

City of Farmington, Michigan

Financial Report with Supplemental Information June 30, 2017

City of Farmington, Michigan

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Independent Auditor's Report

To the Honorable Mayor and City Council
City of Farmington, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Farmington, Michigan (the "City") as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the City of Farmington, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Farmington, Michigan as of June 30, 2017 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 City Council
City of Farmington, Michigan

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, and pension and OPEB schedules, 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 Farmington, Michigan's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Plante & Moran, PLLC

October 26, 2017

City of Farmington, Michigan

Management's Discussion and Analysis

Overview of the Financial Statements

The City of Farmington, Michigan's (the "City") annual report has been prepared in compliance with Governmental Accounting Standards Board (GASB) Statement No. 34 and consists of a management's discussion and analysis, government-wide financial statements, fund financial statements, notes to the financial statements, required supplemental information, and other supplemental information.

The government-wide financial statements were designed to provide a broad overview of the City's finances and are presented on a full accrual basis of accounting, with an emphasis on measuring all economic resources and not just current financial resources, as measured in the individual fund statements. These statements make a distinction between governmental activities, such as public safety and public works, and business-type activities, such as the provision of water and sewer services. Two government-wide statements are provided.

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

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

Following the government-wide statements, individual fund financial statements are provided for the City's major funds and compiled financial information is provided for nonmajor funds. These statements are grouped into governmental funds, which account for the cost of providing governmental-type services such as public safety and public works, proprietary funds, which account for business-type activities such as the provision of water and sewer services, and fiduciary funds, which account for assets held for outside parties.

A reconciliation between the individual fund statements and the government-wide financial statements is provided following the individual fund statements. The differences are primarily related to inclusion of capital assets and recognition of certain receivables and long-term liabilities, such as bonds, accrued interest, and accrued employee leave time, in the government-wide statement of net position, which are not included in the fund balance sheets; and the recognition of certain revenue and expenditures such as bond proceeds, capital outlays, and debt principal repayment in the individual fund statements, which are not recorded in the government-wide statements.

Financial Position and Results of Operations for the City as a Whole

The City experienced a decrease of approximately \$842,000 in the net position of its governmental activities and a decrease of approximately \$173,000 in the net position of its business-type activities for the fiscal year ended June 30, 2017.

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

Governmental activities continue to be significantly impacted by an increase in pension expense. With the implementation of GASB 68, pension expense has been approximately \$800,000 higher than the contributions made to the system. This increase is driven by lower than anticipated investment earnings and a longer than anticipated lifespan of retirees - factors that have affected pension systems nationwide. In response to these factors, the City will rapidly increase contributions to its pension system over the next five years. In addition, the City continues to adjust to lower revenue levels caused by the collapse in the housing market in 2008-2012. Due to Proposal A, although the value of properties in the City of Farmington has been steadily increasing since 2013, the taxable value is capped and can only rise by the lesser of the rate of inflation or 5 percent. In order to increase revenue levels from property taxes, the City has focused on new development within the City, including the development of several parcels within the City that are currently tax exempt.

During the current year, business-type activities net position decreased approximately \$173,000. Included in this decrease is a one-time contribution of a sewer line to the Great Lakes Water Authority in the amount of \$306,000. Contribution of this line will eliminate the responsibility of the City to maintain it in the future. Without this contribution expense, the City's business-type activities would have increased by \$133,000.

A detailed analysis of the City's governmental and business-type activities is provided below.

In a condensed format, the tables below show the net position and changes in net position (in thousands of dollars) as of June 30, 2017 and 2016. Following the tables is an explanation of the reasons for significant fluctuations.

	Governmental		Business-type		Total	
	Activities	Activities	Activities	Activities	Activities	Activities
	2017	2016	2017	2016	2017	2016
Assets						
Current assets	\$ 6,758	\$ 6,847	\$ 3,384	\$ 3,283	\$ 10,142	\$ 10,130
Long-term assets	<u>22,661</u>	<u>22,948</u>	<u>17,068</u>	<u>17,539</u>	<u>39,729</u>	<u>40,487</u>
Total assets	29,419	29,795	20,452	20,822	49,871	50,617
Deferred Outflows of Resources	1,930	3,040	196	337	2,126	3,377
Liabilities						
Current liabilities	1,074	817	371	448	1,445	1,265
Long-term liabilities	<u>16,242</u>	<u>17,541</u>	<u>4,650</u>	<u>4,951</u>	<u>20,892</u>	<u>22,492</u>
Total liabilities	17,316	18,358	5,021	5,399	22,337	23,757
Deferred Inflows of Resources	<u>398</u>	-	<u>40</u>	-	<u>438</u>	-
Net Position						
Net investment in capital assets	14,664	14,236	13,059	13,747	27,723	27,983
Restricted	1,428	1,429	-	-	1,428	1,429
Unrestricted	<u>(2,457)</u>	<u>(1,188)</u>	<u>2,528</u>	<u>2,013</u>	<u>71</u>	<u>825</u>
Total net position	<u>\$ 13,635</u>	<u>\$ 14,477</u>	<u>\$ 15,587</u>	<u>\$ 15,760</u>	<u>\$ 29,222</u>	<u>\$ 30,237</u>

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

	Governmental		Business-type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Revenue						
Program revenue:						
Charges for services	\$ 2,106	\$ 2,119	\$ 5,452	\$ 5,172	\$ 7,558	\$ 7,291
Operating grants and contributions	905	914	-	-	905	914
Capital grants and contributions	225	185	-	-	225	185
General revenue:						
Property taxes	4,743	4,670	-	-	4,743	4,670
State-shared revenue	1,049	979	-	-	1,049	979
Unrestricted investment earnings	51	40	13	7	64	47
Cable franchise fees	219	232	-	-	219	232
Cell tower fees	79	51	-	-	79	51
Income from joint venture	-	-	-	-	-	-
Gain on sale of capital assets	-	-	3	5	3	5
Total revenue	9,377	9,190	5,468	5,184	14,845	14,374
Program Expenses						
General government	1,428	1,571	-	-	1,428	1,571
District court	465	379	-	-	465	379
Public safety	4,476	4,275	-	-	4,476	4,275
Public works	2,321	2,384	-	-	2,321	2,384
Health and welfare	6	6	-	-	6	6
Community and economic development	194	274	-	-	194	274
Recreation and culture	765	682	-	-	765	682
Interest on long-term debt	564	587	-	-	564	587
Water and sewer	-	-	5,060	4,580	5,060	4,580
Community theater	-	-	581	541	581	541
Total program expenses	10,219	10,158	5,641	5,121	15,860	15,279
Change in Net Position	\$ (842)	\$ (968)	\$ (173)	\$ 63	\$ (1,015)	\$ (905)

Governmental Activities

The City's governmental activities statement of net position changed from the prior year in three significant ways. First, deferred outflows decreased approximately \$1,110,000. This decrease was primarily the result of amortization of prior year pension deferrals. In addition, due to better than anticipated market returns, the City has new deferred inflows that are being netted with deferred outflows.

Second, long-term liabilities decreased approximately \$1,299,000. Long-term liabilities decreased as the City made bond payments totaling \$569,000 and the City's net pension liability decreased \$708,000.

Third, the City's net position decreased approximately \$842,000. As mentioned previously, pension expense continues to have a significant effect on the City's operations. The City's net investment in capital assets increased and unrestricted net position decreased \$428,000, as the City invested in capital assets and paid down capital asset-related debt faster than the associated assets depreciated.

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

Significant increases and decreases to the City's statement of activities are as follows:

Total revenue increased approximately \$187,000. Property taxes increased approximately \$73,000 due to an increase in taxable value. State-shared revenue increased approximately \$70,000 due to increased sales tax revenue collected by the State.

Significant increases and decreases in expenses are as follows:

Public safety expenses increased approximately \$201,000. The increase primarily resulted from various routine increases in salary and benefit expenses.

The City of Farmington, Michigan, by policy, strives to maintain a cash surplus sufficient to bridge any expected gap in current year revenue or increases in ordinary, unanticipated current year expenditures. In the General Fund, the City's policy has been to maintain an unassigned fund balance of 25 percent of current year expenditures. During the current year, the City's unassigned fund balance equaled 18.36 percent of expenditures. The unassigned fund balance is less than target for two reasons. First, the City has restricted \$174,400, as required by a bond covenant related to a special assessment. The restriction will expire in the 2019 fiscal year and this amount will be returned to unassigned fund balance. The second reason is the City purchased land for development purposes creating a deposit and an assignment totaling \$459,000. This land is intended to be resold to developers and the deposit and assignment will be returned to unassigned fund balance. When these two items are returned to unassigned fund balance, the unassigned fund balance would be 26.3 percent.

Prudent financial planning places the City in a sound financial position with adequate cash reserves. In 2015, the City received an "AA" bond rating, with the rating agency analysis noting the following attributes: strong economy, strong management, strong budgetary performance, very strong budgetary flexibility, very strong liquidity, weak debt and contingent liability, and strong institutional framework score.

Business-type Activities

The City had a decrease in net position of approximately \$173,000 in its business-type activities for the fiscal year ended June 30, 2017.

Significant changes to the statement of net position include the following:

Long-term assets decreased approximately \$471,000. This decrease is primarily due to a \$306,000 donation of sewer lines.

Deferred outflows decreased approximately \$141,000. This decrease was primarily the result of amortization of prior year pension deferrals. In addition, due to better than anticipated market returns, the City has new deferred inflows that are being netted with deferred outflows.

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

Long-term liabilities decreased approximately \$301,000. Long-term liabilities decreased as the City made bond payments totaling \$178,000 and the City's net pension liability decreased \$124,000.

Unrestricted net position increased approximately \$515,000 primarily as the result of operating income of \$292,000 in the water and sewer fund.

Significant increases and decreases in revenue are as follows. Charges for service increased approximately \$280,000. This increase relates to a raise in rates that occurred at the beginning of the fiscal year, as well as higher consumption in the Water and Sewer Fund. Consumption increased 9.21 percent, and water loss for the year decreased from approximately 12.9 percent of water purchased in the prior year to 7.4 percent in the current year.

Significant increases and decreases in expenses are as follows. Water and sewer expenses increased approximately \$480,000 primarily due to a contribution from the City of a sewer line in the amount of \$306,000 to the Great Lakes Water Authority. Donation of the line relieves the City of the responsibility of maintaining the line going forward. The donation of the line is recorded as a one-time nonoperating expense. Additionally, the Great Lakes Water Authority raised rates in the current year for water and sewer service. This increase in rates, as well as increased purchases, generated an additional \$158,000 of expense.

Analysis of Individual Funds

Of the City's governmental funds, the General Fund accounts for all significant ongoing expenditures, except for roads and debt service. The City's major funds are the General Fund, the Local Street Fund, and the Grove Street Debt Service Fund.

General Fund

The General Fund ended the fiscal year with a decrease in fund balance of \$93,000.

Revenue in the General Fund increased \$234,000 in the current year. Significant increases/decreases relate to the following:

- Property taxes increased \$69,000 due to an increase in taxable value.
- Licenses and permits decreased \$51,000. There were several large development projects that occurred in the fiscal year ended June 30, 2016 resulting in a one-time increase for that fiscal year.
- State-shared revenue and grants increased \$83,000 due to the City receiving \$46,000 more than the prior year in constitutional revenue sharing, \$25,000 for a RAP grant related to building security, and \$35,000 more in drug forfeiture revenue. This was partially offset by a decrease of \$27,000 in the sale of liquor licenses. The City sold two redevelopment liquor licenses in fiscal year ended June 30, 2016 and none in the fiscal year ended June 30, 2017.

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

- Charges for service decreased \$42,000. The decrease related to \$35,000 less received from the DDA for various joint projects with the City, \$16,000 less in accounting and administration fees related to the elimination of services provided to the Southwest Oakland Cable Commission, \$13,000 less in franchise fees, as residents and businesses in Farmington are decreasing their use of wired cable service, and small inflationary changes in a number of different items.
- Fines and forfeitures increased \$53,000 due to an increase in ticket writing activity.
- Other revenue increased \$108,000 due to a one-time \$30,000 donation received by the City for repairs to Quaker cemetery, an increase of \$40,000 in insurance recoveries related to a reimbursement from the City's Self Insurance fund for repair work at the Warner Mansion, and an increase of \$31,000 from cell tower fees generated from a renegotiation of the City's cell tower contract. This was offset by a decrease in MMRMA distribution of net assets of \$43,000.

Expenditures in the General Fund increased \$247,000 in the current year. Significant increases/decreases relate to the following:

General government expenditures increased \$77,000 primarily due to one-time expenditures that occurred in the current year, such as \$60,000 for upgrades to the security system at City Hall and a \$30,000 renovation to the Quaker Cemetery. This was partially offset by a reduction of \$25,000 in building maintenance.

Public safety expenditures increased \$146,000 as a result of an increase of \$157,000 in salary and fringes for public safety employees. This was offset by a decrease of \$44,000 in capital outlay.

Recreation and culture expenditures increased \$123,000. This increase relates to two capital items. First, \$96,000 was incurred to create the new Flanders Park and second, \$44,000 was spent on Warner Mansion facility improvements.

General Operating Fund Budget Highlights

Actual revenue was over budget by approximately \$50,000. The primary reasons for this positive variance are state-shared revenue and fines and forfeitures coming in greater than expected. There were other minor variances with the amended budget in most of the City's revenue categories. The original budget was amended to include an increase in revenue of \$39,000. Other revenue was increased approximately \$50,000. This increase is comprised of a \$30,000 increase related to a donation for cemetery improvements, a \$46,000 increase for insurance recoveries, and a decrease of \$44,000 related to a smaller than anticipated distribution of net assets from the City's insurance carrier.

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

Actual expenditures were under budget by approximately \$103,000. There were numerous small favorable budget variances throughout most city departments. The original budget was amended to include an increase in budgeted expenditures of \$74,000. Significant changes include an increase in public works of \$54,000, an increase of \$50,000 for recreation and culture related to renovation of the Warner Mansion, and a decrease of \$50,000 in economic and community development, due primarily to the postponement of the City's master plan until the fiscal year ending June 30, 2018.

Local Street Fund

The Local Street Fund ended the fiscal year with an increase in fund balance of approximately \$9,000.

Revenue in the Local Street Fund increased \$5,000 in the current year. There were no significant increases/decreases.

Expenditures in the Local Street Fund increased \$461,000 in the current year. The increase primarily related to an increase in road construction project in the current year.

Local Street Fund Budget Highlights

Actual revenue was over budget by approximately \$3,000. There were no significant amendments to the original budget for revenue.

Actual expenditures were under budget by approximately \$236,000. The reason for this positive variance is the timing of the road projects. A smaller percentage of road project expenditures were incurred prior to year end than originally anticipated. These expenditures will be recorded in the year ending June 30, 2018. The original budget was amended to include an increase in budgeted street construction expenditures of \$382,000. Subsequent to the passing of the budget, the City decided to resurface a number of local roads.

Capital Asset and Long-term Debt Activity

Major capital asset and infrastructure additions in governmental funds consisted of the following:

- Quaker Cemetery Renovation (\$30,000)
- Flanders Park Establishment (\$98,000)
- Rapidly Flashing Beacon on Farmington Road (\$62,000)
- City Hall Security System (\$61,000)
- Public Safety Vehicles and Equipment (\$91,000)

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

Major capital asset and infrastructure additions in the business-type funds consisted of the following:

- Storm Sewer Disconnect (\$87,000)
- Civic Theater HVAC Unit (\$11,000)
- Dump Truck (\$188,000)
- Pickup Truck (\$25,000)

The City did not issue debt in the current fiscal year.

Economic Factors and Next Year's Budgets and Rates

The City has enjoyed a stable property tax millage rate over the last 20 years. During this time period, the millage has fluctuated from a high of 15.16 in 1998, to a low of 13.8163 in 2009. The current millage rate is 15.0000 mills. The City plans to raise the millage rate by .5000 mills for the 2017-2018 fiscal year, to provide additional funding for roads.

During the current year, property taxes comprised 51.7 percent of the City's General Fund revenue. Taxable value increased in the City 1.00 percent and the City anticipates taxable value growth into the foreseeable future. Several factors that should have a positive impact on the City's taxable value over the next several years are increasing property tax values and several significant development projects.

State-shared revenue accounted for 13.3 percent of General Fund revenue this year; however, current funding levels remain at risk as a result of the financial condition and priorities of the State.

The decline of the financial markets in 2008 will continue to have a significant effect on the City's pension system. Currently, the system is funded at 77.7 percent based on the most recent actuarial valuation dated December 31, 2016. This is an increase of 3.3 percent over the prior year.

The City is also impacted by its retiree healthcare obligations. The City paid \$717,000 in the current year for insurance for its retirees. This is up \$44,000 from the prior year. Costs have been kept at a relatively constant level over the last several years primarily due to changes in the types of insurance offered to retirees, including implementing a Medicare advantage program for retirees 65 years and older and participating in the City of Farmington Hills Self Insurance Fund for retirees under 65 years of age. In order to provide a degree of budget stability going forward the City issued bonds in 2013 to fund its retiree healthcare obligations. The proceeds of the bonds, together with anticipated investment proceeds, are anticipated to pay the retiree healthcare premiums over the term of the bonds. When the bonds are paid off, the City will resume paying premiums from its General Fund and Water and Sewer Fund.

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

Adequate cash reserves and authorized unlevied millage ensure provision of current services in the near term as the City meets these challenges and plans for the future.

Contacting the City's Financial Management

This financial report is designed to provide accountability of our stewardship of the resources provided by our citizens, taxpayers, and customers and to provide financial information to the City's investors and creditors. If you have any questions about this report or need additional financial information, contact the city manager or city treasurer at City Hall, 23600 Liberty Street, Farmington, Michigan 48335.

City of Farmington, Michigan

Statement of Net Position June 30, 2017

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 5,047,331	\$ 1,789,002	\$ 6,836,333	\$ 458,901
Receivables (Note 4)	1,312,543	1,537,178	2,849,721	3,435
Due from component units	10	-	10	-
Internal balances (Note 6)	16,246	(16,246)	-	-
Inventory	66,588	50,021	116,609	-
Prepaid expenses and other assets	141,149	500	141,649	-
Restricted assets (Note 1)	174,400	23,669	198,069	-
Net OPEB asset (Note 10)	4,416,957	307,377	4,724,334	-
Capital assets (Note 5):				
Assets not subject to depreciation	2,713,672	281,749	2,995,421	460,580
Assets subject to depreciation	15,529,637	16,478,910	32,008,547	295,234
Total assets	29,418,533	20,452,160	49,870,693	1,218,150
Deferred Outflows of Resources -				
Deferred outflows related to pensions (Note 9)	1,929,835	196,029	2,125,864	-
Liabilities				
Accounts payable	668,354	329,819	998,173	27,134
Due to other governmental units	-	779	779	4,945
Due to primary government	-	-	-	10
Accrued liabilities and other	406,008	40,029	446,037	377
Noncurrent liabilities:				
Due within one year:				
Compensated absences	141,749	21,790	163,539	-
Current portion of long-term debt	607,751	183,000	790,751	-
Due in more than one year:				
Compensated absences	70,950	1,792	72,742	-
Net pension liability (Note 9)	5,034,757	511,421	5,546,178	-
Long-term debt (Note 7)	10,386,376	3,932,250	14,318,626	-
Total liabilities	17,315,945	5,020,880	22,336,825	32,466
Deferred Inflows of Resources -				
Deferred inflows related to pensions (Note 9)	397,303	40,357	437,660	-
Net Position				
Net investment in capital assets	14,663,932	13,059,328	27,723,260	755,814
Restricted for:				
Roads	1,204,508	-	1,204,508	-
Sidewalks	49,336	-	49,336	-
Debt service	174,400	-	174,400	-
Unrestricted	(2,457,056)	2,527,624	70,568	429,870
Total net position	<u>\$ 13,635,120</u>	<u>\$ 15,586,952</u>	<u>\$ 29,222,072</u>	<u>\$ 1,185,684</u>

City of Farmington, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,426,832	\$ 413,526	\$ 13,579	\$ 25,000
District court	465,397	416,178	-	-
Public safety	4,476,230	434,829	75,217	28,216
Public works	2,321,395	725,474	793,692	172,042
Health and welfare	5,978	-	-	-
Community and economic development	194,217	6,860	-	-
Recreation and culture	765,108	109,369	22,622	-
Interest on long-term debt	563,623	-	-	-
Total governmental activities	10,218,780	2,106,236	905,110	225,258
Business-type activities:				
Water and sewer	5,060,027	4,884,537	-	-
Farmington Community Theater	581,363	567,809	-	-
Total business-type activities	5,641,390	5,452,346	-	-
Total primary government	<u>\$ 15,860,170</u>	<u>\$ 7,558,582</u>	<u>\$ 905,110</u>	<u>\$ 225,258</u>
Component units:				
Downtown Development Authority	\$ 514,047	\$ 94,888	\$ 216,000	\$ -
Brownfield Redevelopment Authority	2,680	-	-	-
Corridor Improvement Authority	-	-	-	-
Total component units	<u>\$ 516,727</u>	<u>\$ 94,888</u>	<u>\$ 216,000</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue				
Investment income				
Cable franchise fees				
Other miscellaneous income				
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, 2017

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (974,727)	\$ -	\$ (974,727)	\$ -
(49,219)	-	(49,219)	-
(3,937,968)	-	(3,937,968)	-
(630,187)	-	(630,187)	-
(5,978)	-	(5,978)	-
(187,357)	-	(187,357)	-
(633,117)	-	(633,117)	-
(563,623)	-	(563,623)	-
(6,982,176)	-	(6,982,176)	-
-	(175,490)	(175,490)	-
-	(13,554)	(13,554)	-
-	(189,044)	(189,044)	-
(6,982,176)	(189,044)	(7,171,220)	-
-	-	-	(203,159)
-	-	-	(2,680)
-	-	-	-
-	-	-	(205,839)
4,742,758	-	4,742,758	235,431
1,049,177	-	1,049,177	-
51,370	12,705	64,075	4,054
218,494	-	218,494	-
78,568	-	78,568	-
-	3,441	3,441	-
6,140,367	16,146	6,156,513	239,485
(841,809)	(172,898)	(1,014,707)	33,646
14,476,929	15,759,850	30,236,779	1,152,038
\$ 13,635,120	\$ 15,586,952	\$ 29,222,072	\$ 1,185,684

City of Farmington, Michigan

Governmental Funds Balance Sheet June 30, 2017

	General Fund	Major Special Revenue Fund Local Street Fund	Major Debt Service Fund Grove Street Debt Service	Nonmajor Funds	Total
Assets					
Cash and investments	\$ 2,373,252	\$ 432,466	\$ 41	\$ 1,356,732	\$ 4,162,491
Receivables	379,513	92,343	475,000	360,094	1,306,950
Due from component units	10	-	-	-	10
Due from other funds	65,326	-	-	28,048	93,374
Inventory	66,588	-	-	-	66,588
Prepaid expenses and other assets	94,610	-	-	-	94,610
Restricted assets	174,400	-	-	-	174,400
Total assets	\$ 3,153,699	\$ 524,809	\$ 475,041	\$ 1,744,874	\$ 5,898,423
Liabilities					
Accounts payable	\$ 295,001	\$ 316,009	\$ -	\$ 55,817	\$ 666,827
Due to other funds	10,382	4,902	-	26,013	41,297
Accrued liabilities and other	283,982	2,328	-	5,824	292,134
Total liabilities	589,365	323,239	-	87,654	1,000,258
Deferred Inflows of Resources -					
Unavailable revenue	6,271	40,200	475,000	253,538	775,009
Fund Balances					
Nonspendable:					
Inventory	66,588	-	-	-	66,588
Prepaid expenses and deposits	94,610	-	-	-	94,610
Restricted:					
Roads	-	161,370	-	1,002,938	1,164,308
Sidewalks	-	-	-	49,336	49,336
Debt service	174,400	-	-	-	174,400
Assigned:					
Subsequent year's budget	343,328	-	-	-	343,328
Property acquisition	367,200	-	-	-	367,200
Debt service	-	-	41	8,983	9,024
Cemetery	46,259	-	-	-	46,259
Capital projects	-	-	-	342,425	342,425
Unassigned	1,465,678	-	-	-	1,465,678
Total fund balances	2,558,063	161,370	41	1,403,682	4,123,156
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,153,699	\$ 524,809	\$ 475,041	\$ 1,744,874	\$ 5,898,423

City of Farmington, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2017

Fund Balance Reported in Governmental Funds	\$ 4,123,156
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 (excluding Internal Service Fund - DPW Equipment Revolving Fund)	17,565,168
Special assessment receivables are expected to be collected over several years and are not available to pay for current expenditures	768,738
Receivables that are not collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized as revenue in the funds	6,271
Bonds payable are not due and payable in the current period and are not reported in the funds	(10,994,127)
Accrued interest is not due and payable in the current period and is not reported in the funds	(56,794)
Net OPEB assets are not a financial resource and are not reported in the funds	4,416,957
Net pension liability is not due and payable in the current period and is not reported in the funds (excluding Internal Service Fund - DPW Equipment Revolving Fund)	(4,977,375)
Deferred inflows and outflows related to pensions are not a financial resource and are not reported in the funds (excluding Internal Service Fund - DPW Equipment Revolving Fund)	1,515,065
Internal service funds are included as part of governmental activities	<u>1,268,061</u>
Net Position of Governmental Activities	<u>\$ 13,635,120</u>

City of Farmington, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2017

	General Fund	Major Special	Major Debt	Nonmajor	Total
		Revenue Fund	Service Fund		
		Local Street	Grove Street	Funds	
		Fund	Debt Service		
			Fund		
Revenue					
Property taxes	\$ 4,439,690	\$ -	\$ -	\$ 303,068	\$ 4,742,758
Licenses and permits	152,324	-	-	-	152,324
Federal grants	36,138	-	-	-	36,138
State-shared revenue and grants	1,140,455	209,374	-	593,257	1,943,086
Charges for services	2,009,507	-	-	-	2,009,507
Fines and forfeitures	482,539	-	-	-	482,539
Investment income	34,039	758	224	14,344	49,365
Other revenue:					
Special assessments	-	10,050	57,950	125,579	193,579
Local donations	30,000	-	-	81,289	111,289
Other miscellaneous income	256,355	11,642	30,767	48,344	347,108
Total revenue	8,581,047	231,824	88,941	1,165,881	10,067,693
Expenditures					
Current:					
General government	1,814,040	-	-	-	1,814,040
District court	465,397	-	-	-	465,397
Public safety	3,597,880	-	-	-	3,597,880
Public works	1,072,615	640,201	-	379,457	2,092,273
Health and welfare	5,978	-	-	-	5,978
Community and economic development	194,217	-	-	-	194,217
Recreation and culture	830,867	-	-	-	830,867
Debt service:					
Principal	-	-	55,000	529,090	584,090
Interest on long-term debt	-	-	33,933	521,746	555,679
Total expenditures	7,980,994	640,201	88,933	1,430,293	10,140,421
Excess of Revenue Over (Under) Expenditures	600,053	(408,377)	8	(264,412)	(72,728)
Other Financing Sources (Uses)					
Transfers in	-	416,878	-	734,608	1,151,486
Transfers out	(693,200)	-	-	(458,286)	(1,151,486)
Total other financing (uses) sources	(693,200)	416,878	-	276,322	-
Net Change in Fund Balances	(93,147)	8,501	8	11,910	(72,728)
Fund Balances - Beginning of year	2,651,210	152,869	33	1,391,772	4,195,884
Fund Balances - End of year	<u>\$ 2,558,063</u>	<u>\$ 161,370</u>	<u>\$ 41</u>	<u>\$ 1,403,682</u>	<u>\$ 4,123,156</u>

City of Farmington, 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, 2017

Net Change in Fund Balances - Total Governmental Funds \$ (72,728)

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

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation (excluding Internal Service Fund - DPW Equipment Revolving Fund):

Capital outlay	930,055
Depreciation expense	(1,162,182)
Net book value of assets disposed of	(30,740)

Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	(207,606)
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	568,814
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Change in accrued interest payable and other	7,332
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Change in net OPEB asset	(199,510)
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Change in net pension liability	695,891
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Change in deferred outflows related to pensions	(1,095,462)
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Change in deferred inflows related to pensions	(392,775)
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Internal service funds are included as part of governmental activities	<u>117,102</u>
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Change in Net Position of Governmental Activities \$ (841,809)

City of Farmington, Michigan

Proprietary Funds Statement of Net Position June 30, 2017

	Enterprise Funds			Governmental Activities
	Water and Sewer	Nonmajor Enterprise - Farmington Community Theater	Total	Proprietary Internal Service Fund
Assets				
Current assets:				
Cash	\$ 1,738,129	\$ 50,873	\$ 1,789,002	\$ 884,840
Receivables	1,526,407	10,771	1,537,178	5,593
Due from other funds	69	2,003	2,072	6,955
Inventory	45,334	4,687	50,021	-
Prepaid expenses and other assets	-	500	500	46,539
Total current assets	<u>3,309,939</u>	<u>68,834</u>	<u>3,378,773</u>	<u>943,927</u>
Noncurrent assets:				
Restricted assets	23,669	-	23,669	-
Net OPEB asset	307,377	-	307,377	-
Capital assets:				
Assets not subject to depreciation	188,864	92,885	281,749	-
Assets subject to depreciation	15,719,617	759,293	16,478,910	678,141
Total noncurrent assets	<u>16,239,527</u>	<u>852,178</u>	<u>17,091,705</u>	<u>678,141</u>
Total assets	<u>19,549,466</u>	<u>921,012</u>	<u>20,470,478</u>	<u>1,622,068</u>
Deferred Outflows of Resources -				
Deferred outflows related to pensions	196,029	-	196,029	21,995
Liabilities				
Current liabilities:				
Accounts payable	315,318	14,501	329,819	1,527
Due to other governmental units	-	779	779	-
Due to other funds	18,318	-	18,318	42,786
Accrued liabilities and other	36,132	3,897	40,029	57,080
Compensated absences	21,790	-	21,790	141,749
Current portion of long-term debt	183,000	-	183,000	-
Total current liabilities	<u>574,558</u>	<u>19,177</u>	<u>593,735</u>	<u>243,142</u>
Noncurrent liabilities:				
Compensated absences	1,792	-	1,792	70,950
Net pension liability	511,421	-	511,421	57,382
Long-term debt	3,932,250	-	3,932,250	-
Total noncurrent liabilities	<u>4,445,463</u>	<u>-</u>	<u>4,445,463</u>	<u>128,332</u>
Total liabilities	<u>5,020,021</u>	<u>19,177</u>	<u>5,039,198</u>	<u>371,474</u>
Deferred Inflows of Resources - Deferred inflows related to pensions	40,357	-	40,357	4,528
Net Position				
Net investment in capital assets	12,207,150	852,178	13,059,328	678,141
Unrestricted	2,477,967	49,657	2,527,624	589,920
Total net position	<u>\$ 14,685,117</u>	<u>\$ 901,835</u>	<u>\$ 15,586,952</u>	<u>\$ 1,268,061</u>

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

City of Farmington, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2017

	Enterprise Funds			Governmental Activities
	Water and Sewer	Nonmajor Enterprise - Farmington Community Theater	Total	Proprietary Internal Service Funds
Operating Revenue				
Sale of water	\$ 2,081,352	\$ -	\$ 2,081,352	\$ -
Sewage disposal charges	2,689,136	-	2,689,136	-
Fees	-	566,556	566,556	-
Other income	114,049	1,253	115,302	-
Service charges	-	-	-	634,239
Total operating revenue	4,884,537	567,809	5,452,346	634,239
Operating Expenses				
Source of supply	2,509,383	-	2,509,383	-
Administration and general	949,443	533,345	1,482,788	-
Transmission, distribution, and maintenance	584,140	-	584,140	-
Insurance costs	-	-	-	229,741
Accrued benefits expense	-	-	-	5,952
Fleet maintenance	-	-	-	241,687
Depreciation	549,266	47,418	596,684	48,130
Total operating expenses	4,592,232	580,763	5,172,995	525,510
Operating Income (Loss)	292,305	(12,954)	279,351	108,729
Nonoperating Revenue (Expenses)				
Investment income	12,081	624	12,705	8,373
Interest expense	(161,897)	(600)	(162,497)	-
Contribution of assets	(305,898)	-	(305,898)	-
Gain on sale of assets	3,401	40	3,441	-
Total nonoperating (expenses) revenue	(452,313)	64	(452,249)	8,373
Change in Net Position	(160,008)	(12,890)	(172,898)	117,102
Net Position - Beginning of year	14,845,125	914,725	15,759,850	1,150,959
Net Position - End of year	<u>\$ 14,685,117</u>	<u>\$ 901,835</u>	<u>\$ 15,586,952</u>	<u>\$ 1,268,061</u>

City of Farmington, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2017

	Enterprise Funds			Governmental Activities
	Water and Sewer	Nonmajor Enterprise - Farmington Community Theater	Total	Proprietary Internal Service Funds
Cash Flows from Operating Activities				
Receipts from customers	\$ 5,047,466	\$ 567,784	\$ 5,615,250	\$ 658,660
Payments to suppliers	(3,402,170)	(375,586)	(3,777,756)	(277,433)
Payments to employees	(657,894)	(158,745)	(816,639)	(105,861)
Internal activity - Payments from other funds	9,256	-	9,256	-
Other receipts	-	-	-	2,086
Net cash provided by operating activities	996,658	33,453	1,030,111	277,452
Cash Flows from Capital and Related Financing Activities				
Proceeds from sales of capital assets	3,401	40	3,441	-
Purchase of capital assets	(395,216)	(17,804)	(413,020)	(222,771)
Principal and interest paid on capital debt	(340,774)	(30,600)	(371,374)	-
Net cash used in capital and related financing activities	(732,589)	(48,364)	(780,953)	(222,771)
Cash Flows from Investing Activities - Interest received on investments	12,081	624	12,705	8,373
Net Increase (Decrease) in Cash and Cash Equivalents	276,150	(14,287)	261,863	63,054
Cash and Cash Equivalents - Beginning of year	1,485,648	65,160	1,550,808	821,786
Cash and Cash Equivalents - End of year	<u>\$ 1,761,798</u>	<u>\$ 50,873</u>	<u>\$ 1,812,671</u>	<u>\$ 884,840</u>
Statement of Net Position Classification of Cash and Cash Equivalents				
Cash and investments	\$ 1,738,129	\$ 50,873	\$ 1,789,002	\$ 884,840
Restricted cash	23,669	-	23,669	-
Total cash and cash equivalents	<u>\$ 1,761,798</u>	<u>\$ 50,873</u>	<u>\$ 1,812,671</u>	<u>\$ 884,840</u>

City of Farmington, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2017

	Enterprise Funds			Governmental Activities
	Water and Sewer	Nonmajor Enterprise - Farmington Community Theater	Total	Proprietary Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 292,305	\$ (12,954)	\$ 279,351	\$ 108,729
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	549,266	47,418	596,684	48,130
Changes in assets and liabilities:				
Receivables	162,929	983	163,912	2,086
Due from others	(69)	(1,008)	(1,077)	24,421
Inventories	11,748	(535)	11,213	-
Prepaid and other assets	140,462	7,333	147,795	121,981
Accounts payable	(53,997)	(1,628)	(55,625)	(4,536)
Due to others	9,325	-	9,325	40,109
Net OPEB asset	(18,207)	-	(18,207)	-
Accrued and other liabilities	(97,104)	(6,156)	(103,260)	(63,468)
Net cash provided by operating activities	<u>\$ 996,658</u>	<u>\$ 33,453</u>	<u>\$ 1,030,111</u>	<u>\$ 277,452</u>

Noncash - During the year, the Water and Sewer Fund contributed sanitary sewer assets with a net book value of \$305,898 to the Great Lakes Water Authority.

City of Farmington, Michigan

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2017

	Retiree Healthcare Fund	Private Purpose Trust Fund - Cemetery Perpetual Care Trust	Agency Fund
Assets			
Cash	\$ 458,073	\$ 14,447	\$ 230,739
Investments:			
Mutual funds - Equity	1,557,181	-	-
Common stock	3,402,852	-	-
Stocks - ETF	1,829,386	-	-
Mutual funds - Fixed income	2,502,611	-	-
Receivables	2,053	-	-
Total assets	9,752,156	14,447	\$ 230,739
Liabilities			
Accounts payable	31,778	-	\$ -
Due to other governmental units	-	-	97,887
Accrued liabilities and other	-	14,447	132,852
Total liabilities	31,778	14,447	\$ 230,739
Net Position - Restricted for Other Postemployment Benefits	\$ 9,720,378	\$ -	

City of Farmington, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Position - Other Employee Benefits Year Ended June 30, 2017

	Retiree Healthcare Fund
Additions - Investment income (loss):	
Interest and dividends	\$ 228,424
Net realized and unrealized gain on investments	906,999
Less investment expenses	<u>(50,507)</u>
Total additions - Net investment income	1,084,916
Deductions - Insurance costs	<u>716,960</u>
Net Increase in Plan Assets	367,956
Net Position Restricted for Other Postemployment Benefits - Beginning of year	<u>9,352,422</u>
Net Position Restricted for Other Postemployment Benefits - End of year	<u><u>\$ 9,720,378</u></u>

City of Farmington, Michigan

Component Units Statement of Net Position June 30, 2017

	Downtown Development Authority	Brownfield Redevelopment Authority	Corridor Improvement Authority	Total
Assets				
Cash and investments	\$ 402,994	\$ 24,042	\$ 31,865	\$ 458,901
Receivables	3,435	-	-	3,435
Capital assets:				
Assets not subject to depreciation	460,580	-	-	460,580
Assets subject to depreciation	295,234	-	-	295,234
Total assets	1,162,243	24,042	31,865	1,218,150
Liabilities				
Accounts payable	27,134	-	-	27,134
Due to other governmental units	-	4,945	-	4,945
Due to primary government	10	-	-	10
Accrued liabilities and other	377	-	-	377
Total liabilities	27,521	4,945	-	32,466
Net Position				
Net investment in capital assets	755,814	-	-	755,814
Unrestricted	378,908	19,097	31,865	429,870
Total net position	<u>\$ 1,134,722</u>	<u>\$ 19,097</u>	<u>\$ 31,865</u>	<u>\$ 1,185,684</u>

City of Farmington, Michigan

	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Downtown Development Authority	\$ 514,047	\$ 94,888	\$ 216,000	\$ -
Brownfield Redevelopment Authority	2,680	-	-	-
Corridor Improvement Authority	-	-	-	-
Total component units	\$ 516,727	\$ 94,888	\$ 216,000	\$ -

General revenue:

Property taxes

Investment income

Total general revenue

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2017**

Net (Expense) Revenue and Changes in Net Position			
Downtown Development Authority	Brownfield Redevelopment Authority	Corridor Improvement Authority	Total
\$ (203,159)	\$ -	\$ -	\$ (203,159)
-	(2,680)	-	(2,680)
-	-	-	-
(203,159)	(2,680)	-	(205,839)
232,853	2,578	-	235,431
3,601	200	253	4,054
236,454	2,778	253	239,485
33,295	98	253	33,646
1,101,427	18,999	31,612	1,152,038
\$ 1,134,722	\$ 19,097	\$ 31,865	\$ 1,185,684

Note I - Summary of Significant Accounting Policies

Reporting Entity

The City of Farmington, Michigan (the "City") is governed by an elected five-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Units

The 2013 LTGO Bonds - OPEB debt service fund serves as a conduit for transfers from the General Fund and Water and Sewer Fund on an as-needed basis to cover the debt service on the taxable LTGO Bond. The governing body is the same as the governing body of the primary government and the fund provides services entirely to the primary government.

Discretely Presented Component Units

The Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of seven individuals, is selected by the mayor and City Council. In addition, the Authority's budget is subject to approval by the City Council.

The Brownfield Redevelopment Authority (the "BRA") was created to assist in the redevelopment of environmentally challenged sites within the City. The BRA's governing body, which consists of five individuals, is appointed by the mayor with City Council approval.

The Corridor Improvement Authority (the "CIA") was established to correct and prevent deterioration in commercial corridor business districts, encourage historical preservation, and promote economic growth of the districts. The CIA's governing body, which consists of six individuals, is appointed by the mayor with City Council approval.

Jointly Governed Organization

The City participates in the Michigan 47th District Court Administration Fund with the City of Farmington Hills, Michigan. The City provides 15.66 percent of the funding for the Michigan 47th District Court Administration Fund.

Complete financial statements for the 47th District Court Administration Fund can be obtained from the City's administrative offices at 23600 Liberty Street, Farmington, Michigan 48335.

Note I - Summary of Significant Accounting Policies (Continued)

The City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County (RRRASOC). The RRRASOC is incorporated by the cities of Farmington, Farmington Hills, Milford, Novi, South Lyon, Southfield, Walled Lake, and Wixom and the charter townships of South Lyon and Milford. The RRRASOC receives its operating revenue from member contributions and miscellaneous income. The City contributed \$12,965 for the year ended June 30, 2017. Financial information for the RRRASOC can be obtained from the RRRASOC's administrative offices at 20000 West Eight Mile Road, Southfield, Michigan.

For all the above joint ventures, the City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the future.

Accounting and Reporting Principles

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

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective, and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as 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.

Note I - Summary of Significant Accounting Policies (Continued)

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

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 as follows:

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

- **General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- **Grove Street Debt Service Fund** - The Grove Street Debt Service Fund accounts for the resources used to pay the debt service related to the 2013 Capital Improvement Bonds.
- **Local Street Fund** - The Local Street Fund is a special revenue fund that accounts for the revenue and expenses related to maintaining the City's local streets.

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

- **Water and Sewer Fund** - The Water and Sewer Fund provides water to customers, and disposes of sanitary sewage in exchange for quarterly user charges.

The City's internal service funds are used for the following purposes: to account for the portion of the City's insurance liability not covered by commercially provided insurance; to record the City's liability for accrued vacation and compensated time off; and to record the City's use of the DPW fleet and equipment. The internal service funds are accounted for on the full accrual basis, so that the full costs are recognized and allocated to the various funds in the year that the costs are incurred.

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 following:

- **Retiree Health Care Fund** - The Retiree Health Care Fund accounts for the resources set aside by the City to provide health and insurance benefits for its retired employees in accordance with resolutions, ordinances, employee agreements, and union contracts.
- **Private Purpose Trust Fund** - The Private Purpose Trust Fund accounts for resources restricted for the upkeep and maintenance of the City's cemetery.
- **Agency Fund** - The Agency Fund accounts for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

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.

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

Basis of Accounting

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

Note I - Summary of Significant Accounting Policies (Continued)

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

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

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 and Cash Equivalents - 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 - Investments are reported at fair value or estimated fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts.

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.

Note I - Summary of Significant Accounting Policies (Continued)

Restricted Assets - Restricted assets in the governmental activities consist of cash and cash equivalents restricted for a reserve as required by the 2012 Drakeshire Capital Improvement Bond in the amount of \$174,400.

Restricted assets in the Water and Sewer Fund consist of cash and cash equivalents in the amount of \$23,669. These assets are restricted for unspent bond proceeds for the 2015 capital improvement bond.

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

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

Capital Asset Class	Lives
Flowage rights	25 years
County roads	20-30 years
Infrastructure	10-50 years
Buildings and improvements	5-80 years
Court building	10-50 years
Equipment and other	4-25 years
Vehicles	3-30 years
Water and sewer mains	50 years
Water storage tank	50 years
Water meters	20 years
Truck and tractors	7-15 years
Office equipment	5-20 years
Other equipment	5-15 years

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 General Fund, Water and Sewer Fund, and Debt Service Fund are 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 has one item that qualifies for reporting in this category: deferred outflows of resources related to pensions.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category. They are deferred inflows of resources related to unavailable revenue and deferred inflows related to pensions. The deferred inflows of resources related to unavailable revenue from special assessments and other receivables are reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumption

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

Note I - Summary of Significant Accounting Policies (Continued)

Fund Balance Flow Assumption

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

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. The related property taxes become a lien on December 1 of the following year. Taxes are considered delinquent on September 1, at which time penalties and interest are assessed.

The City's 2016 tax is levied and collectible on July 1, 2016 and is recognized as revenue in the year ended June 30, 2017, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2016 taxable valuation of the City totaled \$313 million (a portion of which is abated and a portion of which is captured by the DDA and BRA), on which taxes levied consisted of 14 mills for operating purposes and 1 mill for street improvements and maintenance. This resulted in approximately \$4,249,000 for operating and \$303,000 for street improvements and maintenance. These amounts are recognized in the respective General Fund and special revenue funds as tax revenue.

Pension - The City offers a defined benefit pension plan to certain employees. The City records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability has historically been liquidated from the funds from which the individual salaries are paid, which are the General Fund, DPW Equipment Revolving Fund, and Water and Sewer Fund.

Note I - Summary of Significant Accounting Policies (Continued)

Other Postemployment Benefit Costs - The City offers retiree healthcare benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, 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. The net OPEB obligation has generally been liquidated from the funds from which the individual salaries are paid, which are the General Fund and Water and Sewer Fund.

Compensated Absences (Vacation and Compensated Time Off) - It is the City's policy to permit employees to accumulate earned but unused vacation and compensated time-off pay. In the government-wide and proprietary fund financial statements, a portion of the vacation pay and compensated time off is accrued when incurred for the amount that would be paid out upon separation of the employee from the City. In the governmental funds, an internal service fund records the portion of the vacation pay and compensated time off when incurred and charges the governmental funds in order to provide resources to pay employees upon termination. The compensated absences recorded in the business-type activities have generally been liquidated from the Water and Sewer 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 and internal service funds is charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

City of Farmington, Michigan

Notes to Financial Statements June 30, 2017

Note 2 - Stewardship, Compliance, and Accountability

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

Shortfall at July 1, 2016		\$	(915,221)
Current year permit revenue			121,523
Related expenses:			
Direct costs	\$	158,958	
Estimated indirect costs		<u>15,896</u>	<u>174,854</u>
Current year surplus			<u>53,331</u>
Cumulative shortfall at June 30, 2017		\$	<u>(968,552)</u>

Budgetary Information - The City Charter requires the city manager to submit a budget for the next fiscal year to the City Council on or before April 20, and the City Council to adopt, by resolution, a budget for the next fiscal year on or after May 1 and not later than June 20. The City Council may pass amendments to the budget during the fiscal year by resolution.

Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2017 has not been calculated.

During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with the statement of revenue, expenditures, and changes in fund balances, including budget variances, for the General Fund and major special revenue funds is presented as required supplemental information. A comparison of the budget with the statement of revenue, expenditures, and changes in fund balances, including budget variances, for the nonmajor funds can be obtained from the city offices at 23600 Liberty Street, Farmington, MI 48335.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The General Fund had an unfavorable expenditure budget variance related to community and economic development in the amount of \$3,567. The Local Street Fund had an unfavorable expenditure budget variance related to routine maintenance in the amount of \$6,313.

Note 3 - Deposits and Investments

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

The Retiree Health Care Fund is also authorized by Michigan Public Act 347 of 2012, 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.

The City has designated six banks for the deposit of its funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in all of the above investments permissible under Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended). The City's deposits and investment policies are in accordance with statutory authority.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2017

Note 3 - 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 \$984,257 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The City's component units had no bank deposits that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

At year end, the City had the following investments:

Investment	Fair Value	Weighted Average Maturity (Years)
Primary Government		
Michigan CLASS investment pool	\$ 254,979	0.16
Oakland County Local Government Investment Pool	6,099,568	1.38
Comerica J Fund	253,334	0.33
Total	<u>\$ 6,607,881</u>	
Fiduciary Funds		
Mutual funds - Fixed income	\$ 497,608	8.30
Mutual funds - Fixed income	1,001,525	5.02
Mutual funds - Fixed income	1,003,478	4.61
Total	<u>\$ 2,502,611</u>	

City of Farmington, Michigan

Notes to Financial Statements June 30, 2017

Note 3 - 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:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
General Government			
Michigan CLASS investment pool	\$ 254,979	AAAm	Standard & Poor's
Comerica J Fund	253,334	AI, PI	Standard & Poor's
Fiduciary Funds -			
Mutual funds - Fixed income	2,502,611	Not rated	N/A

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.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2017

Note 3 - Deposits and Investments (Continued)

The City has the following recurring fair value measurements as of June 30, 2017:

Assets Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2017	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)
Debt securities - Mutual funds - Fixed income	\$ 2,502,611	\$ 2,502,611	\$ -	\$ -
Equity securities:				
Mutual funds - Equity	1,557,181	1,557,181	-	-
Stocks	3,402,852	3,402,852	-	-
Exchange traded funds	1,829,386	1,829,386	-	-
Total equity securities	<u>6,789,419</u>	<u>6,789,419</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	9,292,030	<u>\$ 9,292,030</u>	<u>\$ -</u>	<u>\$ -</u>
Investments Measured at Net Asset Value (NAV)				
Michigan CLASS investment pool	254,979			
Oakland County Local Government Investment Pool	6,099,568			
Comerica J Fund	<u>253,334</u>			
Total investments measured at the NAV	<u>6,607,881</u>			
Total investments measured at fair value	<u>\$ 15,899,911</u>			

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

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 companies wherein the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2017

Note 3 - Deposits and Investments (Continued)

At June 30, 2017, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Michigan CLASS investment pool	\$ 254,979	\$ -	No restrictions	None
Oakland County Local Government Investment Pool	6,099,568	-	No restrictions	None
Comerica J Fund	253,334	-	No restrictions	None

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.

The Oakland County Local Government Investment Pool (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 Comerica J Fund 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 amortized cost value reported is within 0.05 percent of fair value.

Note 4 - Receivables and Deferred Inflows of Resources

Receivables as of year end for the City's individual major funds and the nonmajor funds are as follows:

	General Fund	Local Street	Grove Street Debt Service	Nonmajor Funds	Total Governmental Funds	Proprietary Internal Service Fund	Total Governmental Activities
Receivables:							
Taxes	\$ 2,593	\$ -	\$ -	\$ -	\$ 2,593	\$ -	\$ 2,593
Special assessments	-	40,200	475,000	253,538	768,738	-	768,738
Due from other governmental units	239,349	52,143	-	106,556	398,048	-	398,048
Interest and other	137,571	-	-	-	137,571	5,593	143,164
Net receivables	<u>\$ 379,513</u>	<u>\$ 92,343</u>	<u>\$ 475,000</u>	<u>\$ 360,094</u>	<u>\$ 1,306,950</u>	<u>\$ 5,593</u>	<u>\$ 1,312,543</u>

City of Farmington, Michigan

Notes to Financial Statements June 30, 2017

Note 4 - Receivables and Deferred Inflows of Resources (Continued)

Governmental funds report deferred inflows of resources in connection with receivables for revenue that is not considered available to liquidate liabilities of the current period. All funds, governmental and business-type, also defer inflows of resources in connection with resources that have been received or recorded as accounts receivable but not earned. At the end of the fiscal year, the various components of deferred inflows of resources are as follows:

	<u>Unavailable</u>
General government - Special assessments	\$ 768,738
General government - Other revenue	<u>6,271</u>
Total	<u>\$ 775,009</u>

Receivables as of year end for the City's enterprise funds are as follows:

	<u>Water and Sewer Fund</u>	<u>Nonmajor Enterprise Fund - Farmington Community Theater</u>
Delinquent water and sewer bills	\$ 205,537	\$ -
Customer receivables	1,296,723	-
Intergovernmental	8,476	-
Interest and other	<u>15,671</u>	<u>10,771</u>
Total receivables	<u>\$ 1,526,407</u>	<u>\$ 10,771</u>

City of Farmington, Michigan

Notes to Financial Statements June 30, 2017

Note 5 - Capital Assets

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

Governmental Activities	Balance July 1, 2016	Reclassifications	Additions	Disposals	Balance June 30, 2017
Capital assets not being depreciated:					
Land	\$ 1,955,923	\$ -	\$ -	\$ -	\$ 1,955,923
Construction in progress	404,001	(185,598)	550,075	(10,729)	757,749
Subtotal	2,359,924	(185,598)	550,075	(10,729)	2,713,672
Capital assets being depreciated:					
Flowage rights	946,170	-	-	-	946,170
County roads	391,690	-	-	-	391,690
Infrastructure	22,140,814	80,727	200,141	-	22,421,682
Building and improvements	3,279,906	104,871	74,475	-	3,459,252
Court buildings	2,310,486	-	-	-	2,310,486
Equipment and other	1,157,996	-	39,354	-	1,197,350
Vehicles	1,909,378	-	288,781	(147,402)	2,050,757
Subtotal	32,136,440	185,598	602,751	(147,402)	32,777,387
Accumulated depreciation:					
Flowage rights	890,955	-	13,804	-	904,759
County roads	169,733	-	13,056	-	182,789
Infrastructure	10,557,032	-	819,758	-	11,376,790
Buildings and improvements	2,201,878	-	90,817	-	2,292,695
Court building	769,809	-	58,067	-	827,876
Equipment and other	603,387	-	72,801	-	676,188
Vehicles	972,035	-	142,009	(127,391)	986,653
Subtotal	16,164,829	-	1,210,312	(127,391)	17,247,750
Net capital assets being depreciated	15,971,611	185,598	(607,561)	(20,011)	15,529,637
Net capital assets	\$ 18,331,535	\$ -	\$ (57,486)	\$ (30,740)	\$ 18,243,309

City of Farmington, Michigan

Notes to Financial Statements June 30, 2017

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2016	Reclassifications	Additions	Disposals	Balance June 30, 2017
Capital assets not being depreciated:					
Land	\$ 174,009	\$ -	\$ -	\$ -	\$ 174,009
Construction in progress	1,596,308	(1,631,982)	143,414	-	107,740
Subtotal	1,770,317	(1,631,982)	143,414	-	281,749
Capital assets being depreciated:					
Building	1,887,318	-	11,136	-	1,898,454
Water and sewer mains	28,049,846	1,631,982	240,339	(375,896)	29,546,271
Water storage tank	53,791	-	-	-	53,791
Water meters	309,161	-	7,691	-	316,852
Truck and tractors	379,167	-	-	-	379,167
Office equipment	780,188	-	10,436	(4,311)	786,313
Subtotal	31,459,471	1,631,982	269,602	(380,207)	32,980,848
Accumulated depreciation:					
Building	1,166,156	-	49,077	-	1,215,233
Water and sewer mains	13,819,231	-	495,797	(70,000)	14,245,028
Water storage tank	53,791	-	-	-	53,791
Water meters	50,636	-	15,072	-	65,708
Truck and tractors	337,382	-	9,784	-	347,166
Office equipment	552,371	-	26,954	(4,313)	575,012
Subtotal	15,979,567	-	596,684	(74,313)	16,501,938
Net capital assets being depreciated	15,479,904	1,631,982	(327,082)	(305,894)	16,478,910
Net capital assets	\$ 17,250,221	\$ -	\$ (183,668)	\$ (305,894)	\$ 16,760,659
Component Units	Balance July 1, 2016	Reclassifications	Additions	Disposals	Balance June 30, 2017
Capital assets not being depreciated -					
Land	\$ 460,580	\$ -	\$ -	\$ -	\$ 460,580
Capital assets being depreciated:					
Green areas	303,891	-	-	-	303,891
Office equipment	25,917	-	-	-	25,917
Land improvements	208,052	-	-	-	208,052
Subtotal	537,860	-	-	-	537,860
Accumulated depreciation:					
Green areas	112,531	-	27,993	-	140,524
Office equipment	11,671	-	1,405	-	13,076
Land improvements	80,277	-	8,749	-	89,026
Subtotal	204,479	-	38,147	-	242,626
Net capital assets being depreciated	333,381	-	(38,147)	-	295,234
Net capital assets	\$ 793,961	\$ -	\$ (38,147)	\$ -	\$ 755,814

City of Farmington, Michigan

Notes to Financial Statements June 30, 2017

Note 5 - Capital Assets (Continued)

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

Governmental activities:

General government	\$	107,299
Public safety		170,497
Public works		852,061
Recreation and culture		80,455
Total governmental activities	\$	<u>1,210,312</u>

Business-type activities:

Water and sewer	\$	549,266
Theater		47,418
Total business-type activities	\$	<u>596,684</u>

Component unit activities -

Downtown Development Authority	\$	38,147
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City of Farmington, Michigan

Notes to Financial Statements June 30, 2017

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Local Street Fund	\$ 3,730
	Nonmajor governmental funds	2,779
	Water and Sewer	16,031
	Internal Service Fund - Self Insurance Fund	40,000
	Internal Service Fund - DPW Equipment Revolving Fund	2,786
	General Fund	65,326
	Nonmajor governmental funds	5,520
	Nonmajor governmental funds	22,528
	Total nonmajor governmental funds	28,048
	Internal Service Fund - DPW Equipment Revolving Fund	General Fund
	Local Street Fund	1,103
	Nonmajor governmental funds	706
	Water and Sewer	2,287
	Total Internal Service Fund - DPW Equipment Revolving Fund	6,955
Water and Sewer Fund	Local Street Fund	69
Nonmajor Enterprise Fund	General Fund	2,003
	Total	<u>\$ 102,401</u>
Receivable Fund	Payable Fund	Amount
Due to/from Primary Government and Component Units		
General Fund	Downtown Development Authority	<u>\$ 10</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2017

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

Transfer In	Transfer Out	Amount
Local Street Fund	Nonmajor governmental funds (1)	\$ 416,878
Nonmajor governmental funds	General Fund (2)	693,200
	Nonmajor governmental funds (3)	<u>41,408</u>
	Total nonmajor governmental funds	<u>734,608</u>
	Total	<u>\$ 1,151,486</u>

- (1) The transfer from the nonmajor governmental funds (Municipal Street Fund and Major Street Fund) to the Local Street Fund was made to finance a portion of the cost of the City's road and sidewalk programs.
- (2) The transfer from the General Fund to the nonmajor governmental funds (2005 Capital Improvement Bond, 47th District Court Building Authority Bonds, and 2013 LTGO OPEB Bonds) was made to provide for current year debt service payments.
- (3) The transfer from the nonmajor governmental funds (Municipal Streets Fund) to the nonmajor governmental funds (Major Streets Fund) was made to finance a portion of the cost of the City's road programs.

Note 7 - 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. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the City) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2017

Note 7 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions/ Adjustments	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Bond and contract obligations							
Transportation Fund Bond -							
2007 Michigan Transportation Fund Bonds:							
Amount of issue - \$1,450,000							
Maturing through 2021							
	3.9%	\$120,000 - 145,000	\$ 775,000	\$ -	\$ (115,000)	\$ 660,000	\$ 120,000
County Drain Contract -							
Building Authority Bonds:							
2017 47th District Court Bond:							
Amount of issue - \$1,400,300							
Maturing through 2021							
	4.0% - 5.5%	110,751 - 127,300	570,941	15,276	(101,840)	484,377	110,751
2009 Capital Improvement Bond:							
Amount of issue - \$1,000,000							
Maturing through 2029							
	4.750% - 4.875%	45,000 - 75,000	750,000	-	(45,000)	705,000	45,000
2005 Capital Improvement Bond:							
Amount of issue - \$1,500,000							
Maturing through 2019							
	3.65% - 4.0%	140,000 - 155,000	580,000	-	(135,000)	445,000	140,000
2013 Capital Improvement Bond:							
Amount of issue - \$1,300,000							
Maturing through 2033							
	1.0% - 3.5%	55,000 - 100,000	1,180,000	-	(55,000)	1,125,000	55,000
Special Assessment Bond -							
2012 Special Assessment Bond:							
Amount of issue - \$400,000							
Maturing through 2019							
	6.0%	80,000	240,000	-	(80,000)	160,000	80,000
Limited Tax General Obligation Bond -							
2013 OPEB Bond:							
Amount of issue - \$7,514,500							
Maturing through 2033							
	1.35% - 5.73%	57,000 - 840,750	7,467,000	-	(52,250)	7,414,750	57,000
Total bonds payable			11,562,941	15,276	(584,090)	10,994,127	607,751
Accumulated compensated absences			235,275	118,706	(141,282)	212,699	141,749
Total governmental activities			\$ 11,798,216	\$ 133,982	\$ (725,372)	\$ 11,206,826	\$ 749,500

City of Farmington, Michigan

Notes to Financial Statements June 30, 2017

Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions/ Adjustments	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
General Obligation Bonds:							
2003 Capital Improvement Sewer Bonds:							
Amount of issue - \$900,000	4.15% -	\$55,000 -					
Maturing through 2023	4.8%	60,000	\$ 395,000	\$ -	\$ (55,000)	\$ 340,000	\$ 55,000
2011 General Obligation Capital Improvement Water and Sewer Bonds:							
Amount of issue - \$2,215,000	2.0% -	65,000 -					
Maturing through 2031	4.25%	205,000	2,045,000	-	(60,000)	1,985,000	65,000
Limited Tax General Obligation Bond:							
2013 OPEB Bond:							
Amount of issue - \$395,500	1.35% -	3,000 -					
Maturing through 2033	5.73%	44,250	393,000	-	(2,750)	390,250	3,000
2015 Capital Improvement Bond:							
Amount of issue \$1,500,000	3.00%-	60,000-					
Maturing through 2035	3.50%	100,000	1,460,000	-	(60,000)	1,400,000	60,000
Total bonds payable			4,293,000	-	(177,750)	4,115,250	183,000
Accumulated compensated absences			21,472	22,006	(19,896)	23,582	21,790
Total business-type activities			\$ 4,314,472	\$ 22,006	\$ (197,646)	\$ 4,138,832	\$ 204,790

Total interest expense for the year was approximately \$691,000. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 607,751	\$ 501,561	\$ 1,109,312	\$ 183,000	\$ 157,121	\$ 340,121
2019	646,412	480,635	1,127,047	198,250	150,673	348,923
2020	593,164	458,179	1,051,343	203,500	143,395	346,895
2021	591,300	441,885	1,033,185	216,000	135,479	351,479
2022	649,750	422,437	1,072,187	240,250	126,918	367,168
2023-2027	3,034,500	1,757,726	4,792,226	1,345,500	487,351	1,832,851
2028-2032	3,930,500	924,015	4,854,515	1,394,500	205,263	1,599,763
2033-2035	940,750	51,675	992,425	334,250	23,011	357,261
Total	\$ 10,994,127	\$ 5,038,113	\$ 16,032,240	\$ 4,115,250	\$ 1,429,211	\$ 5,544,461

Revenue Pledged in Connection with Debt - The DDA has agreed to pay the City, from its tax increment revenue, the amounts necessary to cover the principal and interest on the 2009 Streetscape Capital Improvement Bond. The DDA has further agreed to reimburse the City for any costs of the project not financed from the proceeds of the bonds, including, if necessary, the cost of issuance, any publication costs, and other costs incurred by the City associated with the design and acquisition of the project, in an amount not to exceed \$935,000.

The DDA has agreed to pay the City, from its tax increment revenue, the amounts necessary to cover the principal and interest on the 2013 Grove Street Capital Improvement Bond. The DDA has further agreed to reimburse the City for any costs of the project not financed from the proceeds of the bonds, including, if necessary, the costs of issuance, any publication costs, and other costs incurred by the City associated with the design and acquisition of the project, in an amount not to exceed \$1,400,000.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2017

Note 8 - Risk Management

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

The MML risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City. The activity for the Authority is accounted for in the Self Insurance Fund.

The City estimates the liability for claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	General Liability	
	2017	2016
Unpaid claims - Beginning of year	\$ 84,701	\$ 52,500
Incurred claims - Including claims incurred but not reported	18,472	37,844
Claim payments	(46,755)	(5,643)
Unpaid claims - End of year	<u>\$ 56,418</u>	<u>\$ 84,701</u>

Note 9 - Agent Defined Benefit Pension Plan

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). 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.mersofmichigan.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.

The MERS plan covers substantially all employees of the City, including the nonunion, department head, command, public safety, dispatch, and department of public works hired prior to June 30, 2013. Summary information for each of these groups is provided below.

Nonunion - 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. Normal retirement age is 60, with early reduced retirement at age 50 with 25 years of service or age 55 with 15 years of service. Vesting period is seven years. Employees are eligible for duty and nonduty disability benefits and duty and nonduty death benefits. Duty disability retirement benefits are determined as the greater of the standard benefit formula or 25 percent of the final average compensation. There are no vesting requirements. Nonduty disability are calculated using the standard benefit formula. The member must be vested. Duty-related death benefits are determined as the greater of the standard benefit formula or 25 percent of the final average compensation. There are no vesting requirements. Nonduty-related death benefits are calculated as 85 percent of the defined benefit formula. The member must be vested. All disability and death benefits are payable immediately without an actuarial reduction.

Note 9 - Agent Defined Benefit Pension Plan Description (Continued)

Department Head - Retirement benefits for employees are calculated as 2.5 percent of the employee's final three-year average salary times the employee's years of service. Normal retirement age is 58 with early reduced retirement at age 50 with 25 years of service or age 55 with 15 years of service. The vesting period is seven years. Employees are eligible for duty and nonduty disability benefits and duty and nonduty death benefits. Duty disability retirement benefits are determined as the greater of the standard benefit formula or 25 percent of the final average compensation. There are no vesting requirements. Nonduty disability benefits are calculated using the standard benefit formula. The member must be vested. Duty-related death benefits are determined as the greater of the standard benefit formula or 25 percent of the final average compensation. There are no vesting requirements. Nonduty-related death benefits are calculated as 85 percent of the defined benefit formula. The member must be vested. All disability and death benefits are payable immediately without an actuarial reduction. Employees contribute 3 percent of their salary for this benefit. An employee who leaves service may withdraw his or her contributions, plus any accumulated interest.

Command - Retirement benefits for employees are calculated as 2.5 percent of the employee's final three-year average salary times the employee's years of service. Normal retirement age is 60 with early unreduced retirement at 25 years of service and reduced retirement at age 55 with 15 years of service. The vesting period is 10 years. Employees are eligible for duty and nonduty disability benefits and duty and nonduty death benefits. Duty disability retirement benefits are determined as the greater of the standard benefit formula or 25 percent of the final average compensation. There are no vesting requirements. Nonduty disability benefits are calculated using the standard benefit formula. Member must be vested. Duty-related death benefits are determined as the greater of the standard benefit formula or 25 percent of the final average compensation. There are no vesting requirements. Nonduty-related death benefits are calculated as 85 percent of the defined benefit formula. The member must be vested. All disability and death benefits are payable immediately without an actuarial reduction. Employees contribute 3 percent of their salary for this benefit. An employee who leaves service may withdraw his or her contributions, plus any accumulated interest.

Note 9 - Agent Defined Benefit Pension Plan Description (Continued)

Public Safety - Retirement benefits for employees are calculated as 2.5 percent of the employee's final three-year average salary times the employee's years of service. Normal retirement age is 60 with early unreduced retirement at 25 years of service and reduced retirement at age 55 with 15 years of service. The vesting period is 10 years. Employees are eligible for duty and nonduty disability benefits and duty and nonduty death benefits. Duty disability retirement benefits are determined as the greater of the standard benefit formula or 25 percent of the final average compensation. There are no vesting requirements. Nonduty disability benefits are calculated using the standard benefit formula. The member must be vested. Duty-related death benefits are determined as the greater of the standard benefit formula or 25 percent of the final average compensation. There are no vesting requirements. Nonduty-related death benefits are calculated as 85 percent of the defined benefit formula. The member must be vested. All disability and death benefits are payable immediately without an actuarial reduction. Employees contribute 3 percent of their salary for this benefit. An employee who leaves service may withdraw his or her contributions, plus any accumulated interest.

Dispatch - 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. Normal retirement age is 60 with early reduced retirement at age 50 with 25 years of service or age 55 with 15 years of service. The vesting period is six years. Employees are eligible for duty and nonduty disability benefits and duty and nonduty death benefits. Duty disability retirement benefits are determined as the greater of the standard benefit formula or 25 percent of the final average compensation. There are no vesting requirements. Nonduty disability benefits are calculated using the standard benefit formula. The member must be vested. Duty-related death benefits are determined as the greater of the standard benefit formula or 25 percent of the final average compensation. There are no vesting requirements. Nonduty-related death benefits are calculated as 85 percent of the defined benefit formula. The member must be vested. All disability and death benefits are payable immediately without an actuarial reduction. This plan is closed to new entrants.

Note 9 - Agent Defined Benefit Pension Plan Description (Continued)

Department of Public Works - 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. Normal retirement age is 60 with early reduced retirement at age 50 with 25 years of service or age 55 with 15 years of service. The vesting period is 10 years. Employees are eligible for duty and nonduty disability benefits and duty and nonduty death benefits. Duty disability retirement benefits are determined as the greater of the standard benefit formula or 25 percent of the final average compensation. There are no vesting requirements. Nonduty disability benefits are calculated using the standard benefit formula. The member must be vested. Duty-related death benefits are determined as the greater of the standard benefit formula or 25 percent of the final average compensation. There are no vesting requirements. Nonduty-related death benefits are calculated as 85 percent of the defined benefit formula. The member must be vested. All disability and death benefits are payable immediately without an actuarial reduction. This plan is closed to new entrants.

There are no annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date.

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. Police and fire employees' benefit terms may be subject to binding arbitration in certain circumstances.

Employees Covered by Benefit Terms - At the December 31, 2016 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	59
Inactive plan members entitled to but not yet receiving benefits	8
Active plan members	<u>43</u>
Total employees covered by MERS	<u>110</u>

Contributions - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS 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.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2017

Note 9 - Agent Defined Benefit Pension Plan Description (Continued)

For the year ended December 31, 2016, the active employee contribution rate was 3.0 percent of annual pay for department heads, command, and public safety and 0 percent for nonunion and dispatch. The City's contribution rates for the year ended June 30, 2017 were set in the December 31, 2014 actuarial valuation. The contribution rates for the year ended June 30, 2017 as a percentage of annual payroll are: nonunion - 12.78 percent, department heads - 29.11 percent, command - 22.99 percent, and public safety - 18.13 percent. The City contributes \$4,581 per month for the department of public works and \$0 for dispatch.

Net Pension Liability

The net pension liability reported at June 30, 2017 was determined using a measure of the total pension liability and the plan net position as of December 31, 2016. The December 31, 2016 total pension liability was determined by an actuarial valuation performed as of that date.

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, 2015	\$ 24,868,292	\$ 18,490,160	\$ 6,378,132
Service cost	367,638	-	367,638
Interest	1,935,559	-	1,935,559
Differences between expected and actual experience	(583,546)	-	(583,546)
Contributions - Employer	-	486,144	(486,144)
Contributions - Employee	-	55,978	(55,978)
Net investment income	-	2,050,005	(2,050,005)
Benefit payments, including refunds	(1,715,276)	(1,715,276)	-
Administrative expenses	-	(40,522)	40,522
Net changes	4,375	836,329	(831,954)
Balance at December 31, 2016	\$ 24,872,667	\$ 19,326,489	\$ 5,546,178

City of Farmington, Michigan

Notes to Financial Statements June 30, 2017

Note 9 - Agent Defined Benefit Pension Plan Description (Continued)

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

For the year ended June 30, 2017, the City recognized pension expense of \$1,396,694. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 471,987	\$ (437,660)
Changes in assumptions	616,457	-
Net difference between projected and actual earnings on pension plan investments	773,775	-
Employer contributions to the plan subsequent to the measurement date	263,645	-
Total	<u>\$ 2,125,864</u>	<u>\$ (437,660)</u>

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as indicated in the table below. These amounts are exclusive of the employer contributions to the plan made subsequent to the measurement date (\$263,645), which will impact net pension liability in fiscal year 2017, rather than pension expense.

Years Ending June 30	Total
2018	\$ 539,619
2019	539,619
2020	469,188
2021	(123,867)

Actuarial Assumptions - The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 %	
Salary increases	3.75 %	With merit increases totaling up to 11 percent, for a total of 3.75 percent - 14.75 percent
Investment rate of return	8.00 %	Net of investment expenses, including inflation

Note 9 - Agent Defined Benefit Pension Plan Description (Continued)

Although no specific price inflation assumptions are needed for the valuation, the 3.75 percent long-term wage inflation assumption would be consistent with a price inflation of 2.5 percent.

Mortality rates were based on 50 percent male - 50 percent female blend of the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105 percent, RP-2014 Employee Mortality Tables, and RP-2014 Juvenile Mortality Tables. For disabled plan members, rates were based on a blend of the 50 percent male - 50 percent RP-2014 Disabled Retiree Mortality Tables.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study covering the period from January 1, 2009 through December 31, 2013.

Discount Rate - The discount rate used to measure the total pension liability was 8.0 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and that employer 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.

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, 2016, 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 %	5.0 %
Global fixed income	20	2.2
Real assets	12	4.2
Diversifying strategies	10	6.6

Note 9 - Agent Defined Benefit Pension Plan Description (Continued)

The preceding target allocation was amended as of January 1, 2017 to reduce the previous allocation to global equity and global fixed income and to increase the allocation of real assets and diversifying strategies. The target allocation as of January 1, 2017 will be 55.5 percent global equity, 18.5 percent global fixed income, 13.5 percent real assets, and 12.5 percent diversifying strategies.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the City, calculated using the discount rate of 8.0 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

	1 Percent Decrease <u>(7.0 percent)</u>	Current Discount Rate <u>(8.0 percent)</u>	1 Percent Increase <u>(9.0 percent)</u>
Net pension liability of the City	\$ 8,256,717	\$ 5,546,178	\$ 3,244,333

Pension Plan Fiduciary Net Position - Detailed information about the plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the plan's fiduciary net position and addition to/deduction from fiduciary net position have been determined on the same basis as they are reported 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 10 - Postemployment Benefits

The City provides healthcare benefits to all eligible full-time employees and their eligible beneficiaries upon retirement. The benefits are based on labor contracts and employee agreements. There are two types of healthcare benefits - a defined benefit plan called the City of Farmington Retiree Health Care Plan (the "Farmington RHCP") and a defined contribution plan called the Municipal Employees' Retirement System Health Care Savings Program (MERS HCSP).

Note 10 - Postemployment Benefits (Continued)

Farmington Retiree Health Care Plan (RHCP)

The Farmington RHCP is available to all full-time public safety employees hired before July 1, 2013 and all other full-time employees that had over 20 years of service as of June 30, 2009. The amount of the benefit is determined based on labor contracts and employee agreements, in accordance with the City of Farmington's Retiree Health Care Plan (the "Plan"). The Plan was established by ordinance and created under the authority of the Public Employee Health Care Fund Investment Act, Public Act 149 of 1999, and is administered by the City of Farmington, Michigan. The Irrevocable Trust Fund (the "Trust Fund"), established in the plan, funds the City's share of retiree healthcare insurance premiums and is administered by a board of trustees. Currently, 46 retirees are eligible, 42 are participating, and 4 are receiving payments in lieu of coverage. Payments in lieu of insurance coverage are paid by the City.

The Plan is a single-employer defined benefit plan and does not issue a separate stand-alone financial statement.

Funding Policy - The City, by ordinance, is required to fund the Trust Fund in an amount sufficient to pay all projected coverage premiums for that fiscal year. The City may contribute additional amounts consistent with the actuarial valuations and calculations made by the actuary for the Trust Fund to result in a prefunded plan. During the year ended June 30, 2014, the City prefunded its employer contribution in the amount of \$8,037,596. The Trust Fund paid postemployment healthcare premiums of \$716,960 for the ended June 30, 2017. There were no required employee contributions.

Funding Progress - For the year ended June 30, 2017, 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 costs each year and amortize any unfunded actuarial liabilities over a period of 25 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 100,742
Interest on the prior year's net OPEB obligation	(392,451)
Less adjustment to the annual required contribution	<u>473,012</u>
Decrease in net OPEB asset	181,303
OPEB asset - Beginning of year	<u>(4,905,637)</u>
OPEB asset - End of year	<u>\$ (4,724,334)</u>

City of Farmington, Michigan

Notes to Financial Statements June 30, 2017

Note 10 - Postemployment Benefits (Continued)

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current and three preceding years were as follows:

Fiscal Year Ended	Annual OPEB Costs	Percentage Contributed	Net OPEB Asset
6/30/15	\$ 179,994	-	\$ (5,086,337)
6/30/16	180,700	-	(4,905,637)
6/30/17	181,303	-	(4,724,334)

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
6/30/11	\$ 2,433,154	\$ 25,374,612	\$ 22,941,458	9.6	-	N/A
6/30/13	2,690,351	17,232,578	14,542,227	15.6	-	N/A
6/30/13	2,690,351	10,467,411	7,777,060	25.7	-	N/A
6/30/14	10,495,301	10,488,528	(6,773)	100.1	-	N/A
6/30/16	9,352,421	10,632,129	1,279,708	88.0	-	N/A

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.

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

In the June 30, 2014 actuarial valuation, which stipulated the ARC for the year ended June 30, 2017, the individual entry-age actuarial cost method was used. The actuarial assumptions included an 8 percent investment rate of return, which is the expected long-term investment return, and an annual healthcare cost trend of 9 percent initially, reduced by decrements to an ultimate rate of 4 percent after 10 years. The actuarial value of assets was set equal to the reported market value at June 30, 2014. The UAAL is being amortized on a closed basis, with a remaining amortization period at June 30, 2016 of 22 years.

Note 10 - Postemployment Benefits (Continued)

MERS Health Care Savings Plan (HCSP)

On June 30, 2009, the council established, by resolution, the MERS HCSP, a defined contribution retiree healthcare plan. The MERS HCSP is a tax-qualified "governmental plan" and trust under Section 401(a) of the Internal Revenue Code of 1986 and all trust assets are therefore exempt from taxation under Code Section 501(a) (IRS Letter of Favorable Determination dated June 15, 2005). The MERS HCSP is administered by the Municipal Employees' Retirement System. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

The Farmington HCSP is available to all full-time public safety employees hired after June 30, 2013 and all other full-time employees that had less than 20 years of services as of July 1, 2009. Under the terms of MERS HCSP, nonunion, department head, and public safety employees receive \$2,100 per year in contributions from the City and department of public service employees receive \$65 per year. Employer contributions for the year were approximately \$49,000. Terms of the MERS HCSP may be amended by future labor contracts and by resolution.

Note 11 - OPEB Plan

Plan Administration - The Farmington Retiree Health Care Plan Board of Trustees (the "Board") administers the Farmington Retiree Health Care Plan (the "Plan"), a single-employer defined benefit OPEB plan that is used to provide postemployment benefits other than pensions (OPEB) for all full-time public safety employees hired before July 1, 2013 and all other full-time employees that had over 20 years of service as of June 30, 2009. The Plan is closed to all new hires.

Management of the Plan is vested with the Board, which consists of three members - the mayor, the city manager, and the city treasurer.

Plan Membership - At June 30, 2017, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	40
Inactive plan members entitled to but not yet receiving benefits	2
Active plan members	<u>19</u>
Total	<u><u>61</u></u>

Note 11 - OPEB Plan (Continued)

Benefits Provided - The Plan provides healthcare and dental benefits for retirees, retiree spouses, and some dependents. Benefits are provided through a third-party insurer. The amount of the benefit is determined based on labor contracts and employee agreements, in accordance with the Plan. The Plan was established by ordinance and created under the authority of the Public Employee Health Care Fund Investment Act, Public Act 149 of 1999, and is administered by the City of Farmington, Michigan. The Irrevocable Trust Fund (the "Trust Fund"), established in the Plan, funds the City's share of retiree healthcare insurance premiums and is administered by the Board.

Contributions - The City, by ordinance, is required to fund the Trust Fund in an amount sufficient to pay all projected coverage premiums for that fiscal year. The City may contribute additional amounts consistent with the actuarial valuations and calculations made by the actuary for the Trust Fund to result in a prefunded plan. During the year ended June 30, 2014, the City prefunded its employer contribution in the amount of \$8,037,596. The Trust Fund paid postemployment healthcare premiums of \$716,960 for the year ended June 30, 2017. There were no required employee contributions. Plan members are not required to contribute to the plan.

OPEB Plan Investments

Investment Policy - The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Board by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2017:

Asset Class	Target Allocation (%)
Global equity	62.00 %
Fixed income	36.00 %
Cash or cash equivalents	2.00 %

Rate of Return - For the year ended June 30, 2017, the annual money-weighted rate of return on plan investments, net of investment expense, was 12.2 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2017

Note 11 - OPEB Plan (Continued)

Net OPEB Liability

The City reports OPEB expense based on funding requirements, as directed by GASB Statement No. 45. Beginning next year, the City will adopt GASB Statement No. 75, which will require the measurement of OPEB expense as it is earned, rather than as it is funded. The net OPEB liability of the City has been measured as of June 30, 2017 and is composed of the following:

The components of the net OPEB liability at June 30, 2017 were as follows:

Total OPEB liability	\$ 10,870,047
Plan fiduciary net position	<u>(9,720,378)</u>
Net OPEB liability	<u>\$ 1,149,669</u>

Plan fiduciary net position as a percentage of the total OPEB liability 89 %

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2016, which used updated procedures to roll forward the estimated liability to June 30, 2017. The valuation used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 %
Healthcare cost trend rate	9.00 % Trend, gradually decreasing from 9.0 percent to 4.0 percent in year 10
Salary increases	4.00 % 4.0 to 17.0 including inflation
Investment rate of return	7.00 % Net of OPEB plan investment expense, including inflation

Mortality rates were based on the RP-2000 Mortality Combined Healthy Tables projected 20 years with Scale BB.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2017

Note 11 - OPEB Plan (Continued)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of 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 target asset allocation are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Global equity	7.00 %
Fixed income	2.80 %
Cash or cash equivalents	1.40 %

Discount Rate - The discount rate used to measure the total OPEB liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that city contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

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

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the net OPEB liability, calculated using the discount rate of 7.00 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00 percent) or 1 percentage point higher (8.00 percent) than the current rate:

	1 Percent Decrease (6.00%)	Current Discount Rate (7.00%)	1 Percent Increase (8.00%)
Net OPEB liability	\$ 2,556,458	\$ 1,149,669	\$ (12,144)

City of Farmington, Michigan

Notes to Financial Statements June 30, 2017

Note 11 - OPEB Plan (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the net OPEB liability, calculated using the healthcare cost trend rates, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease	Current Healthcare Cost Trend Rate	1 Percent Increase
Net OPEB liability	\$ (164,781)	\$ 1,149,669	\$ 2,763,106

Note 12 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the City to recognize on the face of the financial statements its net OPEB liability related to its participation in the OPEB plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2018.

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2019-2020 fiscal year.

In March 2017, the Governmental Accounting Standards Board issued GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB statements. The statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits [OPEB]). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2018 fiscal year.

Note 12 - Upcoming Accounting Pronouncements (Continued)

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2020 fiscal year.

Required Supplemental Information

City of Farmington, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 4,439,504	\$ 4,446,163	\$ 4,439,690	\$ (6,473)
Licenses and permits	137,350	137,200	152,324	15,124
Federal grants	37,732	36,138	36,138	-
State-shared revenue and grants	1,074,095	1,103,615	1,140,455	36,840
Charges for services	2,083,883	2,052,124	2,009,507	(42,617)
Fines and forfeitures	470,500	455,900	482,539	26,639
Investment income	30,000	30,000	34,039	4,039
Other revenue	219,565	270,328	286,355	16,027
Total revenue	8,492,629	8,531,468	8,581,047	49,579
Expenditures				
Current:				
General government	1,828,090	1,825,409	1,814,040	11,369
District court	465,397	465,397	465,397	-
Public safety	3,612,899	3,635,881	3,597,880	38,001
Public works	1,041,575	1,095,655	1,072,615	23,040
Health and welfare	7,215	7,215	5,978	1,237
Community and economic development	240,903	190,650	194,217	(3,567)
Recreation and culture	814,003	864,163	830,867	33,296
Total expenditures	8,010,082	8,084,370	7,980,994	103,376
Excess of Revenue Over Expenditures	482,547	447,098	600,053	152,955
Other Financing Sources (Uses)				
Transfers in - Capital Improvement Fund	224,790	152,000	-	(152,000)
Transfers out - OPEB Debt Service	(432,655)	(432,793)	(432,793)	-
Transfers out - Nonvoted Debt Service Fund	(155,353)	(143,837)	(143,837)	-
Transfers out - S/A Debt Fund	(119,329)	(119,329)	(116,570)	2,759
Total other financing uses	(482,547)	(543,959)	(693,200)	(149,241)
Net Change in Fund Balance	-	(96,861)	(93,147)	3,714
Fund Balance - July 1, 2016	2,651,210	2,651,210	2,651,210	-
Fund Balance - June 30, 2017	<u>\$ 2,651,210</u>	<u>\$ 2,554,349</u>	<u>\$ 2,558,063</u>	<u>\$ 3,714</u>

City of Farmington, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Local Street Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 206,707	\$ 206,707	\$ 209,374	\$ 2,667
Investment income	300	800	758	(42)
Other revenue:				
Special assessments	10,500	10,050	10,050	-
Other miscellaneous income	23,000	11,500	11,642	142
Total revenue	240,507	229,057	231,824	2,767
Expenditures - Current -				
Public works:				
Street construction	286,255	668,405	426,371	242,034
Routine maintenance	205,143	207,517	213,830	(6,313)
Total expenditures	491,398	875,922	640,201	235,721
Excess of Expenditures Over Revenue	(250,891)	(646,865)	(408,377)	238,488
Other Financing Sources				
Transfers in - Municipal Streets Fund	150,000	489,150	316,487	(172,663)
Transfers in - Major Streets Fund	117,255	117,255	100,391	(16,864)
Total other financing sources	267,255	606,405	416,878	(189,527)
Net Change in Fund Balance	16,364	(40,460)	8,501	48,961
Fund Balance - Beginning of year	152,869	152,869	152,869	-
Fund Balance - End of year	<u>\$ 169,233</u>	<u>\$ 112,409</u>	<u>\$ 161,370</u>	<u>\$ 48,961</u>

City of Farmington, Michigan

Required Supplemental Information OPEB System Schedule Year Ended June 30, 2017

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
6/30/11	\$ 2,433,154	\$ 25,374,612	\$ 22,941,458	9.6 %	\$ -	N/A
6/30/13	2,690,351	17,232,578	14,542,227	15.6	-	N/A
6/30/13	2,690,351	10,467,411	7,777,060	25.7	-	N/A
6/30/14	10,495,301	10,488,528	(6,773)	100.1	-	N/A
6/30/16	9,352,421	10,632,129	1,279,708	88.0	-	N/A

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
6/30/14	6/30/12	\$ 985,812	815.3
6/30/15	6/30/14	107,957	-
6/30/16	6/30/14	104,518	-
6/30/17	6/30/14	100,742	-

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

Actuarial cost method	Entry age normal
Amortization method	Level dollar amount
Amortization period	23 years, closed
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases*	4.0% to 17.0%
*includes inflation at	2.75%
Rates of Inflation for Medical Benefits	9.0% grading down to 4.0% 10 years after the valuation
Cost-of-living adjustments	None

City of Farmington, Michigan

Required Supplemental Information Schedule of Changes in the City Net Pension Liability and Related Ratios

	2017	2016	2015
Total Pension Liability			
Service cost	\$ 367,638	\$ 384,742	\$ 345,578
Interest	1,935,559	1,804,775	1,755,332
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(583,546)	786,640	-
Changes in assumptions	-	1,027,429	-
Benefit payments, including refunds	(1,715,276)	(1,637,965)	(1,404,412)
Net Change in Total Pension Liability	4,375	2,365,621	696,498
Total Pension Liability - Beginning of year	24,868,292	22,502,671	21,806,173
Total Pension Liability - End of year	<u>\$ 24,872,667</u>	<u>\$ 24,868,292</u>	<u>\$ 22,502,671</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 486,144	\$ 586,076	\$ 411,173
Contributions - Member	55,978	56,538	54,100
Net investment income	2,050,005	(288,575)	1,222,462
Administrative expenses	(40,522)	(42,719)	(44,733)
Benefit payments, including refunds	(1,715,276)	(1,637,965)	(1,404,412)
Other	-	-	-
Net Change in Plan Fiduciary Net Position	836,329	(1,326,645)	238,590
Plan Fiduciary Net Position - Beginning of year	18,490,160	19,816,805	19,578,215
Plan Fiduciary Net Position - End of year	<u>\$ 19,326,489</u>	<u>\$ 18,490,160</u>	<u>\$ 19,816,805</u>
City's Net Pension Liability - Ending	<u>\$ 5,546,178</u>	<u>\$ 6,378,132</u>	<u>\$ 2,685,866</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	77.70 %	74.35 %	88.06 %
Covered Employee Payroll	\$ 2,737,705	\$ 2,843,843	\$ 2,608,682
City's Net Pension Liability as a Percentage of Covered Employee Payroll	202.6 %	224.3 %	103.0 %

City of Farmington, Michigan

Required Supplemental Information Schedule of City Contributions Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 545,225	\$ 478,424	\$ 410,775	\$ 385,777	\$ 466,160	\$ 420,458	\$ 450,793	\$ 520,562	\$ 507,687	\$ 520,904
Contributions in relation to the actuarially determined contribution	545,225	478,424	410,775	385,777	466,160	420,458	450,793	520,562	507,687	520,904
Contribution Deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 2,737,705	\$ 2,843,843	\$ 2,608,682	\$ 2,881,089	\$ 2,839,161	\$ 3,107,680	\$ 3,335,300	\$ 3,105,768	\$ 3,186,000	\$ 3,186,000
Contributions as a Percentage of Covered Employee Payroll	19.9 %	16.8 %	15.7 %	13.4 %	16.4 %	13.5 %	13.5 %	16.8 %	15.9 %	16.3 %

Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	16 - 20 years, depending on division
Asset valuation method	Five-year smoothed
Inflation	2.5 percent
Salary increases	3.75 percent, including inflation
Investment rate of return	8.0 percent
Retirement age	60 years
Mortality	50 percent male - 50 percent female blend of the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105 percent, RP-2014 Employee Mortality Tables, and the RP-2014 Juvenile Mortality Tables
Other information	None

City of Farmington, Michigan

Required Supplemental Information OPEB Plan Schedule of Changes in the City Net OPEB Liability and Related Ratios

	2017
Total OPEB Liability	
Service cost	\$ 107,013
Interest	722,901
Changes in benefit terms	-
Differences between expected and actual experience	124,964
Changes in assumptions	-
Benefit payments, including refunds	(716,960)
Net Change in Total OPEB Liability	237,918
Total OPEB Liability - Beginning of year	10,632,129
Total OPEB Liability - End of year	\$ 10,870,047
Plan Fiduciary Net Position	
Contributions - Employer	\$ -
Contributions - Active and inactive plan members not yet receiving benefits	-
Net investment income	1,084,916
Administrative expenses	-
Benefit payments, including refunds	(716,960)
Other	-
Net Change in Plan Fiduciary Net Position	367,956
Plan Fiduciary Net Position - Beginning of year	9,352,422
Plan Fiduciary Net Position - End of year	\$ 9,720,378
Net OPEB Liability - Ending	\$ 1,149,669
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	89.42 %
Covered Employee Payroll	\$ 1,587,676
Net OPEB Liability as a Percentage of Covered Employee Payroll	72.4 %

City of Farmington, Michigan

Required Supplemental Information OPEB Plan Schedule of City Contributions Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 100,742	\$ 104,518	\$ 107,957	\$ 985,812	\$ 1,304,812	\$ 962,885	\$ 936,620	\$ 910,935	\$ 879,133
Contributions in relation to the actuarially determined contribution	-	-	-	8,037,596	692,000	788,311	633,711	525,000	561,527
Contribution Deficiency (Excess)	\$ 100,742	\$ 104,518	\$ 107,957	\$ (7,051,784)	\$ 612,812	\$ 174,574	\$ 302,909	\$ 385,935	\$ 317,606

Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date June 30, 2016. Actuarially determined contribution rates are calculated as of June 30 of even-numbered years. The valuation date is 12 months prior to the fiscal year end of odd-numbered fiscal years and 24 months prior to the fiscal year end of even numbered fiscal years.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level dollar, closed
Remaining amortization period	23
Asset valuation method	Market value of assets
Inflation	2.75 percent
Healthcare cost trend rates	9.0 percent trend, gradually decreasing to 4.0 percent in year 10
Salary increases	4.0 percent to 17.0 percent, including inflation
Investment rate of return	8.0 percent, net of OPEB plan investment expense, including inflation
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	The RP-2000 Mortality Table projected 20 years with Scale BB
Other information	There were no benefit changes during the year ended June 30, 2016. An investment rate of return of 7.00 percent was used in the June 30, 2016 valuation. This will impact contributions beginning with the fiscal year ending June 30, 2018

City of Farmington, Michigan

Required Supplemental Information OPEB Plan Schedule of Investment Returns Last Ten Fiscal Years

	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	12.2 %

Other Supplemental Information

City of Farmington, Michigan

	Special Revenue Funds		Debt Service Funds				
	Major Streets	Municipal Street Fund	Nonvoted Debt Service	Special			Drakeshire Debt Service
				Streetscape Debt Service	Assessment Debt Service	2013 LTGO Bonds (OPEB)	
Assets							
Cash and investments	\$ 331,887	\$ 624,101	\$ 209	\$ -	\$ 37	\$ 7,153	\$ 1,584
Receivables	106,556	-	-	-	93,538	-	160,000
Due from other funds	28,048	-	-	-	-	-	-
Total assets	\$ 466,491	\$ 624,101	\$ 209	\$ -	\$ 93,575	\$ 7,153	\$ 161,584
Liabilities							
Accounts payable	\$ 55,817	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	3,485	22,528	-	-	-	-	-
Accrued liabilities and other	2,112	3,712	-	-	-	-	-
Total liabilities	61,414	26,240	-	-	-	-	-
Deferred Inflows of Resources -							
Unavailable revenue	-	-	-	-	93,538	-	160,000
Fund Balances							
Restricted:							
Roads	405,077	597,861	-	-	-	-	-
Sidewalks	-	-	-	-	-	-	-
Assigned:							
Debt service	-	-	209	-	37	7,153	1,584
Capital projects	-	-	-	-	-	-	-
Total fund balances	405,077	597,861	209	-	37	7,153	1,584
Total liabilities, deferred inflows of resources, and fund balances	\$ 466,491	\$ 624,101	\$ 209	\$ -	\$ 93,575	\$ 7,153	\$ 161,584

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017**

<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Capital Improvement Fund	
\$ 391,761	\$ 1,356,732
-	360,094
-	28,048
<u>\$ 391,761</u>	<u>\$ 1,744,874</u>
\$ -	\$ 55,817
-	26,013
-	5,824
-	87,654
-	253,538
-	1,002,938
49,336	49,336
-	8,983
<u>342,425</u>	<u>342,425</u>
391,761	1,403,682
<u>\$ 391,761</u>	<u>\$ 1,744,874</u>

City of Farmington, Michigan

	Special Revenue Funds		Debt Service Funds				
	Major Streets	Municipal Street Fund	Nonvoted Debt Service	Streetscape Debt Service	Special Assessment Debt Service	2013 LTGO Bonds (OPEB)	Drakeshire Debt Service
Revenue							
Property taxes	\$ -	\$ 303,068	\$ -	\$ -	\$ -	\$ -	\$ -
State-shared revenue and grants	584,318	8,939	-	-	-	-	-
Investment income	2,296	7,248	2	-	40	1,067	247
Other revenue	43,467	-	-	81,289	36,056	-	94,400
Total revenue	630,081	319,255	2	81,289	36,096	1,067	94,647
Expenditures							
Public works	379,457	-	-	-	-	-	-
Debt service:							
Principal	115,000	-	101,840	45,000	135,000	52,250	80,000
Interest on long-term debt	28,283	-	41,997	36,289	20,385	380,392	14,400
Total expenditures	522,740	-	143,837	81,289	155,385	432,642	94,400
Excess of Revenue Over (Under) Expenditures	107,341	319,255	(143,835)	-	(119,289)	(431,575)	247
Other Financing Sources (Uses)							
Transfers in	41,408	-	143,837	-	116,570	432,793	-
Transfers out	(100,391)	(357,895)	-	-	-	-	-
Total other financing (uses) sources	(58,983)	(357,895)	143,837	-	116,570	432,793	-
Net Change in Fund Balances	48,358	(38,640)	2	-	(2,719)	1,218	247
Fund Balances - Beginning of year	356,719	636,501	207	-	2,756	5,935	1,337
Fund Balances - End of year	\$ 405,077	\$ 597,861	\$ 209	\$ -	\$ 37	\$ 7,153	\$ 1,584

**Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2017**

<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ 303,068
-	593,257
3,444	14,344
-	255,212
3,444	1,165,881
-	379,457
-	529,090
-	521,746
-	1,430,293
3,444	(264,412)
-	734,608
-	(458,286)
-	276,322
3,444	11,910
388,317	1,391,772
\$ 391,761	\$ 1,403,682

City of Farmington, Michigan

Other Supplemental Information Combining Statement of Net Position Internal Service Funds June 30, 2017

	Self Insurance	Employee Accrued Benefits Fund	DPW Equipment Revolving Fund	Total
Assets				
Current assets:				
Cash	\$ 286,854	\$ 265,123	\$ 332,863	\$ 884,840
Receivables	-	-	5,593	5,593
Due from other funds	-	-	6,955	6,955
Prepaid expenses and other assets	46,539	-	-	46,539
Total current assets	333,393	265,123	345,411	943,927
Noncurrent assets - Capital assets - subject to depreciation	-	-	678,141	678,141
Total assets	333,393	265,123	1,023,552	1,622,068
Deferred Outflows of Resources -				
Deferred outflows related to pensions	-	-	21,995	21,995
Liabilities				
Current liabilities:				
Accounts payable	-	-	1,527	1,527
Due to other funds	40,000	-	2,786	42,786
Accrued liabilities and other	56,418	-	662	57,080
Compensated absences	-	141,749	-	141,749
Total current liabilities	96,418	141,749	4,975	243,142
Noncurrent liabilities:				
Compensated absences	-	70,950	-	70,950
Net pension liability	-	-	57,382	57,382
Total noncurrent liabilities	-	70,950	57,382	128,332
Total liabilities	96,418	212,699	62,357	371,474
Deferred Inflows of Resources -				
Deferred inflows related to pensions	-	-	4,528	4,528
Net Position				
Net investment in capital assets	-	-	678,141	678,141
Unrestricted	236,975	52,424	300,521	589,920
Total net position	<u>\$ 236,975</u>	<u>\$ 52,424</u>	<u>\$ 978,662</u>	<u>\$ 1,268,061</u>

City of Farmington, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Position Internal Service Funds Year Ended June 30, 2017

	Self Insurance	Employee Accrued Benefits Fund	DPW Equipment Revolving Fund	Total
Operating Revenue -				
Service charges	\$ 196,269	\$ -	\$ 437,970	\$ 634,239
Operating Expenses				
Insurance costs	229,741	-	-	229,741
Accrued benefits expense	-	5,952	-	5,952
Fleet maintenance	-	-	241,687	241,687
Depreciation	-	-	48,130	48,130
Total operating expenses	<u>229,741</u>	<u>5,952</u>	<u>289,817</u>	<u>525,510</u>
Operating (Loss) Income	(33,472)	(5,952)	148,153	108,729
Nonoperating Revenue -				
Investment income	<u>4,091</u>	<u>2,277</u>	<u>2,005</u>	<u>8,373</u>
Change in Net Position	(29,381)	(3,675)	150,158	117,102
Net Position - Beginning of year	<u>266,356</u>	<u>56,099</u>	<u>828,504</u>	<u>1,150,959</u>
Net Position - End of year	<u><u>\$ 236,975</u></u>	<u><u>\$ 52,424</u></u>	<u><u>\$ 978,662</u></u>	<u><u>\$ 1,268,061</u></u>

City of Farmington, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2017

	Self Insurance	Employee Accrued Benefits Fund	DPW Equipment Revolving Fund	Total
Cash Flows from Operating Activities				
Receipts from customers	\$ 196,269	\$ -	\$ 462,391	\$ 658,660
Payments to suppliers	(198,084)	-	(79,349)	(277,433)
Payments to employees	-	(28,528)	(77,333)	(105,861)
Other receipts	-	-	2,086	2,086
Net cash (used in) provided by operating activities	(1,815)	(28,528)	307,795	277,452
Cash Flows Used in Capital and Related Financing Activities - Purchase of capital assets				
	-	-	(222,771)	(222,771)
Cash Flows from Investment Activities - Interest received on investments				
	4,091	2,277	2,005	8,373
Net Increase (Decrease) in Cash and Cash Equivalents				
	2,276	(26,251)	87,029	63,054
Cash and Cash Equivalents - Beginning of year				
	284,578	291,374	245,834	821,786
Cash and Cash Equivalents - End of year				
	<u>\$ 286,854</u>	<u>\$ 265,123</u>	<u>\$ 332,863</u>	<u>\$ 884,840</u>
Statement of Net Position Classification of Cash and Cash Equivalents - Cash				
	<u>\$ 286,854</u>	<u>\$ 265,123</u>	<u>\$ 332,863</u>	<u>\$ 884,840</u>
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities				
Operating (loss) income	\$ (33,472)	\$ (5,952)	\$ 148,153	\$ 108,729
Adjustments to reconcile operating (loss) income to net cash from operating activities:				
Depreciation	-	-	48,130	48,130
Changes in assets and liabilities:				
Receivables:	-	-	2,086	2,086
Due from others	-	-	24,421	24,421
Prepaid and other assets	19,940	-	102,041	121,981
Accounts payable	-	-	(4,536)	(4,536)
Due to others	40,000	-	109	40,109
Accrued and other liabilities	(28,283)	(22,576)	(12,609)	(63,468)
Net cash (used in) provided by operating activities	<u>\$ (1,815)</u>	<u>\$ (28,528)</u>	<u>\$ 307,795</u>	<u>\$ 277,452</u>