

October 13, 2016

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

We have audited the financial statements of the City of Madison Heights, Michigan (the "City") as of and for the year ended June 30, 2016 and have issued our report thereon dated October 13, 2016. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Required Communications with Those Charged with Governance

Section II - Legislative and Informational Items

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the mayor and members of the City Council.

Section II includes information that we have deemed important for members of the City Council and the mayor to understand. Current and upcoming legislative items as well as other information pertaining to municipalities in Southeast Michigan can be found in this report.

We would like to take this opportunity to thank the City's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the mayor, members of the City Council, and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

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

October 13, 2016

We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC



Joseph C. Heffernan



Beth A. Bialy



Keith Szymanski

Section I - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated August 1, 2016, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

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

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 10, 2016.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during year except for the implementation of GASB Statements 72 and 79.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Section I - Required Communications with Those Charged with Governance (Continued)

The most sensitive estimate affecting the financial statements are the pension and other postemployment benefit costs. The pension and other postemployment benefit costs recorded in the financial statements are based on actuarial calculations. The actuaries' calculations are based on numerous significant estimates, including future rate of return on investments, future healthcare costs, employee eligibility rates, life expectancies, and projected salary increases. We noted that the police and fire pension system uses more conservative estimates (higher assumed salary increases and a lower assumed investment rate of return) than the general employees' system. Management is responsible for reviewing the assumptions used in the actuaries' calculations for reasonableness. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not detect any misstatements as a result of audit procedures.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement with management each year prior to our retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 13, 2016.

**Section I - Required Communications with Those Charged with Governance
(Continued)**

Management Consultations with Other Independent Accountants

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

Section II - Legislative and Informational Items

Legacy Costs

Legacy costs and the challenge of funding them continues to be a topic of discussion. GASB pronouncements of late have placed even more focus on the net long-term liability arising from these benefit promises.

New Other Postemployment Benefits Standards (Retiree Healthcare Obligations)

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB, which refers to retiree healthcare). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, addresses reporting by OPEB plans, whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees.

Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statements more extensive note disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the City will, after adoption of GASB Statement No. 75, recognize on the face of the financial statements its net OPEB liability. The City is currently evaluating the impact these standards will have on the financial statements when adopted. GASB Statement No. 74 is effective for fiscal years beginning after June 15, 2016 (the City's year end of June 30, 2017), whereas GASB Statement No. 75 is effective one year later.

Legacy Cost Impact - Pro-forma

A pro-forma of how the reporting of these OPEB liabilities will impact the City's government-wide net position is shown below:

	As Currently Reported	With Unfunded Health Care
Net position:		
Net investment in capital assets	\$ 82,864,040	\$ 82,864,040
Restricted	3,467,719	3,467,719
Unrestricted	<u>(24,364,896)</u>	<u>(78,615,192)</u>
Total net position	<u>\$ 61,966,863</u>	<u>\$ 7,716,567</u>

This pro-forma indicates that City will likely still have a positive total net position upon implementation. This generally means that the City has successfully funded the total cost of government services provided to date. The fact that the unrestricted portion is negative indicates that legacy costs earned to date have not been funded; but this is offset by the capital assets that have been funded in advance of their use. When viewed from a combined perspective, the residents have paid the cost of services received in total.

**Section II - Legislative and Informational Items
(Continued)**

Revenue Sharing

The FY 2017 governor’s budget recommendation includes \$1.3 billion for revenue sharing broken down as follows:

Description	FY 2016 Budget	FY 2016 forecasted actual	Final 2017 budget
Constitutionally required payments	\$783.8 M	\$745.9 M	\$757.9 M
CVTRS	243.0 M	243.0 M	243.0 M
CVTRS- One-time payments	5.8 M	5.8 M	5.8 M
County revenue sharing	171.8 M	171.8 M	174.2 M
County incentive program	42.9 M	42.9 M	43.0 M
Fiscally Distressed Community Grants	5.0 M	5.0 M	5.0 M
Total	\$1,252.3 M	\$1,214.4 M	\$1,228.9M

As noted above, actual sales tax revenue, which serves as the base for the constitutionally required payments, came in lower than expected. As a result, constitutional revenue sharing is \$38 million lower than budgeted. The new budget for 2017 anticipates a slight increase of 1.6 percent. The FY 2017 budget also includes the “City, Village, and Township Revenue Sharing” (CVTRS) appropriation which was established in FY 2015 and that number remains flat at \$243 million. Each community’s overall increase will vary as each has a different mix of constitutional and CVTRS.

In order to receive the CVTRS payments in FY 2017, qualified local units will once again need to comply with the same best practices as they did last year:

- A citizen’s guide to local finances with disclosure of unfunded liabilities
- Performance dashboard
- Debt service report
- Two-year budget projection

The “one-time” additional CVTRS payments that existed in the 2015 and 2016 budgets were not in the governor’s 2017 budget. However, the payments were reinstated in the final 2017 budget.

Section II - Legislative and Informational Items (Continued)

PA 298 of 2012 - Act 51 Performance Audits

Public Act 298 of 2012 allows the Michigan Department of Transportation (MDOT) to conduct performance audits and make investigations of the disposition of all Act 51 state funds received by county road commissions, cities and villages. The act states that these audits will be conducted by either an independent CPA or an employee of MDOT; however, recent communications sent to all cities, villages, and road commissions from MDOT indicate that you will need to have your CPA conduct the performance audit.

Based on this communication, the City will need a performance audit for its fiscal year ended June 30, 2017. These procedures will be focused on evaluating the procedures the City puts in place to ensure it complies with the requirements of Public Act 51, and we will issue a separate report for this engagement. We are currently in the process of writing programs to address the key compliance areas. It is not clear to us whether this will be an annual requirement, but we will keep you apprised as additional information is provided by the State.

A key aspect of the compliance testing will focus on support for allocated costs. Recent communication from MDOT stated that MDOT auditors have determined that because time cards support, as a fundamental accounting record, the amounts billed for labor, equipment and materials that cost allocations plans are not acceptable and therefore labor costs must be based on actual time, which can be verified by signed and approved time cards. Given the October 1, 2015 commencement of the audit time period, we encourage you to review your documentation methods to ensure compliance with this critical aspect.

Administrative Charges

The services provided by employees that are traditionally charged to the General Fund (Treasury, Finance, HR, etc.) oftentimes significantly benefit other funds. As a result, it is a fairly common practice to charge administrative fees to the other funds. Administrative fees can take many forms such as interfund allocations, chargebacks, payment in lieu of taxes to other funds, etc. While the practice of charging for administrative services provided to water and sewer funds, streets (see item above), TIF districts, and such may certainly be justified, there seems to be a heightened focus lately on the methodology and amount of charges. Given the fact that many cost allocation methodologies were implemented many years ago, it would be prudent to revisit your current methodology and the related inputs to ensure that any administrative charges are fully substantiated.

City of

MADISON HEIGHTS



Michigan



Neighbors Helping Neighbors

ANNUAL FINANCIAL REPORT

For Fiscal Year Ending June 30, 2016



Madison Heights has always prided itself on being a neighborly community, with many outstanding volunteer programs and organizations available to those in need. The cover photos reflect this sense of community spirit, which was proven to be stronger than ever in the wake of the devastating storm on August 11, 2014. As neighbors drew together with offers of help, community spirit soared, with many assisting both physically with clean up and financially by contributing to the Homeowners Flood Relief Fund. It soon became clear that the theme for this year's financial documents should be *Neighbors Helping Neighbors*.

Top photo:

Berge Sunde (left) is assisted by SHARP volunteer Morrie Brown (right). SHARP is a program to help seniors, those that are physically challenged and families of deployed servicemen and women in Madison Heights with home maintenance. (Photo taken by Andrew Potter; Courtesy of C & G Newspapers.)

Second Photo:

Volunteers from Faith Lutheran Church help senior and disabled residents with basement clean up and debris removal throughout the City after the August 2014 Storm.

Third Photo:

A happy homeowner, the recipient of a new hot water heater and furnace, the purchase of both made possible by donations from individuals and businesses to the Neighbors Helping Neighbors Homeowners Flood Relief Fund.

Bottom photo:

Community volunteers at Habitat for Humanity of Oakland County Women Build 2014 site located on East Kalama in Madison Heights.

City of Madison Heights, Michigan

**Financial Report
with Supplemental Information
June 30, 2016**

City of Madison Heights, Michigan

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City of Madison Heights, Michigan

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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, 2016 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, 2016 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.

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

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 accompanying other supplemental information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying other supplemental information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

October 13, 2016

City of Madison Heights, Michigan

Management's Discussion and Analysis

This discussion and analysis provides a narrative overview of the financial activities of the City of Madison Heights, Michigan (the "City") as of and for the fiscal year ended June 30, 2016 (fiscal year 2016). This introduction is designed to assist readers in interpreting and analyzing the City's basic financial statements and financial activities based upon currently known facts, decisions, and conditions. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2016:

- The City's General Fund was budgeted to use \$664,929 in fund balance during the current fiscal year; however, at June 30, 2016, fund balance increased \$767,751. This difference occurred due to the following events that differed from the amended budget:
 - Miscellaneous revenue is a source of income that is not typically reoccurring and is from unpredictable sources. The largest miscellaneous revenues are cable fees and insurance distributions. During FY 2016 cable fees exceeded the budget by \$132,815. Also, the City received an MMRMA distribution of \$658,432 of which \$511,930 was allocated to the General Fund. This exceeded the amount budgeted by \$244,395.
 - Ambulance revenue came in higher than budgeted in FY 2016 by \$88,309.
 - Interest revenue was recorded at \$224,804 or \$64,804 more than budgeted due to the diversity of investments and market performance.
 - After several years of coming in under budget, court fines exceeded expectations by \$106,788 in FY 2016.
 - Several General Fund departments also completed the year under budget. Most notable is Information Technology which ended the FY 2016 with a department balance under budget by \$147,768 adding to fund balance; however, this money should have been carried forward to FY 2017 for payment of the new telephone system. We were anticipating having this project completed and paid by FY 2016; however, complications have delayed this payment.
 - Other General Fund departments that came in significantly under budget were Human Resources at \$77,537 under budget due to lower than anticipated consultant fee testing and oral interview fees in FY 2016 due to these tests not taking place until FY 2017 and the Community Development that had vacant positions and renegotiated contracting fees for Building Official, inspection services, and intermittent office assistance.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

- The City's Major Street Fund was budgeted to use \$659,669 in fund balance during the current fiscal year; however, during the year ended June 30, 2016, \$635,332 of fund balance was actually used. This is \$24,337 under budget and attributable to revenue coming in \$92,075 more than budgeted for state shared revenue, a planned transfer for \$140,000 from Local Street Fund to Major Street Fund was not needed, and expenditures being slightly under budget for Major Street maintenance during the year.
- The City's Local Streets Fund has decreased fund balance during the year ended June 30, 2016 by \$893,410. This reduction is due to a planned increase for construction projects. As the second 10-year Proposal "R" residential road project continues to progress, expenditures will exceed revenue due to the timing of scheduled projects. The fund balance is restricted for the City's Proposal R long-term capital improvement projects and Act 51 road projects to provide funding for these planned projects.
- The City's total net position was \$27.9 million for governmental activities (all funds excluding water and sewer and fiduciary funds) at June 30, 2016. This reflects a decrease in governmental activities' net position of \$5.5 million, or 16.4 percent, from what was reported one year ago. The majority of the change was related to an increase in capital assets of \$1.85 million and an increase of liability of \$7.5 million related to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Of the total net position of the governmental activities, \$58.1 million is invested in capital assets, \$3.5 million is restricted for specific purposes, and the unrestricted portion is negative \$33.7 million.
- During the fiscal year, the City's governmental activities received \$30.2 million in program and general revenue, which is an increase of \$926,000 from fiscal year 2015.
- Total governmental activities' program expenses for the year were \$35.8 million or an increase of \$712,000, or 2.0 percent, when compared to fiscal year 2015. The increase in program expenses is related to the increase in personal services, including wages, pension, and other postemployment benefits expenses.
- 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 revenue received was \$13 million, resulting in an increase in current assets of \$2.7 million for fiscal year 2016. This was a planned increase to continue to rebuild the fund's depleted cash reserves enabling the fund to take on deferred projects in FY 2017 such as the water meter replacement program.
- The total net position for the business-type activities is \$34.0 million as of June 30, 2016. This total represents an increase of approximately \$2.7 million, or 8.6 percent, over June 30, 2015. Of this amount, \$9.3 million is unrestricted. The Water and Sewer Fund has \$10.4 million in cash that will be used to meet future obligations of the business-type activity.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

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 of Madison Heights, Michigan on a government-wide basis. They are designed to present a longer-term view of the City's finances. The fund-based financial statements follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. The fund-based financial statements also report the City's operations in more detail than the government-wide financial statements.

The City of Madison Heights as a Whole

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 2016, the City's total net position decreased 4.7 percent from a year ago, from \$64.8 million to \$61.9 million. At June 30, 2016, the net position is categorized as those funds which are invested in capital assets net of related debt (133.8 percent or \$82.9 million), restricted for specific uses (5.6 percent or \$3.5 million), and those which are unrestricted ((39.4) percent or (\$24.4) million). The decrease in total net position and the negative unrestricted net position are a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

The City's net position of \$82.9 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 \$3.5 million is subject to bond covenant restrictions or other legal or regulatory requirements. The remaining portion of the City's net position of approximately (\$24.4) million is unrestricted. The negative amount includes the \$54.2 million net pension liability. The City has \$29.8 million of current assets available to meet ongoing obligations.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

A review of the governmental activities, separate from the business-type activities, shows a decrease of approximately \$5.5 million in net position during fiscal year 2016. Relative to changes in fund balance for governmental activities, the General Fund had an increase of approximately \$767,700. The City's General Fund was budgeted to use approximately \$665,000 of fund balance during the current fiscal year. This difference occurred due to following events and staff and council decisions:

- Miscellaneous revenue is a source of income that is not typically reoccurring and are from unpredictable sources. The largest miscellaneous revenues are cable fees and insurance distributions. During FY 2016 cable fees exceeded the budget by \$132,815. Also, the City received an MMRMA distribution of \$658,432 of which \$511,930 was allocated to the General Fund, this exceeded the amount budgeted by \$244,395.
- Ambulance revenue came in higher than budgeted in FY 2016 by \$88,309.
- Interest revenue was recorded at \$224,804 or \$64,804 more than budgeted due to the diversity of investments and market performance.
- After several years of coming in under budget, court fines exceeded expectation by \$106,788 in FY 2016.
- The City's Major Street Fund was budgeted to use \$659,669 in fund balance during the current fiscal year; however, during the year ended June 30, 2016, \$635,332 of fund balance was actually used. This is \$24,337 under budget and attributable to revenue coming in \$92,075 more than budgeted for state shared revenue, a planned transfer for \$140,000 from Local Street to Major Street was not needed, and expenditures being slightly under budget for Major Street maintenance during the year.
- The City's Local Streets Fund has decreased fund balance during the year ended June 30, 2016 by \$893,410. This reduction is due to a planned increase for construction projects. As the second 10-year Proposal "R" residential road project continues to progress, expenditures will exceed revenue due to the timing of scheduled projects.

The fund balance is restricted for the City's Proposal R long-term capital improvement projects and Act 51 road projects to provide funding for these planned projects.

- The City's Revolving Fund, which is specific to capital improvement projects, experienced a decrease in fund balance of \$26,250. This decrease was due to the timing of the special assessment sidewalk construction projects, which are completed after fiscal year end and billed to property owners in three installments.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

The following table shows a comparison of net position (in thousands of dollars) as of June 30, 2016 and 2015:

	Governmental Activities		Business-type Activities		Total	
	As of June 30					
	2016	2015	2016	2015	2016	2015
Assets						
Current assets	\$ 16,529	\$ 17,361	\$ 13,538	\$ 12,626	\$ 30,067	\$ 29,987
Noncurrent assets:						
Capital assets	60,953	59,098	31,987	30,663	92,940	89,761
Other	-	-	137	124	137	124
Total assets	77,482	76,459	45,662	43,413	123,144	119,872
Deferred Outflows of Resources	12,630	8,796	464	108	13,094	8,904
Liabilities						
Current liabilities	2,764	2,565	1,153	1,016	3,917	3,581
Long-term liabilities	59,244	49,245	10,916	11,193	70,160	60,438
Total liabilities	62,008	51,810	12,069	12,209	74,077	64,019
Deferred Inflows of Resources	197	-	27	-	224	-
Net Position						
Net investment in capital assets	58,108	55,913	24,756	22,605	82,864	78,518
Restricted	3,468	5,477	-	-	3,468	5,477
Unrestricted	(33,669)	(27,945)	9,274	8,707	(24,395)	(19,238)
Total net position	<u>\$ 27,907</u>	<u>\$ 33,445</u>	<u>\$ 34,030</u>	<u>\$ 31,312</u>	<u>\$ 61,937</u>	<u>\$ 64,757</u>

Governmental Activities

As shown in the following table (in thousands of dollars), the City's revenue from its governmental activities increased by approximately \$926,000 from the prior fiscal year. Property taxes increased slightly by 0.17 percent, or \$314,000, over last year due to a slight increase in overall taxable value. Operating grants decreased by \$205,000 over last year directly related to assistance received from the Federal Emergency Management Agency due to the flooding event of August 2014. Capital grants and contributions are down \$67,000 due to special assessment construction projects. Increases were also experienced in franchise fees by \$188,000 over last year, state-shared revenue by \$194,000, investment earnings by \$127,000 and miscellaneous other revenue by \$51,000.

Program expenses increased 2.0 percent from the previous fiscal year. This increase resulted from the additional expenses for personnel services including wages, police and fire, and general employees' pension and other postemployment benefits. General government expenses decreased 30.2 percent from the previous fiscal year, public works expenses increased 10.5 percent, and public safety expenses increased 12.7 percent. The differences were primarily driven by the increases in personnel costs due to wages, pension, and retiree healthcare contributions. Public safety increases were also due to a change in hiring practices to accelerate new hires so that they are ready to start work immediately following an opening, instead of starting the hiring process when the position becomes vacant.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year Ended June 30					
	2016	2015	2016	2015	2016	2015
Revenue						
Program revenue:						
Charges for services	\$ 3,924	\$ 3,600	\$ 12,992	\$ 12,580	\$ 16,916	\$ 16,180
Operating grants	2,508	2,713	-	-	2,508	2,713
Capital grants and contributions	59	126	-	-		126
General revenue:					59	
Property taxes	18,718	18,404	-	-	18,718	18,404
State-shared revenue	3,148	2,954	-	-	3,148	2,954
Unrestricted investment earnings	295	168	416	244	711	412
Franchise fees	682	494	-	-	682	494
Other	906	855	-	5	906	860
Total revenue	30,240	29,314	13,408	12,829	43,648	42,143
Program Expenses						
General government	4,815	6,267	-	-	4,815	6,267
Public safety	19,911	17,664	-	-	19,911	17,664
Public works	6,027	5,453	-	-	6,027	5,453
Solid waste	2,104	2,661	-	-	2,104	2,661
Community development	1,022	1,213	-	-	1,022	1,213
Recreation	1,838	1,741	-	-	1,838	1,741
Interest on long-term debt	61	67	-	-	61	67
Water and sewer	-	-	10,661	9,704	10,661	9,704
Total program expenses	35,778	35,066	10,661	9,704	46,439	44,770
Change in Net Position	\$ (5,538)	\$ (5,752)	\$ 2,747	\$ 3,125	\$ (2,791)	\$ (2,627)

During the year, the City continued to meet and exceed the actuarial required contributions for the defined benefit pension systems. This is important for the City because future taxpayers should not be required to fund pension benefit payments for benefits that were earned now.

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 by the GLWA for water for fiscal year 2016 was increased by 8.4 percent. The City provides sewage treatment to all residents and businesses using the Southeast Oakland County Sewage Disposal System. In fiscal year 2016, there was a rate increase for sewage treatment of 1.8 percent. The rate adjustments noted above, combined with the operational needs for the system, resulted in a 7.0 percent rate increase effective for bills on or after July 1, 2015. This rate adjustment increased the average water and sewer bill for a city resident from \$177.46 per quarter to \$189.78 per quarter. The Water and Sewer Fund had a \$2.7 million increase in its net position; this is due to increased user revenue as well as an increase in investment revenue during fiscal year 2016. Revenue from user charges increased 3.2 percent, or \$412,100, as a result of consumption and rate increases. Operating expenses increased by 10.2 percent, or \$969,769, as a result of increased cost of water and sewer treatment as well as construction cost for the budgeted replacement of water mains in coordination with the Proposal "R-2" neighborhood road maintenance projects.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

During the fiscal year, the City administration and City Council monitor and amend the original budget adopted by the City due to changes in the projected revenue and unanticipated events that occur during the year. The City experienced an increase in total property tax revenue of 0.2 percent compared to fiscal year 2015.

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, 2016 amounts to \$92,940,384, net of accumulated depreciation. This is a net increase (additions less disposals and depreciation) of \$3,178,640 or 3.4 percent from last fiscal year. The following summarizes the City's capital assets, net of depreciation, as of June 30, 2016 and 2015:

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 2,550,490	\$ 2,550,490	\$ 164,413	\$ 164,413	\$ 2,714,903	\$ 2,714,903
Infrastructure	42,405,584	40,945,981	27,124,556	25,774,473	69,530,140	66,720,454
Buildings and improvements	10,957,386	11,091,854	4,087,670	4,124,612	15,045,056	15,216,466
Land improvements	1,126,779	1,096,893	-	-	1,126,779	1,096,893
Construction in progress	880,394	906,049	240,522	202,000	1,120,916	1,108,049
Other assets	928,991	906,352	369,920	398,312	1,298,911	1,304,664
Vehicles	2,103,679	1,600,315	-	-	2,103,679	1,600,315
Total	\$ 60,953,303	\$ 59,097,934	\$ 31,987,081	\$ 30,663,810	\$ 92,940,384	\$ 89,761,744

Major capital assets during the fiscal year included the following:

- Several road construction projects were completed including reconstruction of Fournier and Mark, East Harwood, and East Lincoln. Construction projects also included several sectional replacements on parts of Thirteen Mile, and of Whitcomb, East Lincoln, Couzens, Campbell, Stephenson Highway, Edward, Townley, Eleven Mile, and Industrial. Local street sectional replacements included Harlo.
- Technology expenditures including a new email exchange server, upgrade to BSA.Net for Business License and Animal Licenses, new uninterruptable power supplies, Livescan fingerprint and palm scanner, and a 911 dispatch battery backup system.
- Land improvements include resurfacing of the Ambassador Park parking lot and walking path, parking lot seal coating at the City Hall complex, and repairs to the Nature Center sidewalk.
- The City purchased nine vehicles including a fire aerial platform truck, ambulance rescue vehicle, tandem axle dump truck, two police interceptors, one sedan, two pickups, and one utility vehicle.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

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

Long-term Debt

At June 30, 2016, the City had \$10,213,187 in outstanding debt. Of this amount, \$2,845,000 is related to general obligation bonds for the fire station construction and \$1,050,000 is related to general obligation bonds for the automated water meter reading system, while the remaining \$6,318,187 is related to the City's portion of the George W. Kuhn (GWK) drain debt.

The City's bonded debt position as June 30, 2015 and 2014 is summarized below and is more fully explained in Note 5:

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
General obligation	<u>\$ 2,845,000</u>	<u>\$ 3,185,000</u>	<u>\$ 7,368,187</u>	<u>\$ 8,182,481</u>	<u>\$ 10,213,187</u>	<u>\$ 11,367,481</u>

The decrease in the City's debt in fiscal year 2016 reflects the scheduled payments made and the fact that the governmental general obligation bonds were refinanced during the year.

The City's latest reevaluation 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.

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 \$1.05 million principal remaining.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

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 2017 budget. Below is a synopsis of significant issues that were weighed in the budget process:

- Funding for the liability related to future retirement healthcare expenditures and pension cost including the planned issuance of pension obligation bonds in the fall of 2016
- Oakland County and the southeast Michigan region's continued economic recovery for the third year in a row. Therefore, the City's fiscal year 2017 budget continues to show signs of improvement.
- The renewal of two millage proposals for Proposal R-3 Neighborhood Road Improvements and V-3 Vehicles in August 2016.

Request for Information

This financial report is designed to give our citizens, taxpayers, customers, and investors a general overview of the City's finances. 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, 2016

	Primary Government			Downtown Development Authority
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments	\$ 13,421,761	\$ 10,408,650	\$ 23,830,411	\$ 41,917
Receivables:				
Receivables from sales to customers on account	-	3,058,114	3,058,114	-
Accounts receivable	1,338,475	13,357	1,351,832	6,763
Due from other governmental units	1,044,884	-	1,044,884	-
Special assessments receivable	510,010	-	510,010	-
Inventory	-	52,227	52,227	-
Prepaid items and deposits	213,971	5,608	219,579	-
Restricted assets (Note 1)	-	136,843	136,843	-
Capital assets (Note 3):				
Nondepreciable	3,430,884	404,935	3,835,819	-
Depreciable	57,522,419	31,582,146	89,104,565	686,712
Total assets	77,482,404	45,661,880	123,144,284	735,392
Deferred Outflows of Resources - Pensions (Notes 7 and 8)	12,629,485	464,804	13,094,289	-
Liabilities				
Accounts payable	984,712	811,521	1,796,233	2,255
Due to other governmental units	63,311	-	63,311	-
Refundable deposits, bonds, etc.	-	192,225	192,225	-
Accrued liabilities and other	1,212,806	119,730	1,332,536	-
Due to Police and Fire Retirement and Other Postemployment Benefit trust funds	502,757	-	502,757	-
Noncurrent liabilities:				
Due within one year:				
Employee compensated absences - Current portion (Note 5)	487,422	56,725	544,147	-
Provision for insurance claims (Note 6)	724,713	31,355	756,068	-
Long-term debt - Due within one year (Note 5)	365,000	829,834	1,194,834	-
Due in more than one year:				
Employee compensated absences - Net of current portion (Note 5)	1,444,513	26,091	1,470,604	-
Net other postemployment benefit obligations (Notes 10 and 11)	1,522,899	1,426,881	2,949,780	-
Net pension liability (Notes 7 and 8)	52,219,382	2,007,405	54,226,787	-
Long-term debt (Note 5)	2,480,000	6,538,353	9,018,353	-
Total liabilities	62,007,515	12,040,120	74,047,635	2,255
Deferred Inflows of Resources - Pensions (Notes 7 and 8)	196,899	27,176	224,075	-

City of Madison Heights, Michigan

Statement of Net Position (Continued) June 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Net Position				
Net investment in capital assets	\$ 58,108,303	\$ 24,755,737	\$ 82,864,040	\$ 686,712
Restricted for:				
Vehicles	142,359	-	142,359	-
Major and Local Street Funds - Construction and operations	2,568,809	-	2,568,809	-
Community improvement	262	-	262	-
Drug enforcement	112,932	-	112,932	-
Debt administration	10,871	-	10,871	-
Park Improvement and Maintenance Fund - Parks maintenance	624,141	-	624,141	-
Police and fire retirement	8,345	-	8,345	-
Unrestricted	(33,668,547)	9,303,651	(24,364,896)	46,425
Total net position	<u>\$ 27,907,475</u>	<u>\$ 34,059,388</u>	<u>\$ 61,966,863</u>	<u>\$ 733,137</u>

City of Madison Heights, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 4,814,914	\$ 2,005,275	\$ 72,236	\$ -
Public safety	19,910,890	746,602	18,299	12,906
Public works	6,026,809	108,660	2,232,935	46,312
Solid waste and recycling	2,104,101	9,863	-	-
Community and economic development	1,022,186	751,761	98,985	-
Recreation and culture	1,837,724	301,941	85,019	-
Interest on long-term debt	60,563	-	-	-
Total governmental activities	35,777,187	3,924,102	2,507,474	59,218
Business-type activities - Water and sewer	10,660,491	12,991,854	-	-
Total primary government	<u>\$ 46,437,678</u>	<u>\$ 16,915,956</u>	<u>\$ 2,507,474</u>	<u>\$ 59,218</u>
Component unit - Downtown Development Authority	<u>\$ 49,740</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue				
Unrestricted investment earnings				
Franchise taxes				
Miscellaneous				
Gain on sale of fixed assets				
Total general revenue				
Change in Net Position				
Net Position - Beginning of year				
Net Position - End of year				

**Statement of Activities
Year Ended June 30, 2016**

Net (Expense) Revenue and Changes in Net Position			
Governmental Activities	Business-type Activities	Total	Downtown Development Authority
\$ (2,737,403)	\$ -	\$ (2,737,403)	\$ -
(19,133,083)	-	(19,133,083)	-
(3,638,902)	-	(3,638,902)	-
(2,094,238)	-	(2,094,238)	-
(171,440)	-	(171,440)	-
(1,450,764)	-	(1,450,764)	-
(60,563)	-	(60,563)	-
(29,286,393)	-	(29,286,393)	-
-	2,331,363	2,331,363	-
(29,286,393)	2,331,363	(26,955,030)	-
-	-	-	(49,740)
18,718,134	-	18,718,134	47,808
3,148,319	-	3,148,319	-
294,670	415,663	710,333	-
681,575	-	681,575	-
873,102	-	873,102	-
32,694	-	32,694	-
23,748,494	415,663	24,164,157	47,808
(5,537,899)	2,747,026	(2,790,873)	(1,932)
33,445,374	31,312,362	64,757,736	735,069
\$ 27,907,475	\$ 34,059,388	\$ 61,966,863	\$ 733,137

City of Madison Heights, Michigan

Governmental Funds Balance Sheet June 30, 2016

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund	Nonmajor Funds	Total
Assets						
Cash and cash equivalents (Note 2)	\$ 8,891,850	\$ -	\$ 2,505,263	\$ 1,225,877	\$ 798,771	\$ 13,421,761
Receivables:						
Special assessments receivable	-	-	-	510,010	-	510,010
Accounts receivable	1,337,151	-	1,324	-	-	1,338,475
Due from other governmental units	641,712	223,944	156,007	-	23,221	1,044,884
Due from other funds (Note 4)	103,688	-	-	-	-	103,688
Advances to other funds (Note 4)	-	-	227,009	-	-	227,009
Prepaid items and deposits	208,316	2,249	3,194	-	212	213,971
Total assets	\$ 11,182,717	\$ 226,193	\$ 2,892,797	\$ 1,735,887	\$ 822,204	\$ 16,859,798
Liabilities						
Accounts payable	\$ 557,947	\$ 47,938	\$ 333,002	\$ 15,000	\$ 30,825	\$ 984,712
Due to other governmental units	25,732	-	-	-	37,579	63,311
Due to other funds (Note 4)	-	103,688	-	-	-	103,688
Advances from other funds (Note 4)	-	-	-	227,009	-	227,009
Accrued liabilities and other Due to Police and Fire Retirement and Other Postemployment Benefit trust funds	1,132,650	13,081	52,472	-	5,594	1,203,797
	502,757	-	-	-	-	502,757
Total liabilities	2,219,086	164,707	385,474	242,009	73,998	3,085,274
Deferred Inflows of Resources - Unavailable revenue						
	241,504	-	-	460,910	-	702,414
Fund Balances						
Nonspendable (Note 14)	208,316	2,249	230,203	-	212	440,980
Restricted (Note 14)	150,704	59,237	2,277,120	-	747,994	3,235,055
Assigned (Note 14)	8,363,107	-	-	1,032,968	-	9,396,075
Total fund balances	8,722,127	61,486	2,507,323	1,032,968	748,206	13,072,110
Total liabilities, deferred inflows of resources, and fund balances	\$ 11,182,717	\$ 226,193	\$ 2,892,797	\$ 1,735,887	\$ 822,204	\$ 16,859,798

City of Madison Heights, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2016

Fund Balance Reported in Governmental Funds	\$ 13,072,110
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	60,953,303
Net pension liabilities, pension-related deferred outflows and inflows, and net OPEB obligations are not current financial resources and are not reported in the funds	(41,309,695)
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	702,414
Bonds payable are not due and payable in the current period and are not reported in the funds	(2,845,000)
Accrued interest is not due and payable in the current period and is not reported in the funds	(9,009)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(1,931,935)
Provisions for self-insured claims do not present a claim on current financial resources and are not reported as fund liabilities	(724,713)
Net Position of Governmental Activities	<u>\$ 27,907,475</u>

City of Madison Heights, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2016

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund	Nonmajor Funds	Total
Revenue						
Property taxes	\$ 16,736,287	\$ -	\$ 1,569,148	\$ -	\$ 377,378	\$ 18,682,813
Licenses and permits	831,020	-	-	-	-	831,020
Federal sources	90,535	-	-	-	98,985	189,520
Intergovernmental	3,259,740	1,431,046	801,889	-	12,906	5,505,581
Charges for services	2,166,533	-	-	-	-	2,166,533
Fines and forfeitures	1,817,788	-	-	-	-	1,817,788
Investment income	224,804	-	38,257	21,509	10,514	295,084
Other revenue:						
Special assessments	-	-	-	272,409	-	272,409
Local donations	15,235	-	-	-	-	15,235
Cable franchise fees	681,575	-	-	-	-	681,575
MMRMA distributions	646,435	-	-	-	-	646,435
Other miscellaneous income	211,724	24,467	-	-	-	236,191
Total revenue	<u>26,681,676</u>	<u>1,455,513</u>	<u>2,409,294</u>	<u>293,918</u>	<u>499,783</u>	<u>31,340,184</u>
Expenditures						
Current:						
General government	5,804,730	-	-	-	-	5,804,730
Public safety	13,916,119	-	-	-	5,865	13,921,984
Public works	3,428,827	804,380	796,283	-	-	5,029,490
Community and economic development	1,089,676	-	-	-	100,172	1,189,848
Recreation and culture	1,758,254	-	-	-	33,725	1,791,979
Capital outlay	13,637	1,286,465	2,506,421	320,168	11,447	4,138,138
Debt administration	-	-	-	-	401,640	401,640
Total expenditures	<u>26,011,243</u>	<u>2,090,845</u>	<u>3,302,704</u>	<u>320,168</u>	<u>552,849</u>	<u>32,277,809</u>
Excess of Revenue Over (Under) Expenditures	670,433	(635,332)	(893,410)	(26,250)	(53,066)	(937,625)
Other Financing Sources - Proceeds from sale of capital assets	97,318	-	-	-	-	97,318
Net Change in Fund Balances	767,751	(635,332)	(893,410)	(26,250)	(53,066)	(840,307)
Fund Balances - Beginning of year	7,954,376	696,818	3,400,733	1,059,218	801,272	13,912,417
Fund Balances - End of year	<u>\$ 8,722,127</u>	<u>\$ 61,486</u>	<u>\$ 2,507,323</u>	<u>\$ 1,032,968</u>	<u>\$ 748,206</u>	<u>\$ 13,072,110</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, 2016

Net Change in Fund Balances - Total Governmental Funds	\$ (840,307)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are capitalized and expense is recorded over their estimated useful lives through depreciation	5,368,238
Statement of activities records depreciation on capital assets	(3,440,846)
The reduction in the carrying value of assets sold or disposed of is accounted for in the statement of activities, but not in the governmental funds	(72,023)
Governmental funds report expenditures for pension and other postemployment benefits as they make contributions; in the statement of activities, the OPEB cost is recognized as contributions are required and the change in net pension liability does not require the use of current financial resources	(7,349,714)
Receivables collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds	35,321
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	340,000
Interest expense is recorded in the statement of activities when a liability is incurred; it is reported in the governmental funds only when payment is due	1,077
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	(226,097)
Net changes in accumulated employee sick and vacation pay are recorded when the obligations are earned in the statement of activities	59,094
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	587,358
Changes in Net Position of Governmental Activities	<u>\$ (5,537,899)</u>

City of Madison Heights, Michigan

Proprietary Fund Statement of Net Position June 30, 2016

	Water and Sewer Fund
Assets	
Current assets:	
Cash and investments (Note 2)	\$ 10,408,650
Accounts receivable	3,071,471
Inventories	52,227
Prepaid items and deposits	5,608
Total current assets	13,537,956
Noncurrent assets:	
Restricted assets (Note 1)	136,843
Capital assets (Note 3):	
Nondepreciable	404,935
Depreciable	31,582,146
Total noncurrent assets	32,123,924
Total assets	45,661,880
Deferred Outflows of Resources - Pensions (Note 7)	464,804
Liabilities	
Current liabilities:	
Accrued liabilities	811,521
Refundable deposits, bonds, etc.	192,225
Accrued liabilities and other	119,730
Employee compensated absences - Current portion (Note 5)	56,725
Worker's compensation claims - Current portion (Note 5)	31,355
Long-term debt - Due within one year (Note 5)	829,834
Total current liabilities	2,041,390
Noncurrent liabilities:	
Employee compensated absences - Net of current portion (Note 5)	26,091
Net other postemployment obligations (Note 10)	1,426,881
Net pension liability (Note 7)	2,007,405
Long-term debt (Note 5)	6,538,353
Total noncurrent liabilities	9,998,730
Total liabilities	12,040,120
Deferred Inflows of Resources - Pensions (Note 7)	27,176
Net Position	
Net investment in capital assets	24,755,737
Unrestricted	9,303,651
Total net position	\$ 34,059,388

City of Madison Heights, Michigan

Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2016

	<u>Water and Sewer Fund</u>
Operating Revenue	
Sale of water	\$ 5,666,976
Sewage disposal charges	7,235,211
Other charges for service	60,117
Charges to other funds	29,550
	<hr/>
Total operating revenue	12,991,854
Operating Expenses	
Cost of water	1,806,382
Cost of sewage disposal	4,317,403
Water system maintenance	1,310,362
General services building	588,347
Sewer system maintenance	181,464
General administration	1,374,672
Depreciation	857,661
	<hr/>
Total operating expenses	10,436,291
Operating Income	2,555,563
Nonoperating Revenue (Expenses)	
Interest and other income	415,663
Interest expense	(224,200)
	<hr/>
Total nonoperating expenses	191,463
Change in Net Position	2,747,026
Net Position - Beginning of year	<hr/> 31,312,362
Net Position - End of year	<hr/> \$ 34,059,388 <hr/>

City of Madison Heights, Michigan

Proprietary Fund Statement of Cash Flows Year Ended June 30, 2016

	<u>Water and Sewer Fund</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 12,984,756
Receipts from interfund services and reimbursements	29,550
Payments to suppliers	(8,123,565)
Payments to employees	<u>(1,136,273)</u>
Net cash provided by operating activities	3,754,468
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(2,180,932)
Principal and interest paid on capital debt	<u>(1,047,625)</u>
Net cash used in capital and related financing activities	(3,228,557)
Cash Flows from Investing Activities - Income on investments	<u>402,409</u>
Net Increase in Cash and Cash Equivalents	928,320
Cash and Cash Equivalents - Beginning of year	<u>9,480,330</u>
Cash and Cash Equivalents - End of year	<u>\$ 10,408,650</u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 2,555,563
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	857,661
Changes in assets and liabilities:	
Receivables	22,452
Inventories	(5,071)
Prepaid and other assets	(1,062)
Accounts payable	108,147
Accrued and other liabilities	<u>216,778</u>
Net cash provided by operating activities	<u>\$ 3,754,468</u>

City of Madison Heights, Michigan

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2016

	Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets		
Cash and cash equivalents (Note 2)	\$ 1,568,421	\$ 29,782
Investments (Note 2):		
Common stock	36,793,537	-
Corporate obligations	8,088,271	-
U.S. government securities	4,213,893	-
Federal agency securities	2,016,732	69,853
Oakland County local government investment pool	-	99,456
Municipal bonds	-	25,496
Small-cap mutual funds	11,606,533	-
Money market	-	10,406
Receivables:		
Accrued interest receivable	100,949	-
Other receivables	318,240	69,282
Due from the City's General Fund	502,757	-
Total assets	65,209,333	\$ 304,275
Liabilities		
Accounts payable	-	\$ 22,652
Accrued liabilities and other	415,443	3,437
Cash bonds and deposits	-	278,186
Total liabilities	415,443	\$ 304,275
Net Position Held in Trust for Pension and Other Employee Benefits	\$ 64,793,890	

City of Madison Heights, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Position Year Ended June 30, 2016

	Pension and Other Employee Benefit Trust Funds
Additions	
Investment income (loss):	
Interest and dividends	\$ 1,483,787
Net decrease in fair value of investments	(2,042,296)
Less investment expenses	(180,054)
Net investment loss	(738,563)
Contributions:	
Employer	5,842,020
Employee	490,999
Total contributions	6,333,019
Transfers in to City-administered trust	9,619,996
Total additions	15,214,452
Deductions	
Benefit payments	7,579,794
Refunds of contributions	1,070,292
Administrative expenses	231,781
Total deductions	8,881,867
Net Decrease in Net Position Held in Trust	6,332,585
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	58,461,305
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	\$ 64,793,890

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies

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

Reporting Entity

The City is governed by an elected mayor and six-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. The 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 is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as a blended component unit 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.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

Brownfield Redevelopment 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 comprised 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. 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.

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 and other items not properly included among program revenue are reported instead as general revenue.

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program 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 are reported as separate columns in the fund financial statements.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

Fund Accounting

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

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, and debt service 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 general 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.
- The Revolving Fund’s purpose is to record revenue and related project expenditures for special assessment districts that are not funded by bond issues.

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.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

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

- 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. During year ended June 30, 2016, the Municipal Employee OPEB Fund assets were brought under the City's control. Investments and activity were previously administered by the General Employees Retirement System of Michigan (MERS of Michigan).
- 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 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 government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

Further, 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.

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 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.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

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

Restricted Assets - 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 \$136,843 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 \$2,000 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.

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	Lives
Buildings and land improvements	50 years
Machinery and equipment	5-10 years
Furniture and fixtures	5-10 years
Office equipment	5-10 years
Vehicles	5 years
Infrastructure assets are depreciated using the straight-line method over the following useful lives:	
Streets and bridges	15-50 years
Sidewalks	15 years
Utility systems	20-55 years

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. 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 as an "other financing source," as well as bond premiums and discounts. 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 from the difference between projected and actual investment earnings of the pension plans, difference between projected and actual experience, changes in assumptions, and city contributions made after the measurement date of the net pension liability.

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 in the General Fund and Revolving Fund balance sheets. The General Fund reports unavailable revenue from personal property taxes. The Revolving Fund reports unavailable revenue from special assessments. The City reports deferred inflows of resources related to pensions for the difference between projected and actual experience of the pension plan. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

Net Position Flow Assumption

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

Fund Balance Flow Assumption

Sometimes the City will 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. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

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.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council 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 proscribes the minimum fund balance as 10 percent of expenditures in the General Fund. 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 2015 tax is levied and collectible on July 1, 2015 and is recognized as revenue in the year ended June 30, 2016, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2015 taxable valuation of the City totaled \$783 million and was used for the July 1, 2015 tax bills. Taxes were levied as follows:

<u>Purpose</u>	<u>Millage Rate</u>	<u>Revenue</u>
City charter operating millage	8.8190	\$ 6,968,000
Millage rollback	1.1810	915,000
Solid waste	2.6457	2,068,000
Police and Fire Act 345	5.8612	4,577,000
Neighborhood roads	2.0000	1,569,000
Major vehicles	0.2500	196,000
Advanced life support systems	0.2500	196,000
Senior citizens	0.4751	372,000
Fire station bond	0.4798	376,000
Library	1.0000	776,000
Total	<u>22.9618</u>	<u>\$ 18,013,000</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

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 purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the 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 receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

Compensated Absences (Vacation and Sick Leave) - It is the City's policy 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.

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.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Note 2 - 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 mature 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, 2016, the Park Improvement and Maintenance Fund had approximately \$36,000 in money market funds and \$589,000 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 investment policies are in accordance with statutory authority.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 2 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$2,960,738 of bank deposits (certificates of deposit and two checking accounts) of which \$758,727 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 it deposits funds with 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.

At year end, the City had the following investments:

Investment	Fair Value	Weighted Average Maturity
Primary Government		
U.S. government securities	\$ 1,977,237	4.675 years
U.S. federal agency obligations	5,195,864	19.485 years
Oakland County local government investment pool	10,212,944	1.066 years
Municipal bonds	<u>2,618,145</u>	3.858 years
Total	<u>\$ 20,004,190</u>	
Fiduciary Funds		
Corporate bonds and notes	\$ 5,489,949	6.878 years
U.S. government securities	<u>4,213,893</u>	4.834 years
Total	<u>\$ 9,703,842</u>	

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 2 - Deposits and Investments (Continued)

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

Investment	Fair Value	Rating	Rating Organization
Corporate bonds and notes	\$ 333,708	A	S&P
Corporate bonds and notes	457,109	A-	S&P
Corporate bonds and notes	237,604	A+	S&P
Corporate bonds and notes	73,398	AA	S&P
Corporate bonds and notes	239,878	AA-	S&P
Corporate bonds and notes	204,983	AA+	S&P
Corporate bonds and notes	1,037,819	AAA	S&P
Corporate bonds and notes	4,000	BB	S&P
Corporate bonds and notes	667,919	BBB	S&P
Corporate bonds and notes	318,416	BBB-	S&P
Corporate bonds and notes	819,692	BBB+	S&P
U.S. government securities	6,191,130	AAA	Moody's
U.S. federal agency obligations	1,720,427	AAA	Moody's
U.S. federal agency obligations	219,856	AA+	Moody's
U.S. federal agency obligations	3,255,581	Not rated	N/A
Money market funds	3,137,300	Not rated	N/A
Oakland County local government investment pool	10,212,944	Not rated	N/A
Municipal bonds	368,750	AA-	S&P
Municipal bonds	1,249,570	AA	S&P
Municipal bonds	595,516	AA2	Moody's
Municipal bonds	404,310	AA3	Moody's
Mutual funds	25,810,608	Not rated	N/A
Total	\$ 57,560,518		

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

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	15%
U.S. government securities - U.S. Treasury notes	9
Fiduciary funds - U.S. government securities - U.S. Treasury notes	7

Additionally, more than 46 percent of the City's primary government investments are 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 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 the 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 or liability.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 2 - Deposits and Investments (Continued)

The City has the following recurring fair value measurements as of June 30, 2016:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2016	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Primary government:				
U.S. government securities	\$ 1,977,237	\$ 1,977,237	\$ -	\$ -
U.S. federal agency obligations	5,195,864	-	5,195,864	-
Municipal bonds	2,618,145	-	2,618,145	-
Total primary government	9,791,246	1,977,237	7,814,009	-
Fiduciary funds:				
Equity ETFs	6,229,171	6,229,171	-	-
Mutual funds - Equity	16,487,862	16,487,862	-	-
Mutual funds - Fixed income	11,308,091	11,308,091	-	-
Mutual funds - Money market	2,068,774	2,068,774	-	-
Agency bonds	502,454	-	502,454	-
Asset-backed securities	1,468,442	-	1,468,442	-
Corporate bonds	3,473,217	-	3,473,217	-
Commercial mortgage-backed securities	9,803	-	9,803	-
Other fixed income	36,033	-	-	36,033
U.S. Treasury bonds	4,213,893	3,875,880	-	338,013
Common stock	18,468,798	18,381,980	-	86,818
Other equity	20,849	-	20,849	-
Total fiduciary funds	64,287,387	58,351,758	5,474,765	460,864
Total investments by fair value level	74,078,633	\$ 60,328,995	\$ 13,288,774	\$ 460,864
Investments measured at net asset value (NAV) - All primary government:				
Oakland County local government investment pool	10,212,944			
Michigan CLASS	251,097			
Money market	192,657			
Total investments measured at NAV	10,656,698			
Total investments measured at fair value	\$ 84,735,331			

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 2 - Deposits and Investments (Continued)

Investments classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of certain assets at June 30, 2016 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 fair value of other certain assets at June 30, 2016 was determined primarily based on Level 3 inputs. The City estimates the fair value of these investments with the assistance of investment custodians who use pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

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

Investments in Entities that Calculate Net Asset Value per Share

The City holds shares or interests in investment pools where 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.

At the year ended June 30, 2016, the fair value, unfunded commitments, and redemption rules of those investments is as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Oakland County Government investment pool	\$ 10,212,944	\$ -	No restrictions	None
Michigan CLASS	251,097	-	No restrictions	None
Money market funds	<u>192,657</u>	<u>-</u>	No restrictions	None
Total investments measured at NAV	<u>\$ 10,656,698</u>	<u>\$ -</u>		

The Michigan CLASS investment pool invests in U.S. Treasury obligations, federal agency obligations of the U.S. government, high grade commercial paper (rated 'A 1' 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.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 3 - Capital Assets

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

Governmental Activities	Balance July 1, 2015	Transfers	Additions	Disposals	Balance June 30, 2016
Capital assets not being depreciated:					
Land	\$ 2,550,490	\$ -	\$ -	\$ -	\$ 2,550,490
Construction in progress	906,049	(855,171)	829,516	-	880,394
Subtotal	3,456,539	(855,171)	829,516	-	3,430,884
Capital assets being depreciated:					
Streets and bridges	65,715,343	855,171	2,994,102	-	69,564,616
Sidewalks	5,925,929	-	312,114	-	6,238,043
Buildings and improvements	17,936,138	-	182,368	8,163	18,110,343
Land improvements	2,151,819	-	79,594	43,666	2,187,747
Machinery and equipment	1,934,344	(133,106)	130,838	83,611	1,848,465
Furniture and fixtures	245,187	133,106	-	-	378,293
Vehicles	6,139,653	-	785,275	363,761	6,561,167
Office equipment	1,136,507	-	54,431	-	1,190,938
Subtotal	101,184,920	855,171	4,538,722	499,201	106,079,612
Accumulated depreciation:					
Streets and bridges	27,710,259	(535)	2,410,082	-	30,119,806
Sidewalks	2,985,032	-	292,237	-	3,277,269
Buildings and improvements	6,844,284	-	316,020	7,347	7,152,957
Land improvements	1,054,926	-	45,341	39,299	1,060,968
Vehicles	4,539,338	535	222,893	305,278	4,457,488
Other assets	2,409,686	-	154,273	75,254	2,488,705
Subtotal	45,543,525	-	3,440,846	427,178	48,557,193
Net capital assets being depreciated	55,641,395	855,171	1,097,876	72,023	57,522,419
Net capital assets	\$ 59,097,934	\$ -	\$ 1,927,392	\$ 72,023	\$ 60,953,303

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 3 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2015	Transfers	Additions	Disposals	Balance June 30, 2016
Capital assets not being depreciated:					
Land	\$ 164,413	\$ -	\$ -	\$ -	\$ 164,413
Construction in progress	202,000	(202,000)	240,522	-	240,522
Subtotal	366,413	(202,000)	240,522	-	404,935
Capital assets being depreciated:					
Utility systems	24,719,538	202,000	1,763,829	-	26,685,367
Kuhn Drain - Segment 1	2,777,793	-	-	-	2,777,793
Kuhn Drain - Segments 2 and 3	11,125,123	-	-	-	11,125,123
Kuhn Drain - Segment 4	222,027	-	-	-	222,027
Kuhn Drain - Chlorine system rehabilitation	1,227,894	-	-	-	1,227,894
Kuhn Drain - Miscellaneous projects	172,625	-	85,195	-	257,820
Kuhn Drain - Structural access gate	209,687	-	-	-	209,687
Buildings and improvements	4,977,382	-	49,999	-	5,027,381
Machinery and equipment	2,468,311	-	41,387	-	2,509,698
Subtotal	47,900,380	202,000	1,940,410	-	50,042,790
Accumulated depreciation:					
Utility systems	12,522,505	-	416,584	-	12,939,089
Kuhn Drain - Segment 1	583,326	-	50,000	-	633,326
Kuhn Drain - Segments 2 and 3	1,401,621	-	200,252	-	1,601,873
Kuhn Drain - Segment 4	26,647	-	4,441	-	31,088
Kuhn Drain - Chlorine system rehabilitation	116,561	-	22,364	-	138,925
Kuhn Drain - Miscellaneous projects	4,390	-	3,106	-	7,496
Kuhn Drain - Structural access gate	25,164	-	4,194	-	29,358
Buildings and improvements	852,770	-	86,941	-	939,711
Machinery and equipment	2,069,999	-	69,779	-	2,139,778
Subtotal	17,602,983	-	857,661	-	18,460,644
Net capital assets being depreciated	30,297,397	202,000	1,082,749	-	31,582,146
Net capital assets	\$ 30,663,810	\$ -	\$ 1,323,271	\$ -	\$ 31,987,081

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 3 - Capital Assets (Continued)

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

Governmental activities:

General government	\$	167,685
Public safety		327,880
Public works		2,748,939
Community development		26,671
Recreation		131,634
Refuse		38,037

Total governmental activities \$ 3,440,846

Business-type activities - Water and Sewer Fund \$ 857,661

Component Units

Capital assets in the Downtown Development Authority, a component unit fund, consisted of land improvements with a net book value of \$686,712, which considers accumulated depreciation of \$159,403 as of June 30, 2016. There were no additions in the current year and depreciation expense for the current year was \$23,036.

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

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Madison Avenue Reconstruction	\$ 287,859	\$ 29,288
Meadows Avenue Reconstruction	277,061	33,798
Dorchester Drive Reconstruction	35,631	42,839
Windemere Avenue Reconstruction	140,125	146,897
Kenwood Avenue Reconstruction	33,885	236,332
Total	<u>\$ 774,561</u>	<u>\$ 489,154</u>

Note 4 - Interfund Receivables, Payables, and Transfers

At June 30, 2016, the City had two interfund balances: 1) an advance in the amount of \$227,009 from the Local Streets Fund to the Revolving Fund, which represents an advance of local streets monies to finance local road-related special assessment projects and 2) a \$103,688 short-term lending from the General Fund to the Major Streets Fund to offset a deficit in pooled cash.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 5 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

	<u>Interest Rate Ranges</u>	<u>Principal Maturity Ranges</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation refunding bonds - Amount of issue - \$3,810,000 - For refunding the fire station bonds	1.9%	2023	\$ 3,185,000	\$ -	\$ 340,000	\$ 2,845,000	\$ 365,000
Vested employee benefits			1,991,029	44,498	103,592	1,931,935	487,422
Reserve for general liability insurance claims			327,411	21,749	332,178	16,982	-
Reserve for workers' compensation liability insurance claims			<u>748,900</u>	<u>56,500</u>	<u>282,818</u>	<u>522,582</u>	<u>-</u>
Total governmental activities			<u>\$ 6,252,340</u>	<u>\$ 122,747</u>	<u>\$ 1,058,588</u>	<u>\$ 5,316,499</u>	<u>\$ 852,422</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 5 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
General obligation bonds (related to George W. Kuhn Drain project discussed below):							
Series 2000A - Amount of issue - \$1,881,478	2.5%	2022	\$ 766,586	\$ -	\$ 101,545	\$ 665,041	\$ 104,176
Series 2000C - Amount of issue - \$8,649,747	2.5	2024	4,422,736	-	444,589	3,978,147	455,638
Series 2000D - Amount of issue - \$239,675	2.5	2024	117,318	-	12,101	105,217	12,101
Series 2005F - Amount of issue - \$162,391	1.625	2026	94,748	-	8,017	86,731	8,017
Series 2007 - Amount of issue - \$1,311,143	4.25-4.375	2024	895,491	-	895,491	-	-
Series 2007G - Amount of issue - \$188,673	1.625	2028	129,344	-	9,086	120,258	9,086
Series 2008H - Amount of issue - \$821,499	1.625	2029	616,258	-	37,414	578,844	38,483
Series 2016 - Amount of issue - \$783,949	2.0	2024	-	783,949	-	783,949	107,333
2010 General Obligation Limited Tax Bonds - Amount of issue - \$1,525,000	2.0-4.0	2025	1,140,000	-	90,000	1,050,000	95,000
Total			8,182,481	783,949	1,598,243	7,368,187	829,834
General obligations - Vested employee benefits			63,312	23,527	4,023	82,816	56,725
Reserve for workers' compensation liability insurance claims			6,513	24,842	-	31,355	31,355
Total business-type activities			<u>\$ 8,252,306</u>	<u>\$ 832,318</u>	<u>\$ 1,602,266</u>	<u>\$ 7,482,358</u>	<u>\$ 917,914</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 6.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 5 - Long-term Debt (Continued)

Business-type Activities

Seven of the eight 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 project discussed in Note 12. During the year, the Series 2007 debt was refunded through the Series 2016 bonds.

The obligations were issued by the George W. Kuhn Drainage District on behalf of 14 participating communities, the County of Oakland, 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 \$3,358,064 compared to the annual debt requirements of \$1,033,140.

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2016 (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
2017	\$ 365,000	\$ 54,055	\$ 419,055	\$ 829,834	\$ 170,061	\$ 999,895
2018	380,000	47,120	427,120	852,731	150,759	1,003,490
2019	390,000	39,900	429,900	873,013	130,917	1,003,930
2020	405,000	32,490	437,490	895,919	110,552	1,006,471
2021	425,000	24,795	449,795	918,832	89,522	1,008,354
2022 - 2026	880,000	25,270	905,270	2,825,755	162,608	2,988,363
2027 - 2031	-	-	-	172,103	8,111	180,214
Total	\$ 2,845,000	\$ 223,630	\$ 3,068,630	\$ 7,368,187	\$ 822,530	\$ 8,190,717

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 5 - Long-term Debt (Continued)

Interest

The City's business-type activities had total interest expense for the year ended June 30, 2016 of approximately \$224,000. The City's governmental-type activities had total interest expense of approximately \$59,000 for the same period.

Note 6 - 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. Annual premiums paid to the Authority are used to pay claims up to the retention limits. However, 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 \$400,000 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.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 6 - 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	
	2016	2015	2016	2015	2016	2015
Estimated liability (asset) - Beginning of year	\$ 327,411	\$ 165,669	\$ 755,413	\$ 395,223	\$ 151,202	\$ 25,045
Estimated claims incurred, including reinsurance premiums and changes in estimates	(327,892)	(24,072)	327	409,315	3,625,797	3,529,899
Claim and reinsurance premium payments and reinsurance recoveries	17,463	185,814	(233,158)	(49,125)	(3,618,256)	(3,403,742)
Estimated liability - End of year	<u>\$ 16,982</u>	<u>\$ 327,411</u>	<u>\$ 522,582</u>	<u>\$ 755,413</u>	<u>\$ 158,743</u>	<u>\$ 151,202</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 7 - Defined Benefit Pension Plan - Municipal Employees' Retirement System of Michigan

Plan Description - The City participates in an agent multiple-employer defined benefit pension plan administered by the Municipal Employees Retirement System of Michigan (MERS of Michigan), 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.

Benefits Provided - The Plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 7 - Defined Benefit Pension Plan - Municipal Employees' Retirement System of Michigan (Continued)

The MERS plan covers all full-time non-sworn employees of the City that are eligible for a defined benefit pension as defined by the union contracts. Specifically these employees are in one of the following seven classes. MERS instituted these changes according to the following schedule. Full-time nonunion and department heads hired before July 1, 2010, full-time 43rd District Court employees hired before October 1, 2006, full-time Department of Public Services employees hired before August 1, 2006, full-time supervisor employees hired before July 1, 2010, full-time municipal employees' group hired before July 1, 2010, or a full-time dispatcher hired before September 1, 2010. Details of the benefits for each group are below:

With the exception of the 43rd District Court employees, all groups covered under this plan have a normal retirement age of 60 with 10 years of service or 55 with 25 years of service. The vesting period is 10 years. Employees are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits, but are payable immediately without an actuarial reduction with duty disability no less than 25 percent of the member's final average compensation. Death benefits are computed in the same manner as a regular retirement allowance and may be payable to a spouse or children. Employees are eligible for non-duty death benefits after meeting the vesting requirements for a regular pension. Vesting requirements are waived for duty connected death benefits, and the minimum benefit is 25 percent of the deceased members' final average compensation. An employee who leaves service before vesting withdraws his or her contributions, plus any accumulated interest.

43rd District Court - Madison Heights - Retirement benefits for employees are calculated as 2.0 percent of the employee's final five-year average salary times the employee's years of service with no retirement maximum. Members of this group have enhanced retirement benefit at age 50 with 25 years of service. Members contribute 5.54 percent of their salaries to fund benefits.

The defined benefit plan was closed to new hired members of this class effective October 1, 2006.

Nonunion and Department Heads - Retirement benefits for employees are calculated as 2.25 percent of the employee's final three-year average salary times the employee's years of service with a retirement maximum of 80 percent of final average compensation. Members contribute 2.5 percent of their salaries to fund benefits.

The defined benefit plan was closed to new hired members of this class effective July 1, 2010.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 7 - Defined Benefit Pension Plan - Municipal Employees' Retirement System of Michigan (Continued)

Department of Public Services - Retirement benefits for employees are calculated as 2.25 percent of the employee's final five-year average salary times the employee's years of service with 80 percent of final average compensation retirement maximum. Members contribute 4.84 percent of their salaries to fund benefits.

The defined benefit plan was closed to newly hired members of this class effective August 1, 2006.

Supervisor - Retirement benefits for employees are calculated as 2.25 percent of the employee's final five-year average salary times the employee's years of service with 80 percent of final average compensation retirement maximum. Members contribute 4.94 percent of their salaries to fund benefits.

The defined benefit plan was closed to newly hired members of this class effective July 1, 2010.

Municipal Employees - Retirement benefits for employees are calculated as 2.0 percent of the employee's final five-year average salary times the employee's years of service with no retirement maximum. Members contribute 2.5 percent of their salaries to fund benefits.

The defined benefit plan was closed to newly hired members of this class effective July 1, 2010.

Dispatchers - Retirement benefits for employees are calculated as 2.5 percent of the employee's final five-year average salary times the employee's years of service with no retirement maximum. Members contribute 2.5 percent of their salaries to fund benefits.

The defined benefit plan was closed to newly hired members of this class effective September 1, 2010.

Benefit terms, within the parameters established by MERS, are generally established and amended by authority of the City Council, generally after negotiations of these terms with the affected unions.

Employees Covered by Benefit Terms - At the December 31, 2015 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	125
Inactive plan members entitled to but not yet receiving benefits	24
Active plan members	51
	<hr/>
Total employees covered by MERS	200
	<hr/>

Note 7 - Defined Benefit Pension Plan - Municipal Employees' Retirement System of Michigan (Continued)

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 retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. 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. The employer may establish contribution rates to be paid by its covered employees.

For the year ended June 30, 2016, the active employee contribution rate ranged from 2.5 percent to 5.54 of annual pay and the City's average required contribution rate was \$95,114 per month.

Payable to the Pension Plan

At December 31, 2015, the City reported a payable of \$133,743 for the outstanding amount of contributions to the plan required for the year ended June 30, 2016.

Net Pension Liability

The net pension liability reported at June 30, 2016 was determined using a measure of the total pension liability and the pension net position as of December 31, 2015. The December 31, 2015 total pension liability was determined by an actuarial valuation performed as of that date.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 7 - Defined Benefit Pension Plan - Municipal Employees' Retirement System of Michigan (Continued)

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2014	\$ 37,399,663	\$ 24,535,623	\$ 12,864,040
Service cost	349,127	-	349,127
Interest	2,991,643	-	2,991,643
Differences between expected and actual experience	(448,149)	-	(448,149)
Changes in assumptions	1,813,776	-	1,813,776
Contributions - Employer	-	1,309,171	(1,309,171)
Contributions - Employee	-	115,135	(115,135)
Net investment income	-	(352,728)	352,728
Benefit payments, including refunds	(2,623,784)	(2,623,784)	-
Administrative expenses	-	(52,626)	52,626
Net changes	2,082,613	(1,604,832)	3,687,445
Balance at December 31, 2015	<u>\$ 39,482,276</u>	<u>\$ 22,930,791</u>	<u>\$ 16,551,485</u>

Assumption Changes - From the time of the last measurement date at December 31, 2014 to December 31, 2015, the actuary modified significant assumptions that affect the measurement of the total pension liability. The actuary adjusted the assumed annual rate of return down from 8.25 percent to 8.00 percent. The mortality tables were updated from the 1994 Group Mortality Table to a blend of the RP-2014 tables described below.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 7 - Defined Benefit Pension Plan - Municipal Employees' Retirement System of Michigan (Continued)

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

For the year ended June 30, 2016, the City recognized pension expense of \$2,541,205. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 224,075
Changes in assumptions	906,888	-
Net difference between projected and actual earnings on pension plan investments	2,123,062	-
Employer contributions to the plan subsequent to the measurement date	<u>802,457</u>	<u>-</u>
Total	<u>\$ 3,832,407</u>	<u>\$ 224,075</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the employer contributions to the plan made subsequent to the measurement date (\$802,457), which will impact the net pension liability in fiscal year 2017, rather than pension expense.

2017	\$ 1,235,483
2018	552,670
2019	552,670
2020	465,053

Actuarial Assumptions - The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	3.75%
Investment rate of return	8% Gross of pension plan investment expense, including inflation

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 7 - Defined Benefit Pension Plan - Municipal Employees' Retirement System of Michigan (Continued)

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:

1. The RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105 percent
2. The RP-2014 Employee Mortality Tables
3. The RP-2014 Juvenile Mortality Tables

For disabled retirees, the RP-2014 Disabled Retiree Mortality Table is used with a 50 percent male and 50 percent female blend.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of the most recent actuarial experience study from 2009-2013.

Discount Rate - The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers.

Projected Cash Flows

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

The long-term expected rate of return on pension plan investments was determined using a model 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. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2015, the measurement date, for each major asset class are summarized in the following table:

Asset Class	Target Allocation (%)	Long-term Expected Real Rate of Return
Global equity	58 %	5.00 %
Global fixed income	20	2.20
Real assets	12	4.20
Diversifying strategies	10	6.60

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 7 - Defined Benefit Pension Plan - Municipal Employees' Retirement System of Michigan (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the City, calculated using the discount rate of 8.00 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00 percent) or one percentage point higher (9.00 percent) than the current rate:

	1 Percent Decrease (7.00%)	Current Discount Rate (8.00%)	1 Percent Increase (9.00%)
Net pension liability of the City	\$ 20,626,363	\$ 16,551,485	\$ 13,071,153

Pension Plan Fiduciary Net Position - Detailed information about the 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.

Note 8 - Defined Benefit Pension Plan - Police and Fire Retirement System

Plan Description - 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).

Employees Covered by Benefit Terms - At the June 30, 2016, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	131
Inactive plan members entitled to but not yet receiving benefits	5
Active plan members	<u>66</u>
Total employees covered by the plan	<u><u>202</u></u>

Note 8 - Defined Benefit Pension Plan - Police and Fire Retirement System (Continued)

Benefits Provided - The plan provides retirement, disability, and death benefits. Retirement benefits for sworn full-time police and fire members hired before July 1, 2009 are 2 percent of the member's final best three-year average salary out of the most recent 10 years times the member's years of service, or 2.8 percent if the member has at least 25 years of service plus 1 percent of average final compensation (AFC) times years of service in excess of 25 years. These plan members are eligible to retire with 25 or more years of service regardless of age or age 60 with 10 years of service.

Retirement benefits for sworn full-time police and fire members hired after July 1, 2009, with exception of department heads, is 2 percent of the member's final best three-year average salary out of the most recent 10 years times the member's years of service or 2.5 percent if the member has at least 25 years of service plus 1 percent of average final compensation (AFC) times years of service in excess of 25 years. These plan members are eligible to retire at age 55 with 25 or more years of service or age 60 with 10 years of service.

All plan members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Non-duty disability retirement benefits are determined at 1.5 percent of AFC times years of actual services until age 55. At age 55, the pension is determined the same as service retirement pension with actual years of service. Duty-related disability benefits are determined at 50 percent of AFC until age 55. At age 55, the pension is calculated the same as a service retirement pension with service credit actual plus years since the date of disability to age 55. In both cases, benefits are payable without an actuarial withdrawal option.

Non-duty death benefits are payable to a surviving spouse, if any, upon the death of a member with 20 or more years of service. Benefits are calculated as a straight life pension actuarially reduced for a straight life pension (Option I). Duty death benefits are payable upon the expiration of workers' compensation to the survivors of a member who died in the line of duty. This is calculated as the same amount that was paid by worker's compensation. A plan member who leaves City service may withdraw his or her contributions, plus any accumulated interest.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 8 - Defined Benefit Pension Plan - Police and Fire Retirement System (Continued)

Contributions - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the Pension Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the City Charter, union contracts, and plan provisions. For the year ended June 30, 2016, the active member contribution rate was 8.90 to 11.91 percent of pensionable annual pay and the City's average contribution rate was 27.94 percent of annual payroll.

Payable to the Pension Plan

At June 30, 2016, the City reported a payable of \$134,354 for the outstanding amount of contributions to the plan required for the year ended June 30, 2016.

Pension Plan Investments - Policy and Rate of Return

Investment Policy - The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the pension board by a majority vote of its members. It is the policy of the pension board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the pension board's adopted asset allocation policy as of June 30, 2016:

Asset Class	Target Allocation
Global equity	62 %
Fixed income	32
Real assets	4
Cash or cash equivalents	2

Rate of Return - For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (1.0) percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 8 - Defined Benefit Pension Plan - Police and Fire Retirement System (Continued)

Pension Plan Reserves

In accordance with 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, their balance is returned to them; for those who stay until retirement, the balance is transferred into the retiree reserve.

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

The balances of the reserve accounts at June 30, 2016 are as follows:

	<u>Required Reserve</u>	<u>Amount Funded</u>
Retiree reserve	\$ 29,571,068	\$ 29,571,068
Employee reserve	7,366,544	7,366,544
Employer reserve	N/A	4,668,607

Net Pension Liability

Total pension liability	\$ 79,281,521
Plan fiduciary net position	<u>(41,606,219)</u>
City's net pension liability	<u>\$ 37,675,302</u>

Plan fiduciary net position as a percentage of the total pension liability 52.5 %

The City has chosen to use June 30, 2016 as its measurement date for the net pension liability. The June 30, 2016 reported net pension liability was determined using a measure of the total pension liability and the pension net position as of June 30, 2016. The June 30, 2016 total pension liability was determined by an actuarial valuation performed as of that date.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 8 - Defined Benefit Pension Plan - Police and Fire Retirement System (Continued)

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2014	\$ 76,574,057	\$ 45,922,212	\$ 30,651,845
Service cost	1,170,017	-	1,170,017
Interest	5,560,318	-	5,560,318
Changes in benefits	827,410	-	827,410
Differences between expected and actual experience	1,192,693	-	1,192,693
Contributions - Employer	-	2,091,597	(2,091,597)
Contributions - Employee	-	490,999	(490,999)
Net investment income	-	(623,834)	623,834
Benefit payments, including refunds	(6,042,974)	(6,042,974)	-
Administrative expenses	-	(231,781)	231,781
Net changes	<u>2,707,464</u>	<u>(4,315,993)</u>	<u>7,023,457</u>
Balance at December 31, 2015	<u>\$ 79,281,521</u>	<u>\$ 41,606,219</u>	<u>\$ 37,675,302</u>

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

For the year ended June 30, 2016, the City recognized pension expense of \$7,900,735. At June 30, 2016, 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	\$ 1,538,519	\$ -
Changes in assumptions	2,314,503	-
Net difference between projected and actual earnings on pension plan investments	<u>5,408,860</u>	<u>-</u>
Total	<u>\$ 9,261,882</u>	<u>\$ -</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 8 - Defined Benefit Pension Plan - Police and Fire Retirement System (Continued)

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

2017	\$ 3,907,917
2018	2,833,146
2019	1,734,911
2020	785,908

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	5.5%
Salary increases	5.5-8.5% Average, including inflation
Investment rate of return	7.5% Net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Mortality for males and females projected one year to 2015, with MP-2014 mortality improvement scale.

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

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

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 8 - Defined Benefit Pension Plan - Police and Fire Retirement System (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2016 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table.

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	8.10 %
Fixed income	2.90
Real assets	3.40
Cash or cash equivalents	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 discount rate of 7.5 percent, 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 (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	<u>1 Percent Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1 Percent Increase (8.5%)</u>
Net pension liability of the City	\$ 46,328,408	\$ 37,675,302	\$ 30,344,675

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 9 - Defined Contribution Pension 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 \$590,043, resulting in an employer contribution of \$56,574 and employee contributions of \$57,515.

Note 10 - General Employees' Other Postemployment Benefits

Retiree Healthcare Expenditures

The City provides healthcare benefits to some retirees, with no contribution required by the participant, which is paid monthly in accordance with labor contracts. Currently, 155 retirees are eligible. The portion of benefits of retirees other than sworn police and fire retirees paid and expensed by the General Fund and Water and Sewer Fund totaled \$66,770 and \$7,699, respectively, for the year ended June 30, 2016. Benefits of police and fire retirees are reported and expensed by the Police and Fire Retirement Fiduciary Fund utilizing funds contributed by the General Fund for this purpose.

During the year ended June 30, 2016, the City assumed control of the assets and administration of the plan. The General Employees' Other Postemployment Benefits (OPEB) Trust has assumed the reporting responsibility for most of the payment of the current cost of postemployment health benefits for general employees that were previously recorded as an expense in the General Fund and Water and Sewer Fund. During the year ended June 30, 2016, the General Employees' OPEB Trust paid postemployment benefits totaling \$1,316,926 and the City's General Fund expensed postemployment benefits totaling \$74,468. These expenses represent the cost to meet current year claims and expenses on a cash basis, consistent with the City's historical accounting policy, and is not the result of any actuarial determination of future benefit funding requirements. The actuarial computed information regarding future benefits is disclosed below.

Healthcare Savings Plans

In 2006, the City established two separate healthcare savings plans under the General Employees' Retirement System of Michigan, which allow employees to make pretax contributions to be used by them for future healthcare costs. During the year ended June 30, 2016, the City contributed \$32,000 for the employees in these plans.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 10 - General Employees' Other Postemployment Benefits (Continued)

General Employee Retiree Healthcare Benefits Trust

In 2005, the City established a fund pursuant to Public Act 149 of 1999. The purpose of the fund is to hold and invest monies to be used for future payments of general employee retiree healthcare benefits. The fund assets were placed in the Municipal Employees' Retirement System of Michigan Health Care Savings Plan Trust. During the year ended June 30, 2016, the City assumed control of the assets and administration of the plan.

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

Funding Policy - Employees are not required to contribute to the trust. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, as shown below, the City has made contributions to the trust of \$1,556,584, as determined by the City Council through annual budget resolution. The City's General Fund also expensed postemployment benefits totaling \$74,468.

Funding Progress - For the year ended June 30, 2016, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2014. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

Annual required contribution (recommended)	\$ 2,185,654
Interest on the prior year's net OPEB obligation	82,556
Less adjustment to the annual required contribution	<u>(106,720)</u>
Annual OPEB cost	2,161,490
Amounts contributed:	
Payments of current premiums	(74,468)
Contributions to trust	<u>(1,556,584)</u>
Increase in net OPEB obligation	530,438
OPEB obligation - Beginning of year	<u>1,179,374</u>
OPEB obligation - End of year	<u>\$ 1,709,812</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 10 - General Employees' Other Postemployment Benefits (Continued)

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB (asset) obligation for the three most recent years were as follows:

Fiscal Year Ended	Annual OPEB Costs	Employer Contributions Percentage OPEB Costs Contributed	Net OPEB (Asset) Obligation
6/30/14	\$ 2,757,613	51 %	\$ (262,285)
6/30/15	2,742,376	47	1,179,374
6/30/16	2,161,490	76	1,709,812

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/10	\$ 3,876,165	\$ 21,929,581	\$ 18,053,416	17.7 %	\$ 3,092,362	583.8 %
6/30/12	6,249,452	33,130,423	26,880,971	18.9	3,707,480	725.0
6/30/14	9,329,454	32,176,567	22,847,113	29.0	3,137,000	728.3

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 10 - General Employees' Other Postemployment Benefits (Continued)

In the June 30, 2014 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included an 7.0 percent investment rate of return and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after nine years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined based on the market value of assets. The UAAL for court and DPS employees is being amortized as a level dollar amount on a closed basis. The remaining amortization period (for that group of employees) at June 30, 2014 was 22 years. The UAAL for all other employees is being amortized as a level dollar amount on a closed basis. The remaining amortization period (for the remaining employees) at June 30, 2014 is 26 years.

Note 11 - Police and Fire Retirement Other Postemployment Benefits Trust

Retiree Healthcare Expenditures

The City provides healthcare benefits to some retirees, with no contribution required by the participant, which is paid monthly in accordance with labor contracts. Benefits of police and fire retirees are reported and expensed by the Police and Fire Retirement Fiduciary Fund utilizing funds contributed by the General Fund for this purpose.

The Police and Fire Other Postemployment Benefits (OPEB) Trust has assumed the reporting responsibility for the payment of the current cost of postemployment health benefits for retired police and fire employees that were previously recorded as an expense in the General Fund. During the year ended June 30, 2016, the City's General Fund expensed postemployment benefits totaling \$97,702. Additionally, the Police and Fire OPEB Trust expensed \$1,290,187 of benefit payments. This expense represents the cost to meet current year claims and expenses on a cash basis, consistent with the City's historical accounting policy, and is not the result of any actuarial determination of future benefit funding requirements. The actuarial computed information regarding future benefits is disclosed below.

Plan Description - The City provides retiree healthcare benefits to eligible employees and their spouses through the Police and Fire Retiree Postemployment Benefits Trust (the "Trust"). Benefits are provided to police and fire retirees and their spouses and dependents. At June 30, 2014, the date of the most recent actuarial valuation, membership consisted of 95 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 56 current active employees.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 11 - Police and Fire Retirement Other Postemployment Benefits Trust (Continued)

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

Funding Policy - Employees are not required to contribute to the Trust. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a “pay-as-you-go” basis). However, the City has made contributions to advance-fund these benefits, as determined by the City Council through annual budget resolutions. In the current year, the City incurred pay-as-you-go retiree healthcare costs of \$97,702. These expenses are contributed by the City’s General Fund and expensed by the Police and Fire Retirement System. The costs of administering the Trust are borne by the City’s General Fund.

Funding Progress - For the year ended June 30, 2016 the City has estimated the cost of providing retiree health care benefits through an actuarial valuation as of June 30, 2014. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 3,206,218
Interest on the prior year's net OPEB obligation	65,131
Less adjustment to the annual required contribution	<u>(52,560)</u>
Annual OPEB cost	3,218,789
Amounts contributed:	
Payments of current premiums	(97,702)
Implicit rate subsidy of premiums	(691,606)
Advance funding	<u>(2,191,524)</u>
Decrease in net OPEB obligation	237,957
OPEB obligation - Beginning of year	<u>1,002,011</u>
OPEB obligation - End of year	<u>\$ 1,239,968</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 11 - Police and Fire Retirement Other Postemployment Benefits Trust (Continued)

Employer contributions and annual OPEB cost data for the current and three preceding years were as follows:

Fiscal Year Ended	Annual OPEB Costs	Employer Contributions Percentage OPEB Costs Contributed	Net OPEB (Asset) Obligation
6/30/14	\$ 4,303,660	58.2 %	\$ (99,678)
6/30/15	3,297,617	66.6	1,002,011
6/30/16	3,218,789	92.6	1,239,968

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/10	\$ 4,804,743	\$ 35,553,546	\$ 30,748,803	13.5 %	\$ 6,950,898	442.4 %
6/30/12	7,245,096	47,595,748	40,350,652	15.2	5,395,882	747.8
6/30/14	11,575,087	45,928,050	34,352,963	25.2	4,744,303	724.1

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 11 - Police and Fire Retirement Other Postemployment Benefits Trust (Continued)

In the June 30, 2014, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 6.5 percent investment rate of return compounded annually (net of administrative expenses). The valuation healthcare cost trend rate is assumed to be 9 percent in 2015, grading to 4.5 percent in 2024. The growth rate for amortizing the unfunded actuarial accrued liabilities was assumed to be 5.5 percent. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at June 30, 2014 was 26 years.

Note 12 - Commitments

Infrastructure Construction - The City and all other member communities of the Southeast Oakland County Sewage Disposal System (SOCSDS) had previously agreed to undertake improvements to the George W. Kuhn (GWK) Drain to expand the capacity and enhance the performance of the wastewater retention treatment facility. The estimated total cost of the project is \$128 million, with the City's estimated share approximating \$13 million. The GWK Drain District is financing the project by issuing debt, including low-interest (1.625 percent to 2.5 percent) State Revolving Fund money loans, with each community funding their proportionate share of the debt service payments. Additionally, the GWK Drain District communities have obtained approximately \$5.2 million in federal grants for the project.

As of June 30, 2016, the SOCSDS had obtained aggregate financing of approximately \$131,500,000 (of which approximately \$130,258,975 had been received or drawn down) and had incurred \$138,763,322 of costs related to the project. Included in the City's Water and Sewer Fund financial statements at June 30, 2016 was \$13,378,278 of system improvements and construction in progress, net of accumulated depreciation, \$136,843 of assets held at the County, and \$6,318,187 of general obligations payable, representing the major components of the City's interest in the project's activity at that date.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 13 - 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. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - July 1, 2015		\$ (3,194,349)
Current year building permit revenue		449,825
Current year related expenses:		
Direct costs	\$ 284,514	
Estimated indirect costs	315,473	599,987
		<u>(150,162)</u>
Current year shortfall		<u>(150,162)</u>
Cumulative shortfall - June 30, 2016		<u>\$ (3,344,511)</u>

Note 14 - Fund Balance Constraints

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

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund	Nonmajor Funds	Total
Fund Balances						
Nonspendable:						
Prepays	\$ 208,316	\$ 2,249	\$ 3,194	\$ -	\$ 212	\$ 213,971
Advances to other funds	-	-	227,009	-	-	227,009
Restricted:						
Vehicles	142,359	-	-	-	-	142,359
Roads	-	59,237	239,752	-	-	298,989
Roads - Proposal R	-	-	2,037,368	-	-	2,037,368
Debt administration	-	-	-	-	10,871	10,871
Drug enforcement	-	-	-	-	112,932	112,932
Parks maintenance	-	-	-	-	624,141	624,141
Community improvement	-	-	-	-	50	50
Police and fire retirement	8,345	-	-	-	-	8,345
Total	150,704	59,237	2,277,120	-	747,994	3,235,055
Assigned:						
Subsequent year's budget	1,364,383	-	-	-	-	1,364,383
Vested employee benefits	1,841,333	-	-	-	-	1,841,333
Retained insurance risk	1,318,585	-	-	-	-	1,318,585
Other postemployment benefits	1,565,806	-	-	-	-	1,565,806
Technology improvements	150,000	-	-	-	-	150,000
Capital improvements	1,033,000	-	-	1,032,968	-	2,065,968
Pension bonds	1,090,000	-	-	-	-	1,090,000
Total	8,363,107	-	-	1,032,968	-	9,396,075
Total fund balance	\$ 8,722,127	\$ 61,486	\$ 2,507,323	\$ 1,032,968	\$ 748,206	\$ 13,072,110

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 15 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statement more extensive footnote disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the City will, after adoption of GASB Statement No. 75, recognize on the face of the financial statements its net OPEB liability. The City is currently evaluating the impact these standards will have on the financial statements when adopted. GASB Statement No. 74 is effective for fiscal years beginning after June 15, 2016 whereas GASB Statement No. 75 is effective one year later.

Note 16 - Subsequent Event

On September 29, 2016, the City issued Limited Tax General Obligation Bonds pursuant to Section 518 of Act 34, in the principal amount of \$15.25 million. Proceeds of this issuance were used to paying part of the cost of the unfunded pension liability for the City's general pension retirement program.

Required Supplemental Information

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2016

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 16,810,135	\$ 16,810,135	\$ 16,736,287	\$ (73,848)
Licenses and permits	834,350	834,350	831,020	(3,330)
Federal grants	50,000	67,300	90,535	23,235
State-shared revenue and grants	3,088,201	3,289,161	3,259,740	(29,421)
Charges for services	2,025,264	2,096,864	2,166,533	69,669
Fines and forfeitures	1,711,000	1,711,000	1,817,788	106,788
Investment income	160,000	160,000	224,804	64,804
Other revenue	837,860	1,161,900	1,554,969	393,069
Total revenue	<u>25,516,810</u>	<u>26,130,710</u>	<u>26,681,676</u>	<u>550,966</u>
Expenditures - Current				
General government	5,753,757	6,195,393	5,804,730	390,663
Public safety	13,949,183	14,266,188	13,916,119	350,069
Public works	3,510,819	3,507,819	3,428,827	78,992
Community and economic development	1,158,814	1,158,814	1,089,676	69,138
Recreation and culture	1,702,015	1,765,125	1,758,254	6,871
Capital outlay	50,000	37,300	13,637	23,663
Total expenditures	<u>26,124,588</u>	<u>26,930,639</u>	<u>26,011,243</u>	<u>919,396</u>
Excess of Revenue (Under) Over Expenditures	(607,778)	(799,929)	670,433	1,470,362
Other Financing Sources				
Proceeds from sale of capital assets	5,000	75,000	97,318	22,318
Transfers in	-	60,000	-	(60,000)
Total other financing uses	<u>5,000</u>	<u>135,000</u>	<u>97,318</u>	<u>(37,682)</u>
Net Change in Fund Balance	(602,778)	(664,929)	767,751	1,432,680
Fund Balance - Beginning of year	<u>7,954,376</u>	<u>7,954,376</u>	<u>7,954,376</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 7,351,598</u>	<u>\$ 7,289,447</u>	<u>\$ 8,722,127</u>	<u>\$ 1,432,680</u>

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Streets Fund Year Ended June 30, 2016

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Intergovernmental	\$ 1,332,932	\$ 1,338,482	\$ 1,431,046	\$ 92,564
Other revenue	-	24,400	24,467	67
Total revenue	1,332,932	1,362,882	1,455,513	92,631
Expenditures				
Current - Public works	852,101	888,601	804,380	84,221
Capital outlay	1,190,000	1,273,950	1,286,465	(12,515)
Total expenditures	2,042,101	2,162,551	2,090,845	71,706
Excess of Expenditures (Under) Over Revenue	(709,169)	(799,669)	(635,332)	164,337
Other Financing Sources (Uses) -				
Transfers in	140,000	140,000	-	(140,000)
Net Change in Fund Balance	(569,169)	(659,669)	(635,332)	24,337
Fund Balance - Beginning of year	696,818	696,818	696,818	-
Fund Balance - End of year	<u>\$ 127,649</u>	<u>\$ 37,149</u>	<u>\$ 61,486</u>	<u>\$ 24,337</u>

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Local Streets Fund Year Ended June 30, 2016

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 1,579,598	\$ 1,579,598	\$ 1,569,148	\$ (10,450)
State-shared revenue and grants	640,952	815,952	801,889	(14,063)
Investment income	45,000	45,000	38,257	(6,743)
Total revenue	2,265,550	2,440,550	2,409,294	(31,256)
Expenditures				
Current - Public works	639,418	832,518	796,283	36,235
Capital outlay	2,526,000	3,428,000	2,506,421	921,579
Total expenditures	3,165,418	4,260,518	3,302,704	957,814
Other Financing Sources - Transfers out				
	(140,000)	(140,000)	-	140,000
Net Change in Fund Balance	(1,039,868)	(1,959,968)	(893,410)	1,066,558
Fund Balance - Beginning of year	3,400,733	3,400,733	3,400,733	-
Fund Balance - End of year	<u>\$ 2,360,865</u>	<u>\$ 1,440,765</u>	<u>\$ 2,507,323</u>	<u>\$ 1,066,558</u>

City of Madison Heights, Michigan

Required Supplemental Information Police and Fire Other Postemployment Benefits Trust Schedule Year Ended June 30, 2016

The schedule of funding progress is as follows:

Police and Fire Other Postemployment Benefit Trust

Actuarial Valuation Date*	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Valuation Payroll (c)	UAAL as a Percentage of Valuation Payroll
6/30/06	\$ -	\$ 37,800,085	\$ 37,800,085	- %	\$ 7,005,987	539.5 %
6/30/08	2,715,824	33,574,191	30,858,367	8.1	7,208,502	428.1
6/30/10	4,804,743	35,553,546	30,748,803	13.5	6,950,898	442.4
6/30/12	7,245,096	47,595,748	40,350,652	15.2	5,395,882	747.8
6/30/14	11,575,087	45,928,050	34,352,963	25.2	4,744,303	724.1

* The Police and Fire Healthcare Trust was established during the fiscal year ended June 30, 2007; therefore, only five years of funding progress data is available.

The schedule of employer contributions is as follows:

Police and Fire Other Postemployment Benefit Trust

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Cost	Percentage Contributed
6/30/11	6/30/08	\$ 1,886,834	125.9 %
6/30/12	6/30/10	1,937,202	118.5
6/30/13	6/30/10	1,983,851	133.9
6/30/14	6/30/12	4,303,660	58.2
6/30/15	6/30/12	3,297,617	66.6
6/30/16	6/30/14	3,218,789	92.6

The calculation of percentage contributed for the fiscal year ended June 30, 2016 includes pay-as-you-go insurance premiums of \$97,702 that were paid for by the Police and Fire Retirement System, an implicit rate subsidy of \$691,606, and advance funding of \$2,191,524 that the City contributed to the Police and Fire Other Postemployment Benefit Trust.

The information presented above was determined as part of the actuarial valuations as of June 30, 2014.

Actuarial cost method	Individual entry age
Amortization method	Level percent, closed
Remaining amortization period	26 years
Asset valuation method	Not applicable
Actuarial assumptions:	
Investment rate of return	6.5%
Growth rate for amortizing UAAL	5.5%
Medical care inflation	4.5%-9.0%

City of Madison Heights, Michigan

Required Supplemental Information General Employees Other Postemployment Benefits Trust Schedule Year Ended June 30, 2016

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/10	\$ 3,876,165	\$ 21,929,581	\$ 18,053,416	17.7 %	\$ 3,092,362	583.8 %
6/30/12	6,249,452	33,130,423	26,880,971	18.9	3,707,480	725.0
6/30/14	9,329,454	32,176,567	22,847,113	29.0	3,661,052	624.1

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Cost	Percentage Contributed
6/30/11	6/30/10	\$ 1,345,028	139.1
6/30/12	6/30/10	1,673,327	127.4
6/30/13	6/30/12	1,783,515	121.8
6/30/14	6/30/12	2,757,613	51.2
6/30/15	6/30/14	2,742,376	47.4
6/30/16	6/30/14	2,161,490	75.5

The calculation of percentage contributed for the fiscal year ended June 30, 2016 includes pay-as-you-go insurance premiums of \$74,468 that were paid for by the General Fund and advance funding of \$1,556,584 that the City contributed to the General Employees' Other Postemployment Benefit Trust.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2014, the latest actuarial valuation, follows:

Amortization method	Level dollar, closed
Amortization period (perpetual)	26 years
Asset valuation method	N/A
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.5%
Medical care inflation	4.5% - 9.0%
Cost of living adjustments	None

City of Madison Heights, Michigan

Note to Required Supplemental Information Year Ended June 30, 2016

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.

Excess of expenditures over appropriations in budgeted funds - During the year, the City incurred significant expenditures that were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Major Streets Fund - Capital outlay	\$ 1,273,950	\$ 1,286,465	\$ (12,515)

City of Madison Heights, Michigan

Required Supplemental Information Schedule of Changes in the City Net Pension Liability and Related Ratios Police and Fire Pension Systems Last Three Fiscal Years (Schedule is built prospectively upon implementation of GASB Statements No. 67)

	2016	2015	2014
Total Pension Liability			
Service cost	\$ 1,170,017	\$ 1,169,632	\$ 1,172,252
Interest	5,560,318	5,006,630	4,942,746
Changes in benefit terms	827,410	-	-
Differences between expected and actual experience	1,192,693	1,601,211	-
Changes in assumptions	-	5,460,062	-
Benefit payments, including refunds	(6,042,974)	(5,667,459)	(4,856,341)
Net Change in Total Pension Liability	2,707,464	7,570,076	1,258,657
Total Pension Liability - Beginning of year	76,574,057	69,003,981	67,745,324
Total Pension Liability - End of year	\$ 79,281,521	\$ 76,574,057	\$ 69,003,981
Plan Fiduciary Net Position			
Contributions - Employer	\$ 2,091,597	\$ 1,860,442	\$ 2,010,461
Contributions - Employee	490,999	501,899	549,025
Net investment income	(623,834)	(184,631)	6,739,515
Administrative expenses	(231,781)	(232,668)	(249,139)
Benefit payments, including refunds	(6,042,974)	(5,667,362)	(4,856,341)
Other	-	-	-
Net Change in Plan Fiduciary Net Position	(4,315,993)	(3,722,320)	4,193,521
Plan Fiduciary Net Position - Beginning of year	45,922,212	49,644,532	45,451,011
Plan Fiduciary Net Position - End of year	\$ 41,606,219	\$ 45,922,212	\$ 49,644,532
City's Net Pension Liability - Ending	\$ 37,675,302	\$ 30,651,845	\$ 19,359,449
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	52.48 %	59.97 %	71.94 %
Covered Employee Payroll	\$ 5,188,855	\$ 5,408,591	\$ 5,672,836
City's Net Pension Liability as a Percentage of Covered Employee Payroll	726.1 %	566.7 %	341.3 %

City of Madison Heights, Michigan

**Required Supplemental Information
Schedule of Investment Returns
Police and Fire Pension System
Last Three Fiscal Years
(Schedule is built prospectively upon
implementation of GASB Statement No. 67)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	(1.0)%	(0.5)%	15.7 %

City of Madison Heights, Michigan

Required Supplemental Information Schedule of City Contributions Police and Fire Pension System Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 1,698,569	\$ 1,408,153	\$ 1,566,747	\$ 1,338,103	\$ 1,240,859	\$ 1,391,859	\$ 1,589,770	\$ 1,625,338	\$ 1,745,795	\$ 1,794,618
Contributions in relation to the actuarially determined contribution	1,698,569	1,408,153	1,566,747	1,338,103	1,240,859	1,391,859	1,589,770	1,625,338	1,745,795	1,794,618
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 5,188,855	\$ 5,408,591	\$ 5,672,836	\$ 5,867,119	\$ 5,676,851	\$ 6,009,688	\$ 6,844,767	\$ 7,597,087	\$ 7,597,087	\$ 7,220,564
Contributions as a percentage of covered employee payroll	32.7 %	26.0 %	27.6 %	22.8 %	21.9 %	23.2 %	23.2 %	21.4 %	23.0 %	24.9 %

Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date June 30, 2015
Actuarially determined contribution rates are calculated as of June 30, which is one year prior to the beginning of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method Individual entry age normal
Amortization method Level percentage of payroll, closed
Remaining amortization period 29 years beginning July 1, 2016
Asset valuation method Four-year smoothed market
Inflation 5.5% - approximate; No explicit price inflation assumption is used in the valuation
Salary increases 5.5% to 8.5%, including inflation
Investment rate of return 7.5%
Retirement age Experience-based table of rates that are specific to the type of eligibility condition
Mortality RP-2014 Healthy Annuitant Mortality for males and females projected one year to 2015, with MP-2014 mortality improvement scale
Other information Since the June 30, 2015 GASB report, the member contribution rate for Police Command and Department Heads has changed to 8.90%. These changes are reflected in this report.

City of Madison Heights, Michigan

Required Supplemental Information Schedule of Changes in the City Net Pension Liability and Related Ratios' Municipal Employees' Pension System Last Two Fiscal Years (Schedule is built prospectively upon implementation of GASB Statement No. 68)

	2016	2015
Total Pension Liability		
Service cost	\$ 349,127	\$ 365,655
Interest	2,991,643	2,933,858
Differences between expected and actual experience	(448,149)	-
Changes in assumptions	1,813,776	-
Benefit payments, including refunds	(2,623,784)	(2,557,913)
Net Change in Total Pension Liability	2,082,613	741,600
Total Pension Liability - Beginning of year	37,399,663	36,658,063
Total Pension Liability - End of year	\$ 39,482,276	\$ 37,399,663
Plan Fiduciary Net Position		
Contributions - Employer	\$ 1,309,171	\$ 977,960
Contributions - Employee	115,135	134,963
Net investment income	(352,728)	1,522,409
Administrative expenses	(52,626)	(55,621)
Benefit payments, including refunds	(2,623,784)	(2,557,913)
Net Change in Plan Fiduciary Net Position	(1,604,832)	21,798
Plan Fiduciary Net Position - Beginning of year	24,535,623	24,513,825
Plan Fiduciary Net Position - End of year	\$ 22,930,791	\$ 24,535,623
City's Net Pension Liability - Ending	\$ 16,551,485	\$ 12,864,040
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	58.08 %	65.60 %
Covered Employee Payroll	\$ 3,098,670	\$ 3,244,826
City's Net Pension Liability as a Percentage of Covered Employee Payroll	534.1 %	396.4 %

Other Supplemental Information

City of Madison Heights, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2016

	Special Revenue Funds			Debt Service Funds	Total Nonmajor Governmental Funds
	Community Improvement	Forfeiture	Park Improvement and Maintenance	Fire Stations Fund	
Assets					
Cash and investments	\$ -	\$ 113,876	\$ 634,639	\$ 50,256	\$ 798,771
Receivables - Due from other governmental units	23,221	-	-	-	23,221
Prepaid expenses	212	-	-	-	212
Total assets	\$ 23,433	\$ 113,876	\$ 634,639	\$ 50,256	\$ 822,204
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 19,383	\$ 944	\$ 10,498	\$ -	\$ 30,825
Due to other governmental units	-	-	-	37,579	37,579
Accrued liabilities and other	3,788	-	-	1,806	5,594
Total liabilities	23,171	944	10,498	39,385	73,998
Nonspendable	212	-	-	-	212
Fund Balances - Restricted	50	112,932	624,141	10,871	747,994
Total liabilities and fund balances	\$ 23,433	\$ 113,876	\$ 634,639	\$ 50,256	\$ 822,204

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, 2016

	Special Revenue Funds			Debt Service Fund	Total Nonmajor Governmental Funds
	Community Improvement	Forfeiture	Park Improvement and Maintenance	Fire Stations Fund	
Revenue					
Property taxes	\$ -	\$ -	\$ -	\$ 377,378	\$ 377,378
Federal grants	98,985	-	-	-	98,985
State-shared revenue and grants	-	12,906	-	-	12,906
Investment income	-	414	10,100	-	10,514
Total revenue	98,985	13,320	10,100	377,378	499,783
Expenditures					
Current:					
Public safety	-	5,865	-	-	5,865
Community and economic development	100,172	-	-	-	100,172
Recreation and culture	-	-	33,725	-	33,725
Capital outlay	-	11,447	-	-	11,447
Debt service	-	-	-	401,640	401,640
Total expenditures	100,172	17,312	33,725	401,640	552,849
Net Change in Fund Balances	(1,187)	(3,992)	(23,625)	(24,262)	(53,066)
Fund Balances - Beginning of year	1,449	116,924	647,766	35,133	801,272
Fund Balances - End of year	\$ 262	\$ 112,932	\$ 624,141	\$ 10,871	\$ 748,206

City of Madison Heights, Michigan

Other Supplemental Information Combining Statement of Net Position Fiduciary Funds June 30, 2016

	Pension and Other Employee Benefit Trust Funds				Agency Funds		
	Police and Fire		General Employees Retiree Healthcare Trust	Total Pension and Other Employee Benefit Trust Funds	Tax Collection	Escrow	Total Agency Funds
	Police and Fire Retirement	Other Post- employment Benefits					
Assets							
Cash and cash equivalents	\$ 1,382,631	\$ 185,790	\$ -	\$ 1,568,421	\$ 19,959	\$ 9,823	\$ 29,782
Investments:							
Common stock	26,704,165	-	10,089,372	36,793,537	-	-	-
Corporate obligations	3,473,217	4,615,054	-	8,088,271	-	-	-
U.S. government securities	4,213,893	-	-	4,213,893	-	-	-
Federal agency securities	2,016,732	-	-	2,016,732	-	69,853	69,853
Oakland County local government investment pool	-	-	-	-	-	99,456	99,456
Municipal bonds	-	-	-	-	-	25,496	25,496
Small-cap mutual funds	3,262,054	8,344,479	-	11,606,533	-	-	-
Money market	-	-	-	-	-	10,406	10,406
Accrued interest receivable and other	419,173	16	-	419,189	-	69,282	69,282
Due from primary government	134,354	271,442	96,961	502,757	-	-	-
Total assets	<u>41,606,219</u>	<u>13,416,781</u>	<u>10,186,333</u>	<u>65,209,333</u>	<u>\$ 19,959</u>	<u>\$ 284,316</u>	<u>\$ 304,275</u>
Liabilities							
Accounts payable	-	-	-	-	\$ 16,522	\$ 6,130	\$ 22,652
Accrued liabilities and other	-	115,818	299,625	415,443	3,437	-	3,437
Cash bonds and deposits	-	-	-	-	-	278,186	278,186
Total liabilities	<u>-</u>	<u>115,818</u>	<u>299,625</u>	<u>415,443</u>	<u>\$ 19,959</u>	<u>\$ 284,316</u>	<u>\$ 304,275</u>
Net Position Held in Trust for Pension and Other Employee Benefits	<u>\$ 41,606,219</u>	<u>\$ 13,300,963</u>	<u>\$ 9,886,708</u>	<u>\$ 64,793,890</u>			

City of Madison Heights, Michigan

Other Supplemental Information Combining Statement of Changes in Fiduciary Net Position Fiduciary Funds Year Ended June 30, 2016

	Police and Fire Retirement	Police and Fire Other Post- employment Benefits	General Employees Retiree Healthcare Trust	Total
Additions				
Investment income:				
Interest and dividends	\$ 1,172,232	\$ 206,917	\$ 104,638	\$ 1,483,787
Net decrease in fair value of investments	(1,637,135)	(343,429)	(61,732)	(2,042,296)
Less investment expenses	(161,247)	(2,955)	(15,852)	(180,054)
Net investment (loss) income	(626,150)	(139,467)	27,054	(738,563)
Contributions:				
Employer	2,093,912	2,191,524	1,556,584	5,842,020
Employee	490,999	-	-	490,999
Net contributions	2,584,911	2,191,524	1,556,584	6,333,019
Transfers in to City-administered trust	-	-	9,619,996	9,619,996
Total additions	1,958,761	2,052,057	11,203,634	15,214,452
Deductions				
Benefit payments	4,972,681	1,290,187	1,316,926	7,579,794
Refunds of contributions	1,070,292	-	-	1,070,292
Administrative expenses	231,781	-	-	231,781
Total deductions	6,274,754	1,290,187	1,316,926	8,881,867
Net (Decrease) Increase in Net Position Held in Trust	(4,315,993)	761,870	9,886,708	6,332,585
Net Position Held in Trust for Police and Fire Retirement and Other Postemployment Benefits - Beginning of year				
	45,922,212	12,539,093	-	58,461,305
Net Position Held in Trust for Police and Fire Retirement and Other Postemployment Benefits - End of year				
	<u>\$ 41,606,219</u>	<u>\$ 13,300,963</u>	<u>\$ 9,886,708</u>	<u>\$ 64,793,890</u>