	5.30%
International fixed income	2.00%
Hedge funds	4.80%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the City, calculated using the discount rate of 8.0 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.0 percent) or one percentage point higher (9.0 percent) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net pension liability of the City	\$ 36,324,189	\$ 29,422,931	\$ 23,398,407

Note 15 - Defined Contribution Pension Plan

The City provides pension benefits to eligible employees through a defined contribution plan. The plan is administered by the International City/County Management Association (ICMA) and covers police and fire employees hired after July 1, 2010. General employees had the option of entering into the plan effective January 1, 2013. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Certain police and fire employees are eligible to participate from the date of employment and general employees are eligible to participate beginning January 1, 2013. As established by city ordinance and collective bargaining agreements, the City contributes 4 percent of the employees' base wages. Employee contributions into the plan are not required. All contributions plus interest allocated to the employee's account are fully vested after five years of service.

The current year contribution was calculated based on covered payroll of \$2,979,309, resulting in an employer contribution of \$137,192 and employee contributions of \$83,211.

Note 16 - Other Postemployment Benefits

Plan Description - The City provides retiree healthcare benefits to eligible employees and their spouses. Benefits are provided to police, fire, and general employee groups. As of July 1, 2012, the date of the most recent actuarial valuation, the plan had 298 members including employees in active service, terminated employees not yet receiving benefits, and retired employees and beneficiaries currently receiving benefits.

This is a single-employer defined benefit plan administered by the City. Benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions.

Funding Policy - The collective bargaining agreements currently do not require a contribution from employees. 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). However, as shown below, the City has made contributions to advance-fund these benefits, as determined by the City Council through annual budget resolutions.

Funding Status and Funding Progress - For the year ended June 30, 2014, the City has estimated the cost of providing retiree healthcare benefits through the postretirement healthcare plan through actuarial valuations as of July 1, 2012. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note 16 - Other Postemployment Benefits (Continued)

This valuation's computed contribution and actual funding are summarized as follows:

	Postretirement Healthcare Plan
Annual required contribution (recommended)*	\$ 3,101,027
Interest on the prior year's net OPEB obligation	72,530
Less adjustment to the annual required contribution	(48,368)
Annual OPEB cost	3,125,189
Amounts contributed - Payments of current premiums and advance funding	(3,435,241)
Decrease in net OPEB obligation	(310,052)
OPEB obligation - Beginning of year	906,628
OPEB obligation - End of year	\$ 596,576

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

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the plan for the current year and the previous two years are as follows:

Fiscal Year Ended	Annual OPEB Costs	Percentage OPEB Costs Contributed	Net OPEB Obligation
6/30/12	\$ 2,878,899	108.0	\$ (1,240,959)
6/30/13	3,134,099	110.0	(906,628)
6/30/14	3,125,189	110.0	(596,576)

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/08	\$ 2,250,959	\$ 44,937,892	\$ 42,686,933	5.0	\$ 9,733,198	438.6
7/01/10	3,024,566	40,611,638	37,587,072	7.4	9,095,795	413.2
7/01/12	4,044,508	46,053,879	42,009,371	8.8	7,633,276	550.3

Note 16 - Other Postemployment Benefits (Continued)

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

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 July 1, 2012 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included an 8.0 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, grading down to 4 percent over the next 10 years. Both rates included a 4 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2012 was 30 years.

Note 17 - Employees' Death Benefit Fund

The Employees' Death Benefit Fund was established by City Ordinance on October 13, 1958 for the purpose of providing death benefits for employees who elect to participate in the plan. Prior year contributions from the City and plan members have been determined to be sufficient to fully fund the plan at June 30, 2014. Benefits at date of death are payable to designated beneficiaries in varying amounts. The obligation to contribute and maintain the plan was established by negotiation with the City's collective bargaining units.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note 18 - Pension and Other Employee Benefit Trust Funds

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

	Employees' Retirement System	Employees' Death Benefit	Retiree Health Care	Total
Assets				
Cash and cash equivalents	\$ 41,036,738	\$ 19,875	\$ 404,123	\$ 41,460,736
Investments:				
U.S. government obligations	-	-	-	-
U.S. government agency securities	-	-	-	-
Equity securities	-	-	1,349,428	1,349,428
Corporate bonds	-	30,431	-	30,431
Mutual funds	3,844,385	1,114,453	3,889,103	8,847,941
Municipal bonds	-	-	-	-
Receivables - Accrued interest	-	-	-	-
Total assets	44,881,123	1,164,759	5,642,654	51,688,536
Liabilities - Accounts payable	41,611	-	23,921	65,532
Net Position - Held in trust for pension and other employee benefits	<u>\$ 44,839,512</u>	<u>\$ 1,164,759</u>	<u>\$ 5,618,733</u>	<u>\$ 51,623,004</u>

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note 18 - Pension and Other Employee Benefit Trust Funds (Continued)

	Employees' Retirement System	Employees' Death Benefit	Retiree Health Care	Total
Additions				
Investment income (loss):				
Interest and dividends	\$ 1,677,705	\$ -	\$ 96,976	\$ 1,774,681
Net adjustment to fair value of investments	4,667,650	135,868	147,191	4,950,709
Less investment expenses	(254,636)	-	(12,871)	(267,507)
Net investment income	6,090,719	135,868	231,296	6,457,883
Employer contributions	2,762,592	-	3,435,242	6,197,834
Employee contributions	218,791	-	-	218,791
Total additions	9,072,102	135,868	3,666,538	12,874,508
Deductions				
Benefit payments	6,209,213	31,000	-	6,240,213
Health insurance premiums	-	-	2,751,567	2,751,567
Administrative expenses	327	-	-	327
Total deductions	6,209,540	31,000	2,751,567	8,992,107
Change in Net Position	2,862,562	104,868	914,971	3,882,401
Net Position - Beginning of year	41,976,950	1,059,891	4,703,762	47,740,603
Net Position - End of year	\$ 44,839,512	\$ 1,164,759	\$ 5,618,733	\$ 51,623,004

Note 19 - Joint Ventures

The City is a member of the Southeast Macomb Sanitary District, which provides sewage to participating municipalities in Macomb County, Michigan. Other members include the cities of Roseville and St. Clair Shores, Michigan. The City appoints one member to the joint venture's governing board, who then approves the annual budgets. The City's equity interest of \$6,829,427 is recorded in the Water and Sewer Fund financial statements and within the business-type activities column in the statement of net position.

Complete financial statements for the Southeast Macomb Sanitary District can be obtained from the administrative offices at 20001 Pleasant Avenue, Box 286, St. Clair Shores, Michigan 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note 19 - Joint Ventures (Continued)

The City is a member of the South Macomb Disposal Authority (the "Authority"), which provides refuse disposal services to participating municipalities in Macomb County, Michigan. Other members include the cities of Center Line, Roseville, St. Clair Shores, and Warren, Michigan. The City appoints one member to the joint venture's governing board, who then approves the annual budgets. The City's equity interest in the Authority's operating reserve of \$143,067 is recorded within the governmental activities column of the statement of net position. The City has also recorded a payable due to the Authority in the amount of \$1,043,780, which represents the estimated portion of future postclosure care costs that the City is obligated to pay in connection with certain closed landfills owned by the Authority. The payable is recorded as an adjustment to the equity interest in the Authority within the governmental activities column of the statement of net position. Therefore, at June 30, 2014, the City has a negative equity investment in the Authority in the amount of \$900,713.

Complete financial statements for the South Macomb Disposal Authority can be obtained from the administrative offices at 20001 Pleasant Avenue, Box 286, St. Clair Shores, Michigan 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

The City is a member of the South East Regional Emergency Services Authority (SERESA), which provides dispatching services of emergency police, fire, and emergency medical services throughout member communities. Other members include the cities of Roseville and St. Clair Shores, Michigan. The City appoints one member to the joint venture's governing board, who then approves the annual budgets. The City's equity interest in SERESA of \$324,254 is recorded within the governmental activities column of the statement of net position.

Complete financial statements for the South East Regional Emergency Services Authority can be obtained from the administrative offices at 18961 Common Road, Roseville, Michigan 48066. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

The City is a member of the Recreational Authority of Roseville and Eastpointe (RARE), which is responsible for administering recreation programs and senior activities in its respective communities. The other member is the City of Roseville. The City appoints two members to the joint venture's governing board, who then approves the annual budgets. In addition, the board selects one additional representative from either participating community for a two-year term position. The City does not record an equity interest in RARE, since upon withdrawal, the member is not entitled to the return of any credit for property or money that was transferred to or paid to RARE.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2014

Note 19 - Joint Ventures (Continued)

Complete financial statements for the Roseville Eastpointe Recreation Authority can be obtained from the administrative offices at 18185 Sycamore Street, Roseville, Michigan 48066. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Note 20 - Restricted Fund Balance

As discussed in Note 19 to the financial statements, the City has recorded a payable due to the South Macomb Disposal Authority in the amount of \$1,043,780, which represents the estimated portion of future postclosure care costs that the City is obligated to pay in connection with certain closed landfills owned by the Authority. In the Garbage and Rubbish Collection Fund, the City has a restricted fund balance of \$722,982, of which \$380,000 has been set aside to pay for the future postclosure care costs.

In the Major Streets Fund, the City has a restricted fund balance of \$4,438,297. Of this amount, \$1,655,000 represents the receipt of a Roads and Risks Reserve grant from the Michigan Department of Transportation in fiscal year 2014 and has been set aside to pay for future construction on specific City roads.

Note 21 - Upcoming Accounting Pronouncements

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

City of Eastpointe, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 8,864,435	\$ 8,486,435	\$ 8,566,792	\$ 80,357
Licenses and permits	924,000	1,155,000	1,278,491	123,491
Federal grants	5,000	32,050	32,607	557
State-shared revenue and grants	3,131,694	3,148,294	3,261,467	113,173
Charges for services	419,750	583,550	628,057	44,507
Fines and forfeitures	1,945,724	2,045,724	2,464,925	419,201
Investment income	95,000	23,000	27,067	4,067
Rental income	21,000	56,000	53,251	(2,749)
Other	64,800	82,348	85,551	3,203
Total revenue	15,471,403	15,612,401	16,398,208	785,807
Expenditures - Current				
General government:				
City Council	45,818	45,818	39,816	6,002
City manager	527,416	527,416	526,836	580
Finance	623,924	638,342	604,188	34,154
Assessing	342,106	342,706	324,771	17,935
City clerk and elections	247,208	252,208	238,041	14,167
Law	163,800	199,800	196,388	3,412
General operating	2,228,547	1,831,697	1,762,451	69,246
Judicial	1,266,061	1,311,153	1,300,723	10,430
Total general government	5,444,880	5,149,140	4,993,214	155,926
Public safety	12,736,118	12,588,761	11,894,272	694,489
Public works	36,585	48,285	59,147	(10,862)
Recreation and culture	625,465	672,765	634,943	37,822
Total expenditures	18,843,048	18,458,951	17,581,576	877,375
Excess of Expenditures Over Revenue	(3,371,645)	(2,846,550)	(1,183,368)	1,663,182
Other Financing Uses - Transfers out	(296,500)	(364,120)	(364,620)	(500)
Net Change in Fund Balance	(3,668,145)	(3,210,670)	(1,547,988)	1,662,682
Fund Balance - Beginning of year	9,639,094	9,639,094	9,639,094	-
Fund Balance - End of year	<u>\$ 5,970,949</u>	<u>\$ 6,428,424</u>	<u>\$ 8,091,106</u>	<u>\$ 1,662,682</u>

City of Eastpointe, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 1,440,500	\$ 1,440,500	\$ 3,298,666	\$ 1,858,166
Investment income	8,000	8,000	5,045	(2,955)
Other revenue	-	-	500	500
Total revenue	1,448,500	1,448,500	3,304,211	1,855,711
Expenditures - Current - Public works	1,726,494	2,175,835	1,548,167	627,668
Other Financing Uses - Transfers out	(625,000)	(625,000)	(625,000)	-
Net Change in Fund Balance	(902,994)	(1,352,335)	1,131,044	2,483,379
Fund Balance - Beginning of year	3,307,253	3,307,253	3,307,253	-
Fund Balance - End of year	<u>\$ 2,404,259</u>	<u>\$ 1,954,918</u>	<u>\$ 4,438,297</u>	<u>\$ 2,483,379</u>

City of Eastpointe, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 510,000	\$ 510,000	\$ 556,211	\$ 46,211
Investment income	2,000	2,000	1,506	(494)
Total revenue	512,000	512,000	557,717	45,717
Expenditures - Current - Public works	1,290,121	1,504,304	783,743	720,561
Other Financing Sources - Transfers in	625,000	625,000	625,000	-
Net Change in Fund Balance	(153,121)	(367,304)	398,974	766,278
Fund Balance - Beginning of year	461,870	461,870	461,870	-
Fund Balance - End of year	<u>\$ 308,749</u>	<u>\$ 94,566</u>	<u>\$ 860,844</u>	<u>\$ 766,278</u>

City of Eastpointe, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Garbage and Rubbish Collection Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Charges for services	\$ 1,785,307	\$ 1,785,307	\$ 1,744,637	\$ (40,670)
Investment income	500	500	764	264
Other	1,000	1,000	925	(75)
Total revenue	1,786,807	1,786,807	1,746,326	(40,481)
Expenditures - Current - Public works	1,744,653	1,744,653	1,335,562	409,091
Net Change in Fund Balance	42,154	42,154	410,764	368,610
Fund Balance - Beginning of year	312,218	312,218	312,218	-
Fund Balance - End of year	<u>\$ 354,372</u>	<u>\$ 354,372</u>	<u>\$ 722,982</u>	<u>\$ 368,610</u>

City of Eastpointe, Michigan

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

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/08	\$ 50,448,315	\$ 62,522,948	\$ 12,074,633	80.7	\$ 10,294,149	117.3
6/30/09	48,368,055	67,624,394	19,256,339	71.5	10,218,230	188.5
6/30/10	46,396,079	67,010,652	20,614,573	69.2	9,095,795	226.6
6/30/11	45,568,140	67,799,307	22,231,167	67.2	8,694,192	255.7
6/30/12	43,180,412	69,874,999	26,694,587	61.8	7,633,276	349.7
6/30/13	41,387,698	73,739,703	32,352,005	56.1	6,817,694	474.5

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

Valuation date	June 30, 2013
Actuarial cost method	Individual entry age
Amortization method	Level percent open - Police and fire
	Level dollar amount closed - General
Remaining amortization period	30 years - Police and fire
	26 years - General
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	3.5%-7.0%
*Includes inflation at	3.5%
Cost of living adjustments	None

City of Eastpointe, Michigan

Required Supplemental Information Retiree Healthcare System Schedule of Funding Progress and Employer Contributions Year Ended June 30, 2014

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/08	\$ 2,250,959	\$ 44,937,892	\$ 42,686,933	5.0	\$ 9,733,198	438.6
7/1/10	3,024,566	40,611,638	37,587,072	7.4	9,095,795	413.2
7/1/12	4,044,508	46,053,879	42,009,371	8.8	7,633,276	550.3

The schedule of employer contributions is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed
6/30/09	\$ 3,277,616	77.0
6/30/10	3,175,927	81.0
6/30/11	2,875,300	95.0
6/30/12	2,878,899	108.0
6/30/13	3,134,099	110.0
6/30/14	3,125,189	110.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of July 1, 2012, the latest actuarial valuation, is as follows:

Valuation date	July 1, 2012
Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	4%-7%
*Includes inflation at	4%
Cost of living adjustments	None
Valuation healthcare cost trend rate	9 percent, grading down to 4 percent over 10 years

City of Eastpointe, Michigan

Note to Required Supplemental Information Year Ended June 30, 2014

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

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

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

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

1. The city manager, on or before 60 days prior to the commencement of the fiscal and budgetary year (July 1), shall prepare and submit to the City Council a complete itemized proposed budget before the next fiscal year.
2. A public hearing on the budget shall be held before its final adoption, at such time and place as the City Council shall direct, and notice of the public hearing shall be published at least 10 days in advance thereof by the clerk.
3. The City Council shall, on or before 30 days prior to the commencement of the next fiscal year, adopt a budget for the ensuing fiscal year.

The annual budget is prepared by the city manager and adopted by the City Council; subsequent amendments are approved by the City Council. Budgeted amounts of the revenue and expenditures presented for the General Fund and special revenue funds are as amended by the City Council. Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2014 has not been calculated. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenue and expenditures, including budget variances, for the General Fund and major special revenue funds is presented in the required supplemental information. A comparison of actual results of operations to the nonmajor special revenue funds' budgets as adopted by the City Council is available at the City offices for inspection. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

City of Eastpointe, Michigan

Note to Required Supplemental Information (Continued) Year Ended June 30, 2014

Reconciliations of the budgetary comparison schedules to the fund-based statement of changes in fund balance are as follows:

	<u>Total Revenue</u>	<u>Total Expenditures</u>	<u>Other Financing Sources</u>	<u>Change in Fund Balance</u>
General Fund:				
Amounts per operating statement	\$ 16,587,467	\$ 17,717,177	\$ 364,620	\$ (1,494,330)
Tax Reversion Fund budgeted separate from the General Fund	<u>(189,259)</u>	<u>(135,601)</u>	<u>-</u>	<u>(53,658)</u>
Amounts per budget statement	<u>\$ 16,398,208</u>	<u>\$ 17,581,576</u>	<u>\$ 364,620</u>	<u>\$ (1,547,988)</u>

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund - Public works	\$ 48,285	\$ 59,147	\$ (10,862)

City of Eastpointe, Michigan

Required Supplemental Information Schedule of Investment Returns Last Ten Fiscal Years

	2014	2013*	2012*	2011*	2010*	2009*	2008*	2007*	2006*	2005*
Annual money-weighted rate of return, net of investment expense	12.9 %	- %	- %	- %	- %	- %	- %	- %	- %	- %

* GASB Statement No. 67 was implemented for FYE June 30, 2014 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.

City of Eastpointe, Michigan

Required Supplemental Information

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

	2014*	2013**	2012**	2011**	2010**	2009**	2008**	2007**	2006**	2005**
Total Pension Liability										
Service cost	\$ 686,354	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	5,678,262	-	-	-	-	-	-	-	-	-
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	367,337	-	-	-	-	-	-	-	-	-
Changes in assumptions	-	-	-	-	-	-	-	-	-	-
Benefit payments, including refunds	(6,209,213)	-	-	-	-	-	-	-	-	-
Net change in total pension liability	522,740	-	-	-	-	-	-	-	-	-
Total pension liability - Beginning of year	73,739,703	-	-	-	-	-	-	-	-	-
Total pension liability - End of year	<u>\$ 74,262,443</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Plan Fiduciary Net Position										
Contributions - Employer	\$ 2,762,592	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions - Member	218,791	-	-	-	-	-	-	-	-	-
Net investment income	6,090,719	-	-	-	-	-	-	-	-	-
Administrative expenses	(327)	-	-	-	-	-	-	-	-	-
Benefit payments, including refunds	(6,209,213)	-	-	-	-	-	-	-	-	-
Net change in plan fiduciary net position	2,862,562	-	-	-	-	-	-	-	-	-
Plan fiduciary net position - Beginning of year	41,976,950	-	-	-	-	-	-	-	-	-
Plan fiduciary net position - End of year	<u>\$ 44,839,512</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Net Pension Liability	<u>\$ 29,422,931</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Plan Fiduciary Net Position As a % of Total Pension Liability	60.38 %	DIV/0 %	DIV/0 %	DIV/0 %	DIV/0 %	DIV/0 %	DIV/0 %	DIV/0 %	DIV/0 %	DIV/0 %
Covered Employee Payroll	\$ 6,602,528	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's Net Pension Liability As a % of Covered Employee Payroll	445.6 %	DIV/0 %	DIV/0 %	DIV/0 %	DIV/0 %	DIV/0 %	DIV/0 %	DIV/0 %	DIV/0 %	DIV/0 %

* The current valuation uses a discount rate that is 100 percent of the anticipated investment rate of return. The appropriateness of using a blended discount rate is currently being evaluated, given the City's current funding level and contribution methodology. If a revised valuation were issued to reflect the use of a blended discount rate, the total pension liability and therefore, the net pension liability would increase and that increase could be material. Note 14 discloses that the impact of a 1 percent decrease in the discount rate, which would likely be close to the change given a blended rate, would result in an increase of \$6,901,258 in the net pension liability of the City.

** GASB Statement No. 67 was implemented for FYE June 30, 2014 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.

City of Eastpointe, Michigan

Required Supplemental Information Schedule of City Contributions Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	\$ 2,981,382	\$ 2,746,017	\$ 2,695,079	\$ 2,724,753	\$ 2,071,959	\$ 1,786,080	\$ 1,686,748	\$ 1,529,421	\$ 777,640	\$ 432,939
Contributions in relation to the actuarially determined contribution	2,981,382	2,746,017	2,695,079	2,724,753	2,071,959	1,786,080	1,686,748	1,529,421	-	-
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 777,640	\$ 432,939
Covered employee payroll	\$ 6,602,528	\$ 6,817,694	\$ 7,633,276	\$ 8,694,192	\$ 9,095,795	\$ 10,218,230	\$ 10,294,149	\$ 9,392,368	\$ 9,429,156	\$ 9,496,345
Contributions as a percentage of covered employee payroll	45.2 %	40.3 %	35.3 %	31.3 %	22.8 %	17.5 %	16.4 %	16.3 %	- %	- %

Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of June 30, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method Entry-age actuarial cost method

Amortization method General - Level dollar, closed
Police/Fire - Level percent of payroll, open

Remaining amortization period General - 25 years
Police/Fire - 30 years

Asset valuation method 5-year smoothed market

Inflation 3.5%

Salary increases 3.5% - 6.5% including inflation

Investment rate of return 8.0% (net of investment and administrative expenses)

Retirement age Experience-based table of rates that are specific to the type of eligibility condition

Mortality RP2000 Mortality Table set forward 3 years for males and 1 year for females

Other information None

Other Supplemental Information

City of Eastpointe, Michigan

	Special Revenue Funds					
	Library	Drug Law Enforcement	Community Development Block Grant	Street Lighting SAD	Library - J Tinor Reading	Memorial Library Trust Fund
Assets						
Cash and cash equivalents	\$ 343,113	\$ 394,030	\$ -	\$ -	\$ 19,074	\$ 8,244
Receivables:						
Special assessments	-	-	-	-	-	-
Due from other governmental units	-	3,600	-	-	-	-
Prepaid expenses	-	-	-	114,766	-	-
Restricted assets	-	-	-	-	-	-
Noncurrent receivable	-	-	-	-	-	-
Total assets	\$ 343,113	\$ 397,630	\$ -	\$ 114,766	\$ 19,074	\$ 8,244
Liabilities						
Accounts payable	\$ 68,723	\$ 6,087	\$ -	\$ -	\$ 18,373	\$ -
Due to other funds	-	-	-	58,566	-	-
Accrued liabilities and other	18,003	-	-	-	-	-
Total liabilities	86,726	6,087	-	58,566	18,373	-
Deferred Inflows of Resources -						
Unavailable revenue - Special assessments	-	-	-	-	-	-
Fund Balances						
Nonspendable:						
Prepays	-	-	-	114,766	-	-
Long-term receivable	-	-	-	-	-	-
Restricted:						
Debt service	-	-	-	-	-	-
Library	256,387	-	-	-	701	8,244
Drug law enforcement	-	391,543	-	-	-	-
Capital projects	-	-	-	-	-	-
Committed:						
Assigned:						
Capital projects	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Unassigned	-	-	-	(58,566)	-	-
Total fund balances	256,387	391,543	-	56,200	701	8,244
Total liabilities, deferred inflows of resources, and fund balances	\$ 343,113	\$ 397,630	\$ -	\$ 114,766	\$ 19,074	\$ 8,244

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

Debt Service Funds		Capital Projects Funds					Total
Building Authority	Chapter 20 Drain Debt	Capital Improvement	Equipment Replacement	Building Authority Construction	District Court Building	Brownfield Capital Project	Nonmajor Governmental Funds
\$ 791	\$ 175,037	\$ 513,540	\$ 64,313	\$ -	\$ 144,473	\$ -	\$ 1,662,615
-	-	28,582	-	-	-	-	28,582
-	-	-	7,185	-	-	-	10,785
-	-	-	-	-	-	-	114,766
-	-	-	-	203,364	-	324,111	527,475
-	-	-	-	-	-	300,889	300,889
\$ 791	\$ 175,037	\$ 542,122	\$ 71,498	\$ 203,364	\$ 144,473	\$ 625,000	\$ 2,645,112
\$ -	\$ 1,310	\$ -	\$ 9,770	\$ 19,337	\$ 44,994	\$ -	\$ 168,594
-	-	-	-	-	-	-	58,566
-	-	-	-	-	-	-	18,003
-	1,310	-	9,770	19,337	44,994	-	245,163
-	-	20,705	-	-	-	-	20,705
-	-	-	-	-	-	-	114,766
-	-	-	-	-	-	300,889	300,889
-	173,727	-	-	-	-	-	173,727
-	-	-	-	-	-	-	265,332
-	-	-	-	-	-	-	391,543
-	-	-	-	184,027	99,479	324,111	607,617
-	-	521,417	61,728	-	-	-	583,145
791	-	-	-	-	-	-	791
-	-	-	-	-	-	-	(58,566)
791	173,727	521,417	61,728	184,027	99,479	625,000	2,379,244
\$ 791	\$ 175,037	\$ 542,122	\$ 71,498	\$ 203,364	\$ 144,473	\$ 625,000	\$ 2,645,112

City of Eastpointe, Michigan

	Special Revenue Funds					
	Library	Drug Law Enforcement	Community Development Block Grant	Street Lighting SAD	Library - J Tinor Reading	Memorial Library Trust
Revenue						
Property taxes	\$ 865,598	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants	-	-	195,000	-	-	-
State-shared revenue and grants	17,579	-	-	-	-	-
Charges for services	2,035	-	-	-	-	-
Fines and forfeitures	36,030	78,980	-	-	-	-
Investment income	945	770	-	-	32	-
Rental income	-	-	-	-	-	-
Other:						
Special assessments	-	-	-	433,127	-	-
Other miscellaneous income	-	13,235	-	-	-	-
Total revenue	922,187	92,985	195,000	433,127	32	-
Expenditures						
Current:						
District court	-	-	-	-	-	-
Public safety	-	176,904	-	-	-	-
Public works	-	-	-	376,927	-	-
Community and economic development	-	-	195,000	-	-	-
Recreation and culture	988,319	-	-	-	18,373	-
Capital outlay	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Total expenditures	988,319	176,904	195,000	376,927	18,373	-
Excess of Revenue (Under) Over Expenditures	(66,132)	(83,919)	-	56,200	(18,341)	-
Other Financing Sources (Uses)						
Face value of debt issue	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Net Change in Fund Balances	(66,132)	(83,919)	-	56,200	(18,341)	-
Fund Balances - Beginning of year	322,519	475,462	-	-	19,042	8,244
Fund Balances - End of year	<u>\$ 256,387</u>	<u>\$ 391,543</u>	<u>\$ -</u>	<u>\$ 56,200</u>	<u>\$ 701</u>	<u>\$ 8,244</u>

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

Debt Service Funds		Capital Projects Funds					Total
Building Authority	Chapter 20 Drain Debt	Capital Improvement	Equipment Replacement	Building Authority Construction	District Court Building	Brownfield Capital Project	Nonmajor Governmental Funds
\$ -	\$ 2,069,665	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,935,263
-	-	-	-	-	-	-	195,000
-	-	-	-	-	-	-	17,579
-	-	-	-	-	-	-	2,035
-	-	-	-	-	-	-	115,010
-	800	1,805	28	28	198	-	4,606
-	-	-	158,659	-	-	-	158,659
-	-	67,201	-	-	-	-	500,328
-	-	-	-	-	59,371	-	72,606
-	2,070,465	69,006	158,687	28	59,569	-	4,001,086
-	-	-	-	-	54,099	-	54,099
-	-	-	119,370	-	-	-	296,274
325	997,639	-	-	-	-	-	1,374,891
-	-	-	-	-	-	-	195,000
-	-	-	-	-	-	-	1,006,692
-	-	71,411	53,268	154,028	-	-	278,707
296,175	-	-	-	-	-	-	296,175
296,500	997,639	71,411	172,638	154,028	54,099	-	3,501,838
(296,500)	1,072,826	(2,405)	(13,951)	(154,000)	5,470	-	499,248
-	-	-	-	-	-	625,000	625,000
297,000	-	-	67,620	-	-	-	364,620
-	(982,255)	-	-	-	-	-	(982,255)
297,000	(982,255)	-	67,620	-	-	625,000	7,365
500	90,571	(2,405)	53,669	(154,000)	5,470	625,000	506,613
291	83,156	523,822	8,059	338,027	94,009	-	1,872,631
\$ 791	\$ 173,727	\$ 521,417	\$ 61,728	\$ 184,027	\$ 99,479	\$ 625,000	\$ 2,379,244

City of Eastpointe, Michigan

	Pension Trust Funds			
	Employees' Retirement System	Employees' Death Benefit	Retirement Healthcare	Total Pension Trust Funds
Assets				
Cash and cash equivalents	\$ 41,036,738	\$ 19,875	\$ 404,123	\$ 41,460,736
Investments:				
Equity securities	-	-	1,349,428	1,349,428
Corporate bonds	-	30,431	-	30,431
Mutual funds	3,844,385	1,114,453	3,889,103	8,847,941
Total assets	44,881,123	1,164,759	5,642,654	51,688,536
Liabilities				
Accounts payable	41,611	-	23,921	65,532
Due to other governmental units	-	-	-	-
Accrued liabilities and other	-	-	-	-
Total liabilities	41,611	-	23,921	65,532
Net Position Held in Trust for Pension and Other Employee Benefits	\$ 44,839,512	\$ 1,164,759	\$ 5,618,733	\$ 51,623,004

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

Agency Funds			
Cash and Performance Bonds	Tax Collection	Imprest Payroll	Total Agency Funds
\$ 120,170	\$ 16,141	\$ 1,046	\$ 137,357
-	-	-	-
-	-	-	-
-	-	-	-
\$ 120,170	\$ 16,141	\$ 1,046	\$ 137,357
\$ 1,500	\$ -	\$ 1,046	\$ 2,546
-	16,141	-	16,141
118,670	-	-	118,670
\$ 120,170	\$ 16,141	\$ 1,046	\$ 137,357

City of Eastpointe, Michigan

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

	Employees' Retirement System	Employees' Death Benefit	Retiree Health Care	Total
Additions				
Investment income (loss):				
Interest and dividends	\$ 1,677,705	\$ -	\$ 96,976	\$ 1,774,681
Net increase in fair value of investments	4,667,650	135,868	147,191	4,950,709
Investment-related expenses	(254,636)	-	(12,871)	(267,507)
Net investment income	6,090,719	135,868	231,296	6,457,883
Contributions:				
Employer	2,762,592	-	3,435,242	6,197,834
Employee	218,791	-	-	218,791
Total contributions	2,981,383	-	3,435,242	6,416,625
Total additions	9,072,102	135,868	3,666,538	12,874,508
Deductions				
Benefit payments	6,209,213	31,000	-	6,240,213
Health insurance premiums	-	-	2,751,567	2,751,567
Administrative expenses	327	-	-	327
Total deductions	6,209,540	31,000	2,751,567	8,992,107
Net Increase in Net Position Held in Trust	2,862,562	104,868	914,971	3,882,401
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	41,976,950	1,059,891	4,703,762	47,740,603
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	\$ 44,839,512	\$ 1,164,759	\$ 5,618,733	\$ 51,623,004