

**CITY OF KEEGO HARBOR
Oakland County, Michigan**

AUDITED FINANCIAL REPORT

**For the Fiscal Year Ended
June 30, 2014**

CITY OF KEEGO HARBOR
For the Year Ended June 30, 2014

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CITY OF KEEGO HARBOR
For the Year Ended June 30, 2014

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FINANCIAL SECTION

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Independent Auditor's Report

September 25, 2014

To the Honorable Mayor and Members of City Council
City of Keego Harbor, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Keego Harbor, Michigan, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Honorable Mayor and
Members of the City Council
City of Keego Harbor, Michigan

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Keego Harbor, Michigan, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the defined benefit pension plan trend information, and the budgetary comparison 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, who 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 supplementary 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 Keego Harbor, Michigan's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling information directly to underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Respectfully,



PSLZ LLP
Certified Public Accountants

Management's Discussion and Analysis

Overview of the Financial Statements

The City's annual report consists of management's discussion and analysis, government-wide financial statements, fund financial statements, notes to the financial statements, required supplemental information, and other supplemental information.

The government-wide financial statements are designed to provide a broad overview of the City's finances. The government-wide financial statements are presented on a full accrual basis, with an emphasis on measuring all economic resources and not just current financial resources, as measured in the individual fund statements. Two government-wide statements are provided.

The statement of net position, presents information on all of the City's assets and liabilities with the difference shown as net position. Increases or decreases of net position from period to period provide useful information on the direction of the City's financial position over time.

The statement of activities provides information on how the government-wide net position changed during the fiscal year. This statement provides information on income, expenses, and other increases or decreases in net position.

Following the government-wide statements, individual fund financial statements are provided for the City's major funds with one column provided for nonmajor funds. These statements are grouped into governmental funds, which account for the cost of providing governmental-type services such as public safety and public works; business-type funds, which account for functions that are intended to recover all or a significant portion of their costs through user fees and charges, and fiduciary funds, which account for assets held for outside parties.

Reconciliation between the individual fund statements and the government-wide financial statements is provided following the individual fund statements. The differences between the statement of net position and the fund-based balance sheet are primarily related to inclusion of capital assets and long-term liabilities in the government-wide statement of net position, which are not included in the fund-based balance sheet. The differences between the statement of activities and the statement of revenues, expenditures, and changes in fund balances primarily relate to the timing of reporting capital outlays and debt principal payments in the fund statements and a difference in the timing of the recognition of certain revenues and expenditures such as debt principal payments, and accrued employee leave time.

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Keego Harbor, assets exceeded liabilities by \$2,885,396 at the close of the most recent fiscal year.

The following table shows in a condensed format, the net position of the City's governmental activities as of June 30, 2014:

City of Keego Harbor - Net Position

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------|-------------------------|--------------|--------------------------|------------|--------------|--------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Current and Other Assets | \$ 1,449,062 | \$ 1,449,809 | \$ 161,361 | \$ 139,966 | \$ 1,610,423 | \$ 1,589,775 |
| Capital Assets | 3,696,272 | 3,637,481 | - | - | 3,696,272 | 3,637,481 |
| Total Assets | 5,145,334 | 5,087,290 | 161,361 | 139,966 | 5,306,695 | 5,227,256 |
| Long-term Liabilities | | | | | | |
| Outstanding | 2,250,599 | 2,334,210 | - | - | 2,250,599 | 2,334,210 |
| Other Liabilities | 170,700 | 241,679 | - | - | 170,700 | 241,679 |
| Total Liabilities | 2,421,299 | 2,575,889 | - | - | 2,421,299 | 2,575,889 |
| Net Position: | | | | | | |
| Net Investment | | | | | | |
| in Capital Assets | 1,814,672 | 1,660,016 | - | - | 1,814,672 | 1,660,016 |
| Restricted | 415,009 | 425,124 | - | - | 415,009 | 425,124 |
| Unrestricted | 494,354 | 426,261 | 161,361 | 139,966 | 655,715 | 566,227 |
| Total Net Position | \$ 2,724,035 | \$ 2,511,401 | \$ 161,361 | \$ 139,966 | \$ 2,885,396 | \$ 2,651,367 |

A portion of the City's net position (63 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Keego Harbor used these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. An additional portion (14%) of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$655,715) may be used to meet the government's ongoing obligations to citizens and creditors.

The following table shows the changes of the net position during the year ended June 30, 2014:

City of Keego Harbor - Change in Net Position

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------------|-------------------------|--------------------|--------------------------|------------------|-------------------|--------------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 423,608 | \$ 362,934 | \$ 20,988 | \$ 22,581 | \$ 444,596 | \$ 385,515 |
| Operating Grants & Contributions | 194,938 | 174,100 | - | - | 194,938 | 174,100 |
| Capital Grants & Contributions | - | - | - | - | - | - |
| General Revenues: | | | | | | |
| Property Taxes | 1,248,493 | 1,267,922 | - | - | 1,248,493 | 1,267,922 |
| State Shared Revenues | 244,173 | 237,780 | - | - | 244,173 | 237,780 |
| Franchise Fees | 51,129 | 50,839 | - | - | 51,129 | 50,839 |
| Unrestricted Investment Earnings | 18,826 | 13,919 | 2,277 | 751 | 21,103 | 14,670 |
| Total Revenues | 2,181,167 | 2,107,494 | 23,265 | 23,332 | 2,204,432 | 2,130,826 |
| Program Expenses: | | | | | | |
| General Government | 490,400 | 554,776 | - | - | 490,400 | 554,776 |
| Public Safety | 934,771 | 1,029,326 | - | - | 934,771 | 1,029,326 |
| Public Works | 412,414 | 483,333 | - | - | 412,414 | 483,333 |
| Community Development | 15,702 | 7,657 | - | - | 15,702 | 7,657 |
| Recreation and Cultural | 36,088 | 31,945 | - | - | 36,088 | 31,945 |
| Interest on Long-Term Debt | 63,818 | 100,080 | - | - | 63,818 | 100,080 |
| Loss on Disposal of Assets | 15,340 | - | - | - | 15,340 | - |
| Water and Sewer | - | - | 1,870 | 316 | 1,870 | 316 |
| Total Expenses | 1,968,533 | 2,207,117 | 1,870 | 316 | 1,970,403 | 2,207,433 |
| Change in Net Position | \$ 212,634 | \$ (99,623) | \$ 21,395 | \$ 23,016 | \$ 234,029 | \$ (76,607) |

The City had an increase of \$212,634 in net position in its governmental activities for the fiscal year ended June 30, 2014, compared to a \$99,623 decrease for the fiscal year ended June 30, 2013. The significant factors for the increase in net position include a more recent actuarial valuation performed for the City dated July 1, 2014, for the City's Other Post Employment Benefits which significantly decreased the City's annual required contribution which is reflected for the City's 2014 fiscal year. The prior actuarial valuation study was dated July 1, 2009, and did not reflect changes that have been made in City's employee since that time. Fiscal year 2013's annual required contribution was \$91,717 and fiscal year 2014's annual required contribution was \$13,026. Also, administrative wages were less in fiscal year 2014 as employees left and were not immediately replaced.

Governmental Funds

Of the City's governmental funds, the General, Major and Local Streets, Capital Projects, and TIFA Funds account for all significant expenditures.

General Fund revenues exceeded expenditures in fiscal year 2014 by \$100,643, as compared to revenues exceeded expenditures in fiscal year 2013 by \$3,619. Revenues for fiscal year 2014 increased in charges for services by \$70,392 due mostly to a \$39,714 increase in building inspection fees as a result of increased development activity in the City. Also, administrative wage expenses decreased \$12,037 as a result of not immediately replacing employees that left, and in the prior year, the general fund transferred \$28,353 to the capital projects fund.

General Fund Budgetary Highlights

The General Fund original budgeted revenues for fiscal year 2014 were increased by \$137,203 in the final budgeted revenues, due to a \$24,347 increase in budgeted property taxes and a \$106,170 increase in charges for services which include the building inspection fees. No significant changes were made between the original and final budgeted General Fund expenditures; budgets were amended during the year to reflect minor departmental variances.

Capital Assets

During fiscal year 2014, capital assets reflect the 2014 Street Improvement Project (\$109,412) along with Department of Public Works equipment purchases, and the installation of new playground equipment at the park.

Long-term Debt

At the end of the current fiscal year, the City had total general obligation bond debt outstanding of \$1,835,000 and installment notes payable of \$46,600. The City's total bonded debt decreased by \$80,000 during the current fiscal year, as a result of annual debt payments made.

Economic Factors

Keego Harbor is experiencing limited redevelopment in its residential and commercial sectors. Keego Harbor, like most seasoned cities, depends on growth in property values to offset growth in expenditures, rather than new construction. Property taxes account for 61% of General Fund revenues for fiscal year 2014 as compared to 62% last fiscal year.

A residential and commercial redevelopment friendly atmosphere will be essential to the City's long term fiscal viability. This does not mean that we have to abandon our standards, but it does mean that we have to be open to productive change. The City needs to find and maintain that delicate balance between protecting our long term residents and welcoming new construction.

The City has budgeted for pension contributions, employee and retiree health care costs, and general insurance costs in the 2014-2015 fiscal year based on the best information known at the time. The City continues to experience increases in these costs. The City is actively seeking to cut costs wherever possible.

Contacting the City's Financial Management

This audit of the revenues and expenditures of the City is designed to depict the financial health of the City and demonstrate the uses of City resources. The audit also provides financial information to the City's investors and creditors.

If you have any questions about this report contact the City Clerk, City of Keego Harbor, 2025 Beechmont, Keego Harbor, Michigan 48320.

BASIC FINANCIAL STATEMENTS

CITY OF KEEGO HARBOR
Statement of Net Position
June 30, 2014

| | Primary Government | | |
|---------------------------------------------------|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total |
| <u>ASSETS</u> | | | |
| Cash and Cash Equivalents | \$ 1,290,970 | \$ 161,361 | \$ 1,452,331 |
| Due from Other Governmental Units | 66,818 | - | 66,818 |
| Prepaid Expenses | 91,274 | - | 91,274 |
| Capital Assets (Net of Accumulated Depreciation): | | | |
| Nondepreciable | 745,901 | - | 745,901 |
| Depreciable | 2,950,371 | - | 2,950,371 |
| Total Assets | <u>5,145,334</u> | <u>161,361</u> | <u>5,306,695</u> |
| <u>LIABILITIES</u> | | | |
| Accounts Payable | 54,798 | - | 54,798 |
| Accrued Liabilities | 59,105 | - | 59,105 |
| Deposits | 56,797 | - | 56,797 |
| Noncurrent Liabilities: | | | |
| Other Post Employment Benefit Liability | 335,489 | - | 335,489 |
| Compensated Absences | 33,510 | - | 33,510 |
| Bonds Payable, due within one year | 96,429 | - | 96,429 |
| Bonds Payable, due in more than one year | 1,785,171 | - | 1,785,171 |
| Total Liabilities | <u>2,421,299</u> | <u>-</u> | <u>2,421,299</u> |
| <u>NET POSITION</u> | | | |
| Net Investment in Capital Assets | 1,814,672 | - | 1,814,672 |
| Restricted for: | | | |
| Streets and Highways | 309,116 | - | 309,116 |
| Tax Increment Financing Authority | 41,811 | - | 41,811 |
| Debt Service | 4,769 | - | 4,769 |
| Construction | 34,007 | - | 34,007 |
| Police Department Drug Forfeiture | 4,568 | - | 4,568 |
| Transportation | 17,311 | - | 17,311 |
| Veterans Memorial | 3,427 | - | 3,427 |
| Unrestricted | 494,354 | 161,361 | 655,715 |
| Total Net Position | <u>\$ 2,724,035</u> | <u>\$ 161,361</u> | <u>\$ 2,885,396</u> |

CITY OF KEEGO HARBOR
Statement of Activities
For the Year Ended June 30, 2014

| <u>Functions/Programs</u> | <u>Program Revenues</u> | | | |
|-------------------------------|-------------------------|---------------------------------|---------------------------------------------------|-------------------------------------------------|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| General Government | \$ 490,400 | \$ 107,257 | \$ 4,335 | \$ - |
| Public Safety | 934,771 | 196,372 | 1,242 | - |
| Public Works | 412,414 | 97,735 | 176,907 | - |
| Community Development | 15,702 | 22,104 | 8,799 | - |
| Recreation and Cultural | 36,088 | 140 | 3,655 | - |
| Interest on Long-Term Debt | 63,818 | - | - | - |
| Total Governmental Activities | <u>1,953,193</u> | <u>423,608</u> | <u>194,938</u> | <u>-</u> |
| Business-type Activities: | | | | |
| Water & Sewer | <u>1,870</u> | <u>20,988</u> | <u>-</u> | <u>-</u> |
| Total Primary Government | <u>\$ 1,955,063</u> | <u>\$ 444,596</u> | <u>\$ 194,938</u> | <u>\$ -</u> |

General Revenues:
Property Taxes
State Shared Revenue
Franchise Fees
Investment Earnings
Loss on Disposal of Assets
Total General Revenues

Change in Net Position

Net Position - Beginning

Net Position - Ending

| Net (Expense) Revenue and Changes in Net Position | | |
|------------------------------------------------------------|-------------------------------------|---------------------|
| <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
| \$ (378,808) | \$ - | \$ (378,808) |
| (737,157) | - | (737,157) |
| (137,772) | - | (137,772) |
| 15,201 | - | 15,201 |
| (32,293) | - | (32,293) |
| (63,818) | - | (63,818) |
| <u>(1,334,647)</u> | <u>-</u> | <u>(1,334,647)</u> |
| <u>-</u> | <u>19,118</u> | <u>19,118</u> |
| <u>(1,334,647)</u> | <u>19,118</u> | <u>(1,315,529)</u> |
| 1,248,493 | - | 1,248,493 |
| 244,173 | - | 244,173 |
| 51,129 | - | 51,129 |
| 18,826 | 2,277 | 21,103 |
| (15,340) | - | (15,340) |
| <u>1,547,281</u> | <u>2,277</u> | <u>1,549,558</u> |
| 212,634 | 21,395 | 234,029 |
| <u>2,511,401</u> | <u>139,966</u> | <u>2,651,367</u> |
| <u>\$ 2,724,035</u> | <u>\$ 161,361</u> | <u>\$ 2,885,396</u> |

CITY OF KEEGO HARBOR

Balance Sheet

Governmental Funds

June 30, 2014

| | <u>General Fund</u> | <u>Major Streets Fund</u> | <u>Local Streets Fund</u> | <u>TIFA Fund</u> |
|---------------------------------------------|-------------------------|-----------------------------------|-----------------------------------|----------------------|
| <u>ASSETS</u> | | | | |
| Cash and Cash Equivalents | \$ 923,421 | \$ 186,923 | \$ 96,612 | \$ 41,811 |
| Due from State | 40,712 | 18,340 | 7,766 | - |
| Prepaid Expenditures | 91,274 | - | - | - |
| Total Assets | <u>\$ 1,055,407</u> | <u>\$ 205,263</u> | <u>\$ 104,378</u> | <u>\$ 41,811</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ 54,273 | \$ 525 | \$ - | \$ - |
| Accrued and Other Liabilities | 59,105 | - | - | - |
| Deposits | 56,797 | - | - | - |
| Total Liabilities | <u>170,175</u> | <u>525</u> | <u>-</u> | <u>-</u> |
| Fund Balances: | | | | |
| Nonspendable | 91,274 | - | - | - |
| Restricted for: | | | | |
| Veterans Memorial | - | - | - | - |
| Police Drug Forfeiture | 4,568 | - | - | - |
| Transportation | 17,311 | - | - | - |
| Streets | - | 204,738 | 104,378 | - |
| Tax Increment Financing Authority | - | - | - | 41,811 |
| Debt Service | - | - | - | - |
| Construction | - | - | - | - |
| Unassigned | 772,079 | - | - | - |
| Total Fund Balances | <u>885,232</u> | <u>204,738</u> | <u>104,378</u> | <u>41,811</u> |
| Total Liabilities and Fund Balances | <u>\$ 1,055,407</u> | <u>\$ 205,263</u> | <u>\$ 104,378</u> | <u>\$ 41,811</u> |

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, therefore, are not reported in the funds.

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Other Post Employment Benefits Liability

Net Position of Governmental Activities

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ 42,203 | \$ 1,290,970 |
| - | 66,818 |
| - | 91,274 |
| <u>42,203</u> | <u>1,449,062</u> |

| | |
|----------|----------------|
| \$ - | \$ 54,798 |
| - | 59,105 |
| - | 56,797 |
| <u>-</u> | <u>170,700</u> |

| | |
|------------------|---------------------|
| - | 91,274 |
| 3,427 | 3,427 |
| - | 4,568 |
| - | 17,311 |
| - | 309,116 |
| - | 41,811 |
| 4,769 | 4,769 |
| 34,007 | 34,007 |
| - | 772,079 |
| <u>42,203</u> | <u>1,278,362</u> |
| <u>\$ 42,203</u> | <u>\$ 1,449,062</u> |

| |
|---------------------|
| 3,696,272 |
| (1,915,110) |
| (335,489) |
| <u>2,724,035</u> |
| <u>\$ 2,724,035</u> |

CITY OF KEEGO HARBOR
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

| | General | Major Streets Fund | Local Streets Fund | TIFA Fund |
|------------------------------------------------------|-------------------|--------------------------|--------------------------|------------------|
| Revenues | | | | |
| Property Taxes | \$ 1,125,613 | \$ - | \$ - | \$ 99,361 |
| Licenses and Permits | 8,278 | - | - | - |
| Intergovernmental: | | | | |
| Federal, State and Local | 258,047 | 111,426 | 65,481 | - |
| Charges for Services | 329,189 | - | - | - |
| Fines and Forfeitures | 50,886 | - | - | - |
| Franchise Fees | 51,129 | - | - | - |
| Interest | 14,145 | 2,956 | 660 | 976 |
| Other | 9,233 | 833 | 29,346 | - |
| Total Revenues | <u>1,846,520</u> | <u>115,215</u> | <u>95,487</u> | <u>100,337</u> |
| Expenditures | | | | |
| Current: | | | | |
| General Government | 458,494 | - | - | - |
| Public Safety | 916,465 | - | - | - |
| Community Development | 15,702 | - | - | - |
| Public Works | 252,417 | 49,498 | 48,713 | 7,318 |
| Recreation and Cultural | 6,426 | - | - | - |
| Other | 29,904 | - | - | - |
| Debt Service: | | | | |
| Principal | 25,000 | - | - | - |
| Interest and Other Charges | 41,212 | - | - | - |
| Capital Outlay | - | 23,559 | 85,853 | 32,910 |
| Total Expenditures | <u>1,745,620</u> | <u>73,057</u> | <u>134,566</u> | <u>40,228</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>100,900</u> | <u>42,158</u> | <u>(39,079)</u> | <u>60,109</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers In | - | - | 55,713 | - |
| Transfers Out | (257) | (55,713) | - | (76,045) |
| Total Other Financing Sources (Uses) | <u>(257)</u> | <u>(55,713)</u> | <u>55,713</u> | <u>(76,045)</u> |
| Net Change in Fund Balances | 100,643 | (13,555) | 16,634 | (15,936) |
| Fund Balances - Beginning | <u>784,589</u> | <u>218,293</u> | <u>87,744</u> | <u>57,747</u> |
| Fund Balances - Ending | <u>\$ 885,232</u> | <u>\$ 204,738</u> | <u>\$ 104,378</u> | <u>\$ 41,811</u> |

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ 23,519 | \$ 1,248,493 |
| - | 8,278 |
| - | 434,954 |
| - | 329,189 |
| - | 50,886 |
| - | 51,129 |
| 89 | 18,826 |
| - | 39,412 |
| <u>23,608</u> | <u>2,181,167</u> |
| - | 458,494 |
| - | 916,465 |
| - | 15,702 |
| - | 357,946 |
| 23,783 | 30,209 |
| - | 29,904 |
| 70,865 | 95,865 |
| 22,606 | 63,818 |
| 210 | 142,532 |
| <u>117,464</u> | <u>2,110,935</u> |
| <u>(93,856)</u> | <u>70,232</u> |
| 76,302 | 132,015 |
| - | (132,015) |
| <u>76,302</u> | <u>-</u> |
| (17,554) | 70,232 |
| <u>59,757</u> | <u>1,208,130</u> |
| <u>\$ 42,203</u> | <u>\$ 1,278,362</u> |

CITY OF KEEGO HARBOR
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2014

Amounts reported for governmental activities in the statement of activities are different because:

| | | |
|--------------------------------------------------------|----|--------|
| Net change in fund balances - total governmental funds | \$ | 70,232 |
|--------------------------------------------------------|----|--------|

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period:

| | | |
|-------------------------------|--|----------|
| Capital Outlay | | 142,532 |
| Capital Outlay (departmental) | | 25,117 |
| Depreciation Expense | | (93,518) |
| Loss on Disposal of Assets | | (15,340) |

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:

| | | |
|---------------------------------------------------|--|----------|
| Principal Paid on Long Term Debt | | 95,865 |
| Change in Compensated Absences Payable | | 772 |
| Change in Other Post Employment Benefit Liability | | (13,026) |

| | | |
|---------------------------------------------------|----|----------------|
| Change in net position in governmental activities | \$ | <u>212,634</u> |
|---------------------------------------------------|----|----------------|

CITY OF KEEGO HARBOR

Statement of Net Position

Proprietary Fund

June 30, 2014

| | <u>Enterprise Fund</u> |
|----------------------------|--------------------------|
| | <u>Water & Sewer</u> |
| <u>ASSETS</u> | |
| Cash | \$ 161,361 |
| | <u>161,361</u> |
| <u>NET POSITION</u> | |
| Unrestricted | \$ 161,361 |
| | <u>161,361</u> |

CITY OF KEEGO HARBOR

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Fund

For the Year Ended June 30, 2014

| | <u>Enterprise Fund</u> |
|------------------------------------|--------------------------|
| | <u>Water & Sewer</u> |
| Operating Revenues: | |
| Charges for Services | \$ 20,988 |
| Operating Expenses | <u>1,870</u> |
| Operating Income (Loss) | 19,118 |
| Non-Operating Revenues (Expenses): | |
| Interest Income | <u>2,277</u> |
| Net Income (Loss) | 21,395 |
| Net Position, Beginning | <u>139,966</u> |
| Net Position, Ending | \$ <u>161,361</u> |

CITY OF KEEGO HARBOR
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2014

| | | <u>Enterprise Fund</u> <u>Water & Sewer</u> |
|---------------------------------------------------------------------------------------------------------|----|----------------------------------------------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | |
| Receipts from customers and users | \$ | 20,988 |
| Payments to suppliers | | (1,870) |
| Net Cash Provided by Operating Activities | | <u>19,118</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | |
| Investment Income | | <u>2,277</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | | 21,395 |
| Cash and Cash Equivalents, Beginning | | <u>139,966</u> |
| Cash and Cash Equivalents, Ending | \$ | <u><u>161,361</u></u> |
| <u>Reconciliation of Operating Income to Net Cash</u> | | |
| <u>Provided (Used) by Operating Activities:</u> | | |
| Operating Income (Loss) | \$ | 19,118 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | | - |
| Net Cash Provided by Operating Activities | \$ | <u><u>19,118</u></u> |

CITY OF KEEGO HARBOR
Fiduciary Fund
Statement of Assets and Liabilities
June 30, 2014

| <u>ASSETS</u> | <u>Agency Fund</u> | <u>Tax Collection Agency Fund</u> |
|---------------------------|-------------------------------|--------------------------------------------------|
| Cash | \$ 26,820 | \$ 11,071 |
| | | |
| <u>LIABILITIES</u> | | |
| Due to Skate Night | \$ 24,677 | \$ - |
| Due to Carillon | 467 | - |
| Due to Garden Club | 1,676 | - |
| Due to Other | - | 11,071 |
| Total Liabilities | \$ 26,820 | \$ 11,071 |

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Keego Harbor, Michigan is governed by an elected five-member council. The accompanying financial statements present the City and its component unit, the City of Keego Harbor Tax Increment Financing Authority, an entity 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.

The City of Keego Harbor Tax Increment Financing Authority is governed by a board that is appointed by the Keego Harbor City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and expand a road on behalf of the City's Major Streets Fund.

Jointly Governed Organization

The City is a member of the Tri-City Fire Department, which provides fire protection services to the residents of the City of Keego Harbor, the City of Sylvan Lake, and the City of Orchard Lake. The Tri-City Fire Department along with the participating communities have entered into an agreement with the West Bloomfield Township Fire Department to provide fire and emergency services. During the current year, the City contributed approximately \$287,445 to the Tri-City Fire Department. Complete financial statements for the Tri-City Fire Department can be obtained from the administrative offices at 3300 Orchard Lake Road, Orchard Lake, Michigan.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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 who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenue*.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Government-Wide and Fund Financial Statements – Continued

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. 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.

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

Governmental Funds

The City reports the following major governmental funds:

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

The Major Street and Local Street Funds are special revenue funds used to account for the repair, maintenance, and construction of the City's streets as identified by the State of Michigan Department of Transportation.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

The Tax Increment Financing Authority Fund (TIFA) accounts for the financing of a road on behalf of the City's Major Streets Fund, and debt related to these projects and the new city hall/police facility construction. The activity is approved by the TIFA Board.

Additionally, the City reports the following fund types:

Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Debt Service Funds are used to account for the proceeds of principal, interest, and expenditures in connection with certain long-term debt obligations.

Capital Project Funds are used to account for capital improvement, equipment purchases, and construction activity funded by general revenues of the City.

Proprietary Funds

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds include the enterprise fund types.

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the City Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The City has one enterprise fund which is the Water and Sewer Fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Fiduciary Funds

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements, and when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Assets, Liabilities and Net Position or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks. Investments for the City, as well as for its component units, are recorded at fair value.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. non-current portion of interfund loans). All trade and property tax receivables are shown as net of allowance for uncollectible amounts which are \$-0- at June 30, 2014.

3. Prepaid Expenses

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.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net position or Equity – Continued

4. Capital Assets

Capital assets, which include property, plant, equipment, vehicles and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Property, plant and equipment is depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|--------------------------------------|--------------|
| Buildings and Improvements | 25-40 |
| Furnishings, Fixtures, and Equipment | 10-40 |
| Vehicles | 10-20 |

5. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the City, along with the City's employee policy manual, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All sick and vacation pay is accrued when earned in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. 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 in the year of issuance. Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net position.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net position or Equity – Continued

8. Fund Equity

In the fund financial statements, governmental funds report the following components of fund balance:

Nonspendable – Amounts that are not in spendable form or are legally or contractually required to be maintained intact.

Restricted – Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.

Committed – Amounts that have been formally set aside by the City Council for use for a specific purpose. Commitments are made and can be rescinded only via resolution of the City Council.

Assigned – Intent to spend resources on specific purposes expressed by the City Council.

Unassigned – This is the residual classification for the general fund. This classification represents fund balance that has not been restricted, committed, or assigned to specific purposes within the general fund.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:

- a. Budgets must be adopted for the General and Special Revenue Funds.
- b. Budgets must be balanced.
- c. Budgets must be amended as necessary.
- d. Public hearings must be held prior to adoption.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget appropriation prior to being incurred.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2014

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continued

A. Budgetary Information – Continued

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

1. The City Charter requires one regular council meeting per month. Not later than the regular meeting in May, a proposed operating budget must be submitted to the City Council for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them for the upcoming year.
2. A public hearing and adoption of the budget is required by the regular meeting in May.
3. Not later than the regular meeting in May, the tax rate must be set and the budget is legally enacted through passage of a budget resolution (general appropriation act).
4. Formal budgetary integration is employed as a management control device for the General and Special Revenue Funds. Budgets for these funds are prepared and adopted on a basis consistent with generally accepted accounting principles (GAAP). The General Fund and the Special Revenue Fund budgets are adopted at the activity level.
5. Budget appropriations lapse at year end.
6. The City Council may authorize supplemental appropriations (budget amendments) during the year. In fiscal year 2014, several budget amendments were made and are reflected in the financial statements.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2014

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continued

B. Compliance with P.A. 621 of 1978

1. Deficit Fund Balance

The City has no deficit fund balances as of June 30, 2014.

2. Excess of Expenditures Over Appropriations in Budgetary Funds

The budgets for the General Fund and the Special Revenue Funds are adopted at the activity level. The City's expenditures exceeded the final budgeted amounts as follows:

| | <u>Final Budget</u> | <u>Actual</u> | <u>Excess of Expenditures Over Appropriations</u> |
|-----------------------|---------------------|---------------|-------------------------------------------------------|
| General Fund: | | | |
| Dept. of Public Works | \$ 243,034 | \$252,417 | \$ 9,383 |
| Recreation | 3,885 | 6,426 | 2,541 |
| Transfers Out | - | 257 | 257 |
| Major Streets Fund: | | | |
| Transfers Out | 52,000 | 55,713 | 3,713 |
| Local Streets Fund: | | | |
| Highways and Streets | 69,818 | 134,566 | 64,748 |
| TIFA Fund: | | | |
| Capital Outlay | - | 32,910 | 32,910 |
| Transfers Out | 75,673 | 76,045 | 372 |

C. Public Act 245 of 1999 Compliance

In accordance with the State Construction Code Act, Public Act 245 of 1999, the City must account for cumulative revenues over or under expenditures generated by the City's building department from January 1, 2000 and forward.

The cumulative amounts as of June 30, 2014 are as follows:

| | |
|---------------------------------------|---------------------|
| Cumulative Shortfall at June 30, 2013 | <u>\$ (384,976)</u> |
| Fees Collected in Fiscal Year 2014 | 82,594 |
| Expenditures in Fiscal Year 2014 | <u>(13,579)</u> |
| Revenues Over (Under) Expenditures | <u>69,015</u> |
| Cumulative Shortfall at June 30, 2014 | <u>\$ (315,961)</u> |

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law, the City is permitted to invest in deposits with Michigan commercial banks, savings and loans and credit unions, obligations of the U.S. Treasury, and corporate bonds and commercial paper with certain investment grades. The following information, as required by the Governmental Accounting Standards Board Statement number 40 is presented, regarding the City's deposits and investments:

Custodial Credit Risk is the risk that in the event of a bank failure, the City's deposits may not be recovered. Neither State law nor the City's investment policy requires consideration of custodial credit risk. As of June 30, 2014 the City's book balance of its deposits was \$1,489,872; the total book balance was \$1,490,222, due to \$350 in cash on hand. The bank balance was \$1,643,484 which was exposed to custodial credit risk, as follows:

| | |
|--------------------------------|--------------------|
| | <u>Bank</u> |
| | <u>Balance</u> |
| Insured by F.D.I.C. | \$ 155,568 |
| Uninsured and Uncollateralized | <u>1,487,916</u> |
| Total | <u>\$1,643,484</u> |

A reconciliation of cash as it appears on the financial statements follows:

| | |
|------------------------------------------------------|--------------------|
| Cash and Cash Equivalents per: | |
| Statement of Net Position | \$1,452,331 |
| Fiduciary Fund – Statement of Assets and Liabilities | <u>37,891</u> |
| Total | <u>\$1,490,222</u> |

Credit Risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds 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.

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's deposits and investments consisted of the following:

| <u>Deposits and Investments</u> | <u>Fair Value</u> | <u>Weighted Average Maturity</u> |
|--------------------------------------|--------------------|----------------------------------|
| Savings and Checking Accounts | \$ 155,568 | Demand |
| Pooled Investments (Share price=\$1) | <u>1,487,916</u> | Demand |
| | <u>\$1,643,484</u> | |

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

Concentration of Credit Risk. The City's investment policy places no limit on the amount the City may invest in any one issuer. The City has more than 5% of total cash and investments in the Oakland County Local Government Pooled Investment Fund (63%).

B. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

| <u>Governmental Activities:</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|------------------------------------------------|------------------------------|------------------|--------------------|---------------------------|
| Capital Assets, not depreciated: | | | | |
| Land | \$ 745,901 | \$ - | \$ - | \$ 745,901 |
| Capital Assets, being depreciated: | | | | |
| Infrastructure | 1,724,307 | 109,412 | - | 1,833,719 |
| Building and Improvements | 1,254,895 | 27,054 | - | 1,281,949 |
| Furnishings, Fixtures, and Equipment | 348,097 | 20,183 | - | 368,280 |
| Vehicles | 404,494 | 11,000 | (224,532) | 190,962 |
| | <u>3,731,793</u> | <u>167,649</u> | <u>(224,532)</u> | <u>3,674,910</u> |
| Less: Accumulated Depreciation: | | | | |
| Infrastructure | (234,533) | (43,107) | - | (277,640) |
| Building and Improvements | (139,186) | (16,796) | - | (155,982) |
| Furnishings, Fixtures, and Equipment | (250,104) | (16,356) | - | (266,460) |
| Vehicles | (216,390) | (17,259) | 209,192 | (24,457) |
| | <u>(840,213)</u> | <u>(93,518)</u> | <u>209,192</u> | <u>(724,539)</u> |
| Governmental Activities Capital Assets, net | <u>\$ 3,637,481</u> | <u>\$ 74,131</u> | <u>\$ (15,340)</u> | <u>\$ 3,696,272</u> |

Depreciation expense was charged on the Statement of Activities as follows:

| | |
|-------------------------|------------------|
| General Government | \$ 23,119 |
| Public Safety | 10,052 |
| Public Works | 54,468 |
| Recreation and Cultural | 5,879 |
| | <u>\$ 93,518</u> |

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS – Continued

C. Interfund Transfers

| <u>Transfers Out:</u> | <u>Transfers In:</u> | <u>Total</u> |
|-----------------------|----------------------|-------------------|
| Major Streets Fund | Local Streets Fund | \$ 55,713 |
| General Fund | Library Fund | 257 |
| TIFA Fund | TIFA Refunding Debt | <u>76,045</u> |
| | | <u>\$ 132,015</u> |

Transfer to the Local Streets Fund from the Major Streets Fund is to fund current year local street projects.

Transfers to the Debt Service Fund are funding for semi-annual debt payments.

D. Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2014:

| | <u>Interest Rates</u> | <u>Balance July 1, 2013</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance June 30, 2014</u> | <u>Due Within One Year</u> |
|------------------------------------------------------|-----------------------|-----------------------------|------------------|-------------------|------------------------------|----------------------------|
| Governmental Activities: | | | | | | |
| General Obligation Bonds: | | | | | | |
| Oakland County Building Authority Bonds Series 2010G | | | | | | |
| Issue Amount: \$1,120,000 | | | | | | |
| Maturing through 2040 | 2.00-4.25% | \$ 1,075,000 | \$ - | \$ 25,000 | \$ 1,050,000 | \$ 25,000 |
| 2013 TIFA GO Refunding Bonds | | | | | | |
| Issue Amount: \$840,000 | | | | | | |
| Maturing through 2025 | 2.35% | <u>840,000</u> | <u>-</u> | <u>55,000</u> | <u>785,000</u> | <u>55,000</u> |
| Total General Obligation Bonds | | <u>1,915,000</u> | <u>-</u> | <u>80,000</u> | <u>1,835,000</u> | <u>80,000</u> |
| Installment Notes: | | | | | | |
| 2012 DPW Vehicle | 3.50% | 26,527 | - | 6,738 | 19,789 | 6,977 |
| 2013 Police Vehicle | 3.50% | 35,938 | - | 9,127 | 26,811 | 9,452 |
| | | <u>1,977,465</u> | <u>-</u> | <u>95,865</u> | <u>1,881,600</u> | <u>96,429</u> |
| Compensated Absences | | <u>34,282</u> | <u>-</u> | <u>772</u> | <u>33,510</u> | <u>-</u> |
| | | <u>\$ 2,011,747</u> | <u>\$ -</u> | <u>\$ 96,637</u> | <u>\$ 1,915,110</u> | <u>\$ 96,429</u> |

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS – Continued

D. Long-Term Debt – Continued

The City has issued Building Authority Bonds, Series 2010G, through the Oakland County Building Authority in the amount of \$1,120,000 to be paid over 30 years with interest rates from 2.00% - 4.25%. In accordance with the requirement of the Building Authority Bonds, the City deeded the City Hall Administration Building and the DPW Building to the Oakland County Building Authority who leases these buildings back to Oakland County. The City then entered into an agreement with the County to sublease the City Hall Administration Building and the DPW Building over the 30 year period of the bonds for rental payments which will equal an amount sufficient to pay the debt service requirements and other related costs. The ownership of the buildings will be transferred at no additional cost to the City upon full payment and retirement of the bonds and the receipt of all rental payments from the City.

The annual debt service requirements to maturity for general obligation bonds and installment notes outstanding as of June 30, 2014 are as follows:

| Year Ended | Governmental Activities | |
|------------|-------------------------|------------|
| | Principal | Interest |
| 2015 | \$ 96,429 | \$ 60,503 |
| 2016 | 102,014 | 58,127 |
| 2017 | 103,157 | 55,499 |
| 2018 | 95,000 | 53,031 |
| 2019 | 100,000 | 50,635 |
| 2020-2024 | 540,000 | 210,621 |
| 2025-2029 | 250,000 | 145,480 |
| 2030-2034 | 210,000 | 104,561 |
| 2035-2039 | 260,000 | 54,825 |
| 2040-2041 | 125,000 | 5,418 |
| | \$ 1,881,600 | \$ 798,700 |

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS – Continued

E. Property Taxes

Property taxes are assessed as of each December 31. The City tax levy is billed on July 1 of the following year. Taxes are considered delinquent on July 31, at which time the applicable property is subject to lien and penalty and interest is assessed. The maximum authorized operating levy for the City is 20 mills. The City's tax levy for the 2013 tax roll is as follows (tax rate per \$1,000 of assessed valuation):

| | |
|-------------------|----------------------|
| General Operating | 12.4616 |
| Publicity | .6295 |
| Library | <u>.3000</u> |
| Total | <u>13.3911</u> mills |

IV. OTHER INFORMATION

A. Employee Retirement Systems and Plans

1. Municipal Employees Retirement System Defined Benefit Plan

a. Plan Description

The City contributes to the Michigan Municipal Employees' Retirement System (MMERS), which is an agent multiple employer retirement system that covers all full time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by a certain percentage based on the benefit program in effect as of the date of termination of membership times the final average compensation (FAC). The most recent period for which actuarial data was available was for the actuarial valuation as of December 31, 2013.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of the State of Michigan (MSA 5.333(a); MCLA 46.12(a)). MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Council. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2014

IV. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

b. Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and personnel policy. The City is required to contribute at an actuarially determined rate; the current rate was a percentage of annual compensation at December 31, 2011. The City approved revisions to the MERS benefit provisions for the employees which resulted in the City contributing a flat monthly amount of \$7,031.

c. Annual Pension Cost

During the fiscal year ended June 30, 2014, the City's contributions totaling \$84,372 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2011.

The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2014

IV. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

c. Annual Pension Cost – Continued

| <u>Three-Year Trend Information</u> | | | | |
|------------------------------------------------|--------------------------------------------|----------------------------------------|--------------------------------------------|-------------------------------------|
| <u>Fiscal Year</u> Ended <u>June 30,</u> | <u>Valuation</u> Date <u>Dec. 31</u> | <u>Annual</u> Pension Cost (APC) | <u>Percentage</u> of APC Contributed | <u>Net</u> Pension Obligation |
| 2012 | 2009 | \$77,410 | 100% | -0- |
| 2013 | 2010 | 74,328 | 100% | -0- |
| 2014 | 2011 | 84,372 | 100% | -0- |

The information presented above was determined as part of the actuarial valuations at the dates indicated.

B. Post Retirement Health Care Benefits

Plan Description – The City provides health care insurance coverage to all eligible full-time employees who retire from the City, in accordance with labor contracts and City policy. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. Currently 4 retirees are covered by this plan and all are eligible for Medicare. At the fund level, the expense is recognized by the City as the payments to the employees are made. During the fiscal year 2014, this amounted to \$-0-.

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

Funding Progress – For the year ended June 30, 2014, the City has estimated the cost of providing retiree healthcare benefits through an actuarial study that complies with the requirements of GASB 45. The study computes an annual required contribution that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2014

IV. OTHER INFORMATION – Continued

B. Post Retirement Health Care Benefits – Continued

The computed contribution and actual funding are summarized as follows:

| | |
|-----------------------------------------------------|-------------------|
| Annual Required Contribution (recommended) | \$ 13,026 |
| Interest on the prior year's net OPEB obligation | - |
| Less adjustment to the annual required contribution | - |
| Annual OPEB Cost | <u>13,026</u> |
| Amounts Contributed: | |
| Payments of current premiums | - |
| Advance funding | - |
| Increase(Decrease) in net OPEB obligation | <u>13,026</u> |
| OPEB obligation - Beginning of Year | <u>322,463</u> |
| OPEB obligation - End of Year | <u>\$ 335,489</u> |

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

| | |
|-----------------------------------|---------------|
| Valuation as of July 1, 2014: | |
| Actuarial Value of Assets | \$ - |
| Actuarial Accrued Liability (AAL) | 66,112 |
| Unfunded AAL (UAAL) | 66,112 |
| Funded Ratio | 0.00% |
| Ratio of UAAL to covered payroll | Not available |

| <u>Fiscal Year</u> <u>Ended</u> | <u>Actuarial</u> <u>Valuation</u> <u>Date</u> | <u>Annual</u> <u>OPEB Costs</u> | <u>Percentage</u> <u>Contributed</u> | <u>Net OPEB</u> <u>Obligation</u> |
|------------------------------------|-----------------------------------------------------|------------------------------------|-----------------------------------------|--------------------------------------|
| 6/30/2012 | 7/1/2009 | \$ 91,717 | 15% | \$ 230,746 |
| 6/30/2013 | 7/1/2009 | \$ 91,717 | 0% | \$ 322,463 |
| 6/30/2014 | 7/1/2014 | \$ 13,026 | 0% | \$ 335,489 |

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

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2014

IV. OTHER INFORMATION – Continued

B. Post Retirement Health Care Benefits – Continued

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, 2014 calculation, the entry-age actuarial cost method was used. The actuarial assumptions included a 1.0 percent investment rate of return. The unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll over a period of 30 years.

C. Risk Management

The City is a member of the Michigan Municipal Risk Management Authority for its general liability coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers compensation coverage. The City pays annual premiums to the pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess of the pool loss reserve fund. In the event that a single loss should exceed the amount of protection afforded by the pool loss reserve fund, reinsurance, or other insurance carried by the pools, or in the event that a series of losses should deplete or exhaust the loss reserve fund and reinsurance, the payment of valid losses shall be the obligation of the individual member or members of the respective pool against whom the claim was made. No such event has occurred with the City and the pools to which it belongs in any of the past three fiscal years.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2014

IV. OTHER INFORMATION – Continued

D. Upcoming Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued two new pronouncements in June 2012, GASB Statement No. 67, *Financial Reporting for Pension Plans*, which amends GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans*, which amends GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and GASB Statement No. 50, *Pension Disclosures*. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and measuring and recognizing liabilities and expenses. GASB No. 68 will require employers with defined benefit pension plans to recognize their unfunded pension benefit obligation as a liability on the government-wide and proprietary financial statements. These new standards will result in additional disclosures and required supplemental information, and will be effective beginning with the City's fiscal year ended June 30, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KEEGO HARBOR
Required Supplementary Information – (Unaudited)
Defined Benefit Pension Plans – Trend Information
For the Year Ended June 30, 2014

Municipal Employees Retirement System
Schedule of Funding Progress

| <u>Actuarial</u> <u>Valuation</u> <u>Date</u> | <u>Actuarial</u> <u>Value of</u> <u>Assets</u> | <u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u> | <u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> | <u>Funded</u> <u>Ratio</u> | <u>Covered</u> <u>Payroll</u> | <u>UAAL as a</u> <u>Percent of</u> <u>Covered Payroll</u> |
|-----------------------------------------------------|------------------------------------------------------|--------------------------------------------------------------|------------------------------------------------|-------------------------------|----------------------------------|-----------------------------------------------------------------|
| 12/31/01 | \$1,261,021 | \$1,472,387 | \$211,366 | 86% | \$528,156 | 40% |
| 12/31/02 | 1,278,011 | 1,550,351 | 272,340 | 82 | 555,463 | 49 |
| 12/31/03 | 1,390,051 | 2,027,587 | 637,536 | 69 | 567,030 | 112 |
| 12/31/04 | 1,529,043 | 2,266,651 | 737,608 | 67 | 582,755 | 127 |
| 12/31/05 | 1,723,202 | 2,475,745 | 752,543 | 70 | 574,952 | 131 |
| 12/31/06 | 1,904,384 | 2,693,210 | 788,826 | 71 | 678,492 | 116 |
| 12/31/07 | 2,107,062 | 2,972,595 | 865,533 | 71 | 698,153 | 124 |
| 12/31/08 | 2,235,177 | 3,332,397 | 1,097,220 | 67 | 712,058 | 154 |
| 12/31/09 | 2,437,784 | 3,570,760 | 1,132,976 | 68 | 477,885 | 237 |
| 12/31/10 | 2,413,574 | 3,615,608 | 1,202,034 | 67 | 299,767 | 401 |
| 12/31/11 | 2,376,209 | 3,736,066 | 1,359,857 | 64 | 305,990 | 444 |
| 12/31/12 | 2,330,331 | 3,806,963 | 1,476,632 | 61 | 311,549 | 474 |
| 12/31/13 | 2,312,829 | 3,908,738 | 1,595,909 | 59 | 340,973 | 468 |

Additional information as of December 31, 2013, the latest actual valuation, follows:

| | |
|-------------------------------|------------------------|
| Actuarial cost method | Entry age normal cost |
| Amortization method | Level percent |
| Remaining amortization period | 30 years |
| Asset valuation method | 5-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 8% |
| Projected salary increases | 4.50% |
| Includes inflation at 3.0% | |
| Cost of living adjustments | None |

CITY OF KEEGO HARBOR
General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance with Final Budget |
|------------------------------------------------------|-------------------|-------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| Property Taxes | \$ 1,101,325 | \$ 1,125,672 | \$ 1,125,613 | \$ (59) |
| Licenses and Permits | 6,625 | 7,300 | 8,278 | 978 |
| Intergovernmental - Federal/CDBG | 11,100 | 16,478 | 8,799 | (7,679) |
| Intergovernmental - State | 249,008 | 249,075 | 249,248 | 173 |
| Charges for Services | 219,940 | 326,110 | 329,189 | 3,079 |
| Fines and Forfeitures | 70,500 | 51,271 | 50,886 | (385) |
| Franchise Fees | 45,500 | 51,129 | 51,129 | - |
| Interest | 6,250 | 14,000 | 14,145 | 145 |
| Other | 2,842 | 9,258 | 9,233 | (25) |
| Total Revenues | <u>1,713,090</u> | <u>1,850,293</u> | <u>1,846,520</u> | <u>(3,773)</u> |
| Expenditures: | | | | |
| General Government: | | | | |
| Administration | <u>470,346</u> | <u>483,107</u> | <u>458,494</u> | <u>24,613</u> |
| Public Safety: | | | | |
| Police | 603,085 | 623,018 | 607,601 | 15,417 |
| Fire | 287,445 | 287,445 | 287,445 | - |
| Inspection Services | 24,965 | 23,308 | 21,419 | 1,889 |
| Total Public Safety | <u>915,495</u> | <u>933,771</u> | <u>916,465</u> | <u>17,306</u> |
| Community Development: | | | | |
| Community Dev. Block Grant | <u>11,225</u> | <u>15,777</u> | <u>15,702</u> | <u>75</u> |
| Public Works: | | | | |
| Department of Public Works | <u>248,363</u> | <u>243,034</u> | <u>252,417</u> | <u>(9,383)</u> |
| Recreation and Cultural: | | | | |
| Recreation | <u>4,900</u> | <u>3,885</u> | <u>6,426</u> | <u>(2,541)</u> |
| Other Functions: | | | | |
| Tax Tribunals | 36,000 | 37,860 | 29,904 | 7,956 |
| Contingency | 15,000 | - | - | - |
| Total Other Functions | <u>51,000</u> | <u>37,860</u> | <u>29,904</u> | <u>7,956</u> |
| Debt Service: | | | | |
| Principal | 25,000 | 25,000 | 25,000 | - |
| Interest and Fees | 41,238 | 41,238 | 41,212 | 26 |
| Total Debt Service | <u>66,238</u> | <u>66,238</u> | <u>66,212</u> | <u>26</u> |
| Total Expenditures | <u>1,767,567</u> | <u>1,783,672</u> | <u>1,745,620</u> | <u>38,052</u> |
| Excess (Deficiency) of Revenues Over Expenditures | (54,477) | 66,621 | 100,900 | 34,279 |
| Other Financing Uses: | | | | |
| Operating Transfers Out | <u>-</u> | <u>-</u> | <u>(257)</u> | <u>(257)</u> |
| Net Change In Fund Balance | (54,477) | 66,621 | 100,643 | 34,022 |
| Fund Balance - Beginning | <u>784,589</u> | <u>784,589</u> | <u>784,589</u> | <u>-</u> |
| Fund Balance - Ending | <u>\$ 730,112</u> | <u>\$ 851,210</u> | <u>\$ 885,232</u> | <u>\$ 34,022</u> |

CITY OF KEEGO HARBOR
Major Streets Special Revenue Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2014

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|------------------------------------------------------|-------------------------|-------------------|-------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| State | \$ 96,000 | \$ 96,000 | \$ 111,426 | \$ 15,426 |
| Interest | 1,500 | 1,500 | 2,956 | 1,456 |
| Other | 640 | 6,198 | 833 | (5,365) |
| Total Revenues | <u>98,140</u> | <u>103,698</u> | <u>115,215</u> | <u>11,517</u> |
| Expenditures: | | | | |
| Highways and Streets: | | | | |
| General Administration | 10,400 | 10,400 | 11,142 | (742) |
| Road Preservation | 15,000 | 30,353 | 23,559 | 6,794 |
| Routine Maintenance | 26,726 | 26,726 | 18,554 | 8,172 |
| Traffic Services | 3,000 | 3,000 | 2,042 | 958 |
| Winter Maintenance | 10,161 | 10,161 | 17,760 | (7,599) |
| Total Expenditures | <u>65,287</u> | <u>80,640</u> | <u>73,057</u> | <u>7,583</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>32,853</u> | <u>23,058</u> | <u>42,158</u> | <u>19,100</u> |
| Other Financing Sources (Uses): | | | | |
| Operating Transfers Out | (52,000) | (52,000) | (55,713) | (3,713) |
| Total Other Financing Sources(Uses) | <u>(52,000)</u> | <u>(52,000)</u> | <u>(55,713)</u> | <u>(3,713)</u> |
| Net Change in Fund Balance | (19,147) | (28,942) | (13,555) | 15,387 |
| Fund Balance - Beginning | <u>218,293</u> | <u>218,293</u> | <u>218,293</u> | <u>-</u> |
| Fund Balance - Ending | <u>\$ 199,146</u> | <u>\$ 189,351</u> | <u>\$ 204,738</u> | <u>\$ 15,387</u> |

CITY OF KEEGO HARBOR
Local Streets Special Revenue Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2014

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|------------------------------------------------------|-------------------------|-------------------|-------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| State | \$ 43,200 | \$ 43,200 | \$ 56,907 | \$ 13,707 |
| State-Metro Act | 6,800 | 6,800 | 8,574 | 1,774 |
| Interest | 100 | 100 | 660 | 560 |
| Other | 4,868 | 25,868 | 29,346 | 3,478 |
| Total Revenues | <u>54,968</u> | <u>75,968</u> | <u>95,487</u> | <u>19,519</u> |
| Expenditures: | | | | |
| Highways and Streets: | | | | |
| General Administration | 4,400 | 4,400 | 5,690 | (1,290) |
| Road Preservation | 50,000 | 18,000 | 85,853 | (67,853) |
| Routine Maintenance | 29,937 | 29,076 | 21,911 | 7,165 |
| Winter Maintenance | 18,342 | 18,342 | 21,112 | (2,770) |
| Total Expenditures | <u>102,679</u> | <u>69,818</u> | <u>134,566</u> | <u>(64,748)</u> |
| Excess (Deficiency) of Revenues Over Expenditures | (47,711) | 6,150 | (39,079) | (45,229) |
| Other Financing Sources: | | | | |
| Operating Transfers In | <u>48,000</u> | <u>48,000</u> | <u>55,713</u> | <u>7,713</u> |
| Net Change in Fund Balance | 289 | 54,150 | 16,634 | (37,516) |
| Fund Balance - Beginning | <u>87,744</u> | <u>87,744</u> | <u>87,744</u> | <u>-</u> |
| Fund Balance - Ending | <u>\$ 88,033</u> | <u>\$ 141,894</u> | <u>\$ 104,378</u> | <u>\$ (37,516)</u> |

CITY OF KEEGO HARBOR
TIFA Special Revenue Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2014

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|------------------------------------------------------|-------------------------|------------------|------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Property Taxes | \$ 102,217 | \$ 102,217 | \$ 99,361 | \$ (2,856) |
| Interest | 900 | 900 | 976 | 76 |
| Total Revenues | <u>103,117</u> | <u>103,117</u> | <u>100,337</u> | <u>(2,780)</u> |
| Expenditures: | | | | |
| Public Works | 16,954 | 16,954 | 7,318 | 9,636 |
| Capital Outlay | - | - | 32,910 | (32,910) |
| Total Expenditures | <u>16,954</u> | <u>16,954</u> | <u>40,228</u> | <u>(23,274)</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>86,163</u> | <u>86,163</u> | <u>60,109</u> | <u>(26,054)</u> |
| Other Financing Uses: | | | | |
| Operating Transfers Out | <u>(75,673)</u> | <u>(75,673)</u> | <u>(76,045)</u> | <u>(372)</u> |
| Net Change in Fund Balance | 10,490 | 10,490 | (15,936) | (26,426) |
| Fund Balance - Beginning | <u>57,747</u> | <u>57,747</u> | <u>57,747</u> | <u>-</u> |
| Fund Balance - Ending | <u>\$ 68,237</u> | <u>\$ 68,237</u> | <u>\$ 41,811</u> | <u>\$ (26,426)</u> |

OTHER SUPPLEMENTARY INFORMATION

CITY OF KEEGO HARBOR
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2014

| | Special Revenue Fund | Debt Service Fund | Capital Project Funds | | |
|-------------------------------------|-------------------------|------------------------|-----------------------|----------------------------------|-----------|
| | Library | TIFA Refunding Debt | Capital Projects | City Hall/Police Construction | Total |
| Assets | | | | | |
| Cash and Cash Equivalents | \$ - | \$ 4,769 | \$ 28,078 | \$ 9,356 | \$ 42,203 |
| Liabilities and Fund Balance | | | | | |
| Liabilities | \$ - | \$ - | \$ - | \$ - | \$ - |
| Fund Balance: | | | | | |
| Restricted for Debt | - | 4,769 | - | - | 4,769 |
| Restricted for Construction | - | - | 24,651 | 9,356 | 34,007 |
| Restricted for Veterans Memorial | - | - | 3,427 | - | 3,427 |
| Total Fund Balance | - | 4,769 | 28,078 | 9,356 | 42,203 |
| Total Liabilities and Fund Balance | \$ - | \$ 4,769 | \$ 28,078 | \$ 9,356 | \$ 42,203 |

CITY OF KEEGO HARBOR
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended June 30, 2014

| | Special Revenue Fund | Debt Service Fund | Capital Project Funds | | Total |
|------------------------------------------------------|-------------------------|------------------------|-----------------------|----------------------------------|------------------|
| | Library | TIFA Refunding Debt | Capital Projects | City Hall/Police Construction | |
| Revenues: | | | | | |
| Property Taxes | \$ 23,519 | \$ - | \$ - | \$ - | \$ 23,519 |
| Interest | 7 | 24 | 54 | 4 | 89 |
| Total Revenues | <u>23,526</u> | <u>24</u> | <u>54</u> | <u>4</u> | <u>23,608</u> |
| Expenditures: | | | | | |
| Library Services | 23,783 | - | - | - | 23,783 |
| Debt Service: | | | | | |
| Principal | - | 55,000 | 15,865 | - | 70,865 |
| Interest and Fees | - | 20,672 | 1,934 | - | 22,606 |
| Capital Outlay | - | - | - | 210 | 210 |
| Total Expenditures | <u>23,783</u> | <u>75,672</u> | <u>17,799</u> | <u>210</u> | <u>117,464</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(257)</u> | <u>(75,648)</u> | <u>(17,745)</u> | <u>(206)</u> | <u>(93,856)</u> |
| Other Financing Sources: | | | | | |
| Operating Transfers In | 257 | 76,045 | - | - | 76,302 |
| Net Change in Fund Balance | - | 397 | (17,745) | (206) | (17,554) |
| Fund Balance - Beginning | - | 4,372 | 45,823 | 9,562 | 59,757 |
| Fund Balance - Ending | <u>\$ -</u> | <u>\$ 4,769</u> | <u>\$ 28,078</u> | <u>\$ 9,356</u> | <u>\$ 42,203</u> |

PSLZ LLP

Certified Public Accountants

PLYMOUTH

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Telephone (248) 644-9125

Deborah M. Cox, C.P.A.

September 25, 2014

To the Mayor and City Council
City of Keego Harbor
Oakland County, Michigan

In planning and performing our audit of the financial statements of the City of Keego Harbor as of and for the year ended June 30, 2014 in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Keego Harbor's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in the City's internal control to be a material weakness:

The City relies on its auditors to prepare the annual financial statements. While this is common in smaller local units of government, we are required to communicate this to you as part of recently issued auditing standards. The City's administrative officials did review the financial statements prior to their release.

Mayor and City Council
City of Keego Harbor
September 25, 2014
Page 2

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

Sincerely,

A handwritten signature in black ink, appearing to read "PSLZ LLP". The letters are stylized and connected, with a long horizontal stroke for the "P" and "S".

PSLZ LLP
Certified Public Accountants

PSLZ LLP

Certified Public Accountants

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Deborah M. Cox, C.P.A.

September 25, 2014

To the Mayor and City Council
City of Keego Harbor
Oakland County, Michigan

We have audited the financial statements of the City of Keego Harbor for the year ended June 30, 2014, and have issued our report thereon dated September 25, 2014. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated August 1, 2014, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 1, 2014.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Keego Harbor are described in Note I to the financial statements. During fiscal year 2014, the City implemented GASB Statement No. 65, which reclassifies as deferred inflows and outflows of resources certain items that were previously reported as assets and liabilities. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the estimates of the allowance for doubtful accounts for property tax collections are based on historical collection statistics, and the actuarial valuation of the other post employment benefits.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements related to those estimates discussed in the section above.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 25, 2014.

Management Consultations with Other Independent Accountants

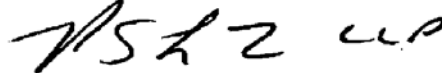
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Mayor, City Council, and management of the City of Keego Harbor and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink, appearing to read "PSLZ LLP". The signature is stylized and written in a cursive-like font.

PSLZ LLP
Certified Public Accountants