



Annual Financial Report

For Fiscal Year Ended June 30, 2018

City of Madison Heights, MI

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Madison Heights, Michigan (the "City") as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the City of Madison Heights, 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. 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 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.

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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Madison Heights, Michigan as of June 30, 2018 and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, during the year ended June 30, 2018, the City adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. This new standard establishes accounting and financial reporting requirements for OPEB plans provided to the employees of governmental employers. The adoption of GASB Statement No. 75 resulted in the recognition of a net other postemployment benefit liability on the government-wide and proprietary statements, and as discussed in Note 1, the 2017 statements have been restated. Our opinion is not modified with respect to this matter.

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Other Matters

Required Supplemental Information

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

Other Information

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

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

Plante & Moran, PLLC

October 19, 2018

As management of the City of Madison Heights, Michigan (the "City"), we offer readers this narrative overview and analysis of the financial activities for the year ended June 30, 2018.

Financial Highlights

- The City's General Fund was budgeted to use \$109,793 in fund balance during the current fiscal year; however, revenue and other financing sources exceeded expenditures by \$822,117. This difference occurred due to the following events that differed from the amended budget:
- In FY 2018, Local Community Stabilization Authority (LCSA) reimbursed \$2,118,531 across all funds with \$1,814,695 for the General Fund as compared to the budget of \$1,258,365. This was \$556,330 more than budgeted.
- Business licenses came in higher than budget in FY 2018 by \$44,965.
- Miscellaneous revenue is a source of income that is not typically reoccurring and is from unpredictable sources. The largest miscellaneous revenue sources are insurance distributions allocated from rebates and investment earnings. During FY 2018, the City received insurance distributions of \$627,859, of which \$520,554 was allocated to the General Fund. This exceeded the amount budgeted by \$170,554.
- Ambulance revenue came in higher than budgeted in FY 2018 by \$121,733.
- A few revenue sources did underperform for the year. Court revenue was received at \$176,720 less than budgeted.
- Overall, the General Fund departments completed the year at 99.3 percent of the budget allocated.
- The City's Major Streets Fund was budgeted to add \$60,533 in fund balance for future projects; however, during the year ended June 30, 2018, \$5,845 was used. This is directly related to the timing of major road projects, such as 13 Mile Sectional - National Highway Performance Program (NHPP) and Sectional Concrete replacements.
- The City's Local Streets Fund was budgeted to use \$332,300 in fund balance during the current fiscal year. During FY 2018, there was an actual addition to fund balance of \$229,381. This significant difference was due to several items. First, we received \$279,866 in Local Community Stabilization Authority revenue (personal property tax reimbursement) that was budgeted in FY 2018 at \$122,021. Public Act 51 road funding Local Agency disbursement was received at \$189,494 with \$0 budgeted. There were also four construction projects (Brettonwoods, Harwood, Brush, and Research Park to Tech Row), which crossed fiscal years from a start in FY 2018 to completion in FY 2019, that were budgeted in FY 2018. The fund balance in Local Streets is restricted for the City's Proposal R long-term capital improvement projects and Act 51 road projects to estimated funding for these planned projects.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

- The City's Revolving Fund, which is specific to capital improvement projects, experienced a planned decrease in fund balance of \$161,595. This is a planned use of fund balance to support the sidewalk program.
- The City's total net position was \$(50.1) million for governmental activities (all funds excluding water and sewer and fiduciary funds) at June 30, 2018. This reflects a decrease in the governmental activities' net position of \$72.9 million from what was reported one year ago. This change was related to the addition of retiree healthcare benefit liability of \$73.6 million. Of the total net position of the governmental activities, \$59.6 million is invested in capital assets, \$4.2 million is restricted for specific purposes, and the unrestricted portion is \$(113.9) million.
- During the fiscal year, the City's governmental activities received \$33.1 million in program and general revenue, which is an increase of \$2.4 million from fiscal year 2017.
- Total governmental activities' program expenses for the year were \$35.1 million, a decrease of \$582,818, or 1.6 percent, when compared to fiscal year 2017.
- The City has one business-type activity - the Water and Sewer Fund. Revenue is generated through charges to customers for commercial and residential water and sewer usage. Total operating revenue received was \$11.5 million, \$1.33 million less than last year. This was planned as the City finished a two-year phased program for revising how utilities are billed and paid for by customers. Starting in FY 2017, the City began to adjust the method for billing customers for water, sewer, and stormwater charges. The first step of this change was to remove stormwater from the sewage rate and to calculate a new stormwater charge based on the individual parcel's amount of pervious and impervious surface, which directly correlates to the stormwater runoff. As a consequence of the rate restructuring, the sewer rate decreased by 25 percent. In FY 2018, water and sewer rates decreased again by an additional 9 percent and the stormwater rate increased to \$11.37 per quarter. The GWK Drain debt payment was also removed from the water and sewer rate and instead assessed to each property through a tax.
- The total net position for the business-type activities is \$36.0 million as of June 30, 2018. This total represents an increase of approximately \$839,244, or 2.4 percent, over June 30, 2017, as restated. Of this amount, \$5.4 million is unrestricted, which is down from \$8.8 million at June 30, 2017. The Water and Sewer Fund has \$8.5 million in cash that will be used to meet future obligations of the business-type activity.

Using this Annual Report

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

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

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$14,082,039 at the close of the most recent fiscal year.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

City's Net Position

The net position of the City represents the difference between the City's total assets and total liabilities. Changes in the net position can be a useful tool for governments to measure their performance over time. At the end of fiscal year 2018, the City's total net position decreased 124 percent from a year ago, from \$59.3 million to \$(14.1) million. At June 30, 2018, the net position is categorized as those funds that are invested in capital assets net of related debt (\$90.2 million), restricted for specific uses (\$4.2 million), and those that are unrestricted (\$(108.5) million). The decrease in total net position and the negative unrestricted net position are a result of the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

The City's net position of \$90.2 million that is invested in capital assets net of related debt reflects its investment in capital assets, such as land and buildings, less any related debt used to acquire those assets that is still outstanding. Since the City uses these assets to provide services to the citizens, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other revenue sources, since the capital assets themselves cannot be liquidated to satisfy these liabilities.

The City's restricted net position of approximately \$4.2 million is subject to bond covenant restrictions or other legal or regulatory requirements. The remaining portion of the City's net position of approximately \$(108.5) million is unrestricted. The negative amount includes the \$76.6 million net OPEB liability and \$39.6 million net pension liability. The City has \$29.4 million of current assets available to meet ongoing obligations.

A review of the governmental activities, separate from the business-type activities, shows a decrease of approximately \$72.9 million in net position during fiscal year 2018. Relative to changes in fund balance for governmental activities, the General Fund had an increase of approximately \$822,000. The City's General Fund was budgeted to use approximately \$110,000 of fund balance during the current fiscal year. This differences are highlighted earlier in this section.

The following table shows a comparison of net position as of June 30, 2018 and 2017:

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current and other assets	\$ 17,453,690	\$ 13,961,704	\$ 11,933,265	\$ 13,547,643	\$ 29,386,955	\$ 27,509,347
Capital assets	61,670,138	61,245,142	36,183,962	34,121,690	97,854,100	95,366,832
Total assets	79,123,828	75,206,846	48,117,227	47,669,333	127,241,055	122,876,179
Deferred Outflows of Resources	5,019,801	6,159,796	134,173	160,388	5,153,974	6,320,184
Liabilities						
Current liabilities	2,252,031	2,207,555	1,496,661	1,264,128	3,748,692	3,471,683
Noncurrent liabilities	129,324,654	54,258,921	10,450,185	10,047,844	139,774,839	64,306,765
Total liabilities	131,576,685	56,466,476	11,946,846	11,311,972	143,523,531	67,778,448
Deferred Inflows of Resources	2,673,353	2,059,039	280,184	41,679	2,953,537	2,100,718
Net Position						
Net investment in capital assets	59,570,138	58,765,142	30,644,525	27,700,798	90,214,663	86,465,940
Restricted	4,216,825	3,429,708	-	-	4,216,825	3,429,708
Unrestricted	(113,893,372)	(39,353,723)	5,379,845	8,775,272	(108,513,527)	(30,578,451)
Total net position	\$ (50,106,409)	\$ 22,841,127	\$ 36,024,370	\$ 36,476,070	\$ (14,082,039)	\$ 59,317,197

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

GASB Statement No. 75 was implemented by the City in fiscal year 2018. Fiscal year 2017 amounts shown above have not been modified to reflect the application of the change.

City's Changes in Net Position

Governmental Activities

As shown in the following table, the City's revenue from its governmental activities increased by approximately \$2.4 million from the prior fiscal year. Property taxes increased slightly by 4.8 percent, or \$879,693, over last year due to a slight increase in taxable value and adjustment of millages for Police and Fire Retiree benefits. Capital grants and contributions are up due to special assessment construction projects. Revenue from the State has increased over last year by \$511,256. This increase continues to be directly related to the Local Community Stabilization program designed to reimburse municipalities for lost personal property tax revenue. While total miscellaneous revenue decreased, there were increases in insurance distributions and ambulance revenue.

Program expenses had a slight decrease of \$582,818, or 1.6 percent, from the previous fiscal year. This decrease is directly related to a reduction in interest on long-term debt resulting from the lower balance on debt accounts. FY 2018 also had a decrease in expenditures on road maintenance projects due to internal charges for Department of Public Services employees. These expenditures are lower than prior year due to contributions for retiree health care and pension payments.

Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water, which is purchased from the Great Lakes Water Authority (GLWA) and distributed to all of its residents and businesses. The water rate charged to the City by the GLWA for water for fiscal year 2018 was increased 0.3 percent. The City provides sewage treatment to all residents and businesses using the Southeast Oakland County Sewage Disposal System. In fiscal year 2018, there was a rate increase for sewage treatment of 3.6 percent. Starting in FY 2017, the City began to adjust the method for billing customers for water, sewer, and stormwater charges. The first step of this change was to remove stormwater from the sewage rate and to calculate a new stormwater charge based on the individual parcel's amount of pervious and impervious surface, which directly correlates to the stormwater runoff. The second step of this rate method change was implemented in FY 2018 for water and sewer bills on or after July 1, 2017. This step removed the drain debt from the water and sewer rate and assesses it on the tax bills, pursuant to the Michigan Drain Code Chapter 20 of Public Act 40 of 1956, at 1.1562 mills. This final step will also eliminate the \$3 per quarter meter charge and the flat rate service charge to commercial customers.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenue						
Program revenue:						
Charges for services	\$ 3,816,712	\$ 3,721,329	\$ 11,544,664	\$ 12,872,241	\$ 15,361,376	\$ 16,593,570
Operating grants	3,432,893	2,607,016	817,436	235,953	4,250,329	2,842,969
Capital grants and contributions	68,936	(20,454)	-	-	68,936	(20,454)
General revenue:						
Property taxes	19,017,936	18,138,243	876,726	-	19,894,662	18,138,243
Stated-shared revenue	5,255,917	4,744,661	-	-	5,255,917	4,744,661
Unrestricted investment earnings	214,280	102,436	227,612	192,620	441,892	295,056
Other revenue	1,265,817	1,356,291	-	639,145	1,265,817	1,995,436
Total revenue	33,072,491	30,649,522	13,466,438	13,939,959	46,538,929	44,589,481
Expenses						
General government	5,106,927	4,716,539	-	-	5,106,927	4,716,539
Public safety	19,822,305	19,703,612	-	-	19,822,305	19,703,612
Public works	4,868,749	5,729,421	-	-	4,868,749	5,729,421
Solid waste	2,202,279	2,155,733	-	-	2,202,279	2,155,733
Community development	994,381	1,187,068	-	-	994,381	1,187,068
Recreation	1,770,444	1,659,407	-	-	1,770,444	1,659,407
Interest on long-term debt	367,967	564,090	-	-	367,967	564,090
Water and sewer	-	-	12,627,194	11,523,277	12,627,194	11,523,277
Total expenses	35,133,052	35,715,870	12,627,194	11,523,277	47,760,246	47,239,147
Change in Net Position	\$ (2,060,561)	\$ (5,066,348)	\$ 839,244	\$ 2,416,682	\$ (1,221,317)	\$ (2,649,666)

GASB Statement No. 75 was implemented by the City in fiscal year 2018. Fiscal year 2017 amounts shown above have not been modified to reflect the retroactive application of the change.

General Fund Budgetary Highlights

During the fiscal year, the City's administration and City Council monitor and amend the original budget adopted by the City Council due to changes in the projected revenue and unanticipated events that occur during the year.

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets, net of related debt, for its governmental and business-type activities as of June 30, 2018 amounts to \$90,214,663, net of accumulated depreciation. This is a net increase (additions less disposals and depreciation) of \$3,748,723, or 4.3 percent, from last fiscal year. The following summarizes the City's capital assets, net of depreciation, as of June 30, 2018 and 2017:

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 2,550,490	\$ 2,550,490	\$ 164,413	\$ 164,413	\$ 2,714,903	\$ 2,714,903
Infrastructure	43,323,734	43,078,684	33,177,035	28,478,406	76,500,769	71,557,090
Buildings and improvements	10,442,702	10,734,558	2,024,363	4,083,081	12,467,065	14,817,639
Land improvements	1,454,733	1,256,384	-	-	1,454,733	1,256,384
Construction in progress	738,617	419,409	-	575,147	738,617	994,556
Other assets	1,099,630	1,065,523	818,151	820,643	1,917,781	1,886,166
Vehicles	2,060,232	2,140,094	-	-	2,060,232	2,140,094
Total	\$ 61,670,138	\$ 61,245,142	\$ 36,183,962	\$ 34,121,690	\$ 97,854,100	\$ 95,366,832

Major capital asset additions during the fiscal year included street repairs, water main replacement, and water meter replacement.

Note 3 to the financial statements contains additional information regarding capital assets, including the depreciation expense charged during the year.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

Long-term Debt

At June 30, 2018, the City had \$21,135,622 in outstanding debt. Of this amount, \$2,100,000 is related to general obligation bonds for the fire station construction, \$13,350,000 is related to the September 2016 issuance of Pension Obligation Bonds, \$855,000 is related to general obligation bonds for the automated water meter reading system, and the remaining \$4,830,622 is related to the City's portion of the George W. Kuhn (GWK) drain debt.

The City's bonded debt position as of June 30, 2018 and 2017 is summarized below and is more fully explained in Note 4:

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
General obligation	\$ 13,734,525	\$ 14,820,440	\$ 7,401,097	\$ 8,357,913	\$ 21,135,622	\$ 23,178,353

The majority of the City's debt in fiscal year 2018 is related to the Pension Bonds that were issued in September 2016 for \$15.25 million (split between the governmental activities (\$13.3 million to be paid by the General Fund) and the Water and Sewer Fund (\$1.9 million)).

The City's latest re-evaluation of the government bond rating occurred in May 2016 when S&P affirmed the City's rating as AA- with a stable outlook due to continued strong financial management with "good" financial policies and practices.

The majority of Water and Sewer Fund debt is related to the GWK drain. These bonds are issued for the George W. Kuhn Drain District and applied on a percentage basis to each member community. The City of Madison Heights, Michigan is responsible for approximately 10.5 percent of each issue. These bonds are paid from a Chapter 20 Drain millage in the Water and Sewer fund and have a \$4.8 million principal remaining balance.

In August 2010, the City issued general obligation limited tax bonds for a fixed network water meter reading system in the amount of \$1.5 million, payable over 15 years, for the purchase and installation of a transmitter on every water meter and 10 antennas to allow daily automated readings. The bond and interest payments are paid from the Water and Sewer Fund with \$855,000 principal remaining.

Economic Factors and Next Year's Budgets and Rates

The conditions of the state and local economies were key factors considered in the preparation of the City's fiscal year 2019 budget. Below is a synopsis of significant issues that were considered in the budget process:

The City continues to face financial challenges that will hinder our ability to restore services, fund legacy cost and expand offerings to meet the demands of residents. The number one long-term challenge continues to be the broken funding model for municipalities across the State. Although the state and regional economy continue to grow steadily, the cumulative effect of the Headlee Amendment and Proposal "A" caps the amount of increase in taxable value a municipality can have to 5 percent or the state-approved Inflation Rate Multiplier. In FY 2019, this multiplier is 2.1 percent, which caps the City's overall taxable value growth of 3.17 percent. Until the State makes reforms to the structure of capping municipal revenue growth, the City will continue to struggle to keep up with actual cost inflation while having pressure to restore services.

The second major financial challenge is legacy cost for pensions and retiree health care. As of June 30, 2018, unfunded liabilities for pension and retiree health care stand at \$39.6 million and \$76.6 million, respectively, for a total unfunded liability of \$116.2 million. The budget includes the actuarially required \$3.6 million contribution for pensions in FY 2019, as well as planned \$3.8 million contribution to other postemployment benefits (OPEB), totaling \$7.4 million. Compared to FY 2018, this is an increase of \$499,316 related to Police and Fire Retiree benefits due specifically to the four new sworn employee positions and the increase in the actuarial calculated city contribution of 54.5 percent of payroll, which is up from 48.26 percent in FY 2018. The required Police and Fire pension contribution will necessitate an increase in the millage that supports this contribution from 6.9586 mills to 7.5927 mills. This contribution is in addition to the debt payment for the Pension Obligation Bonds for General Employees' pension.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

The significance of these legacy costs have been a subject of debate at the state Legislature for the past two years. In December 2017, the Protecting Local Government Retirement and Benefits Act (Public Act 202 of 2017) was signed into law in Michigan. The legislation implemented recommendations from the Responsible Retirement Reform Task Force to address unfunded pension and retiree health care liabilities (OPEB) of local governments in Michigan. This act requires local units to report the fiscal health of each plan offered, identify problems in funding of these plans, and develop corrective action plans if these plans are deemed to be underfunded. A city is determined to be underfunded for pension if the plan total assets are less than 60 percent of the plan total liabilities and the actuarially determined contribution (ADC) is greater than 10 percent of total governmental fund revenue. A city is determined to be underfunded for OPEB if the plan total assets are less than 40 percent of the plan total liabilities and the annual contribution is greater than 12 percent of the total governmental revenue. Currently, the City Police and Fire Pension plan and both OPEB plans (Police and Fire and General Employees' plans) have been determined to be underfunded.

Regarding other funds, the City and the entire southeast Michigan region continue to face the major financial challenge of overall road network deterioration and how to fund the major needed repairs and ongoing maintenance. In an effort to address the deteriorating road and bridge network statewide, in November 2015, Governor Snyder signed nine bills into law, which will raise \$1.2 billion for the new transportation revenue package. This includes a registration fee and fuel tax increase, as well as a dedication of state General Fund to the MTF among other changes. This is the largest state investment in transportation in Michigan history. Below is a high-level summary of the main points:

- Starting in January 2017, an additional \$600 million was raised annually and dedicated for transportation purposes.
- Roughly one-third of funds will flow to the Michigan Department of Transportation (MDOT); two-thirds to counties, cities, and villages. After full phase in, local agencies will see an estimated 60 percent increase in Act 51 revenue over their 2015 allocation.
- \$400 million in additional fuel tax revenue (fuel taxes will rise to 26.3 cents per gallon for both gas and diesel).
- \$200 million from a 20 percent increase in vehicle registration fees.
- Starting in 2019, General Fund transfers make up the remaining \$600 million in additional money, if available. The transfers will be phased in over a period of three years: \$150 million in 2019; \$325 million in 2020; and the full \$600 million in 2021. This money will be divided between the State Transportation Fund, county road commissions, and cities and villages.

The budget includes an increase in the Major Street Fund of \$184,553, or 9.6 percent, and a Local Street Fund increase of \$65,736, or 9.6 percent, based on the Michigan Department of Transportation's (MDOT's) projections of revenue from fuel tax increases and vehicle registration fees included in this State Restricted Revenue Package.

Requests for Further Information

This financial report is intended to provide a general overview of the City's finances and demonstrate the City's accountability for the money it receives. Questions concerning any information in this report may be sent to the assistant city manager of administrative services, City of Madison Heights, 300 West 13 Mile Rd., Madison Heights, MI 48071 or submitted through the City's website at www.madison-heights.org.

City of Madison Heights, Michigan

Statement of Net Position

June 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Assets				
Cash and investments	\$ 12,682,968	\$ 8,490,174	\$ 21,173,142	\$ 66,367
Receivables:				
Receivables from sales to customers on account	-	2,840,850	2,840,850	-
Accounts receivable	928,122	87,800	1,015,922	5,051
Due from other governmental units	1,038,938	-	1,038,938	-
Special assessments receivable	227,185	-	227,185	-
Inventory	-	35,322	35,322	-
Prepaid items and deposits	475,630	63,555	539,185	-
Restricted assets (Note 1)	-	146,185	146,185	-
Net pension asset (Note 6)	2,100,847	269,379	2,370,226	-
Capital assets: (Note 3)				
Nondepreciable	3,289,107	164,413	3,453,520	-
Depreciable	58,381,031	36,019,549	94,400,580	640,640
Total assets	79,123,828	48,117,227	127,241,055	712,058
Deferred Outflows of Resources - Pensions (Note 6)	5,019,801	134,173	5,153,974	-
Liabilities				
Accounts payable	1,218,075	1,215,376	2,433,451	1,607
Due to other governmental units	41,731	-	41,731	-
Refundable deposits, bonds, etc.	-	229,025	229,025	-
Accrued liabilities and other	725,329	52,260	777,589	-
Due to pension and OPEB plans	266,896	-	266,896	-
Noncurrent liabilities:				
Due within one year:				
Employee compensated absences - Current portion (Note 4)	575,891	21,820	597,711	-
Provision for insurance claims (Note 5)	228,780	28,106	256,886	-
Long-term debt - Due within one year (Note 4)	1,104,630	978,383	2,083,013	-
Due in more than one year:				
Employee compensated absences - Net of current portion (Note 4)	1,539,947	31,052	1,570,999	-
Net OPEB liability (Note 8)	73,611,836	2,968,110	76,579,946	-
Net pension liability (Note 6)	39,633,675	-	39,633,675	-
Long-term debt (Note 4)	12,629,895	6,422,714	19,052,609	-
Total liabilities	131,576,685	11,946,846	143,523,531	1,607
Deferred Inflows of Resources				
Deferred pension cost reductions (Note 6)	2,239,043	262,208	2,501,251	-
Deferred OPEB cost reductions (Note 8)	434,310	17,976	452,286	-
Total deferred inflows of resources	2,673,353	280,184	2,953,537	-
Net Position				
Net investment in capital assets	59,570,138	30,644,525	90,214,663	640,640
Restricted for:				
Vehicles	323,603	-	323,603	-
Major and Local Street Funds - Construction and operations	2,804,817	-	2,804,817	-
Drug enforcement	283,957	-	283,957	-
Debt administration	13,166	-	13,166	-
Park Improvements and Maintenance Fund - Parks maintenance	657,068	-	657,068	-
Library	134,214	-	134,214	-
Unrestricted	(113,893,372)	5,379,845	(108,513,527)	69,811
Total net position	\$ (50,106,409)	\$ 36,024,370	\$ (14,082,039)	\$ 710,451

City of Madison Heights, Michigan

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 5,106,927	\$ 1,739,226	\$ 36,179	\$ -
Public safety	19,822,305	892,242	141,369	-
Public works	4,868,749	81,047	2,882,859	68,936
Solid waste and recycling	2,202,279	8,669	155,282	-
Community and economic development	994,381	760,601	141,843	-
Recreation and culture	1,770,444	334,927	75,361	-
Interest on long-term debt	367,967	-	-	-
Total governmental activities	35,133,052	3,816,712	3,432,893	68,936
Business-type activities - Water and sewer	12,627,194	11,544,664	817,436	-
Total primary government	\$ 47,760,246	\$ 15,361,376	\$ 4,250,329	\$ 68,936
Component units - Downtown Development Authority	\$ 54,512	\$ -	\$ -	\$ -

General revenue:
 Property taxes
 Unrestricted state-shared revenue
 Unrestricted investment income
 Franchise taxes
 Other miscellaneous income
 Total general revenue

Change in Net Position

Net Position - Beginning of year, as restated (Note 1)

Net Position - End of year

Statement of Activities

Year Ended June 30, 2018

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Downtown Development Authority
Governmental Activities	Business-type Activities	Total	
\$ (3,331,522)	\$ -	\$ (3,331,522)	\$ -
(18,788,694)	-	(18,788,694)	-
(1,835,907)	-	(1,835,907)	-
(2,038,328)	-	(2,038,328)	-
(91,937)	-	(91,937)	-
(1,360,156)	-	(1,360,156)	-
(367,967)	-	(367,967)	-
(27,814,511)	-	(27,814,511)	-
-	(265,094)	(265,094)	-
(27,814,511)	(265,094)	(28,079,605)	-
-	-	-	(54,512)
19,017,936	876,726	19,894,662	37,134
5,255,917	-	5,255,917	-
214,280	227,612	441,892	-
506,799	-	506,799	-
759,018	-	759,018	1,157
25,753,950	1,104,338	26,858,288	38,291
(2,060,561)	839,244	(1,221,317)	(16,221)
(48,045,848)	35,185,126	(12,860,722)	726,672
<u>\$ (50,106,409)</u>	<u>\$ 36,024,370</u>	<u>\$ (14,082,039)</u>	<u>\$ 710,451</u>

City of Madison Heights, Michigan

Governmental Funds Balance Sheet

June 30, 2018

	General Fund	Major Streets Fund	Local Streets Fund	Nonmajor Funds	Total
Assets					
Cash and cash equivalents (Note 2)	\$ 7,992,251	\$ 49,006	\$ 2,829,986	\$ 1,811,725	\$ 12,682,968
Receivables:					
Special assessments receivable	-	-	-	227,185	227,185
Accounts receivable	910,039	-	16,353	1,730	928,122
Due from other governmental units	531,933	320,987	122,524	63,494	1,038,938
Prepaid items and deposits	159,037	-	597	-	159,634
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ 9,593,260	\$ 369,993	\$ 2,969,460	\$ 2,104,134	\$ 15,036,847
Liabilities					
Accounts payable	\$ 657,784	\$ 48,215	\$ 445,548	\$ 66,528	\$ 1,218,075
Due to other governmental units	41,731	-	-	-	41,731
Accrued liabilities and other	514,691	-	40,873	2,293	557,857
Due to pension and OPEB plans	266,896	-	-	-	266,896
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	1,481,102	48,215	486,421	68,821	2,084,559
Deferred Inflows of Resources -					
Unavailable revenue	234,403	-	-	207,185	441,588
Fund Balances					
Nonspendable (Note 10)	159,037	-	597	-	159,634
Restricted (Note 10)	457,817	321,778	2,482,442	954,191	4,216,228
Assigned (Note 10)	7,260,901	-	-	873,937	8,134,838
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	7,877,755	321,778	2,483,039	1,828,128	12,510,700
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources, and fund balances	\$ 9,593,260	\$ 369,993	\$ 2,969,460	\$ 2,104,134	\$ 15,036,847

City of Madison Heights, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position

	June 30, 2018
Fund Balances Reported in Governmental Funds	\$ 12,510,700
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	61,670,138
Deferred inflows of resources (special assessments and other receivables that are collected after year end such that they are not available to pay bills outstanding as of year end) are not recognized in the funds	441,588
Bonds payable are not due and payable in the current period and are not reported in the funds	(13,734,525)
Accrued interest is not due and payable in the current period and is not reported in the funds	(167,472)
Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported in the funds:	
Employee compensated absences	(2,115,838)
Pension benefits	(34,752,070)
Retiree healthcare benefits	(74,046,146)
Provisions for self-insured claims do not present a claim on current financial resources and are not reported as fund liabilities	87,216
Net Position of Governmental Activities	<u>\$ (50,106,409)</u>

City of Madison Heights, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2018

	General Fund	Major Streets Fund	Local Streets Fund	Nonmajor Funds	Total Governmental Funds
Revenue					
Property taxes	\$ 17,090,701	\$ -	\$ 1,525,928	\$ 401,307	\$ 19,017,936
Special assessments	-	-	-	116,713	116,713
Intergovernmental	5,129,842	1,976,969	1,185,776	422,470	8,715,057
Charges for services	2,411,735	-	-	-	2,411,735
Fines and forfeitures	1,566,281	-	-	-	1,566,281
Licenses and permits	771,533	-	-	-	771,533
Investment income	112,243	(1,473)	61,429	44,702	216,901
Other revenue:					
Cable franchise fees	506,799	-	-	-	506,799
MMRMA distributions	520,554	-	-	-	520,554
Other miscellaneous income	249,615	-	-	-	249,615
Total revenue	<u>28,359,303</u>	<u>1,975,496</u>	<u>2,773,133</u>	<u>985,192</u>	<u>34,093,124</u>
Expenditures					
Current:					
General government	4,997,763	-	-	-	4,997,763
Public safety	15,463,244	-	-	28,623	15,491,867
Public works	3,233,061	627,888	587,213	2,500	4,450,662
Community and economic development	1,055,930	-	-	141,843	1,197,773
Recreation and culture	1,772,089	-	-	29,838	1,801,927
Capital outlay	20,567	1,353,453	1,956,539	311,968	3,642,527
Debt service	1,031,700	-	-	428,166	1,459,866
Total expenditures	<u>27,574,354</u>	<u>1,981,341</u>	<u>2,543,752</u>	<u>942,938</u>	<u>33,042,385</u>
Excess of Revenue Over (Under) Expenditures	784,949	(5,845)	229,381	42,254	1,050,739
Other Financing Sources - Proceeds from sale of capital assets	37,168	-	-	-	37,168
Net Change in Fund Balances	822,117	(5,845)	229,381	42,254	1,087,907
Fund Balances - Beginning of year	<u>7,055,638</u>	<u>327,623</u>	<u>2,253,658</u>	<u>1,785,874</u>	<u>11,422,793</u>
Fund Balances - End of year	<u><u>\$ 7,877,755</u></u>	<u><u>\$ 321,778</u></u>	<u><u>\$ 2,483,039</u></u>	<u><u>\$ 1,828,128</u></u>	<u><u>\$ 12,510,700</u></u>

City of Madison Heights, 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, 2018

Net Change in Fund Balances Reported in Governmental Funds	\$ 1,087,907
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	4,355,650
Depreciation expense	(3,869,958)
Net book value of assets disposed of	(60,696)
Special assessment revenue is recorded in the statement of activities when the assessed project is substantially complete and property tax revenue is recorded in the statement of activities when earned; revenue is not reported in the funds until receivables are collected or collectible within 60 days of year end	(47,777)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	1,085,915
Interest expense is recorded in the statement of activities when a liability is incurred; it is reported in the governmental funds only when a payment is due	5,544
Some employee costs (pension, OPEB, and compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	(4,897,977)
Changes in provision for self-insurance claims (net of related deposits) reported in the statement of activities do not require the use of current resources and, therefore, are not reported in the governmental funds until they come due for payment	280,831
Change in Net Position of Governmental Activities	<u>\$ (2,060,561)</u>

City of Madison Heights, Michigan

Proprietary Fund Statement of Net Position

June 30, 2018

	<u>Water and Sewer Fund</u>
Assets	
Current assets:	
Cash and cash equivalents (Note 2)	\$ 8,490,174
Accounts receivable	2,928,650
Inventory	35,322
Prepaid items and deposits	<u>63,555</u>
Total current assets	11,517,701
Noncurrent assets:	
Restricted assets (Note 1)	146,185
Net pension asset (Note 6)	269,379
Capital assets: (Note 3)	
Nondepreciable	164,413
Depreciable	<u>36,019,549</u>
Total noncurrent assets	<u>36,599,526</u>
Total assets	48,117,227
Deferred Outflows of Resources - Pensions (Note 6)	134,173
Liabilities	
Current liabilities:	
Accounts payable	1,215,376
Refundable deposits, bonds, etc.	229,025
Accrued liabilities and other	52,260
Employee compensated absences - Current portion (Note 4)	21,820
Provision for insurance claims (Note 5)	28,106
Long-term debt - Due within one year (Note 4)	<u>978,383</u>
Total current liabilities	2,524,970
Noncurrent liabilities:	
Employee compensated absences - Net of current portion (Note 4)	31,052
Net OPEB liability (Note 8)	2,968,110
Long-term debt (Note 4)	<u>6,422,714</u>
Total noncurrent liabilities	<u>9,421,876</u>
Total liabilities	11,946,846
Deferred Inflows of Resources	
Deferred pension cost reductions (Note 6)	262,208
Deferred OPEB cost reductions (Note 8)	<u>17,976</u>
Total deferred inflows of resources	<u>280,184</u>
Net Position	
Net investment in capital assets	30,644,525
Unrestricted	<u>5,379,845</u>
Total net position	<u><u>\$ 36,024,370</u></u>

City of Madison Heights, Michigan

Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Position

Year Ended June 30, 2018

	<u>Water and Sewer Fund</u>
Operating Revenue	
Sale of water	\$ 4,879,735
Sewage disposal charges	6,559,807
Other charges for service	46,881
Charges to other funds	<u>58,241</u>
Total operating revenue	11,544,664
Operating Expenses	
Cost of water	1,913,446
Cost of sewage disposal	4,702,853
Water system maintenance	1,291,592
General services building	121,505
Sewer system maintenance	211,467
General administration	2,917,650
Depreciation	<u>1,250,313</u>
Total operating expenses	<u>12,408,826</u>
Operating Loss	(864,162)
Nonoperating Revenue (Expense)	
Property tax revenue	876,726
Interest and other income	227,612
Interest expense	(218,368)
Operating grants	<u>817,436</u>
Total nonoperating revenue	<u>1,703,406</u>
Change in Net Position	839,244
Net Position - Beginning of year (as restated) (Note 1)	<u>35,185,126</u>
Net Position - End of year	<u><u>\$ 36,024,370</u></u>

City of Madison Heights, Michigan

**Proprietary Fund
Statement of Cash Flows**

Year Ended June 30, 2018

	Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 11,581,756
Receipts from interfund services and reimbursements	58,241
Payments to suppliers	(9,820,069)
Payments to employees	(1,092,262)
	727,666
Net cash and cash equivalents provided by operating activities	
Cash Flows from Noncapital Financing Activities	
Operating grants and subsidies	817,436
Principal and interest paid on operating debt	(48,065)
	769,371
Net cash and cash equivalents provided by noncapital financing activities	
Cash Flows from Capital and Related Financing Activities	
Property taxes restricted for capital items	876,726
Purchase of capital assets	(3,312,585)
Principal and interest paid on capital debt	(1,127,119)
	(3,562,978)
Net cash and cash equivalents used in capital and related financing activities	
Cash Flows Provided by Investing Activities - Income on investments	227,612
Net Decrease in Cash and Cash Equivalents	(1,838,329)
Cash and Cash Equivalents - Beginning of year	10,328,503
Cash and Cash Equivalents - End of year	\$ 8,490,174
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (864,162)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	1,250,313
Changes in assets and liabilities:	
Receivables	95,333
Inventory	8,248
Prepaid and other assets	(540)
Net pension, OPEB, and other employee accruals	62,342
Accounts payable	176,132
	727,666
Net cash and cash equivalents provided by operating activities	\$ 727,666

City of Madison Heights, Michigan

**Fiduciary Funds
Statement of Fiduciary Net Position**

June 30, 2018

	Pension and Other Employee Benefit Trust Funds	Agency Fund - Escrow
Assets		
Cash and cash equivalents (Note 2)	\$ 1,557,592	\$ 36,907
Investments: (Note 2)		
Common stock	41,354,853	-
Corporate obligations	11,733,221	-
U.S. government securities	3,323,425	-
Federal agency securities	498,593	24,275
Oakland County local government investment pool	-	93,925
Municipal bonds	-	17,028
Small-cap mutual funds	15,181,806	-
Money market funds	-	13,720
Receivables:		
Accrued interest receivable	149,760	-
Accounts receivable	-	72,640
Due from the City's General Fund	602,605	-
Total assets	74,401,855	\$ 258,495
Liabilities		
Accounts payable	-	\$ 50,123
Cash bonds and deposits	-	208,372
Total liabilities	-	\$ 258,495
Net Position Restricted for Pension and Other Employee Benefits	\$ 74,401,855	

Fiduciary Funds
Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2018

	<u>Pension and Other Employee Benefit Trust Funds</u>
Additions	
Investment income:	
Interest and dividends	\$ 1,646,179
Net increase in fair value of investments	4,422,559
Investment-related expenses	<u>(247,803)</u>
Net investment income	5,820,935
Contributions:	
Employer	5,757,457
Employee	<u>500,066</u>
Total contributions	<u>6,257,523</u>
Total additions	12,078,458
Deductions	
Benefit payments	7,460,272
Refunds of contributions	984,499
Administrative expenses	<u>207,235</u>
Total deductions	<u>8,652,006</u>
Net Increase in Net Position Held in Trust	3,426,452
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	<u>70,975,403</u>
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	<u><u>\$ 74,401,855</u></u>

Note 1 - Significant Accounting Policies

Reporting Entity

The City of Madison Heights, Michigan (the "City") is governed by an elected mayor and six-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units are, in substance, part of the City's operations, even though they are separate legal entities. Thus, blended component units are appropriately presented as funds of the City. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City (see discussion below for description).

Blended Component Unit

The Madison Heights Municipal Building Authority (the "Building Authority") is governed by a board that is appointed by the City Council. Although it is legally separate from the City, the Building Authority is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings. The Authority was inactive during the current fiscal year.

Discretely Presented Component Units

Downtown Development Authority

The Downtown Development Authority (the "DDA") was established to correct and prevent stagnation and deterioration within the south-end commercial business district. The DDA has established boundaries that include property abutting John R Road from Gardenia to 10 Mile Road and 11 Mile Road from Interstate 75 to Lorenz. The properties are primarily zoned and used for commercial and industrial purposes. The DDA's goal is to eliminate blighting influences and undertake projects that will encourage new businesses to have locations in the area and to encourage existing businesses to remain in the area. The DDA is developing programs to solicit commitment and investment from business owners to make improvements on private property that will serve the public purpose of enhancing the district. Revenue is provided through the capture of incremental taxes on properties within the district. The DDA's governing body, which consists of the mayor and 8 to 12 individuals, is selected by the City Council. In addition, the DDA's budget is subject to approval by the City Council. There are no separately issued financial statements.

Brownfield Development Authority

The Brownfield Redevelopment Authority (the "Authority") was created to identify and assist in the redevelopment of abandoned, underutilized, or contaminated parcels of property located in Madison Heights. The Authority's governing body, which consists of 9 to 13 individuals, is composed of the Downtown Development Authority's board members and the mayor. Currently, the Authority is in the preliminary stages of development and activities are nonfinancial in nature. Additionally, the Authority's budget, once adopted, will be subject to approval by the City Council. There are no separately issued financial statements. The Authority was inactive during the current fiscal year.

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, as applicable. 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

Note 1 - Significant Accounting Policies (Continued)

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

As a general rule, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions to this general rule occur when there are charges between the City's water and sewer function and various other functions. Eliminations of these charges would distort the direct costs and program revenue 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, if any, are reported as separate columns in the fund financial statements.

Fund Accounting

The City accounts for its various activities in several different funds in order to demonstrate accountability for how it spends certain resources; separate funds allow the City to show the particular expenditures for which specific revenue is used. The various funds are aggregated into three broad fund types:

Governmental Funds

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

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.
- The Major Streets Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the major streets portion of the City's street network. Financing is provided by contributions from the General Fund and the City's share of state gas and weight taxes, grants, interest on investments, and maintenance reimbursements from the Oakland and Macomb County Road Commissions.
- The Local Streets Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the local streets portion of the City's street network. Financing is provided by the City's share of gas and weight taxes, transfers from other funds, proceeds of a special 2 mill property tax levy (prior to reduction under Headlee, for neighborhood road improvements), and interest income.

Proprietary Funds

Proprietary funds include enterprise funds, which provide goods or services to users in exchange for charges or fees. The City reports the following fund as a "major" enterprise fund:

- The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City financed primarily by user charges. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, billing, and collection.

Note 1 - Significant Accounting Policies (Continued)

Fiduciary Funds

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts are not used to operate the City's programs. Activities that are reported as fiduciary include the following:

- The Police and Fire Retirement fiduciary fund is used to account for the accumulation of resources to be used for retirement annuity payments and medical costs. The fund accounts for trustee and investment expenses, administrative costs, auditing and actuarial fees related to the system, and retiree health benefits. Resources are provided by contributions from employees at rates fixed by contract and contributions from the City at amounts determined by an annual actuarial valuation.
- The Police and Fire Other Postemployment Benefits (OPEB) Fund was established pursuant to Public Act 149 of 1999. The purpose of the fund is to hold and invest monies to be used for current and future payments of retiree healthcare benefits.
- The General Employee Other Postemployment Benefits (OPEB) Fund was established pursuant to Public Act 149 of 1999. The purpose of the fund is to hold and invest monies to be used for current and future payments of retiree healthcare benefits.
- The Tax Collection Fund is used to account for the collection and distribution of property taxes collected by the City on behalf of others. The Tax Collection Fund had no assets or liabilities as of June 30, 2018.
- The Escrow Fund is used to record deposits by outside individuals or organizations. The City acts as a trustee for these funds. A performance bond is an example of this kind of deposit.

Interfund Activity

During the course of operations, the City 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.

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

Basis of Accounting

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

Note 1 - Significant Accounting Policies (Continued)

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.

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is 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 and certain other items 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, as applicable, use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows.

Specific Balances and Transactions

Cash, Cash Equivalents, and Investments

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

Inventories and Prepaid Items

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

Restricted Assets

Assets of the Water and Sewer Fund held at the county represent unspent bond and loan proceeds held by the county for future construction. Net position of the Water and Sewer Fund has not been restricted for the \$146,185 held by the county for future construction as the amount is included in the calculation for net investment in capital assets.

Capital Assets

Capital assets, which include property, plant, equipment, intangible assets, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and 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 acquisition cost.

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

Note 1 - Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles were assigned a salvage value of 10 percent of historical cost and are depreciated using the straight-line method over the following useful lives:

Capital Asset Class	Depreciable Lives - Years
Buildings and improvements	50
Machinery and equipment	5-10
Furniture and fixtures	5-10
Office equipment	5-10
Vehicles	5
Streets and bridges	15-50
Sidewalks	15
Utility systems	20-55

Long-term Obligations

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government-wide statements and proprietary funds report deferred outflows related to the pension plans.

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. Unavailable revenue qualifies for reporting in this category and arises only under a modified accrual basis of accounting. Unavailable revenue is reported on the governmental funds balance sheet. The governmental funds report unavailable revenue from personal property taxes and special assessments. The City also reports deferred inflows of resources related to the pension and OPEB plans.

Net Position Flow Assumption

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

Note 1 - Significant Accounting Policies (Continued)

Fund Balance Flow Assumptions

The City 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 City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

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

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

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The City has, by resolution, authorized the city manager or deputy city manager of administrative services 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 Council has adopted a fund balance policy. The fund balance policy prescribes that the City maintain unrestricted fund balance of no less than two months (16 percent) of regular operating expenditures plus one year of debt payments, if applicable. This is deemed to be the prudent amount to maintain the City's ability to meet obligations as they come due throughout the year.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are due on August 31 and considered delinquent on March 1 of the following year. Penalties and interest are assessed after the due dates.

The City's 2017 property tax revenue was levied and collectible on July 1, 2017 and is recognized as revenue in the year ended June 30, 2018 when the proceeds of the levy are budgeted and available for the financing of operations.

June 30, 2018

Note 1 - Significant Accounting Policies (Continued)

The 2017 taxable valuation of the City totaled \$764 million and was used for the July 1, 2017 tax bills. Taxes were levied as follows:

Purpose	Millage Rate	2017	Revenue	2017
City charter operating millage	8.7916	8.7916	\$ 6,726,000	\$ 6,726,000
Millage rollback	1.1773	1.1773	893,000	893,000
Solid waste	2.6374	2.6374	2,013,000	2,013,000
Police and Fire Act 345	6.9586	6.9586	5,302,000	5,302,000
Neighborhood roads	1.9938		1,526,000	-
Major vehicles	0.2492		191,000	-
Advanced life support systems	0.2492		191,000	-
Senior citizens	0.4736		362,000	-
Fire station bond	0.5276	401000	401,000	-
Library	0.9969		756,000	-
Chapter 20 Drain debt	1.1562	8	877,000	1,526,000
Total			<u>\$ 19,238,000</u>	<u>\$ 16,460,000</u>

Pension

The City offers pension benefits to retirees. The City records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefit Costs

The City offers healthcare benefits to qualified retirees. The City records a net OPEB liability for the difference between the total OPEB liability calculated by the actuary and the OPEB plans' fiduciary net position. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the plans and additions to/deductions from the OPEB plans' fiduciary net position have been determined on the same basis as they are reported by the OPEB plans. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated Absences (Vacation and Sick Leave)

It is the City's policy and obligation under labor agreements to permit employees to accumulate earned but unused sick and vacation pay benefits. Vacation pay is accrued when earned and sick pay is accrued when vested (or likely to vest). All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. The majority of this liability will be paid by the General Fund.

Note 1 - Significant Accounting Policies (Continued)

Proprietary Funds Operating Classification

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue 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 revenue of the Water and Sewer Fund 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 include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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.

Adoption of New Accounting Pronouncement

As of June 30, 2018, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the City to recognize on the face of the financial statements its net OPEB liability related to its OPEB plans. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

As a result of implementing this statement, the beginning net position of governmental activities was restated to \$(48,045,848) (reduction of \$70,886,975) and the beginning net position of business-type activities and Water and Sewer Fund were restated to \$35,185,126 (reduction of \$1,290,944 for both the business-type activities and Water and Sewer Fund).

Upcoming Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. 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 the City's financial statements for the year ending June 30, 2020.

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. 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 the City's financial statements for the year ending June 30, 2021.

Note 1 - Significant Accounting Policies (Continued)

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement establishes criteria to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. 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 the City's financial statements for the year ending June 30, 2019.

Note 2 - Deposits and Investments

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

The pension trust fund and postemployment benefit funds 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.

In January 2009, the State of Michigan amended Public Act 20 of 1943 to allow local governmental units with special revenue funds consisting of payments for park operations and maintenance to invest the assets of the fund in accordance with Public Act 314 of 1965. The investments held in the Park Improvement and Maintenance Fund are invested in accordance with this amendment. As of June 30, 2018, the Park Improvement and Maintenance Fund had approximately \$20,000 in money market funds and \$660,000 invested in debt and equity mutual funds.

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

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 \$3,248,313 of bank deposits (certificates of deposit and two checking accounts) of which \$1,006,242 was covered by federal depository insurance. 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.

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 restricts investments in securities to maturities of not more than three years.

June 30, 2018

Note 2 - Deposits and Investments (Continued)

At year end, the City had the following investments:

Investment	Fair Value	Weighted-average Maturity (years)
Primary Government		
U.S government securities	\$ 1,946,282	4.332
U.S. federal agency obligations	4,891,892	22.427
Oakland County local government investment pool	7,530,570	1.033
Commercial paper	1,325,000	0.611
Municipal bonds	<u>1,356,276</u>	3.645
Total	<u>\$ 17,050,020</u>	
Fiduciary Funds		
Corporate bonds	5,051,663	2.768
U.S. government securities	3,323,425	1.782
U.S. federal agency securities	<u>636,220</u>	0.928
Total	<u>\$ 9,011,308</u>	

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 June 30, 2018, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
Corporate bonds and notes	\$ 286,116	A	S&P
Corporate bonds and notes	562,161	A-	S&P
Corporate bonds and notes	274,289	A+	S&P
Corporate bonds and notes	131,254	AA	S&P
Corporate bonds and notes	194,904	AA-	S&P
Corporate bonds and notes	49,747	AA+	S&P
Corporate bonds and notes	689,447	AAA	S&P
Corporate bonds and notes	659,641	AAA	Moody's
Corporate bonds and notes	44,203	A3	Moody's
Corporate bonds and notes	34,550	BB	S&P
Corporate bonds and notes	846,044	BBB	S&P
Corporate bonds and notes	266,989	BBB-	S&P
Corporate bonds and notes	1,012,319	BBB+	S&P
U.S. government securities	5,269,707	AAA	Moody's
U.S. federal agency obligations	2,002,589	AAA	Moody's
U.S. federal agency obligations	3,525,523	Not rated	N/A
Money market funds	2,758,353	Not rated	N/A
Oakland County local government investment pool	7,530,570	Not rated	N/A
Municipal bonds	1,192,962	AA	S&P
Municipal bonds	172,314	AA2	Moody's
Commercial paper	1,325,000	Not rated	N/A
Mutual funds and ETFs	<u>38,299,247</u>	Not rated	N/A
Total	<u>\$ 67,127,929</u>		

Note 2 - Deposits and Investments (Continued)

Concentration of Credit Risk

The City places no limit on the amount it may invest in any one issuer. More than 5 percent of the City's investments are in the following:

Primary government:	
Federal agency obligations - Federal National Mortgage Association	16 %
Federal agency obligations - Federal Home Loan Mortgage Corporation	7
U.S. government securities - U.S. Treasury notes	10
Commercial paper - Toyota Motor Credit Company	7
Fiduciary funds - U.S. government securities - U.S. Treasury notes	5

Additionally, more than 38 percent of the City's primary government investments is in the Oakland County Local Government Investment Pool (the "LGIP"). The LGIP is not registered with the SEC and does not issue a separate report. The fair value of the position in the pool is not the same as the value of the pool shares, since the pool does not meet the requirements under GASB No. 79 to report its value for financial reporting purposes at amortized cost.

The City's retirement system plans also hold investments in the U.S. stock market, and those values fluctuate with market conditions.

Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

June 30, 2018

Note 2 - Deposits and Investments (Continued)

The City has the following recurring fair value measurements as of June 30, 2018:

	Assets Measured at Carrying Value on a Recurring Basis at June 30, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)	Balance at June 30, 2018
Primary government:				
U.S. government securities	\$ 1,946,282	\$ -	\$ -	\$ 1,946,282
U.S. federal agency obligations	-	4,891,892	-	4,891,892
Municipal bonds	-	1,365,276	-	1,365,276
Money market	843,005	-	-	843,005
Commercial paper	-	1,325,000	-	1,325,000
Total primary government	2,789,287	7,582,168	-	10,371,455
Fiduciary funds:				
Equity ETFs	7,522,737	-	-	7,522,737
Mutual funds - Equity	16,164,101	-	-	16,164,101
Mutual funds - Fixed income	14,612,409	-	-	14,612,409
Mutual funds - Money market	1,658,331	-	-	1,658,331
Agency bonds	-	498,593	-	498,593
Asset-backed securities	-	1,157,323	-	1,157,323
Corporate bonds	-	3,894,340	-	3,894,340
Commercial mortgage-backed securities	-	113,113	-	113,113
Other fixed income	-	24,514	-	24,514
U.S. Treasury bonds	3,323,425	-	-	3,323,425
Common stock	24,541,994	-	-	24,541,994
Other equity	-	138,610	-	138,610
Total fiduciary funds	67,822,997	5,826,493	-	73,649,490
Primary government investments measured at net asset value				7,787,587
Total assets	\$ 70,612,284	\$ 13,408,661	\$ -	\$ 91,808,532

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of certain assets at June 30, 2018 was determined primarily based on Level 2 inputs. The City estimates the fair value of these investments using other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

The valuation method for investments measured at net asset value (NAV) per share (or its equivalent) is presented on the table below.

Investments in Entities that Calculate Net Asset Value per Share

In addition to the assets listed above, the City holds shares or interests in investment pools whereby the fair value of the investments are measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

Note 2 - Deposits and Investments (Continued)

At June 30, 2018, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Oakland County Government investment pool	\$ 7,530,570	\$ -	No restrictions	None
Michigan CLASS	<u>257,017</u>	<u>-</u>	No restrictions	None
Total investments valued at NAV	<u>\$ 7,787,587</u>	<u>\$ -</u>		

The Oakland County LGIP invests assets in a manner which will seek the highest investment return consistent with the preservation of principal and meet the daily liquidity needs of participants.

The Michigan CLASS investment pool invests in U.S. Treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper (rated "A1" or better), collateralized bank deposits, repurchase agreements (collateralized at 102 percent by treasuries and agencies), and approved money market funds. The program is designed to meet the needs of Michigan public sector investors. It purchases securities that are legally permissible under state statutes and are available for investment by Michigan counties, cities, townships, school districts, authorities, and other public agencies.

Note 3 - Capital Assets

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

Governmental Activities

	Balance July 1, 2017	Transfers	Additions	Disposals and Adjustments	Balance June 30, 2018
Capital assets not being depreciated:					
Land	\$ 2,550,490	\$ -	\$ -	\$ -	\$ 2,550,490
Construction in progress	419,409	(368,532)	687,740	-	738,617
Subtotal	2,969,899	(368,532)	687,740	-	3,289,107
Capital assets being depreciated:					
Streets and bridges	72,858,799	368,532	2,501,863	(8,769,176)	66,960,018
Sidewalks	6,424,243	-	280,674	(1,748,709)	4,956,208
Buildings and improvements	18,193,984	-	14,327	(3,104)	18,205,207
Land improvements	2,316,685	-	265,655	(18,569)	2,563,771
Machinery and equipment	1,878,627	-	281,708	(12,328)	2,148,007
Furniture and fixtures	378,293	-	-	(5,210)	373,083
Vehicles	6,808,951	-	323,683	(263,881)	6,868,753
Office equipment	1,223,887	-	-	(212,143)	1,011,744
Subtotal	110,083,469	368,532	3,667,910	(11,033,120)	103,086,791
Accumulated depreciation:					
Streets and bridges	32,623,322	-	2,603,288	(8,769,176)	26,457,434
Sidewalks	3,581,036	-	302,731	(1,748,709)	2,135,058
Buildings and improvements	7,459,426	-	304,895	(1,816)	7,762,505
Land improvements	1,060,301	-	57,255	(8,518)	1,109,038
Vehicles	4,668,857	-	377,157	(237,493)	4,808,521
Other assets	2,415,284	-	224,632	(206,712)	2,433,204
Subtotal	51,808,226	-	3,869,958	(10,972,424)	44,705,760
Net capital assets being depreciated	58,275,243	368,532	(202,048)	(60,696)	58,381,031
Net capital assets	\$ 61,245,142	\$ -	\$ 485,692	\$ (60,696)	\$ 61,670,138

June 30, 2018

Note 3 - Capital Assets (Continued)

Business-type Activities

	Balance July 1, 2017	Transfers	Additions	Disposals and Adjustments	Balance June 30, 2018
Business-type Activities					
Capital assets not being depreciated:					
Land	\$ 164,413	\$ -	\$ -	\$ -	\$ 164,413
Construction in progress	575,147	(575,147)	-	-	-
Subtotal	739,560	(575,147)	-	-	164,413
Capital assets being depreciated:					
Utility systems	28,812,985	2,740,990	3,436,174	(4,032,933)	30,957,216
Kuhn Drain	15,879,611	-	1,289	-	15,880,900
Buildings and improvements	5,175,910	(2,165,843)	158,258	(603,266)	2,565,059
Machinery and equipment	2,667,438	-	161,454	(87,262)	2,741,630
Subtotal	52,535,944	575,147	3,757,175	(4,723,461)	52,144,805
Accumulated depreciation:					
Utility systems	13,486,236	381,488	678,765	(3,938,120)	10,608,369
Kuhn Drain	2,727,954	-	324,758	-	3,052,712
Buildings and improvements	1,092,829	(381,488)	90,253	(260,898)	540,696
Machinery and equipment	1,846,795	-	156,537	(79,853)	1,923,479
Subtotal	19,153,814	-	1,250,313	(4,278,871)	16,125,256
Net capital assets being depreciated	33,382,130	575,147	2,506,862	(444,590)	36,019,549
Net business-type activity capital assets	<u>\$ 34,121,690</u>	<u>\$ -</u>	<u>\$ 2,506,862</u>	<u>\$ (444,590)</u>	<u>\$ 36,183,962</u>

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

Governmental activities:	
General government	\$ 201,584
Public safety	415,783
Public works	3,058,295
Community development	29,879
Recreation	159,864
Refuse	4,553
Total governmental activities	<u>\$ 3,869,958</u>
Business-type activities - Water and Sewer Fund	<u>\$ 1,250,313</u>

Component Units

Capital assets in the Downtown Development Authority, a component unit fund, consisted of land improvements with a net book value of \$640,640, which considers accumulated depreciation of \$205,475 as of June 30, 2018. There were no additions in the current year and depreciation expense for the current year was \$23,036.

June 30, 2018

Note 3 - Capital Assets (Continued)

Construction Commitments

The City has active construction projects at year end. The City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Brettonwoods	\$ 309,917	\$ 202,383
Harwood	312,101	22,451
Brush	46,372	406,201
Total	<u>\$ 668,390</u>	<u>\$ 631,035</u>

Note 4 - Long-term Debt

Long-term debt activity for the year ended June 30, 2018 can be summarized as follows:

Governmental Activities

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
General obligation refunding bonds - Amount of issue - \$3,810,000 - For refunding the fire station bonds	1.9%	2023	\$ 2,480,000	\$ -	\$ (380,000)	\$ 2,100,000	\$ 390,000
Pension Obligation Bonds - Amount of issue - \$13,290,375	0.96 - 3.71	2032	12,340,440	-	(705,915)	11,634,525	714,630
Vested employee benefits			2,200,086	464,985	(549,233)	2,115,838	575,891
Total governmental activities			<u>\$ 17,020,526</u>	<u>\$ 464,985</u>	<u>\$ (1,635,148)</u>	<u>\$ 15,850,363</u>	<u>\$ 1,680,521</u>

June 30, 2018

Note 4 - Long-term Debt (Continued)

Business-type Activities

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
General obligation bonds (related to George W. Kuhn Drain project discussed below):							
Series 2000A - Amount of issue - \$1,881,478	2.5%	2022	\$ 560,865	\$ -	\$ (106,806)	\$ 454,059	\$ 109,437
Series 2000C - Amount of issue - \$8,649,747	2.5	2024	3,522,509	-	(466,687)	3,055,822	478,262
Series 2000D - Amount of issue - \$239,675	2.5	2024	93,116	-	(12,101)	81,015	12,627
Series 2005F - Amount of issue - \$162,391	1.625	2026	78,714	-	(8,017)	70,697	8,017
Series 2007G - Amount of issue - \$188,673	1.625	2028	111,172	-	(9,086)	102,086	9,621
Series 2008H - Amount of issue - \$821,499	1.625	2029	540,361	-	(39,018)	501,343	40,086
Series 2016 - Amount of issue - \$783,949	2.0	2024	676,616	-	(111,016)	565,600	109,963
2010 General Obligation Limited Tax Bonds - Amount of Issue - \$1,525,000	2.0 - 4.0	2025	955,000	-	(100,000)	855,000	105,000
Pension Obligation Bonds - Amount of issue - \$1,959,625	1.0 - 3.7	2032	1,819,560	-	(104,085)	1,715,475	105,370
General obligations - Vested employee benefits			72,282	3,944	(23,354)	52,872	21,820
Total business-type activities long-term debt			<u>\$ 8,430,195</u>	<u>\$ 3,944</u>	<u>\$ (980,170)</u>	<u>\$ 7,453,969</u>	<u>\$ 1,000,203</u>

Governmental Activities

The accumulated employee benefits represent the estimated liability to be paid governmental fund-type employees under the City’s sick, vacation, and longevity pay policies, net of the portion that is estimated will be paid currently. Under the City’s policies and labor agreements, employees earn sick, vacation, and longevity time based on time of service with the City.

The reserve and funds on deposit for general and workers’ compensation liability insurance claims are discussed in Note 5.

Business-type Activities

Seven of the nine general obligations recorded in the Water and Sewer Fund represent the City’s obligations to service a portion, approximately 10.5 percent, of two bond issues and six State Revolving Fund loans related to the sewer construction projects. The obligations were issued by the George W. Kuhn Drainage District on behalf of 14 participating communities, the County of Oakland, Michigan, and the State of Michigan. The City has pledged its full faith and credit related to the repayment of these obligations and has recorded the liabilities in the Water and Sewer Fund since it is anticipated that the debt service requirements of these obligations will be provided from the revenue of this fund. During the current year, net revenue of the system was \$1,262,877 compared to the annual debt requirements of \$1,172,741.

Note 4 - Long-term Debt (Continued)

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2018 (excluding compensated absences and other claims), including both principal and interest, are as follows:

Years Ending June 30	Governmental Activities			Business-type Activities (Water and Sewer Fund)		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 1,104,630	\$ 356,255	\$ 1,460,885	\$ 978,383	\$ 196,462	\$ 1,174,845
2020	1,132,703	337,372	1,470,075	1,003,217	172,599	1,175,816
2021	1,161,418	316,679	1,478,097	1,027,415	147,621	1,175,036
2022	1,179,490	293,848	1,473,338	1,053,843	121,474	1,175,317
2023	1,216,920	269,029	1,485,949	909,640	94,375	1,004,015
2024-2028	4,143,983	985,281	5,129,264	1,817,671	205,031	2,022,702
2029-2032	3,795,381	280,735	4,076,116	610,928	42,676	653,604
Total	\$ 13,734,525	\$ 2,839,199	\$ 16,573,724	\$ 7,401,097	\$ 980,238	\$ 8,381,335

Interest

The City's business-type activities had total interest expense for the year ended June 30, 2018 of approximately \$218,000. The City's governmental-type activities had total interest expense of approximately \$367,000 for the same period.

Note 5 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City is a defendant in certain lawsuits and claims that have resulted from the ordinary course of its activities. The ultimate effect on the financial statements, if any, is, in the opinion of city management, not expected to be material. The City participates in the Michigan Municipal Risk Management Authority risk pool for general liability claims. The City is self-insured for workers' compensation, health, and dental claims.

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 it uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

The City has elected to participate in the Authority's stop-loss program, which limits the paid losses to \$925,000 in any one year. The City's policy is to record premium payments to the Authority as expenditures of the participating funds.

The City estimates the liability for general liability, workers' compensation, and health claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The portion of this liability that relates to governmental fund activities and is not expected to be liquidated with expendable available financial resources is recorded as a noncurrent liability in the statement of net position. The remaining balance of the liability is recorded in the applicable fund, net of any funds on deposit that have not been previously expensed.

Note 5 - Risk Management (Continued)

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The estimated overpayment for health claims has been recorded in the governmental and proprietary funds as it is a current asset of the City. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Changes in the estimated liability (funds on deposit) for the past two fiscal years were as follows:

	General Liability		Workers' Compensation		Medical Claims	
	2018	2017	2018	2017	2018	2017
Estimated (overpayment) liability - Beginning of year	\$ (15,007)	\$ (16,982)	\$ -	\$ 522,582	\$ 237,070	\$ 158,743
Estimated claims incurred, including reinsurance premiums and changes in estimates	(327,534)	29,037	103,493	(382,506)	3,008,939	3,445,208
Claim and reinsurance payments and reinsurance recoveries	(31,068)	(27,062)	(80,825)	(140,076)	(3,011,791)	(3,366,881)
Estimated (overpayment) liability - End of year	<u>\$ (373,609)</u>	<u>\$ (15,007)</u>	<u>\$ 22,668</u>	<u>\$ -</u>	<u>\$ 234,218</u>	<u>\$ 237,070</u>

Additionally, the City is involved in several contingent matters relating to lawsuits and claims. In the opinion of the City, the probability of material exposure, if any, to the City in excess of amounts currently recorded as a result of the resolution of these matters is remote.

Note 6 - Pension Plans

Plan Description

General Employees' Retirement System

The City participates in an agent multiple-employer defined benefit pension plan administered by the Municipal Employees' Retirement System of Michigan (MERS), that covers all employees of the City hired prior to certain dates other than sworn police and fire employees. MERS was established as a statewide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine-member retirement board. MERS issues a publicly available financial report, which includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at www.mersofmich.com or in writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Police and Fire Retirement System

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

The financial statements of the plan are included in these financial statements as a pension and other employee benefit trust fund (a fiduciary fund).

Benefits Provided

The pension plans provide retirement, disability, and death benefits. Benefit terms are established by city ordinances and negotiations with the City's collective bargaining units and may be amended through negotiations with the City's collective bargaining units.

Note 6 - Pension Plans (Continued)

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

	<u>General Employees' Retirement System</u>	<u>Police and Fire Retirement System</u>
Date of member count	December 31, 2017	June 30, 2018
Inactive plan members or beneficiaries currently receiving benefits	128	141
Inactive plan members entitled to but not yet receiving benefits	21	6
Active plan members	48	70
Total employees covered by the plan	<u>197</u>	<u>217</u>

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, MERS and the pension board retain independent actuaries to determine the annual contributions. 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, 2018, the active member contribution rate ranged from 2.50 to 8.90 percent of pensionable annual pay, and the City’s average contribution rate ranged from 39.35 to 39.59 percent of covered payroll.

Net Pension Liability

The City chooses a date for each pension plan to measure its net pension liability. This is based on the measurement date of each pension plan, which may be based on a comprehensive valuation as of that date or based on an earlier valuation that has used procedures to roll the information forward to the measurement date.

	<u>General Employees' Retirement System</u>	<u>Police and Fire Retirement System</u>
Measurement date used for the City NPL	December 31, 2017	June 30, 2018
Based on a comprehensive actuarial valuation as of	December 31, 2017	June 30, 2017

Note 6 - Pension Plans (Continued)

Changes in the net pension liability during the measurement year were as follows:

General Employees' Retirement System

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)
Balance at January 1, 2017	\$ 39,563,402	\$ 39,446,823	\$ 116,579
Changes for the year:			
Service cost	336,203	-	336,203
Interest	3,070,403	-	3,070,403
Differences between expected and actual experience	(529,379)	-	(529,379)
Contributions - Employer	-	234,378	(234,378)
Contributions - Employee	-	103,815	(103,815)
Net investment income	-	5,106,888	(5,106,888)
Benefit payments, including refunds	(2,702,940)	(2,702,940)	-
Administrative expenses	-	(81,049)	81,049
Net changes	174,287	2,661,092	(2,486,805)
Balance at December 31, 2017	\$ 39,737,689	\$ 42,107,915	\$ (2,370,226)

The plan's fiduciary net position represents 105.96 percent of the total pension liability.

Police and Fire Retirement System

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at July 1, 2017	\$ 78,198,411	\$ 42,364,918	\$ 35,833,493
Changes for the year:			
Service cost	1,021,457	-	1,021,457
Interest	5,661,628	-	5,661,628
Differences between expected and actual experience	2,222,080	-	2,222,080
Changes in assumptions	1,636,099	-	1,636,099
Contributions - Employer	-	3,074,446	(3,074,446)
Contributions - Employee	-	500,066	(500,066)
Net investment income	-	3,373,805	(3,373,805)
Benefit payments, including refunds	(6,441,460)	(6,441,460)	-
Administrative expenses	-	(203,667)	203,667
Miscellaneous other charges	-	(3,568)	3,568
Net changes	4,099,804	299,622	3,800,182
Balance at June 30, 2018	\$ 82,298,215	\$ 42,664,540	\$ 39,633,675

The plan's fiduciary net position represents 51.84 percent of the total pension liability.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the City recognized pension expense of \$8,165,871 from all plans.

June 30, 2018

Note 6 - Pension Plans (Continued)

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 2,129,920	\$ 264,690
Changes in assumptions	1,242,096	1,211,818
Net difference between projected and actual earnings on pension plan investments	1,619,103	1,024,743
Employer contributions to the plan subsequent to the measurement date	162,855	-
Total	<u>\$ 5,153,974</u>	<u>\$ 2,501,251</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (note that employer contributions subsequent to the measurement date will reduce the net pension liability and, therefore, will not be included in future pension expense):

Years Ending June 30	Amount
2019	\$ 1,748,717
2020	976,788
2021	106,650
2022	(342,287)
Total	<u>\$ 2,489,868</u>

Actuarial Assumptions

The total pension liability in each actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

	General Employees' Retirement System	Police and Fire Retirement System
Inflation	2.50%	2.50%
Salary increases (including inflation)	3.75%	3.75%
Investment rate of return (net of investment expenses)	8.00%	7.25%

For the General Employees' Retirement System, the mortality table used to project the mortality experience of nondisabled plan members is a 50 percent male - 50 percent female blend of the following tables: RP-2014 Healthy Annuitant Mortality Tables with rates multiplied by 105 percent, the RP-2014 Employee Mortality Tables, and the RP-2014 Juvenile Mortality Tables. The mortality table used to project the mortality experience of disabled plan members is a 50 percent male - 50 percent female blend of the RP-2014 Disabled Retiree Mortality Tables.

The Police and Fire Retirement System measured postretirement mortality using the RP-2014 Healthy Annuitant Mortality Table projected to 2017 with MP-2017 mortality improvement scale.

Note 6 - Pension Plans (Continued)

Discount Rate

The discount rates used to measure the total pension liability were determined after considering a projection of the cash flows to determine whether the future contributions (made at the current contribution rates) will be sufficient to allow the pension plans' fiduciary net position to make all projected future benefit payments of current active and inactive employees.

Based on those assumptions, the pension plans' 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.

	General Employees' Retirement System	Police and Fire Retirement System
Assumed investment rate of return	8.00%	7.25%
Are contributions expected to be sufficient to allow fiduciary net position to pay future benefits?	Yes	Yes
Discount rate used to measure TPL	8.00%	7.25%

Investment Rate of Return

The pension plans' policies in regard to the allocation of invested assets is established and may be amended by each pension board by a majority vote of its members. It is the policy of the pension boards to pursue an investment strategy that manages risk through the prudent diversification of the portfolios across a broad selection of distinct asset classes. The pension plans' investment policies discourage the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

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 the respective measurement dates for each major asset class included in the pension plans' target asset allocation, as disclosed in the investment footnote, are summarized in the following tables:

General Employees' Retirement System

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	55.50 %	8.65 %
Global fixed income	18.50	3.76
Real assets	13.50	9.72
Diversifying strategies	12.50	7.50

Note 6 - Pension Plans (Continued)

Police and Fire Retirement System

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	62.00 %	8.10 %
Fixed income	32.00	2.90
Real assets	4.00	3.40
Cash or cash equivalents	2.00	1.00

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 disclosed discount rates, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease	Current Discount Rate	1 Percent Increase
Net pension liability of the General Employees' Retirement System	\$ 1,578,976	\$ (2,370,226)	\$ (5,758,804)
Net pension liability of the Police and Fire Retirement System	48,523,734	39,633,675	32,115,571

Pension Plan Fiduciary Net Position

Detailed information about the General Employee plan's fiduciary net position is available in the separately issued financial report found at www.mersofmich.com. The plan's fiduciary net position has been determined on the same basis used by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Rate of Return

For the year ended June 30, 2018, the annual money-weighted rate of return on Police and Fire pension plan investments, net of pension plan investment expense, was 8.12 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Pension Plan Reserves

In accordance with the Police and Fire plan provisions, 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 and credits interest annually at a rate of 3.5 percent. For any employee who terminates before vesting in the pension plan, the employee's balance is returned to him or her; 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.

Note 6 - Pension Plans (Continued)

The balances of the reserve accounts at June 30, 2018 are as follows:

	Required Reserve	Amount Funded
Retiree reserve	\$ 28,292,541	\$ 28,292,541
Employee reserve	6,820,538	6,820,538
Employer reserve	-	7,551,461
Total	<u>\$ 35,113,079</u>	<u>\$ 42,664,540</u>

Note 7 - Defined Contribution Retirement Plan

The City provides pension benefits to all full-time general employees not eligible for the defined benefit plan through a defined contribution plan administered by the Municipal Employees' Retirement System of Michigan (MERS). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the City Council through collective bargaining, the City contributes 7 percent of employees' gross earnings, and employee contributions for each employee plus interest allocated to the employee's account are fully vested after six years of service.

The current year contribution was calculated based on covered payroll of \$946,186, resulting in an employer contribution of \$78,522 and employee contributions of \$75,695.

Note 8 - Other Postemployment Benefit Plans

Plan Description

The City provides OPEB for all employees who meet eligibility requirements. The benefits are provided through the General Employees' Other Postemployment Benefits Trust, a single-employer plan administered by the City of Madison Heights, Michigan, and Police and Fire Retiree Postemployment Benefits Trust, a single-employer plan administered by the Police and Fire Retiree Postemployment Benefits Trust Board.

The financial statements of each OPEB plan are included in these financial statements as a pension and other employee benefit trust fund (a fiduciary fund).

Management of the General Employees' plan is vested with the City Council, which consists of the elected mayor and six elected council members. Management of the Police and Fire plan is vested with the Police and Fire Retiree Health Care Trust Board, which consist of the same members as the Police and Fire Pension Board. Representatives are one resident, one retiree member, one active police member, one active fire member, and the treasurer.

Benefits Provided

General Employees' Other Postemployment Benefits Trust and Police and Fire Retiree Postemployment Benefits Trust provide healthcare and vision benefits for retirees and their dependents. Benefits are provided under collective bargaining agreements.

Note 8 - Other Postemployment Benefit Plans (Continued)

Employees Covered by Benefit Terms

The following members were covered by the benefit terms at June 30, 2018:

	General Employees' Other Postemployment Benefits Trust	Police and Fire Retiree Postemployment Benefits Trust
Inactive plan members or beneficiaries currently receiving benefits	64	104
Active plan members	49	46
Total plan members	<u>113</u>	<u>150</u>

Contributions

Retiree healthcare costs are paid by the City on a "pay-as-you-go" basis or from the trusts. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended June 30, 2018, the City made payments for postemployment health benefit premiums of \$2,582,997. Plan members are not required to contribute to the plans.

Net OPEB Liability

The City chooses a date for each OPEB plan to measure its net OPEB liability. This is based on the measurement date of each OPEB plan, which may be based on a comprehensive valuation as of that date or based on an earlier valuation that has used procedures to roll the information forward to the measurement date.

	General Employees' Other Postemployment Benefits Trust	Police and Fire Retiree Postemployment Benefits Trust
Measurement date used for the City NOL	June 30, 2018	June 30, 2018
Based on a comprehensive actuarial valuation as of	June 30, 2016	June 30, 2016

Changes in the net OPEB liability during the measurement year were as follows:

General Employees' Other Postemployment Benefits Trust

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Balance at July 1, 2017	\$ 39,543,986	\$ 12,256,322	\$ 27,287,664
Changes for the year:			
Service cost	287,921	-	287,921
Interest	2,552,025	-	2,552,025
Contributions - Employer	-	849,323	(849,323)
Net investment income	-	1,010,577	(1,010,577)
Benefit payments, including refunds	(852,076)	(852,076)	-
Net changes	<u>1,987,870</u>	<u>1,007,824</u>	<u>980,046</u>
Balance at June 30, 2018	<u>\$ 41,531,856</u>	<u>\$ 13,264,146</u>	<u>\$ 28,267,710</u>

The plan's fiduciary net position represents 31.94 percent of the total OPEB liability.

June 30, 2018

Note 8 - Other Postemployment Benefit Plans (Continued)

Police and Fire Retiree Postemployment Benefits Trust

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Balance at July 1, 2017	\$ 63,913,320	\$ 16,354,163	\$ 47,559,157
Changes for the year:			
Service cost	489,003	-	489,003
Interest	4,114,003	-	4,114,003
Contributions - Employer	-	2,413,374	(2,413,374)
Net investment income	-	1,436,553	(1,436,553)
Benefit payments, including refunds	(1,730,921)	(1,730,921)	-
Net changes	2,872,085	2,119,006	753,079
Balance at June 30, 2018	\$ 66,785,405	\$ 18,473,169	\$ 48,312,236

The plan's fiduciary net position represents 27.66 percent of the total OPEB liability.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City recognized OPEB expense of \$5,448,108 from all plans.

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 452,286

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30	Amount
2019	\$ (113,072)
2020	(113,072)
2021	(113,072)
2022	(113,070)
Total	<u>\$ (452,286)</u>

Note 8 - Other Postemployment Benefit Plans (Continued)

Actuarial Assumptions

The total OPEB liability in each actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

	General Employees' Other Postemployment Benefits Trust	Police and Fire Retiree Postemployment Benefits Trust
Inflation	2.50%	2.50%
Salary increases (including inflation)	4.00 - 17.00%	4.00 - 7.00%
Investment rate of return (net of investment expenses)	6.50%	6.50%
Healthcare cost trend rate	9.00 percent decreasing to a trend rate of 4.00 percent	9.00 percent decreasing to a trend rate of 4.50 percent
Mortality rates	RP-2000 Mortality Table projected to 2020 using scale BB	RP-2014 mortality table projected from 2006 to 2016 using the MP-2016 improvement scale

Discount Rate

As shown below, the discount rate used to measure the total OPEB liability was determined after considering a projection of the cash flows to determine whether the future contributions (made at the current contribution rates) will be sufficient to allow the OPEB plans' fiduciary net position to make all projected future benefit payments of current active and inactive employees.

	General Employees' Other Postemployment Benefits Trust	Police and Fire Retiree Postemployment Benefits Trust
Assumed investment rate of return	6.50%	6.50%
Are contributions expected to be sufficient to allow fiduciary net position to pay future benefits?	Yes	Yes
Discount rate used to measure TOL	6.50%	6.50%

Investment Rate of Return

The long-term expected rate of return on OPEB 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 OPEB 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 adding expected inflation. Best estimates of arithmetic real rates of return as of the June 30, 2018 measurement date for each major asset class included in the OPEB plan's target asset allocation are summarized in the following tables:

General Employees' Other Postemployment Benefits Trust

Asset Class	Long-term Expected Real Rate of Return
U.S. equity - Large cap	4.87 %
U.S. equity - Small cap	6.05
Non-U.S. emerging market equity	3.70
Fixed income	2.50
Cash or cash equivalents	1.00

Note 8 - Other Postemployment Benefit Plans (Continued)

Police and Fire Retiree Postemployment Benefits Trust

Asset Class	Long-term Expected Real Rate of Return
U.S. equity - Large cap	4.87 %
U.S. equity - Small cap	6.05
Non-U.S. emerging market equity	3.70
Fixed income	2.50
Cash or cash equivalents	1.00

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the City, calculated using the discount rates disclosed above, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease	Current Discount Rate	1 Percent Increase
Net OPEB liability of the General Employees' Other Postemployment Benefits Trust	\$ 34,045,348	\$ 28,267,710	\$ 23,510,119
Net OPEB liability of the Police and Fire Retiree Postemployment Benefits Trust	57,867,531	48,312,236	40,515,511

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the City, calculated using the healthcare cost trend rates disclosed above, as well as what the City's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease	Current Healthcare Cost Trend Rate	1 Percent Increase
Net OPEB liability of the General Employees' Other Postemployment Benefits Trust	\$ 23,385,544	\$ 28,267,710	\$ 34,210,136
Net OPEB liability of the Police and Fire Retiree Postemployment Benefits Trust	40,371,970	48,312,236	58,006,842

Note 8 - Other Postemployment Benefit Plans (Continued)

Investment Policy

The OPEB plans' policies in regard to the allocation of invested assets are established and may be amended by the governing bodies by a majority vote of their members. It is the policy of the governing bodies to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The OPEB plans' investment policies discourages the use of cash equivalents, except for liquidity purposes, and aim to refrain from dramatically shifting asset class allocations over short time spans. The following were the adopted asset allocation policies as of June 30, 2018:

General Employees' Other Postemployment Benefits Trust

Asset Class	Target Allocation
U.S. equity - Large cap	36.00 %
U.S. equity - Small cap	9.00
Non-U.S. emerging market equity	15.00
Fixed income	35.00
Cash or cash equivalents	5.00

Police and Fire Retiree Postemployment Benefits Trust

Asset Class	Target Allocation
U.S. equity - Large cap	36.00 %
U.S. equity - Small cap	9.00
Non-U.S. emerging market equity	15.00
Fixed income	35.00
Cash or cash equivalents	5.00

Rate of Return

For the year ended June 30, 2018, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 8.00 percent and 8.48 percent for the General Employees' plan and the Police and Fire plan, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 9 - Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the City incurred expenditures in the General Fund and major special revenue funds that were in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund - Public safety	\$ 15,266,992	\$ 15,463,244
General Fund - Recreation and culture	1,724,634	1,772,089
Major Streets Fund - Public works	626,582	627,888
Major Streets Fund - Capital outlay	1,300,351	1,353,453

June 30, 2018

Note 9 - Stewardship, Compliance, and Accountability (Continued)

Construction Code Fees

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

Shortfall at July 1, 2017			\$	(3,617,110)
Current year permit revenue				425,076
Related expenses:				
Direct costs	\$	294,725		
Estimated indirect costs		273,245		567,970
				<u>(142,894)</u>
Current year shortfall				<u>(142,894)</u>
Cumulative shortfall at June 30, 2018			\$	<u><u>(3,760,004)</u></u>

Note 10 - Fund Balance Constraints

The detail of the various components of fund balance is as follows:

	General Fund	Major Streets Fund	Local Streets Fund	Nonmajor Funds	Total
Nonspendable - Prepaids	\$ 159,037	\$ -	\$ 597	\$ -	\$ 159,634
Restricted:					
Vehicles	323,603	-	-	-	323,603
Roads	-	321,778	94,404	-	416,182
Roads - Proposal R	-	-	2,388,038	-	2,388,038
Debt administration	-	-	-	13,166	13,166
Drug enforcement	-	-	-	283,957	283,957
Parks maintenance	-	-	-	657,068	657,068
Library	134,214	-	-	-	134,214
Total restricted	457,817	321,778	2,482,442	954,191	4,216,228
Assigned:					
Subsequent year's budget	1,558,328	-	-	-	1,558,328
Vested employee benefits	597,711	-	-	-	597,711
Retained insurance risk	1,357,410	-	-	-	1,357,410
Other postemployment benefits	1,020,435	-	-	-	1,020,435
Technology improvements	150,000	-	-	-	150,000
Capital improvements	1,757,017	-	-	873,937	2,630,954
Pension bonds	820,000	-	-	-	820,000
Total assigned	7,260,901	-	-	873,937	8,134,838
Total fund balance	<u>\$ 7,877,755</u>	<u>\$ 321,778</u>	<u>\$ 2,483,039</u>	<u>\$ 1,828,128</u>	<u>\$ 12,510,700</u>

Note 11 - Tax Abatements

The City uses the Industrial Facilities Tax exemption (PA 198 of 1974) to enter into agreements with local businesses to construct new industrial facilities or rehabilitate historical facilities. The Plant Rehabilitation and Industrial Development District Act of 1974, as amended, authorizes local communities to offer tax relief as incentive to build, renovate, purchase, and/or modernize industrial real property.

Note 11 - Tax Abatements (Continued)

The City of Madison Heights, Michigan considers it necessary for the prevention of blight and the preservation of property values to encourage the renovation, modernization, remodeling, and replacement of industrial structures.

The City of Madison Heights, Michigan also considers it necessary to foster the economic health of our existing industries and to have the ability to attract new industry and at the same time guarantee the continued fiscal soundness of the City's finances.

Under the program, the City grants reductions of 50 percent of the property tax bill for Commercial Personal, Industrial Improved, and Industrial Personal (or it can freeze taxable values for rehabilitation properties) for up to 10 years.

For the fiscal year ended June 30, 2018, the City abated approximately \$49,000 of taxes under this program. There are provisions to recapture taxes if the terms of the agreement are not fulfilled, and the abatement may be eliminated if taxes are not paid timely.

There are no significant abatements made by other governments that reduce the City's tax revenue.

Required Supplemental Information

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule General Fund

Year Ended June 30, 2018

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 17,159,281	\$ 17,159,281	\$ 17,090,701	\$ (68,580)
Intergovernmental	3,982,489	4,333,656	5,129,842	796,186
Charges for services	2,087,302	2,087,042	2,411,735	324,693
Fines and forfeitures	1,743,000	1,743,000	1,566,281	(176,719)
Licenses and permits	763,150	763,150	771,533	8,383
Investment income	175,000	175,000	112,243	(62,757)
Other revenue	1,086,758	1,204,024	1,276,968	72,944
Total revenue	26,996,980	27,465,153	28,359,303	894,150
Expenditures				
Current services:				
General government	4,907,730	5,134,291	4,997,763	136,528
Public safety	15,348,987	15,266,992	15,463,244	(196,252)
Public works	3,243,892	3,342,892	3,233,061	109,831
Community and economic development	1,037,896	1,062,896	1,055,930	6,966
Recreation and culture	1,741,819	1,724,634	1,772,089	(47,455)
Capital outlay	24,500	24,500	20,567	3,933
Debt service	1,036,241	1,036,241	1,031,700	4,541
Total expenditures	27,341,065	27,592,446	27,574,354	18,092
Excess of Revenue (Under) Over Expenditures	(344,085)	(127,293)	784,949	912,242
Other Financing Sources - Proceeds from sale of capital assets	17,500	17,500	37,168	19,668
Net Change in Fund Balance	(326,585)	(109,793)	822,117	931,910
Fund Balance - Beginning of year	7,055,638	7,055,638	7,055,638	-
Fund Balance - End of year	\$ 6,729,053	\$ 6,945,845	\$ 7,877,755	\$ 931,910

City of Madison Heights, Michigan

Required Supplemental Information
 Budgetary Comparison Schedule - Major Special Revenue Funds
 Major Streets Fund

Year Ended June 30, 2018

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Intergovernmental	\$ 1,987,466	\$ 1,987,466	\$ 1,976,969	\$ (10,497)
Investment income	-	-	(1,473)	(1,473)
Total revenue	1,987,466	1,987,466	1,975,496	(11,970)
Expenditures				
Current services - Public works	722,487	626,582	627,888	(1,306)
Capital outlay	1,262,000	1,300,351	1,353,453	(53,102)
Total expenditures	1,984,487	1,926,933	1,981,341	(54,408)
Net Change in Fund Balance	2,979	60,533	(5,845)	(66,378)
Fund Balance - Beginning of year	327,623	327,623	327,623	-
Fund Balance - End of year	\$ 330,602	\$ 388,156	\$ 321,778	\$ (66,378)

City of Madison Heights, Michigan

Required Supplemental Information
 Budgetary Comparison Schedule - Major Special Revenue Funds (Continued)
 Local Streets Fund

Year Ended June 30, 2018

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 1,534,741	\$ 1,534,741	\$ 1,525,928	\$ (8,813)
State-shared revenue and grants	804,547	804,547	1,185,776	381,229
Investment income	35,000	35,000	61,429	26,429
Total revenue	2,374,288	2,374,288	2,773,133	398,845
Expenditures				
Current - Public works	635,088	657,588	587,213	70,375
Capital outlay	2,060,000	2,049,000	1,956,539	92,461
Total expenditures	2,695,088	2,706,588	2,543,752	162,836
Net Change in Fund Balance	(320,800)	(332,300)	229,381	561,681
Fund Balance - Beginning of year	2,253,658	2,253,658	2,253,658	-
Fund Balance - End of year	<u>\$ 1,932,858</u>	<u>\$ 1,921,358</u>	<u>\$ 2,483,039</u>	<u>\$ 561,681</u>

City of Madison Heights, Michigan

Required Supplemental Information
Schedule of Changes in the Net Pension Liability and Related Ratios
Police and Fire Pension Systems

	Last Five Fiscal Years				
	2018	2017	2016	2015	2014
Total Pension Liability					
Service cost	\$ 1,021,457	\$ 1,221,339	\$ 1,170,017	\$ 1,169,632	\$ 1,172,252
Interest	5,661,628	5,759,221	5,560,318	5,006,630	4,942,746
Changes in benefit terms	-	-	827,410	-	-
Differences between expected and actual experience	2,222,080	480,722	1,192,693	1,601,211	-
Changes in assumptions	1,636,099	(2,339,247)	-	5,460,062	-
Benefit payments, including refunds	(6,441,460)	(6,205,145)	(6,042,974)	(5,667,459)	(4,856,341)
Net Change in Total Pension Liability	4,099,804	(1,083,110)	2,707,464	7,570,076	1,258,657
Total Pension Liability - Beginning of year	78,198,411	79,281,521	76,574,057	69,003,981	67,745,324
Total Pension Liability - End of year	\$ 82,298,215	\$ 78,198,411	\$ 79,281,521	\$ 76,574,057	\$ 69,003,981
Plan Fiduciary Net Position					
Contributions - Employer	\$ 3,074,446	\$ 2,830,764	\$ 2,091,597	\$ 1,860,442	\$ 2,010,461
Contributions - Member	500,066	510,712	490,999	501,899	549,025
Net investment income (loss)	3,373,805	3,818,238	(623,834)	(184,631)	6,739,515
Administrative expenses	(203,667)	(196,670)	(231,781)	(232,668)	(249,139)
Benefit payments, including refunds	(6,441,460)	(6,205,145)	(6,042,974)	(5,667,362)	(4,856,341)
Other	(3,568)	800	-	-	-
Net Change in Plan Fiduciary Net Position	299,622	758,699	(4,315,993)	(3,722,320)	4,193,521
Plan Fiduciary Net Position - Beginning of year	42,364,918	41,606,219	45,922,212	49,644,532	45,451,011
Plan Fiduciary Net Position - End of year	\$ 42,664,540	\$ 42,364,918	\$ 41,606,219	\$ 45,922,212	\$ 49,644,532
City's Net Pension Liability - Ending	\$ 39,633,675	\$ 35,833,493	\$ 37,675,302	\$ 30,651,845	\$ 19,359,449
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	51.84 %	54.18 %	52.48 %	59.97 %	71.94 %
Covered Employee Payroll	\$ 5,618,718	\$ 5,399,773	\$ 5,188,855	\$ 5,408,591	\$ 5,672,836
City's Net Pension Liability as a Percentage of Covered Employee Payroll	705.39 %	663.61 %	726.08 %	566.73 %	341.27 %

Schedule is built prospectively upon implementation of GASB Statement No. 67.

See note to required supplemental information.

City of Madison Heights, Michigan

Required Supplemental Information Schedule of Investment Returns Police and Fire Pension System

	Last Five Fiscal Years Years Ended June 30				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return - Net of investment expense	8.12 %	9.80 %	(1.00)%	(0.50)%	15.70 %

Schedule is built prospectively upon implementation of GASB Statement No. 68.

City of Madison Heights, Michigan

Required Supplemental Information Schedule of Changes in the Net Pension Liability and Related Ratios Municipal Employees' Retirement System

	Last Four Fiscal Years			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability				
Service cost	\$ 336,203	\$ 335,411	\$ 349,127	\$ 365,655
Interest	3,070,403	3,065,235	2,991,643	2,933,858
Differences between expected and actual experience	(529,379)	(650,371)	(448,149)	-
Changes in assumptions	-	-	1,813,776	-
Benefit payments, including refunds	<u>(2,702,940)</u>	<u>(2,669,149)</u>	<u>(2,623,784)</u>	<u>(2,557,913)</u>
Net Change in Total Pension Liability	174,287	81,126	2,082,613	741,600
Total Pension Liability - Beginning of year	<u>39,563,402</u>	<u>39,482,276</u>	<u>37,399,663</u>	<u>36,658,063</u>
Total Pension Liability - End of year	<u>\$ 39,737,689</u>	<u>\$ 39,563,402</u>	<u>\$ 39,482,276</u>	<u>\$ 37,399,663</u>
Plan Fiduciary Net Position				
Contributions - Employer	\$ 234,378	\$ 16,215,689	\$ 1,309,171	\$ 977,960
Contributions - Employee	103,815	107,113	115,135	134,963
Net investment income (loss)	5,106,888	2,922,918	(352,728)	1,522,409
Administrative expenses	(81,049)	(60,539)	(52,626)	(55,621)
Benefit payments, including refunds	<u>(2,702,940)</u>	<u>(2,669,149)</u>	<u>(2,623,784)</u>	<u>(2,557,913)</u>
Net Change in Plan Fiduciary Net Position	2,661,092	16,516,032	(1,604,832)	21,798
Plan Fiduciary Net Position - Beginning of year	<u>39,446,823</u>	<u>22,930,791</u>	<u>24,535,623</u>	<u>24,513,825</u>
Plan Fiduciary Net Position - End of year	<u>\$ 42,107,915</u>	<u>\$ 39,446,823</u>	<u>\$ 22,930,791</u>	<u>\$ 24,535,623</u>
City's Net Pension Liability - Ending	<u>\$ (2,370,226)</u>	<u>\$ 116,579</u>	<u>\$ 16,551,485</u>	<u>\$ 12,864,040</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	105.96 %	99.71 %	58.08 %	65.60 %
Covered Employee Payroll	\$ 2,965,039	\$ 2,969,921	\$ 3,098,670	\$ 3,244,826
City's Net Pension Liability as a Percentage of Covered Employee Payroll	(79.94)%	3.93 %	534.15 %	396.45 %

Schedule is built prospectively upon implementation of GASB Statement No. 68.

City of Madison Heights, Michigan

Required Supplemental Information
 Schedule of Changes in the Total OPEB Liability and Related Ratios
 Police and Fire OPEB Plan

	Last Two Fiscal Years	
	2018	2017
Total OPEB Liability		
Service cost	\$ 489,003	\$ 507,002
Interest	4,114,003	3,924,938
Benefit payments, including refunds	(1,730,921)	(1,297,566)
Net Change in Total OPEB Liability	2,872,085	3,134,374
Total OPEB Liability - Beginning of year	63,913,320	60,778,946
Total OPEB Liability - End of year	\$ 66,785,405	\$ 63,913,320
Plan Fiduciary Net Position		
Contributions - Employer	\$ 2,413,374	\$ 2,887,125
Net investment income	1,436,553	1,463,640
Benefit payments, including refunds	(1,730,921)	(1,297,566)
Net Change in Plan Fiduciary Net Position	2,119,006	3,053,199
Plan Fiduciary Net Position - Beginning of year	16,354,163	13,300,964
Plan Fiduciary Net Position - End of year	\$ 18,473,169	\$ 16,354,163
Net OPEB Liability - Ending	\$ 48,312,236	\$ 47,559,157
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	27.66 %	25.59 %
Covered Payroll	\$ 3,823,718	\$ 3,795,030
Net OPEB Liability as a Percentage of Covered Payroll	1,263.49 %	1,253.20 %

Schedule is built prospectively upon implementation of GASB Statement No. 74.

City of Madison Heights, Michigan

**Required Supplemental Information
Schedule of Investment Returns
Police and Fire OPEB Plan**

**Last Two Fiscal Years
Years Ended June 30**

	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return - Net of investment expense	8.48 %	10.80 %

Schedule built prospectively upon implementation of GASB Statement No. 74.

City of Madison Heights, Michigan

Required Supplemental Information
 Schedule of Changes in the City's Net OPEB Liability and Related Ratios
 General Employees' OPEB Trust

	Last Two Fiscal Years	
	2018	2017
Total OPEB Liability		
Service cost	\$ 287,921	\$ 292,159
Interest	2,552,025	2,435,322
Benefit payments, including refunds	(852,076)	(1,007,802)
Net Change in Total OPEB Liability	1,987,870	1,719,679
Total OPEB Liability - Beginning of year	39,543,986	37,824,307
Total OPEB Liability - End of year	\$ 41,531,856	\$ 39,543,986
Plan Fiduciary Net Position		
Contributions - Employer	\$ 849,323	\$ 2,169,478
Net investment income	1,010,577	1,207,938
Benefit payments, including refunds	(852,076)	(1,007,802)
Net Change in Plan Fiduciary Net Position	1,007,824	2,369,614
Plan Fiduciary Net Position - Beginning of year	12,256,322	9,886,708
Plan Fiduciary Net Position - End of year	\$ 13,264,146	\$ 12,256,322
Net OPEB Liability - Ending	\$ 28,267,710	\$ 27,287,664
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	31.94 %	30.99 %
Covered Payroll	\$ 2,780,423	\$ 3,154,676
Net OPEB Liability as a Percentage of Covered Payroll	1,016.67 %	864.99 %

Schedule built prospectively upon implementation of GASB Statement No. 74.

City of Madison Heights, Michigan

**Required Supplemental Information
Schedule of Investment Returns
General Employees' OPEB Trust**

**Last Two Fiscal Years
Years Ended June 30**

	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return - Net of investment expense	8.00 %	11.50 %

Schedule built prospectively upon implementation of GASB Statement No. 74.

June 30, 2018

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 is a summary of the requirements of this act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan* dated April 1982, as amended by P.A. 493 of 2000:

- a. Budgets must be adopted for the General Fund and special revenue funds.
- b. Budgeted expenditures cannot exceed budgeted revenue and fund balance.
- c. The budgets must be amended when necessary.
- d. Public hearings must be held before budget adoptions.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget before being incurred.

The City adopts its budget based on total expenditures by fund, except for the General Fund for which it adopts budgeted expenditures by general government, public safety, public works, community and economic development, and culture and recreation, which is in accordance with the State's legal requirements. This then represents the level of classification detail at which expenditures may not legally exceed appropriations. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The level of detail presented in the required supplemental information for the General Fund budgetary comparison schedule is on this budget basis. The level of detail presented in the required supplemental information for the major governmental funds is in greater detail than the adopted budgets. Copies of the budget for all budgeted funds are available at the office of the city clerk.

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

1. Prior to the third Monday in April, the city manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to the third Monday in May, the budget is legally enacted through passage of an ordinance.
4. The city manager is authorized to transfer budgeted amounts between line items within an activity category; however, any revisions that alter the total expenditures of any budgeted activity must be approved by the City Council.

During the current year, the budgets were amended in a legally permissible manner. Budget appropriations lapse at year end.

Other Supplemental Information

City of Madison Heights, Michigan

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds**

June 30, 2018

	Special Revenue Funds			Debt Service Fund	Capital Project Fund	Total
	Community Improvement	Forfeiture	Park Improvement and Maintenance	Fire Stations Fund	Revolving Fund	
Assets						
Cash and cash equivalents	\$ -	\$ 283,902	\$ 661,065	\$ 14,496	\$ 852,262	\$ 1,811,725
Receivables - Due from other governmental units	63,494	55	-	-	228,860	292,409
Total assets	<u>\$ 63,494</u>	<u>\$ 283,957</u>	<u>\$ 661,065</u>	<u>\$ 14,496</u>	<u>\$ 1,081,122</u>	<u>\$ 2,104,134</u>
Liabilities						
Accounts payable	\$ 62,531	\$ -	\$ 3,997	\$ -	\$ -	\$ 66,528
Accrued liabilities and other	963	-	-	1,330	-	2,293
Total liabilities	63,494	-	3,997	1,330	-	68,821
Deferred Inflows of Resources -						
Unavailable revenue	-	-	-	-	207,185	207,185
Total liabilities and deferred inflows of resources	63,494	-	3,997	1,330	207,185	276,006
Fund Balances						
Restricted	-	283,957	657,068	13,166	-	954,191
Assigned	-	-	-	-	873,937	873,937
Total fund balances	-	283,957	657,068	13,166	873,937	1,828,128
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 63,494</u>	<u>\$ 283,957</u>	<u>\$ 661,065</u>	<u>\$ 14,496</u>	<u>\$ 1,081,122</u>	<u>\$ 2,104,134</u>

City of Madison Heights, Michigan

**Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in Fund
Balances
Nonmajor Governmental Funds**

Year Ended June 30, 2018

	Special Revenue Funds			Debt Service Fund	Capital Project Fund	Total
	Community Improvement	Forfeiture	Park Improvement and Maintenance	Fire Stations Fund	Revolving Fund	
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ 401,307	\$ -	\$ 401,307
Special assessments	-	-	-	-	116,713	116,713
Intergovernmental	141,843	256,677	-	23,950	-	422,470
Investment income	-	621	35,496	425	8,160	44,702
Total revenue	141,843	257,298	35,496	425,682	124,873	985,192
Expenditures						
Current services:						
Public safety	-	28,623	-	-	-	28,623
Public works	-	-	-	-	2,500	2,500
Community and economic development	141,843	-	-	-	-	141,843
Recreation and culture	-	-	29,838	-	-	29,838
Capital outlay	-	28,000	-	-	283,968	311,968
Debt service	-	-	-	428,166	-	428,166
Total expenditures	141,843	56,623	29,838	428,166	286,468	942,938
Net Change in Fund Balances	-	200,675	5,658	(2,484)	(161,595)	42,254
Fund Balances - Beginning of year	-	83,282	651,410	15,650	1,035,532	1,785,874
Fund Balances - End of year	\$ -	\$ 283,957	\$ 657,068	\$ 13,166	\$ 873,937	\$ 1,828,128

City of Madison Heights, Michigan

**Other Supplemental Information
Combining Statement of Fiduciary Net Position
Fiduciary Funds**

June 30, 2018

	Pension and OPEB Funds			
		Police and Fire Other	General Employees Retiree	
	Police and Fire Retirement	Postemployment Benefits	Healthcare Trust	Total
Assets				
Cash and cash equivalents	\$ 1,469,477	\$ 88,115	\$ -	\$ 1,557,592
Investments:				
Common stock	28,094,739	-	13,260,114	41,354,853
Corporate obligations	5,189,290	6,543,931	-	11,733,221
U.S. government securities	3,323,425	-	-	3,323,425
Federal agency securities	498,593	-	-	498,593
Small-cap mutual funds	3,379,836	11,801,970	-	15,181,806
Receivables:				
Accrued interest receivable	106,575	39,153	4,032	149,760
Due from the City's General Fund	602,605	-	-	602,605
Total assets	42,664,540	18,473,169	13,264,146	74,401,855
Liabilities	-	-	-	-
Net Position Restricted for Pension and Other Employee Benefits	\$ 42,664,540	\$ 18,473,169	\$ 13,264,146	\$ 74,401,855

City of Madison Heights, Michigan

**Other Supplemental Information
Combining Statement of Changes in Fiduciary Net Position
Fiduciary Funds**

Year Ended June 30, 2018

	Fiduciary Funds			Total
	Police and Fire Retirement	Police and Fire Other Postemployment Benefits	General Employees Retiree Healthcare Trust	
Additions				
Investment income:				
Interest and dividends	\$ 987,691	\$ 367,590	\$ 290,898	\$ 1,646,179
Net increase in fair value of investments	2,554,735	1,113,964	753,860	4,422,559
Investment-related expenses	(168,621)	(45,001)	(34,181)	(247,803)
Net investment income	3,373,805	1,436,553	1,010,577	5,820,935
Contributions:				
Employer	3,074,446	1,833,688	849,323	5,757,457
Employee	500,066	-	-	500,066
Total contributions	3,574,512	1,833,688	849,323	6,257,523
Total additions	6,948,317	3,270,241	1,859,900	12,078,458
Deductions				
Benefit payments	5,456,961	1,151,235	852,076	7,460,272
Refunds of contributions	984,499	-	-	984,499
Administrative expenses	207,235	-	-	207,235
Total deductions	6,648,695	1,151,235	852,076	8,652,006
Net Increase in Net Position Held in Trust	299,622	2,119,006	1,007,824	3,426,452
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	42,364,918	16,354,163	12,256,322	70,975,403
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	\$ 42,664,540	\$ 18,473,169	\$ 13,264,146	\$ 74,401,855