

# **City of Dearborn Heights, Michigan**

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

# City of Dearborn Heights, Michigan

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# City of Dearborn Heights, Michigan

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## Independent Auditor's Report

To the City Council  
City of Dearborn Heights, 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 Dearborn Heights, Michigan (the "City") as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the City of Dearborn Heights, Michigan's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinion.

To the City Council  
City of Dearborn Heights, Michigan

### ***Opinion***

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 Dearborn Heights, Michigan as of June 30, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis; OPEB system schedule of funding progress, pension system investment returns, changes in the City's net pension liability and related ratios, and employer contributions; and the major fund budgetary comparison schedule, 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 an opinion on the financial statements that collectively comprise the City of Dearborn Heights, 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.

To the City Council  
City of Dearborn Heights, Michigan

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2016 on our consideration of the City of Dearborn Heights, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Dearborn Heights, Michigan's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

November 1, 2016

# **City of Dearborn Heights, Michigan**

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## **Management's Discussion and Analysis**

Our discussion and analysis of the City of Dearborn Heights, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the City's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2016:

- Property taxes related to governmental operations are the number one revenue source for the City. Property tax revenue decreased by approximately \$370,000 (in the Corporate Fund) for the fiscal year ended June 30, 2016.
- State-shared revenue is the City's second largest source of revenue. State-shared revenue has decreased significantly since 2002. However, in the prior and current fiscal year, this revenue has remained consistent.
- The mayor and department heads are continuing to work closely with each other and are reducing all expenditures as much as possible without affecting services to the citizens of the City. This includes significant changes to employee and retiree healthcare benefits and 10 percent salary and wage reductions across the board, including furlough days. The savings in health care and salaries were implemented in 2011 and continue today.

### **Using this Annual Report**

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

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

# City of Dearborn Heights, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the current year's net position and changes in net position, compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2015	2016	2015	2016	2015	2016
<b>Assets</b>						
Current and other assets	\$ 11,302,731	\$ 13,625,494	\$ 17,692,990	\$ 15,936,923	\$ 28,995,721	\$ 29,562,417
Capital assets	83,557,900	85,328,009	94,432,357	95,791,233	177,990,257	181,119,242
Total assets	94,860,631	98,953,503	112,125,347	111,728,156	206,985,978	210,681,659
<b>Deferred Outflows of Resources</b>	12,463,243	28,147,292	729,392	1,336,442	13,192,635	29,483,734
<b>Liabilities</b>						
Current liabilities	5,714,838	5,509,311	6,990,678	6,737,076	12,705,516	12,246,387
Long-term liabilities	80,690,697	111,751,595	21,592,835	19,953,337	102,283,532	131,704,932
Total liabilities	86,405,535	117,260,906	28,583,513	26,690,413	114,989,048	143,951,319
<b>Other Deferred Inflows</b>	-	(507,441)	-	(130,633)	-	(638,074)
<b>Net Position</b>						
Net investment in capital assets	74,045,912	76,214,900	74,787,353	78,124,665	148,833,265	154,339,565
Restricted	6,221,393	6,241,088	11,560,309	9,946,933	17,781,702	16,188,021
Unrestricted	(59,348,966)	(73,123,540)	(2,076,436)	(1,828,046)	(61,425,402)	(74,951,586)
Total net position	<u>\$ 20,918,339</u>	<u>\$ 9,332,448</u>	<u>\$ 84,271,226</u>	<u>\$ 86,243,552</u>	<u>\$ 105,189,565</u>	<u>\$ 95,576,000</u>

The City's combined net position decreased by approximately 9 percent from a year ago, decreasing from \$105.2 million to \$95.6 million.

The unrestricted deficit in net position of the governmental activities (the part of net position that can be used to finance day-to-day operations) increased by approximately \$13.8 million.

# City of Dearborn Heights, Michigan

## Management's Discussion and Analysis (Continued)

### Governmental Activities

The following table shows the changes in net position of governmental activities during the current year, compared to the prior year:

	<u>2015</u>	<u>2016</u>	<u>Change</u>
<b>Revenue</b>			
Program revenue:			
Charges for services	\$ 8,291,982	\$ 8,804,140	\$ 512,158
Operating grants	5,619,551	5,790,015	170,464
Capital grants	1,518,445	1,512,856	(5,589)
General revenue:			
Property taxes	25,518,833	25,194,578	(324,255)
State-shared revenue	5,363,443	6,334,957	971,514
Investment earnings	18,081	33,289	15,208
Franchise fees and miscellaneous	<u>1,160,128</u>	<u>1,399,230</u>	<u>239,102</u>
Total revenue	47,490,463	49,069,065	1,578,602
<b>Expenses</b>			
General government	9,973,505	9,532,642	(440,863)
District Court	51,002	352,642	301,640
Public safety	29,649,927	38,783,786	9,133,859
Public works	8,633,734	7,933,671	(700,063)
Community and economic development	1,081,771	1,390,558	308,787
Recreation and cultural	2,565,763	2,594,052	28,289
Interest on long-term debt	<u>91,805</u>	<u>67,605</u>	<u>(24,200)</u>
Total expenses	<u>52,047,507</u>	<u>60,654,956</u>	<u>8,607,449</u>
<b>Change in Net Position</b>	<b><u>\$ (4,557,044)</u></b>	<b><u>\$ (11,585,891)</u></b>	<b><u>\$ (7,028,847)</u></b>

Reviewing the above chart, it can be noted that overall revenue increased by 3.3 percent, while expenses increased by 16.5 percent.

# City of Dearborn Heights, Michigan

## Management's Discussion and Analysis (Continued)

### Business-type Activities

The following table shows the changes in net position of business-type activities during the current year, compared to the prior year:

	2015	2016	Change
Operating revenue	\$ 17,828,545	\$ 19,865,730	\$ 2,037,185
Operating expenses - Other than depreciation	17,049,671	16,886,590	(163,081)
Depreciation and amortization	2,834,035	2,916,292	82,257
<b>Operating (Loss) Income</b>	<b>(2,055,161)</b>	<b>62,848</b>	<b>2,118,009</b>
Property tax revenue	3,430,463	1,888,579	(1,541,884)
Interest income	38,428	34,076	(4,352)
Interest expense	667,214	513,177	(154,037)
Capital grants and contributions	437,994	500,000	62,006
<b>Change in Net Position</b>	<b>\$ 1,184,510</b>	<b>\$ 1,972,326</b>	<b>\$ 787,816</b>
<b>Total Revenue</b>	<b>\$ 21,735,430</b>	<b>\$ 22,288,385</b>	<b>\$ 552,955</b>

The City's business-type activities consist of the Water and Sewer Fund. The City maintains transmission lines that allow customers to receive water from the City of Detroit water system, delivered to our residents. Sewage treatment is provided through Wayne County's Rouge Valley and Downriver Sewage Disposal Systems.

Per review of the above chart, it can be noted that operating revenue increased by 11.43 percent, while operating expenses, excluding depreciation and amortization, decreased by approximately 1 percent.

### The City's Funds

The analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major fund for 2016 was the Corporate Fund.

### Corporate Fund Budgetary Highlights

The Corporate Fund accounts for all police, fire, public works, planning and zoning, and administrative functions of the City. The budget is essentially a maintenance budget, which means it usually increases modestly from year to year. The budget is monitored closely and amended when needed.

# **City of Dearborn Heights, Michigan**

## **Management's Discussion and Analysis (Continued)**

As in the past, the budget was amended to account for changes in revenue, such as state-shared revenue and grants. In addition, the expenditures side of the budget was increased for the general government, public safety, and other departments as needed.

### **Capital Asset and Debt Administration**

At the end of fiscal year 2016, the City (excluding component units) had approximately \$181.1 million (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, infrastructure, and water and sewer lines. The debt balances related to the acquisition and construction of these assets at June 30, 2016 was approximately \$26.8 million. Additional information regarding capital assets and related debt is available in the notes to the financial statements.

### **Economic Factors and Next Year's Budgets and Rates**

The City of Dearborn Heights has been applying the maximum millage rate that is possible under the Headlee amendment for the past few years. During the year ended June 30, 2013, the City requested the voters to approve a Headlee override, which was approved during the November 2011 election, and resulted in an increase of 2.9449 mills (which increased the Corporate Fund property tax revenue by \$2.4 million during the fiscal year ended June 30, 2013).

For the fiscal year ended June 30, 2016, state-shared revenue remained consistent; this trend is expected to continue in the year ending June 30, 2017. Employee counts have held firm from prior years, and only positions lost through retirements or terminations are being replaced. All cost-cutting implemented in prior years, such as pay cuts and healthcare reductions, are still in place and will continue for 2017. In addition, property tax values are expected to hold at current levels with a possible 2 percent increase in 2017.

### **Contacting City Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City's comptroller's office at 6045 Fenton, Dearborn Heights, Michigan 48127, or via the City's website at [vmacari@ci.dearborn-heights.mi.us](mailto:vmacari@ci.dearborn-heights.mi.us).

# City of Dearborn Heights, Michigan

## Statement of Net Position June 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 5,939,692	\$ 3,637,394	\$ 9,577,086	\$ 2,543,400
Receivables:				
Property taxes receivable	139,401	-	139,401	-
Receivables from sales to customers on account	-	7,018,786	7,018,786	-
Due from other governmental units	2,510,804	-	2,510,804	-
Other receivables	1,101,052	-	1,101,052	-
Due from fiduciary funds	3,518,715	-	3,518,715	-
Due from component units	318	-	318	-
Internal balances	(509,796)	509,796	-	-
Inventory	57,500	448,131	505,631	-
Restricted assets	43,594	4,322,816	4,366,410	-
Due from primary government	-	-	-	790
Capital assets:				
Assets not subject to depreciation (Note 4)	6,650,050	451,171	7,101,221	2,769,084
Assets subject to depreciation (Note 4)	78,677,959	95,340,062	174,018,021	15,388,139
Other assets	824,214	-	824,214	182
<b>Total assets</b>	<b>98,953,503</b>	<b>111,728,156</b>	<b>210,681,659</b>	<b>20,701,595</b>
<b>Deferred Outflows of Resources</b>				
Bond refunding loss being amortized	-	64,578	64,578	276,041
Pensions (Notes 11 and 12)	28,147,292	1,271,864	29,419,156	-
<b>Total deferred outflows of resources</b>	<b>28,147,292</b>	<b>1,336,442</b>	<b>29,483,734</b>	<b>276,041</b>
<b>Liabilities</b>				
Accounts payable	2,197,719	2,398,192	4,595,911	7,318
Due to other governmental units	47,654	-	47,654	-
Due to primary government	-	-	-	318
Refundable deposits, bonds, etc.	-	156,585	156,585	-
Accrued liabilities and other	425,684	298,054	723,738	153,090
Unearned revenue	13,300	-	13,300	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences (Note 6)	1,617,161	61,791	1,678,952	-
Provision for general and medical claims (Note 7)	480,015	160,005	640,020	-
Workers' compensation (Note 7)	206,075	-	206,075	-
Current portion of long-term debt (Note 6)	521,703	3,662,449	4,184,152	990,000
Due in more than one year:				
Compensated absences (Note 6)	6,468,642	247,163	6,715,805	-
Provision for general and medical claims (Note 7)	297,959	98,867	396,826	-
Workers' compensation (Note 7)	97,940	96,936	194,876	-
Net OPEB obligation (Note 13)	53,341,261	2,766,710	56,107,971	-
Net pension liability (Note 12)	42,910,793	2,674,964	45,585,757	-
Long-term debt (Note 6)	8,635,000	14,068,697	22,703,697	14,795,000
<b>Total liabilities</b>	<b>117,260,906</b>	<b>26,690,413</b>	<b>143,951,319</b>	<b>15,945,726</b>
<b>Deferred Inflows of Resources - Other deferred inflows</b>	<b>507,441</b>	<b>130,633</b>	<b>638,074</b>	<b>-</b>

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

# City of Dearborn Heights, Michigan

## Statement of Net Position (Continued) June 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Net Position</b>				
Net investment in capital assets	\$ 76,214,900	\$ 78,124,665	\$ 154,339,565	\$ 2,648,264
Restricted for:				
Roads	1,771,659	-	1,771,659	-
Debt service and capital projects	-	4,322,816	4,322,816	-
Grants	73,915	-	73,915	-
Housing commission	6,519	-	6,519	-
Special levy	-	5,624,117	5,624,117	-
Drug enforcement	771,167	-	771,167	-
Traffic immobilization	53,390	-	53,390	-
Library	1,718,647	-	1,718,647	-
Capital projects	43,594	-	43,594	-
Sanitation levy reserves	235,024	-	235,024	-
Cable PEG fees	753,803	-	753,803	-
Transportation - SMART	259,079	-	259,079	-
Act 345 Levy	554,291	-	554,291	-
Unrestricted (deficit)	(73,123,540)	(1,828,046)	(74,951,586)	2,383,646
Total net position	<b>\$ 9,332,448</b>	<b>\$ 86,243,552</b>	<b>\$ 95,576,000</b>	<b>\$ 5,031,910</b>

# City of Dearborn Heights, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 9,532,642	\$ 799,749	\$ 5,311	\$ -
District Court	352,642	-	-	-
Public safety	38,783,786	5,729,812	933,558	1,241,427
Public works	7,933,671	1,867,286	3,610,043	-
Community and economic development	1,390,558	-	1,241,103	-
Recreation and culture	2,594,052	407,293	-	271,429
Interest on long-term debt	67,605	-	-	-
Total governmental activities	60,654,956	8,804,140	5,790,015	1,512,856
Business-type activities - Water and sewer	20,316,059	19,865,730	-	500,000
Total primary government	<b>\$ 80,971,015</b>	<b>\$ 28,669,870</b>	<b>\$ 5,790,015</b>	<b>\$ 2,012,856</b>
Component units:				
Tax Increment Financing Authority	\$ 1,890,820	\$ -	\$ 258,900	\$ -
Brownfield Redevelopment Authority	22,022	-	-	-
Total component units	<b>\$ 1,912,842</b>	<b>\$ -</b>	<b>\$ 258,900</b>	<b>\$ -</b>
General revenue:				
Property taxes				
State-shared revenue				
Unrestricted investment income				
Unrestricted cable revenue				
Other miscellaneous income				
Total general revenue				
<b>Change in Net Position</b>				
<b>Net Position - Beginning of year</b>				
<b>Net Position - End of year</b>				

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (8,727,582)	\$ -	\$ (8,727,582)	\$ -
(352,642)	-	(352,642)	-
(30,878,989)	-	(30,878,989)	-
(2,456,342)	-	(2,456,342)	-
(149,455)	-	(149,455)	-
(1,915,330)	-	(1,915,330)	-
(67,605)	-	(67,605)	-
(44,547,945)	-	(44,547,945)	-
-	49,671	49,671	-
(44,547,945)	49,671	(44,498,274)	-
-	-	-	(1,631,920)
-	-	-	(22,022)
-	-	-	(1,653,942)
25,194,578	1,888,579	27,083,157	1,873,112
6,334,957	-	6,334,957	-
33,289	34,076	67,365	14,786
1,092,132	-	1,092,132	-
307,098	-	307,098	60,240
32,962,054	1,922,655	34,884,709	1,948,138
(11,585,891)	1,972,326	(9,613,565)	294,196
20,918,339	84,271,226	105,189,565	4,737,714
<b>\$ 9,332,448</b>	<b>\$ 86,243,552</b>	<b>\$ 95,576,000</b>	<b>\$ 5,031,910</b>

# City of Dearborn Heights, Michigan

## Governmental Funds Balance Sheet June 30, 2016

	Corporate Fund	Nonmajor Governmental Funds	Total
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 1,765,691	\$ 4,174,001	\$ 5,939,692
Receivables:			
Property taxes receivable	139,401	-	139,401
Due from other governmental units	1,383,351	1,127,453	2,510,804
Other receivables	1,101,052	-	1,101,052
Due from fiduciary funds	3,518,715	-	3,518,715
Due from component units	318	-	318
Due from other funds (Note 5)	354,276	196,998	551,274
Housing inventory	-	57,500	57,500
Restricted assets	-	43,594	43,594
Other assets	824,214	-	824,214
	<u>\$ 9,087,018</u>	<u>\$ 5,599,546</u>	<u>\$ 14,686,564</u>
Total assets			
<b>Liabilities</b>			
Accounts payable	\$ 1,631,449	\$ 566,270	\$ 2,197,719
Due to other governmental units	47,654	-	47,654
Due to other funds (Note 5)	196,998	364,072	561,070
Advances from other funds (Note 5)	500,000	-	500,000
Accrued liabilities and other	300,652	33,315	333,967
Unearned revenue	13,300	-	13,300
	<u>2,690,053</u>	<u>963,657</u>	<u>3,653,710</u>
Total liabilities			
<b>Fund Balances</b>			
Nonspendable - MMRMA deposits	154,476	-	154,476
Restricted:			
Roads	-	1,771,659	1,771,659
Cable PEG fees	753,803	-	753,803
Transportation	259,079	-	259,079
Drug enforcement	-	771,167	771,167
Grants	-	73,915	73,915
Sanitation levy	235,024	-	235,024
Act 345 levy	554,291	-	554,291
Housing commission	-	6,519	6,519
Traffic immobilization	-	53,390	53,390
Library	-	1,718,647	1,718,647
Capital projects	-	43,594	43,594
Committed - Building authority	-	196,998	196,998
Assigned - General government retiree health care	2,000,000	-	2,000,000
Unassigned	2,440,292	-	2,440,292
	<u>6,396,965</u>	<u>4,635,889</u>	<u>11,032,854</u>
Total fund balances			
Total liabilities and fund balances	<u>\$ 9,087,018</u>	<u>\$ 5,599,546</u>	<u>\$ 14,686,564</u>

# City of Dearborn Heights, Michigan

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

<b>Fund Balance Reported in Governmental Funds</b>	\$ 11,032,854
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	85,328,009
Net pension liabilities, pension-related deferred inflows and outflows, and net OPEB obligations are not current financial resources and are not reported in the funds	(68,612,203)
Long-term liabilities are not due and payable in the current period and are not reported in the funds - Bonds payable	(9,156,703)
Accrued interest is not due and payable in the current period and is not reported in the funds	(91,717)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(8,085,803)
General and medical insurance liability is not included as a liability of the funds	(777,974)
Workers' compensation liability is not included as a liability of the funds	(304,015)
<b>Net Position of Governmental Activities</b>	<b><u>\$ 9,332,448</u></b>

# City of Dearborn Heights, Michigan

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

	Corporate Fund	Nonmajor Governmental Funds	Total
<b>Revenue</b>			
Property taxes	\$ 23,056,310	\$ 2,138,268	\$ 25,194,578
Licenses and permits	1,735,266	-	1,735,266
Federal grants	324,669	2,602,191	2,926,860
State-shared revenue and grants	5,793,703	4,692,336	10,486,039
Charges for services	2,078,353	-	2,078,353
Fines and forfeitures	3,490,641	385,952	3,876,593
Interest income	12,827	20,462	33,289
Other revenue:			
Cable revenue	1,092,132	-	1,092,132
Other miscellaneous income	2,335,700	421,415	2,757,115
<b>Total revenue</b>	<b>39,919,601</b>	<b>10,260,624</b>	<b>50,180,225</b>
<b>Expenditures</b>			
Current:			
General government	9,893,177	21,119	9,914,296
Drug enforcement	-	53,869	53,869
Public safety	21,749,828	1,381,175	23,131,003
Public works	4,704,078	4,864,247	9,568,325
Community and economic development	102,759	1,287,603	1,390,362
Library	-	1,624,789	1,624,789
Recreation and culture	644,796	-	644,796
Other capital outlay	-	259,306	259,306
Debt service	49,929	725,879	775,808
<b>Total expenditures</b>	<b>37,144,567</b>	<b>10,217,987</b>	<b>47,362,554</b>
<b>Excess of Revenue Over Expenditures</b>	<b>2,775,034</b>	<b>42,637</b>	<b>2,817,671</b>
<b>Other Financing Sources (Uses)</b>			
Face value of debt issue (Note 6)	2,175,000	-	2,175,000
Transfers in (Note 5)	-	195,385	195,385
Transfers out (Note 5)	(195,385)	-	(195,385)
Payment to bond refunding escrow agent (Note 6)	(2,115,000)	-	(2,115,000)
<b>Total other financing (uses) sources</b>	<b>(135,385)</b>	<b>195,385</b>	<b>60,000</b>
<b>Net Changes in Fund Balances</b>	<b>2,639,649</b>	<b>238,022</b>	<b>2,877,671</b>
<b>Fund Balances - Beginning of year</b>	<b>3,757,316</b>	<b>4,397,867</b>	<b>8,155,183</b>
<b>Fund Balances - End of year</b>	<b>\$ 6,396,965</b>	<b>\$ 4,635,889</b>	<b>\$ 11,032,854</b>

# City of Dearborn Heights, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2016**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 2,877,671</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	6,590,956
Depreciation expense	(4,820,847)
Governmental funds report expenditures for pension and other postemployment benefits as they make contributions; in the statement of activities, the OPEB cost is recognized as contributions are required and the change in net pension liability does not require the use of current financial resources	(15,758,439)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	2,594,929
Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position	(2,175,000)
Change in estimated workers' compensation liability is recorded in the statement of activities	(47,094)
Change in estimated general and medical liability claims is recorded in the statement of activities	297,034
Increase in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources and therefore are not reported in the fund statements until they come due for payment	(1,146,645)
Governmental funds report interest expense based on amounts paid in cash during the fiscal year; in the statement of activities, interest expense is expensed based upon accrued expense	1,544
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ (11,585,891)</u></b>

# City of Dearborn Heights, Michigan

## Proprietary Funds Statement of Net Position June 30, 2016

	Enterprise - Water and Sewer Fund
<b>Assets</b>	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 3,637,394
Receivables	7,018,786
Due from other funds (Note 5)	28,808
Inventory	448,131
Advances to other funds (Note 5)	500,000
Total current assets	11,633,119
Noncurrent assets:	
Restricted assets	4,322,816
Capital assets (Note 4)	95,791,233
Total noncurrent assets	100,114,049
Total assets	111,747,168
<b>Deferred Outflows of Resources</b>	
Bond refunding loss being amortized	64,578
Pension (Notes 11 and 12)	1,271,864
Total deferred outflows	1,336,442
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	2,398,192
Due to other funds	19,012
Refundable deposits, bonds, etc.	156,585
Accrued liabilities and other	298,054
Compensated absences (Note 6)	61,791
Provision for general and medical claims (Note 7)	160,005
Current portion of long-term debt (Note 6)	3,662,449
Total current liabilities	6,756,088
Noncurrent liabilities:	
Compensated absences (Note 6)	247,163
Provision for general and medical claims (Note 7)	98,867
Workers' compensation (Note 7)	96,936
Net OPEB obligation (Note 13)	2,766,710
Net pension liability (Notes 11 and 12)	2,674,964
Long-term debt (Note 6)	14,068,697
Total noncurrent liabilities	19,953,337
Total liabilities	26,709,425
<b>Deferred Inflows of Resources - Other deferred inflows</b>	130,633
<b>Net Position</b>	
Net investment in capital assets	78,124,665
Restricted:	
Debt service and capital projects	4,322,816
Special levy	5,624,117
Unrestricted	(1,828,046)
Total net position	\$ 86,243,552

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

# City of Dearborn Heights, Michigan

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

	Enterprise - Water and Sewer Fund
<b>Operating Revenue</b>	
Water and sewer services	\$ 17,712,866
Other operating revenue	<u>2,152,864</u>
Total operating revenue	19,865,730
<b>Operating Expenses</b>	
Water and sewage disposal charges	9,489,646
Transmission and distribution expense	2,081,665
Billing and administrative costs	4,480,705
Other operating expenses	834,574
Depreciation	<u>2,916,292</u>
Total operating expenses	<u>19,802,882</u>
<b>Operating Income</b>	62,848
<b>Nonoperating Revenue (Expenses)</b>	
Property tax revenue	1,888,579
Interest earned on investments	34,076
Interest expense	<u>(513,177)</u>
Total nonoperating revenue	<u>1,409,478</u>
<b>Income - Before capital contributions</b>	1,472,326
<b>Capital Contributions</b>	<u>500,000</u>
<b>Change in Net Position</b>	1,972,326
<b>Net Position - Beginning of year</b>	<u>84,271,226</u>
<b>Net Position - End of year</b>	<u><u>\$ 86,243,552</u></u>

# City of Dearborn Heights, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2016

<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 19,750,481
Payments to suppliers	(14,372,336)
Payments to employees	(1,574,582)
Internal activity - Payments to other funds	19,218
Claims	<u>(272,001)</u>
Net cash provided by operating activities	3,550,780
<b>Cash Flows from Capital and Related Financing Activities</b>	
Proceeds from property tax levy (restricted for debt service)	1,888,579
Purchase of capital assets (direct purchases by the City)	(2,378,440)
Principal and interest paid on long-term debt (direct payments by the City)	(1,821,933)
Distributions to the County related to special tax levy collections (restricted for debt service)	<u>(2,165,906)</u>
Net cash used in capital and related financing activities	(4,477,700)
<b>Cash Flows from Investing Activities</b>	
Unrestricted interest received (directly by the City) on investments held by the City	4,030
Proceeds from advances to other funds (net of current advances)	<u>1,100,000</u>
Net cash provided by investing activities	<u>1,104,030</u>
<b>Net Increase in Cash and Cash Equivalents</b>	177,110
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>3,460,284</u>
<b>Cash and Cash Equivalents - End of year</b>	<b><u>\$ 3,637,394</u></b>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>	
Operating income	\$ 62,848
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	2,916,292
Changes in assets and liabilities:	
Receivables	(112,749)
Inventory	16,429
Accounts payable and refundable deposits	(414,962)
Due to/from other funds	19,218
Estimated claims liability	(272,001)
Accrued liabilities and other	<u>1,335,705</u>
Net cash provided by operating activities	<b><u>\$ 3,550,780</u></b>

**Noncash Investing, Capital, and Financing Activities** - During the year ended June 30, 2016, the City received constructed water line improvements with a value of \$500,000. Wayne County used \$2,165,906 of deposits held on behalf of the City to retire debt and pay interest costs. The County issued new debt on behalf of the City in the amount of \$1,150,935. The debt proceeds are being used for the construction of various improvements. Interest income totaling \$30,046 was earned on funds held at Wayne County.

# City of Dearborn Heights, Michigan

## Fiduciary Funds Statement of Fiduciary Net Position June 30, 2016

	Pension and Other Employee Benefits	Agency Funds
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 7,288,729	\$ 734,846
Investments (Note 3):		
U.S. government securities	3,438,324	-
Common stock	82,786,901	-
Bonds	8,514,051	-
Real estate	2,009,643	-
Limited partnership	261,940	-
Mutual funds	108,012,877	-
Receivables:		
Other receivables	248,225	-
Due from other governmental units	-	25
Due from primary government	-	46,690
	212,560,690	<b>\$ 781,561</b>
<b>Liabilities</b>		
Accounts payable	93,438	\$ 904
Due to other governmental units	-	399,622
Due to primary government	3,518,715	-
Accrued liabilities and other	-	381,035
Collateral for securities lending (Note 3)	11,169,465	-
	14,781,618	<b>\$ 781,561</b>
<b>Net Position Held in Trust for Pension and Other Employee Benefits</b>	<b>\$ 197,779,072</b>	

# City of Dearborn Heights, Michigan

## Fiduciary Funds Statement of Changes in Fiduciary Net Position Pension and Other Employee Benefits Year Ended June 30, 2016

	Pension and Other Employee Benefits
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 6,000,594
Net decrease in fair value of investments	(10,851,129)
Investment-related expenses	(523,490)
Contributions:	
Employer	6,904,889
Employee	543,744
Total contributions	7,448,633
Total additions	2,074,608
<b>Deductions</b>	
Benefit payments	13,909,701
Fringe benefits	3,518,715
Total deductions	17,428,416
<b>Net Decrease in Net Position Held in Trust</b>	(15,353,808)
<b>Net Position Held in Trust for Pension and Other Employee Benefits -     Beginning of year</b>	213,132,880
<b>Net Position Held in Trust for Pension and Other Employee Benefits -     End of year</b>	<b><u>\$ 197,779,072</u></b>

# City of Dearborn Heights, Michigan

## Component Units Statement of Net Position June 30, 2016

	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Economic Development Corporation	Total
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 2,380,137	\$ 163,263	\$ -	\$ 2,543,400
Due from primary government	-	-	790	790
Capital assets:				
Assets not subject to depreciation (Note 4)	2,769,084	-	-	2,769,084
Assets subject to depreciation (Note 4)	15,388,139	-	-	15,388,139
Other assets	182	-	-	182
Total assets	20,537,542	163,263	790	20,701,595
<b>Deferred Outflows of Resources -</b>				
Bond refunding loss being amortized	276,041	-	-	276,041
<b>Liabilities</b>				
Accounts payable	6,680	638	-	7,318
Due to primary government	318	-	-	318
Accrued liabilities and other:				
Accrued interest payable	153,090	-	-	153,090
Due within one year - Current portion of long-term debt (Note 6)	990,000	-	-	990,000
Due in more than one year - Long- term debt (Note 6)	14,795,000	-	-	14,795,000
Total liabilities	15,945,088	638	-	15,945,726
<b>Net Position</b>				
Net investment in capital assets	2,648,264	-	-	2,648,264
Unrestricted	2,220,231	162,625	790	2,383,646
Total net position	<u>\$ 4,868,495</u>	<u>\$ 162,625</u>	<u>\$ 790</u>	<u>\$ 5,031,910</u>

# City of Dearborn Heights, Michigan

	Expenses	Program Revenue Operating Grants and Contributions
<b>Functions/Programs</b>		
Tax Increment Finance Authority:		
Public safety	\$ 454,657	\$ -
Public works	369,706	-
Community and economic development	40,409	-
Recreation and culture	61,432	-
Debt service	964,616	258,900
Total Tax Increment Finance Authority	1,890,820	258,900
Brownfield Redevelopment Authority - Public works	22,022	-
Economic Development Corporation	-	-
Total component units	<b>\$ 1,912,842</b>	<b>\$ 258,900</b>
General revenue:		
		Property taxes
		Investment income
		Other miscellaneous income
		Total general revenue
<b>Change in Net Position</b>		
<b>Net Position - Beginning of year</b>		
<b>Net Position - End of year</b>		

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

Net (Expense) Revenue and Changes in Net Position			
Tax Increment Finance Authority	Brownfield Redevelopment Authority	Economic Development Corporation	Total
\$ (454,657)	\$ -	\$ -	\$ (454,657)
(369,706)	-	-	(369,706)
(40,409)	-	-	(40,409)
(61,432)	-	-	(61,432)
(705,716)	-	-	(705,716)
(1,631,920)	-	-	(1,631,920)
-	(22,022)	-	(22,022)
-	-	-	-
(1,631,920)	(22,022)	-	(1,653,942)
1,873,112	-	-	1,873,112
14,786	-	-	14,786
-	60,240	-	60,240
1,887,898	60,240	-	1,948,138
255,978	38,218	-	294,196
4,612,517	124,407	790	4,737,714
<b>\$ 4,868,495</b>	<b>\$ 162,625</b>	<b>\$ 790</b>	<b>\$ 5,031,910</b>

# City of Dearborn Heights, Michigan

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## Notes to Financial Statements June 30, 2016

### Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Dearborn Heights, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Dearborn Heights, Michigan:

#### **Reporting Entity**

The City of Dearborn Heights, Michigan is governed by an elected seven-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 legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

**Blended Component Units** - The City Building Authority is governed by a three-member board appointed by the City's governing body. Although it is legally separate from the City, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings.

**Discretely Presented Component Units** - The following component units are reported within the component units column to emphasize that they are legally separate from the City.

- **The Tax Increment Finance Authority (TIFA)** was formed under Act 450 of the Public Acts of 1980 to develop south Dearborn Heights. A development plan was adopted that is financed by property tax revenue. The TIFA's governing body, which consists of 11 individuals, is appointed by the mayor. Separately issued financial statements for the TIFA can be obtained at 25637 Michigan Avenue, Dearborn Heights, Michigan 48125.
- **The Brownfield Redevelopment Authority** (the "Authority") was created to identify and assist in the redevelopment of abandoned, underutilized, or contaminated parcels of property located in Dearborn Heights. The Authority's governing body, which consists of 11 individuals, is comprised of the Tax Increment Finance Authority's board members. Currently, the Authority is in the preliminary stages of development and does not have separately issued financial statements.

# City of Dearborn Heights, Michigan

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## Notes to Financial Statements June 30, 2016

### Note I - Summary of Significant Accounting Policies (Continued)

- **The Economic Development Corporation** (the "Corporation") was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of four individuals, is appointed by the mayor. This entity has not had activity in several years and does not have separately issued financial statements.

**Jointly Governed Organization** - The City is a member of the Central Wayne County Sanitation Authority (the "Sanitation Authority") and has appointed one member to the joint venture's governing board. The Sanitation Authority provides household refuse disposal services primarily for the benefit of constituents in the member municipalities. During the current fiscal year, the City contributed approximately \$924,000 for sanitation costs passed through the Sanitation Authority, which is reported in the Corporate Fund's expenditures. The City does not have an equity interest in the Sanitation Authority. Complete financial statements for the Sanitation Authority can be obtained from the administrative offices at 3759 Commerce Court, Wayne, MI 48184.

#### **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.

# City of Dearborn Heights, Michigan

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## Notes to Financial Statements June 30, 2016

### Note I - Summary of Significant Accounting Policies (Continued)

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

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

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

#### **Basis of Accounting**

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

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

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

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note I - Summary of Significant Accounting Policies (Continued)

#### Fund Accounting

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

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

- The Corporate 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.

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

- The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

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

- The Pension Trust Funds account for the activities of the police and fire employees' retirement system and general employees' retirement system, which accumulate resources for pension benefit payments to qualified employees.
- The Agency Fund accounts for deposits of monies held by the City government in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.
- The 20th District Court Fund accounts for monies collected by the court related to fines and bonds that are subsequently returned or distributed to the City as the district control unit, the County, and the State of Michigan.

**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.

# City of Dearborn Heights, Michigan

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## Notes to Financial Statements June 30, 2016

### Note I - Summary of Significant Accounting Policies (Continued)

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.

#### 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.

Approximately \$14,700,000 or 7.6 percent of the pension plan's investments subject to fair market valuation, as of June 30, 2016, is not publicly traded and therefore does not always have a readily determinable market value. Management's estimates of these values are based on information provided by investment managers, general partners, real estate advisors, and other means. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ significantly from the values that would have been used had a ready market for these securities existed. The difference could be material.

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

**Restricted Assets** - Restricted assets consist of deposits at the County being held for the construction and debt service of the City's sewer lines. The restricted assets result mainly from the issuance of debt and tax levies. Net position has been reserved for restricted assets. Within the capital projects governmental fund, restricted assets relate to unspent bond proceeds from a prior year's issuance.

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note I - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed and a 10 percent salvage value is assumed. Donated capital assets are recorded at acquisition value at the date of donation.

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

<u>Capital Asset Class</u>	<u>Lives</u>
Roads, sidewalks, and street signs	10-20 years
Water systems	50-75 years
Sewer systems	40-50 years
Building and building improvements	50 years
Machinery, furniture, equipment, and vehicles	5-15 years
Library books	3 years

**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 Corporate Fund and debt service funds are generally used to liquidate governmental long-term debt.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government reports deferred outflows related to pensions for the difference between projected and actual investment earnings, differences between projected and actual experiences, and changes in assumptions. A deferred outflow is also reported for the deferred charge on refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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 reports deferred inflows related to pensions for the difference between expected and actual experience.

#### **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 unrestricted net position to have been depleted before restricted net position is applied.

#### **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 unrestricted fund balance to have been depleted before using any of the components of restricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

# City of Dearborn Heights, Michigan

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## Notes to Financial Statements June 30, 2016

### Note I - Summary of Significant Accounting Policies (Continued)

#### Fund Balance Policies

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

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

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

#### Property Tax Revenue

Properties are assessed as of December 31. The related taxes become a lien on December 1 of the following year. Taxes are due on March 1, at which time penalties and interest are assessed.

The City's 2015 tax is levied and collectible on July 1, 2015 and is recognized as revenue in the year ended June 30, 2016, when the proceeds of the levy are budgeted and available for the financing of operations.

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 1 - Summary of Significant Accounting Policies (Continued)

The 2015 adjusted taxable valuation of the City approximated \$1.156 billion, a portion of which is captured by the TIFA, on which taxes levied consisted of 8.5000 for operating purposes, 2.0000 mills for public safety expenditures, 1.0000 mill for solid waste expenditures, 6.1000 mills for Act 345 contributions, 2.2316 mills for sanitation expenditures, 1.8688 mills for library operations and debt service, and 1.6662 mills for EPA debt service. This resulted in approximately \$9,826,000 for operating expenditures, \$2,312,000 for public safety expenditures, \$1,556,000 for solid waste expenditures, \$7,051,000 for Act 345 contributions (used for pension and retiree healthcare and other benefits), \$2,580,000 for sanitation expenditures, \$2,160,000 for library operations and debt service, and \$1,926,000 for EPA debt service. These amounts are recognized in the financial statements as tax revenue, net of administrative fees and amounts captured by the TIFA, plus collection of delinquent tax revenue.

**Pension and Other Postemployment Benefit Costs** - The City offers a defined benefit pension plan to its 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 purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The City also 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 pension obligation and net OPEB obligation have generally been liquidated from the funds from which the individual employees' salaries are paid, which are primarily the Corporate and Water and Sewer Funds.

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in the government-wide financial statements only. Compensated absences will be liquidated primarily by the Corporate and Water and Sewer Funds.

# City of Dearborn Heights, Michigan

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## Notes to Financial Statements June 30, 2016

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Proprietary Fund 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 the Water and Sewer Fund 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.

**New Accounting Pronouncement Implemented** - During the year, the City implemented GASB 72, *Fair Value Measurement and Application*. As such, additional disclosures surrounding how the City categorizes their investments within the fair value hierarchy is presented in Note 15.

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted for the Corporate Fund and all special revenue funds.

The budgets have been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in “revenue” and “expenditure” categories, rather than “other financing sources (uses).”
- Reimbursements from other funds have been included in revenue, rather than a reduction of expenditures.

Any expenditures that exceed the budget must be approved by the City Council through a budget amendment. The City Council approves all budget amendments. All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2016 has not been calculated.

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

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

The budget process begins in December and January with the comptroller's office budgeting the personnel and fringe benefits expense for all city employees and providing each department with a budget form to be completed by the department head. These forms are due back to the comptroller's office by late January. The comptroller's office then analyzes these amounts and calculates the total budget.

In February, the mayor's office schedules meetings with all major departments to review their proposed budgets and the budgets are adjusted accordingly.

In late February and early March, the comptroller's office reviews the budget to verify that it balances. At this time, the mayor's office reschedules all major departments to complete a final review of the departmental budgets. After the final review, the comptroller's office organizes the final proposed budget to deliver to the City Council. The city charter requires that the City Council receive the proposed budget by April 1.

During April and May, the City Council reviews the budget with the department heads. City Council meetings, held in April and May, provide all interested citizens an open forum where their concerns can be heard. Upon review and a subsequent public hearing, the City Council adopts the proposed budget by resolution.

The budget must be adopted by the City Council by the first Monday in June. After the budget has been adopted, all budget amendments must be approved by the City Council. The City's budget is adopted in total.

The City adopts the budget based on a total revenue and total expenditure basis. There are no significant unfavorable expenditure variances for the year ended June 30, 2016.

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

Shortfall at July 1, 2015		\$	(462,445)
Current year permit revenue			855,677
Related expenses:			
Direct costs	\$	605,986	
Estimated indirect costs		151,496	757,482
			<u>98,195</u>
Current year surplus			<u>98,195</u>
Cumulative shortfall at June 30, 2016		\$	<u>(364,250)</u>

# City of Dearborn Heights, Michigan

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## Notes to Financial Statements June 30, 2016

### 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 local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension trust funds are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated six banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the above investments. The City's deposits and investment policies are in accordance with statutory authority.

As permitted by state statutes, and under the provisions of a Securities Lending Authorization Agreement, the Police and Fire Pension System Trust Fund lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The pension system's custodial bank manages the securities lending program and received U.S. equities as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended June 30, 2016, only United States currency was received as collateral.

The Police and Fire Pension System did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or the custodial bank.

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 3 - Deposits and Investments (Continued)

The Police and Fire Pension System and the borrower maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. Because these loans are terminable on demand, their duration does not generally match the maturity date of investments made with cash collateral. See interest rate risk and credit risk disclosures in the subsequent pages related to the cash collateral pool. The aggregate collateral held and the fair value of the underlying securities on loan for the fire and police pension system as of June 30, 2016 were \$11,169,465 and \$10,974,561, respectively.

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 \$4,399,340 of bank deposits (certificates of deposit and checking and savings accounts), of which \$3,459,116 was uninsured and uncollateralized. Of the total bank deposits, \$187,089 relates to component unit accounts; however, for purposes of FDIC coverage, the component units are combined with that of the City. 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 average maturities of investments are as follows:

Primary Government	Fair Value (\$000s)	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
Pooled investments	\$ 5,299	\$ 5,299	\$ -	\$ -	\$ -
Corporate asset-backed securities (pension)	1,270	-	399	724	147
Corporate bonds (pension)	7,212	169	3,913	1,997	1,133
U.S. government agency	201	201	-	-	-
U.S. government mortgage-backed securities (pension)	1,214	-	27	30	1,157
U.S. government treasuries, notes, and bonds (pension)	2,244	220	324	572	1,128
Collateral pool	11,059	11,059	-	-	-
Commercial paper	1,500	1,500	-	-	-
<b>Total</b>	<b>\$ 29,999</b>	<b>\$ 18,448</b>	<b>\$ 4,663</b>	<b>\$ 3,323</b>	<b>\$ 3,565</b>

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### 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:

Investment	Fair Value (\$000s)	Rating	Rating Organization
<b>Primary Government</b>			
Pooled investments	\$ 5,299	AI	Moody's
Corporate asset-backed securities (pension)	859	AAA	S&P
Corporate asset-backed securities (pension)	412	AA	S&P
Corporate bonds (pension)	397	AAA	S&P
Corporate bonds (pension)	1,300	AA	S&P
Corporate bonds (pension)	4,976	A	S&P
Corporate bonds (pension)	538	BBB	S&P
U.S. government agency (pension)	37	AA	S&P
U.S. government agency (pension)	164	Not rated	
U.S. government mortgage-backed securities (pension)	1,214	Not rated	
U.S. government treasuries, notes, and bonds (pension)	2,244	Not rated	
Collateral pool	11,059	AI	S&P
Commercial paper	1,500	AI	Moody's
Total	\$ 29,999		

At year end, the City's component units had approximately \$377,720 held in an investment pool with a credit rating by Moody's of AI. The component unit also has commercial paper totaling approximately \$2,000,000 with a credit rating of A2 (also rated by Moody's). All investments held by the component unit have maturities of less than a year.

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 4 - Capital Assets

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

	Balance July 1, 2015	Transfers	Additions	Disposals	Balance June 30, 2016
<b>Governmental Activities</b>					
Capital assets not being depreciated -					
Land	\$ 6,650,050	\$ -	\$ -	\$ -	\$ 6,650,050
Capital assets being depreciated:					
Roads, sidewalks, and street signs	96,283,048	-	5,194,402	-	101,477,450
Buildings and improvements	26,149,431	-	3,832	-	26,153,263
Machinery, equipment, and vehicles	14,687,544	-	1,367,296	-	16,054,840
Library books	2,707,000	-	25,426	-	2,732,426
Subtotal	139,827,023	-	6,590,956	-	146,417,979
Accumulated depreciation:					
Roads, sidewalks, and street signs	41,235,193	-	3,577,326	-	44,812,519
Buildings and improvements	8,402,012	-	446,658	-	8,848,670
Machinery, equipment, and vehicles	10,845,668	-	796,863	-	11,642,531
Library books	2,436,300	-	-	-	2,436,300
Subtotal	62,919,173	-	4,820,847	-	67,740,020
Net capital assets being depreciated	76,907,850	-	1,770,109	-	78,677,959
Net capital assets	\$ 83,557,900	\$ -	\$ 1,770,109	\$ -	\$ 85,328,009

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 4 - Capital Assets (Continued)

	Balance July 1, 2015	Reclassifications	Additions	Disposals	Balance June 30, 2016
<b>Business-type Activities</b>					
Capital assets not being depreciated:					
Land	\$ 451,171	\$ -	\$ -	\$ -	\$ 451,171
Construction in progress	1,813,592	(1,909,046)	95,454	-	-
Subtotal	2,264,763	(1,909,046)	95,454	-	451,171
Capital assets being depreciated:					
Water system	29,205,752	-	2,477,265	(247,726)	31,435,291
Sewer system	105,919,687	1,909,046	1,534,337	(17,343)	109,345,727
Buildings and improvements	838,722	-	-	-	838,722
Equipment, vehicles, furniture, and fixtures	7,387,058	-	168,110	-	7,555,168
Subtotal	143,351,219	1,909,046	4,179,712	(265,069)	149,174,908
Accumulated depreciation:					
Water system	10,545,927	-	498,491	(247,726)	10,796,692
Sewer system	34,243,046	-	1,972,746	(17,343)	36,198,449
Buildings and improvements	467,533	-	13,337	-	480,870
Equipment, vehicles, furniture, and fixtures	5,927,119	-	431,716	-	6,358,835
Subtotal	51,183,625	-	2,916,290	(265,069)	53,834,846
Net capital assets being depreciated	92,167,594	1,909,046	1,263,422	-	95,340,062
Net capital assets	\$ 94,432,357	\$ -	\$ 1,358,876	\$ -	\$ 95,791,233
	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016	
<b>Component Units</b>					
Capital assets not being depreciated - Land	\$ 2,769,084	\$ -	\$ -	\$ -	\$ 2,769,084
Capital assets being depreciated:					
Roads	5,000,000	-	-	-	5,000,000
Buildings and improvements	22,027,117	36,307	-	-	22,063,424
Subtotal	27,027,117	36,307	-	-	27,063,424
Accumulated depreciation:					
Roads and sidewalks	4,200,000	200,000	-	-	4,400,000
Buildings and improvements	6,808,264	467,021	-	-	7,275,285
Subtotal	11,008,264	667,021	-	-	11,675,285
Net capital assets being depreciated	16,018,853	(630,714)	-	-	15,388,139
Net capital assets	\$ 18,787,937	\$ (630,714)	\$ -	\$ -	\$ 18,157,223

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 4 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 445,934
Public safety	797,587
Public works	<u>3,577,326</u>
Total governmental activities	<u>\$ 4,820,847</u>
Business-type activities - Water and sewer	<u>\$ 2,916,290</u>
Component unit activities - TIFA	<u>\$ 667,021</u>

**Construction Commitments** - The City has various active construction projects ongoing at year end whereby the City has a contractual obligation with a third party for construction and design work. At year end, the City's outstanding commitments with vendors for these projects were as follows:

	<u>Remaining Commitment</u>
Watermain Replacement Program	\$ 391,820
Street Repair Program	<u>58,542</u>
Total	<u>\$ 450,362</u>

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
Corporate Fund	CDBG Fund	\$ 69,105
	Major Streets Fund	55,776
	Local Streets Fund	77,761
	Miscellaneous Grants Fund	132,617
	Housing Commission	5
	Water and Sewer Fund	<u>19,012</u>
	Total Corporate Fund	354,276
Water and Sewer Fund	Miscellaneous Grants Fund	25,413
	Library Fund	<u>3,395</u>
	Total Water and Sewer Fund	28,808
Other nonmajor governmental funds	Corporate Fund	<u>196,998</u>
	Total	<u><u>\$ 580,082</u></u>

Receivable Fund	Payable Fund	Amount
<b>Advances from/to Other Funds</b>		
Water and Sewer Fund	Corporate Fund	<u><u>\$ 500,000</u></u>

Receivable Fund	Payable Fund	Amount
<b>Due to/from Primary Government and Component Units</b>		
Corporate Fund	TIFA	<u><u>\$ 318</u></u>

**Due to/from** - 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.

**Advance** - The above interfund advance relates to an interfund loan from the Water and Sewer Fund to the Corporate Fund. The amount outstanding at year end represents the original principal loan amount plus accrued interest. The loan is payable at an interest rate of .55 percent (current prevailing investment rate earned in the Water and Sewer Fund). All principal and interest outstanding on this loan were fully paid by August 2016.

**Interfund Transfers** - The Corporate Fund transferred \$195,385 to the Fire Station Bonds nonmajor debt service fund for current year debt service payments.

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Transactions Between the Primary Government and Component Units - The Building Authority nonmajor special revenue fund contributed \$258,900 to the TIFA component unit for current year debt service payments. The TIFA component unit contributed \$224,929 to the library nonmajor special revenue fund for current year debt service payments.

### Note 6 - 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 reassessment of the City) are received.

The below general obligation bonds and contractual obligations of the business-type activities are the result of the County issuing bonds on the City's behalf. The City has pledged property taxes, to the extent permitted by law, to fund the obligations to repay the County. Proceeds from obligations provided financing for the construction of the various water and sewer improvements. The remaining principal and interest to be paid on the obligations total approximately \$17,730,000. During the current year, net property tax revenue of the system was approximately \$1,900,000 compared to the annual debt requirements of approximately \$3,600,000.

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
General obligation bonds:							
Building Authority Refunding Bonds	3.25%-4.15%	2028	\$ 2,245,000	\$ -	\$ 2,245,000	\$ -	\$ -
Building Authority Refunding Bonds	2.00%-3.00%	2028	-	2,175,000	-	2,175,000	160,000
Library Bonds	3.00%-4.00%	2033	7,230,000	-	300,000	6,930,000	310,000
Installment obligation - 911 System	3.75%	2017	101,632	-	49,929	51,703	51,703
Total bonds and installment debt payable			9,576,632	2,175,000	2,594,929	9,156,703	521,703
Accumulated compensated absences			6,939,158	2,946,771	1,800,126	8,085,803	1,617,161
Total governmental activities			\$ 16,515,790	\$ 5,121,771	\$ 4,395,055	\$ 17,242,506	\$ 2,138,864

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type Activities</b>							
Wayne County Rouge Valley Wastewater Control System Bonds	4.00%-4.85%	2017	\$ 2,105,000	\$ -	\$ 1,025,000	\$ 1,080,000	\$ 1,080,000
County contractual obligations:							
State Revolving Loan funds	2.25%	2016	160,000	-	160,000	-	-
State Revolving Loan funds	2.25%-6.60%	2033	7,710,273	-	1,632,342	6,077,931	1,622,052
State Revolving Loan funds	2.25%	2032	2,443,395	22,564	77,459	2,388,500	155,197
State Revolving Loan funds	2.5%	2029	255,368	-	10,000	245,368	15,000
State Revolving Loan funds	2.5%	2032	304,975	1,128,371	-	1,433,346	85,000
Downriver Sewage Disposal Completion Bonds	4.50%-5.125%	2019	331,154	-	76,537	254,617	80,705
Downriver Sewage Disposal Completion Bonds	4.50%-5.125%	2029	1,229,886	-	69,693	1,160,193	73,284
Downriver Sewage Disposal Completion Bonds	4.50%-5.125%	2029	163,898	-	16,685	147,213	12,090
Ecorse Creek pollution - Level 2	2.5%	2030	2,091,814	-	116,940	1,974,874	120,484
Ecorse Creek pollution - Level 1	n/a	2019	1,191,048	-	148,881	1,042,167	148,881
Upper Rouge Installment Debt	n/a	2020	454,488	-	102,912	351,576	102,912
Ecorse Creek Pollution - Drain No. 1 Improvement Bonds	1.75%-5.25%	2023	1,742,205	-	166,844	1,575,361	166,844
Total bonds payable			20,183,504	1,150,935	3,603,293	17,731,146	3,662,449
Accumulated compensated absences			283,101	140,645	114,792	308,954	61,791
Total business-type activities			\$ 20,466,605	\$ 1,291,580	\$ 3,718,085	\$ 18,040,100	\$ 3,724,240
<b>Component Unit Activities</b>							
2007 Tax Increment Development Refunding Bonds	4.00%-4.50%	2031	\$ 16,745,000	\$ -	\$ 960,000	\$ 15,785,000	\$ 990,000

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Year Ending June 30	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 521,703	\$ 276,237	\$ 797,940	\$ 3,662,449	\$ 362,575	\$ 4,025,024	\$ 990,000	\$ 657,429	\$ 1,647,429
2018	485,000	264,844	749,844	2,551,618	286,466	2,838,084	1,025,000	617,129	1,642,129
2019	495,000	255,144	750,144	2,081,314	238,224	2,319,538	1,075,000	575,129	1,650,129
2020	510,000	245,194	755,194	1,756,722	197,105	1,953,827	830,000	537,029	1,367,029
2021	525,000	234,944	759,944	1,720,695	162,599	1,883,294	875,000	502,382	1,377,382
2022-2026	2,865,000	960,381	3,825,381	3,809,943	535,661	4,345,604	4,920,000	1,904,403	6,824,403
2027-2031	2,710,000	487,663	3,197,663	1,877,248	169,569	2,046,817	6,070,000	713,270	6,783,270
2032-2036	1,045,000	62,800	1,107,800	271,157	6,973	278,130	-	-	-
Total	\$ 9,156,703	\$ 2,787,207	\$ 11,943,909	\$ 17,731,146	\$ 1,959,172	\$ 19,690,318	\$ 15,785,000	\$ 5,506,771	\$ 21,291,771

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 6 - Long-term Debt (Continued)

**Advance Refundings** - During the year, the City issued \$2,175,000 in limited tax general obligation bonds with an average interest rate of 2.5 percent. The proceeds of these bonds were used to advance refund \$2,115,000 of outstanding 2006 Building Authority bonds with an average interest rate of 4 percent. The net proceeds of \$2,108,155 (after payment of \$66,845 in underwriting fees, insurance, and other issuance costs) plus an additional \$21,118 of City funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the general long-term debt of the City. The advance refunding reduced total debt service payments over the next 12 years by approximately \$148,000, which represents an economic gain of approximately \$126,000.

**Defeased Debt** - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2016, approximately \$10.2 million of bonds outstanding are considered defeased.

At June 30, 2016, the City had \$43,954 of unspent bond proceeds on hand and restricted for use.

**Subsequent Events** - Related to the 2007 Tax Increment Development Refunding Bonds identified above, the City refunded these bonds in the amount of \$15,085,000 at 2.33 percent interest on September 22, 2016. The total net cumulative savings of these bonds will be \$2,027,971.

### Note 7 - 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 participates in the Michigan Municipal Risk Management Authority (the "Authority") for claims relating to general liability and auto liability, auto physical damage, and property loss claims; the City is self-insured for a majority of its healthcare costs and all workers' compensation claims within certain limits. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past five fiscal years.

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.

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 7 - Risk Management (Continued)

The City estimates the liability for workers' compensation and general liability and medical 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 and Medical Claims		Workers' Compensation	
	2016	2015	2016	2015
Estimated liability - Beginning of year	\$ 1,637,593	\$ 1,366,425	\$ 322,145	\$ 634,430
Estimated claims incurred -				
Including changes in estimates	(337,021)	571,407	230,558	88,378
Claim payments	(263,726)	(300,239)	(151,752)	(400,663)
Estimated liability - End of year	<u>\$ 1,036,846</u>	<u>\$ 1,637,593</u>	<u>\$ 400,951</u>	<u>\$ 322,145</u>

The City is involved in litigation related to various other matters. At the current time, the outcome or potential liability related to these matters cannot be determined. In addition, the extent of insurance coverage related to these matters cannot be determined at this time.

### Note 8 - Pension Plan Description

#### General Government Employees' Retirement System

**Plan Description** - The City of Dearborn Heights Pension Board (the "Pension Board") administers the City of Dearborn Heights General Government Employees' Retirement System plan - a single-employer defined benefit pension plan that provides pensions for all permanent full-time general and public safety employees of the City. Benefit terms have been established by contractual agreements between the City and the various employee union representations; amendments are subject to the same process.

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

Management of the plan is vested in the Pension Board, which consists of five members elected by plan members and appointed by the City.

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

Inactive plan members or beneficiaries currently receiving benefits	149
Inactive plan members entitled to but not yet receiving benefits	54
Active plan members	<u>125</u>
Total employees covered by the plan	<u>328</u>

### Note 8 - Pension Plan Description (Continued)

**Benefits Provided** - The pension plan provides retirement, disability, and death benefits. Retirement benefits for general plan members are calculated as 2.5 percent of the member's average monthly compensation for each year of credited service up to a maximum of 30 years of credited service. General plan members with 10 years of credited service are eligible to retire at age 55 and are also eligible for non-duty disability benefits after 10 years of credited service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits, but are payable immediately without an actuarial reduction and are calculated using a minimum of 15 years of credited service for duty disabilities only. Preretirement death benefits are payable to the spouse of a married employee who has 10 or more years of credited service or who has met the age and service requirement for normal or early retirement. The amount of the benefit is equal to 60 percent of the employee's accrued normal retirement benefit reduced for payment prior to age 62 (reduced by 1/2 percent for each year or fraction that the spouse is more than five years younger than the employee). Upon death of an employee or upon eligibility for duty disability retirement, the surviving spouse and children under age 18 will receive monthly pensions equal in the aggregate to the benefit payable to the employee prior to his/her death. Upon the death of a retiree who retired under normal or early retirement, the surviving spouse will receive a benefit equal to 60 percent of the normal or early retirement benefit the retiree was receiving (reduced by 1/2 percent for each year or fraction that the spouse is more than five years younger than the employee). A plan member who leaves city service after five years of credited service may withdraw his or her contributions, plus any accumulated interest. A supplemental payment may be made to current and future retirees who have been retired for at least five full years.

Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance subsequent to the member's retirement date. The annual adjustments are paid from the Supplemental Annuity Fund in the form of a 13th check.

**Contributions** - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the Pension Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the city charter, union contracts, and plan provisions. For the year ended June 30, 2016, the average active member contribution rate was 1 percent of annual pay and the City's average contribution rate was 14.96 percent of covered payroll.

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 8 - Pension Plan Description (Continued)

#### Police and Fire Retirement System

**Plan Description** - The City of Dearborn Heights Pension Board administers the City of Dearborn Heights Police and Fire Retirement System - a single-employer defined benefit pension plan that provides pensions for all permanent full-time police and fire employees of the City. Benefit terms have been established by contractual agreements between the City and the various employee union representations; amendments are subject to the same process.

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

Management of the plan is vested in the Pension Board, which consists of five members elected by plan members and appointed by the City.

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

Inactive plan members or beneficiaries currently receiving benefits	209
Inactive plan members entitled to but not yet receiving benefits	42
Active plan members	<u>87</u>
Total employees covered by the plan	<u><u>338</u></u>

### Note 8 - Pension Plan Description (Continued)

**Benefits Provided** - The pension plan provides retirement, disability, and death benefits. Retirement benefits for police and fire plan members are calculated as 2.8 percent of the member's final five-year average of highest compensation (in the last 10 years of service) times the member's first 25 years of service, plus 5 percent at 25 years of service, plus 1 to 1.5 percent for years in excess of 25 years of service (with certain maximum benefit provisions set forth in the plan documents). Fire plan members with 25 years of service are eligible to retire at age 50 or at age 55 with 20 years of service. Police plan members with 25 years of service are eligible to retire at age 50 (or prior to age 50 with City approval). Effective July 1, 2009, police members' eligibility was modified to 25 years of service only. All plan members are eligible for non-duty disability benefits after five years of service and for duty-related disability benefits upon hire. Duty disability retirement benefits are determined in the same manner as retirement benefits, including credit for the period of receipt of a disability pension. Non-duty disability retirement benefits are determined in the same manner as accrued normal retirement benefits if disability occurs after age 55, otherwise they are subject to modification as outlined in the plan provisions. Upon death of an employee, the surviving spouse and children under age 18 will receive monthly pensions equal to that which would have been paid under the provisions of the Workers' Compensation Act, with no minimum service requirement. Upon the death of a non-duty employee, the benefit provided to the surviving spouse varies depending on years of service credited. Upon death of a retiree who retired under normal or early retirement, the surviving spouse will receive a benefit equal to 60 percent of the normal or early retirement benefit the retiree was receiving or, alternatively, may elect an actuarial equivalent 100 percent or 50 percent survivor benefit. A plan member who leaves City service after 10 years of credited service may withdraw his or her contributions, plus any accumulated interest.

Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance subsequent to the member's retirement date. The annual adjustments are paid from the Bonus Fund in the form of a 13th check.

**Contributions** - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the Pension Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the city charter, union contracts, and plan provisions. For the year ended June 30, 2016, the average active member contribution rate was between 3 and 5 percent of annual pay and the City's average contribution rate was 37.87 percent of covered payroll.

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 8 - Pension Plan Description (Continued)

#### Deferred Retirement Option Program (DROP)

The City offers certain employees the ability to continue services and be paid a salary after they are fully vested; this program credits the employee for benefit payments that would have been paid and pays them out with interest at 5 percent after the employee has fully retired (discontinued providing employee services to the City). At June 30, 2016, the plan has \$26,090,967.00 accumulated in DROP accounts.

### Note 9 - Pension Plan Investments - Policy and Rate of Return

#### General Government Employees' Retirement System

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

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	44 %
International equity	15
Fixed income	30
Alternatives	4
Real estate	5
Cash	2

**Concentrations** - At June 30, 2016, the plan held approximately 55 percent of its investment portfolio in equity securities.

**Rate of Return** - For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was negative 1.34 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 9 - Pension Plan Investments - Policy and Rate of Return (Continued)

#### Police and Fire Retirement System

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

<u>Asset Class</u>	<u>Target Allocation</u>
U.S. large-cap equities	23.5 %
U.S. mid-cap equities	13.0
U.S. small-cap equities	8.0
International equities	13.0
Emerging market equities	5.0
Cash	2.0
U.S. investment grade fixed income	9.0
International investment grade fixed income	2.5
Emerging market fixed income	4.5
Global high yield fixed income	8.0
Real estate/REITs	5.5
Domestic MLPs	2.5
Alternative	3.5

**Concentrations** - At June 30, 2016, the plan held approximately 40 percent of its investment portfolio in equity securities.

**Rate of Return** - For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was negative 2.93 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 10 - Pension Plan Reserves

#### General Government Employees' Retirement System

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

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

The employee reserve is credited as employee contributions are received throughout the year; the plan maintains a record of the amount contributed by each employee. The 7.0 percent assumed rate of return is applied to all assets for purposes of the actuarial valuation. The rate (if any) actually credited to member contributions may differ. For any employee who terminates before vesting in the pension plan, the employee's balance is returned to him or her; for those who stay until retirement, the balance is transferred into the retiree reserve.

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

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

	<u>Required Reserve</u>	<u>Amount Funded</u>
Retiree reserve	\$ 30,177,065	\$ 30,177,065
Employee reserve	97,140	97,140
Employer and supplemental benefit reserve	7,512,963	7,512,963

#### Police and Fire Retirement System

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

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

The employee reserve is credited as employee contributions are received throughout the year; the plan maintains a record of the amount contributed by each employee and credits interest annually at a rate of 2.0 percent. For any employee who terminates before vesting in the pension plan, the employee's balance is returned to him or her; for those who stay until retirement, the balance is transferred into the retiree reserve.

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

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 10 - Pension Plan Reserves (Continued)

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

	Required Reserve	Amount Funded
Retiree reserve	\$ 160,827,553	\$ 160,827,553
Employee reserve	3,952,570	3,952,570
Employer and supplemental benefit reserve	(4,788,319)	(4,788,319)

### Note 11 - Net Pension Liability - General Government Employees' Retirement System

The components of the net pension liability of the City at June 30, 2016 were as follows:

Total pension liability	\$ 50,852,939
Plan fiduciary net position	<u>(37,787,168)</u>
City's net pension liability	<u>\$ 13,065,771</u>
Plan fiduciary net position as a percentage of the total pension liability	74.3 %

The City has chosen to use June 30, 2016 as its measurement date for the net pension liability. The June 30, 2016 reported net pension liability was determined using a measure of the total pension liability and the pension net position as of June 30, 2016. The June 30, 2016 total pension liability was determined by an actuarial valuation performed as of June 30, 2015, rolled forward to June 30, 2016.

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 11 - Net Pension Liability - General Government Employees' Retirement System (Continued)

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
<b>Balance at June 30, 2015</b>	\$ 49,021,806	\$ 40,758,719	\$ 8,263,087
Service cost	632,181	-	632,181
Interest	3,017,800	-	3,017,800
Differences between expected and actual experience	(825,743)	-	(825,743)
Changes in assumptions	2,333,552	-	2,333,552
Contributions - Employer	-	782,306	(782,306)
Contributions - Employee	-	52,625	(52,625)
Net investment income	-	(490,247)	490,247
Benefit payments, including refunds	(3,326,657)	(3,326,657)	-
Administrative expenses	-	(109)	109
Miscellaneous other charges	-	10,531	(10,531)
Net changes	1,831,133	(2,971,551)	4,802,684
<b>Balance at June 30, 2016</b>	<b>\$ 50,852,939</b>	<b>\$ 37,787,168</b>	<b>\$ 13,065,771</b>

**Assumption Changes** - Mortality rates were updated to be based on the RP-2014 Healthy Annuitant Mortality Table.

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

For the year ended June 30, 2016, the City recognized pension expense of \$2,568,344. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 77,990	\$ (638,074)
Changes in assumptions	2,791,761	-
Net difference between projected and actual earnings on pension plan investments	3,342,629	-
Total	<b>\$ 6,212,380</b>	<b>\$ (638,074)</b>

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 11 - Net Pension Liability - General Government Employees' Retirement System (Continued)

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

Years Ending June 30	Amount
2017	\$ 1,747,674
2018	1,747,674
2019	1,290,581
2020	788,376

**Actuarial Assumptions** - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4.3 %
Salary increases	4.3 % Including inflation
Investment rate of return	7.0 % Net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table.

**Discount Rate** - The discount rate used to measure the total pension liability was 5.89 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

#### Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate incorporates a municipal bond rate of 2.68 percent. The source of that bond rate is the Standard & Poor's Municipal Bond 20 year high grade index as of June 30, 2016. The resulting Single Discount Rate is 5.89 percent. The long-term expected rate of return was applied to projected benefit payments from July 1, 2017 through July 1, 2055.

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 11 - Net Pension Liability - General Government Employees' Retirement System (Continued)

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

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	8.0 %
International equity	7.6
Fixed income	3.0
Alternatives	3.8
Real estate	4.5
Cash	1.0

**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 5.89 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 (4.89 percent) or 1 percentage point higher (6.89 percent) than the current rate:

	<u>1% Decrease (4.89%)</u>	<u>Current Discount Rate (5.89%)</u>	<u>1% Increase (6.89%)</u>
Net pension liability of the City	\$ 19,096,959	\$ 13,065,771	\$ 8,006,840

### Note 12 - Net Pension Liability - Police and Fire Retirement System

The components of the net pension liability of the City at June 30, 2016 were as follows:

Total pension liability	\$ 192,511,890
Plan fiduciary net position	<u>(159,991,904)</u>
City's net pension liability	<u>\$ 32,519,986</u>
Plan fiduciary net position as a percentage of the total pension liability	83.1 %

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 12 - Net Pension Liability - Police and Fire Retirement System (Continued)

The City has chosen to use June 30, 2016 as its measurement date for the net pension liability. The June 30, 2016 reported net pension liability was determined using a measure of the total pension liability and the pension net position as of June 30, 2016. The June 30, 2016 total pension liability was determined by an actuarial valuation performed as of June 30, 2015, rolled forward to June 30, 2016.

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
<b>Balance at June 30, 2015</b>	\$ 185,019,665	\$ 172,374,161	\$ 12,645,504
Service cost	1,094,183	-	1,094,183
Interest	12,856,071	-	12,856,071
Differences between expected and actual experience	4,430,262	-	4,430,262
Contributions - Employer	-	3,008,614	(3,008,614)
Contributions - Employee	-	491,119	(491,119)
Net investment income	-	(4,998,994)	4,998,994
Benefit payments, including refunds	(10,888,291)	(10,888,291)	-
Administrative expenses	-	(31,006)	31,006
Miscellaneous other charges	-	36,301	(36,301)
Net changes	7,492,225	(12,382,257)	19,874,482
<b>Balance at June 30, 2016</b>	<b>\$ 192,511,890</b>	<b>\$ 159,991,904</b>	<b>\$ 32,519,986</b>

**Assumption Changes** - Mortality rates were updated to be based on the RP-2014 Blue Collar Healthy Annuitant Mortality Table for males and females, with two-dimensional, fully generational improvements using the MP-2014 Mortality Improvement Scale (projected from 2014).

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 12 - Net Pension Liability - Police and Fire Retirement System (Continued)

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

For the year ended June 30, 2016, the City recognized pension expense of \$10,169,216. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 3,406,099	\$ -
Changes in assumptions	1,059,526	-
Net difference between projected and actual earnings on pension plan investments	<u>18,741,151</u>	<u>-</u>
Total	<u>\$ 23,206,776</u>	<u>\$ -</u>

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

<u>Years Ending June 30</u>	<u>Amount</u>
2017	\$ 8,034,000
2018	6,562,618
2019	5,248,804
2020	3,361,354

**Actuarial Assumptions** - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 %
Salary increases	4.5 % Average, including inflation
Investment rate of return	7.0 % Net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Blue Collar Healthy Annuitant Mortality Table for males and females, with two-dimensional, fully generational improvements using the MP-2014 Mortality Improvement Scale (projected from 2014).

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 12 - Net Pension Liability - Police and Fire Retirement System (Continued)

**Discount Rate** - The single discount rate used to measure the total pension 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 pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. large-cap equities	6.7 %
U.S. mid-cap equities	7.2
U.S. small-cap equities	7.7
International equities	6.6
Emerging market equities	7.1
Cash	1.0
U.S. investment grade fixed income	2.6
Emerging market fixed income	3.6
Global high yield fixed income	6.1
Real estate/REITs	5.5
Domestic MLPs	5.7
Alternative	6.7

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 12 - Net Pension Liability - Police and Fire Retirement System (Continued)

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the City, calculated using the discount rate of 7.0 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 (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net pension liability of the City	\$ 51,619,338	\$ 32,519,986	\$ 16,761,978
<u>Allocation of the Net Pension Obligation:</u>			
General Government Employees' Retirement System		\$ 13,065,771	
Police and Fire Retirement System		<u>32,519,986</u>	
Total net pension obligation		<u>\$ 45,585,757</u>	
<u>Allocation of the Net Pension Obligation:</u>			
Governmental activities portion of the net pension obligation		\$ 42,910,793	
Business-type activities portion of the net pension obligation		<u>2,674,964</u>	
Total net pension obligation		<u>\$ 45,585,757</u>	

### Note 13 - Other Postemployment Benefits

**Plan Description** - The City provides healthcare benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 322 retirees are eligible. This is a single-employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement.

**Funding Policy** - The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with partial contributions required by some of the participants. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). The costs of administering the plan are borne by the City's Corporate Fund.

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 13 - Other Postemployment Benefits (Continued)

**Funding Progress** - For the year ended June 30, 2016, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2015. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 13,119,306
Interest on the prior year's net OPEB obligation	2,194,510
Less adjustment to the annual required contribution	<u>(2,993,875)</u>
Annual OPEB cost	12,319,941
Amounts contributed:	
Payments of current premiums	(3,812,710)
Implicit rate subsidy	<u>(1,166,156)</u>
Increase in net OPEB obligation	7,341,075
OPEB obligation - Beginning of year	<u>48,766,896</u>
OPEB obligation - End of year	<u>\$ 56,107,971</u>

The OPEB obligation of \$56,107,971 consists of \$53,341,261 recognized in the governmental activities and \$2,766,710 in the business-type activities.

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 Obligation
6/30/13	\$ 12,528,504	40.0	\$ 36,602,343
6/30/14	9,965,946	52.0	41,374,452
6/30/15	11,960,210	38.0	48,766,896
6/30/16	12,319,941	40.4	56,107,971

The funding progress of the plan as of the most recent valuation date 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	\$ -	\$ 123,672,291	\$ 123,672,291	-	\$ 12,578,298	983.2 %
6/30/12	-	162,373,460	162,373,460	-	11,334,668	1,432.5
6/30/13	-	132,728,325	132,728,325	-	11,674,708	1,136.9
6/30/14	-	153,108,364	153,108,364	-	11,752,257	1,302.8
6/30/15	-	158,567,674	158,567,674	-	12,104,825	1,310.0

### **Note 13 - Other Postemployment Benefits (Continued)**

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

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

In the June 30, 2016 actuarial valuation, the level dollar actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.5 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 10 years. The UAAL is being amortized as a level dollar amount on an open basis. The remaining amortization period at June 30, 2016 was 30 years.

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 14 - Defined Benefit Pension Plan Condensed Financial Statements

The following are condensed financial statements for the retirement systems as follows:

	General Government Employees' Retirement System	Police and Fire Retirement System
	<u>                    </u>	<u>                    </u>
<b><u>Statement of Net Position</u></b>		
Cash and investments	\$ 37,702,756	\$ 174,609,709
Other assets	84,412	163,813
Liabilities	<u>-</u>	<u>14,781,618</u>
Net position	<u>\$ 37,787,168</u>	<u>\$ 159,991,904</u>
<b><u>Statement of Changes in Net Position</u></b>		
Investment income	\$ 783,332	\$ 5,217,262
Contributions	834,931	6,613,702
Benefit payments	3,390,480	10,519,221
Other deductions	<u>1,199,334</u>	<u>13,694,000</u>
Net change in net position	<u>\$ (2,971,551)</u>	<u>\$ (12,382,257)</u>

### Note 15 - Fair Value Measurement

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

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

# City of Dearborn Heights, Michigan

## Notes to Financial Statements June 30, 2016

### Note 15 - Fair Value Measurement (Continued)

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

#### Assets Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2016	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ADR	\$ 1,236,713	\$ 1,236,713	\$ -	\$ -
Asset-backed securities	1,270,639	-	1,270,639	-
CIF - Equity	3,596,992	-	-	3,596,992
Closed-end MF - Equity	16,957,280	16,957,280	-	-
Closed-end MF - Fixed income tax	2,892,404	2,892,404	-	-
Closely held equity	5,298,797	-	-	5,298,797
Common stock	67,279,488	67,279,488	-	-
Corporate bonds	7,211,294	-	7,211,294	-
Foreign stock	5,374,911	5,374,911	-	-
Mortgage-backed securities	1,214,446	-	1,214,446	-
Open-end MF - Equity	44,839,009	44,839,009	-	-
Open-end MF - Fixed income tax	26,745,871	26,745,871	-	-
Corporate bonds	5,519,132	-	-	5,519,132
Partnerships publicly traded	261,940	-	-	261,940
Private placements	32,117	-	32,117	-
Real estate investment trusts	2,009,643	2,009,643	-	-
U.S. federal agencies	201,011	201,011	-	-
U.S. government obligations	2,022,867	2,022,867	-	-
U.S. Treasury bills	219,848	219,848	-	-
Total investments	<u>\$ 194,184,402</u>	<u>\$ 169,779,045</u>	<u>\$ 9,728,496</u>	<u>\$ 14,676,861</u>

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

The fair value of asset and mortgage-backed securities, corporate bonds, and private placements at June 30, 2016 was determined primarily based on Level 2 inputs. The City estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

The fair value of collective investment fund equities, closely held equity, corporate bond funds, and publicly traded partnerships at June 30, 2016 was determined primarily based on Level 3 inputs. The City estimates the fair value of these investments using the City's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

# City of Dearborn Heights, Michigan

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## Notes to Financial Statements June 30, 2016

### **Note 15 - Fair Value Measurement (Continued)**

There are no limitations or restrictions on participant withdrawals for the investment pools that are recorded at amortized cost.

### **Note 16 - Upcoming Accounting Pronouncements**

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

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement will require governments to disclose in their financial statements information related to tax abatement agreements. The City is currently evaluating the impact this standard will have on the financial statements when adopted, during the 2017 fiscal year.

## **Required Supplemental Information**

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# City of Dearborn Heights, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 22,383,731	\$ 22,470,631	\$ 23,056,310	\$ 585,679
Licenses and permits	1,595,500	1,595,500	1,735,266	139,766
Federal grants	485,854	485,854	324,669	(161,185)
State-shared revenue and grants	5,769,848	5,943,872	5,793,703	(150,169)
Charges for services	2,136,250	2,305,250	2,078,353	(226,897)
Fines and forfeitures	3,700,000	3,700,000	3,490,641	(209,359)
Investment income	6,000	6,000	12,827	6,827
Reimbursement from other funds	2,800,000	2,800,000	2,457,048	(342,952)
Other revenue	3,539,355	3,905,507	3,427,832	(477,675)
Total revenue	42,416,538	43,212,614	42,376,649	(835,965)
<b>Expenditures - Current</b>				
General government:				
Legislative	90,212	90,212	88,350	1,862
Executive	358,092	363,592	348,909	14,683
Comptroller's office	391,404	391,404	393,440	(2,036)
General government	7,830,550	8,017,600	7,461,418	556,182
Treasurer	473,178	488,178	466,689	21,489
Assessing	253,781	234,781	219,882	14,899
Board of appeals	3,153	4,233	3,009	1,224
Clerk	304,725	314,775	311,409	3,366
Elections	141,403	143,243	131,281	11,962
Personnel	164,851	164,851	143,769	21,082
Employees' Pension Commission	198,915	198,915	175,797	23,118
Civil Service Commission	36,938	36,938	6,995	29,943
Civil Service - Act No. 78	71,938	71,938	25,263	46,675
Data processing	407,400	407,400	116,966	290,434
Total general government	10,726,540	10,928,060	9,893,177	1,034,883
Public safety:				
Police department	13,159,713	13,167,713	12,264,517	903,196
Fire department	7,218,394	7,287,687	6,462,343	825,344
Protective inspection	551,870	603,070	556,438	46,632
Judicial	1,876,820	1,876,820	1,827,097	49,723
Corporation counsel	200,200	265,200	276,934	(11,734)
Ordinance	373,503	403,503	362,499	41,004
Total public safety	23,380,500	23,603,993	21,749,828	1,854,165
Public works:				
Building maintenance	1,172,407	1,179,407	1,121,839	57,568
Sanitation	3,600,000	4,000,000	3,867,410	132,590
Highways, streets, and bridges	2,274,538	2,294,538	2,171,877	122,661
Total public works	7,046,945	7,473,945	7,161,126	312,819

# City of Dearborn Heights, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Corporate Fund (Continued) Year Ended June 30, 2016

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Expenditures - Current (Continued)</b>				
Community and economic development:				
Planning Commission	\$ 14,230	\$ 14,230	\$ 9,417	\$ 4,813
Cable TV Commission	100,677	106,716	93,342	13,374
Total community and economic development	114,907	120,946	102,759	18,187
Recreation and culture	897,646	835,670	644,796	190,874
Debt service	-	-	49,929	(49,929)
Total expenditures	42,166,538	42,962,614	39,601,615	3,360,999
<b>Excess of Revenue Over Expenditures</b>	250,000	250,000	2,775,034	2,525,034
<b>Other Financing Sources (Uses)</b>				
Face value of debt issue	-	2,175,000	2,175,000	-
Transfers out	(250,000)	(250,000)	(195,385)	54,615
Payment to bond refunding escrow agent	-	(2,115,000)	(2,115,000)	-
Total other financing sources (uses)	(250,000)	(190,000)	(135,385)	54,615
<b>Net Change in Fund Balance</b>	-	60,000	2,639,649	2,579,649
<b>Fund Balance - Beginning of year</b>	3,757,316	3,757,316	3,757,316	-
<b>Fund Balance - End of year</b>	<u>\$ 3,757,316</u>	<u>\$ 3,817,316</u>	<u>\$ 6,396,965</u>	<u>\$ 2,579,649</u>

# City of Dearborn Heights, Michigan

## Required Supplemental Information General Government Employees' Retirement System Schedule of Changes in the City Net Pension Liability and Related Ratios Last Ten Fiscal Years

	2016	2015	2014
<b>Total Pension Liability</b>			
Service cost	\$ 632,181	\$ 589,762	\$ 497,213
Interest	3,017,800	2,845,638	2,747,066
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(825,743)	152,265	2,634,974
Changes in assumptions	2,333,552	1,930,049	-
Benefit payments, including refunds	(3,326,657)	(3,317,015)	(3,440,584)
<b>Net Change in Total Pension Liability</b>	1,831,133	2,200,699	2,438,669
<b>Total Pension Liability - Beginning of year</b>	49,021,806	46,821,107	40,715,483
<b>Total Pension Liability - End of year</b>	<b>\$ 50,852,939</b>	<b>\$ 49,021,806</b>	<b>\$ 43,154,152</b>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	\$ 782,306	\$ 842,786	\$ 587,546
Contributions - Member	52,625	12,334	46,839
Net investment income	(490,247)	1,599,295	6,059,689
Administrative expenses	(109)	-	-
Benefit payments, including refunds	(3,326,657)	(3,317,015)	(3,558,707)
Other	10,531	(28,677)	-
<b>Net Change in Plan Fiduciary Net Position</b>	(2,971,551)	(891,277)	3,135,367
<b>Plan Fiduciary Net Position - Beginning of year</b>	40,758,719	41,649,996	38,514,662
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 37,787,168</b>	<b>\$ 40,758,719</b>	<b>\$ 41,650,029</b>
<b>City's Net Pension Liability - Ending</b>	<b>\$ 13,065,771</b>	<b>\$ 8,263,087</b>	<b>\$ 1,504,123</b>
<b>Plan Fiduciary Net Position as a Percent of Total Pension Liability</b>	74.31 %	83.14 %	96.51 %
<b>Covered Employee Payroll</b>	\$ 5,227,945	\$ 4,684,463	\$ 4,693,816
<b>City's Net Pension Liability as a Percent of Covered Employee Payroll</b>	249.9 %	176.4 %	32.0 %

# City of Dearborn Heights, Michigan

## Required Supplemental Information Police and Fire Retirement System Schedule of Changes in the City Net Pension Liability and Related Ratios Last Ten Fiscal Years

	2016	2015	2014
<b>Total Pension Liability</b>			
Service cost	\$ 1,094,183	\$ 1,031,111	\$ 1,004,200
Interest	12,856,071	12,261,841	12,037,075
Changes in benefit terms	-	-	-
Differences between expected and actual experience	4,430,262	1,509,406	-
Changes in assumptions	-	3,883,047	-
Benefit payments, including refunds	(10,888,291)	(13,290,041)	(9,746,166)
<b>Net Change in Total Pension Liability</b>	7,492,225	5,395,364	3,295,109
<b>Total Pension Liability - Beginning of year</b>	185,019,665	179,624,301	176,329,192
<b>Total Pension Liability - End of year</b>	<b>\$ 192,511,890</b>	<b>\$ 185,019,665</b>	<b>\$ 179,624,301</b>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	\$ 3,008,614	\$ 6,796,498	\$ 6,340,593
Contributions - Member	491,119	498,200	486,849
Net investment income	(4,998,994)	3,448,028	30,199,954
Administrative expenses	(31,006)	(32,965)	(540,644)
Benefit payments, including refunds	(10,888,291)	(13,081,626)	(13,005,066)
Other	36,301	147,331	-
<b>Net Change in Plan Fiduciary Net Position</b>	(12,382,257)	(2,519,196)	23,481,686
<b>Plan Fiduciary Net Position - Beginning of year</b>	172,374,161	174,893,357	151,411,671
<b>Plan Fiduciary Net Position End of year</b>	<b>\$ 159,991,904</b>	<b>\$ 172,374,161</b>	<b>\$ 174,893,357</b>
<b>City's Net Pension Liability - Ending</b>	<b>\$ 32,519,986</b>	<b>\$ 12,645,504</b>	<b>\$ 4,730,944</b>
<b>Plan Fiduciary Net Position as a Percent of Total Pension Liability</b>	83.11 %	93.17 %	97.37 %
<b>Covered Employee Payroll</b>	\$ 6,188,918	\$ 5,637,835	\$ 6,016,818
<b>City's Net Pension Liability as a Percent of Covered Employee Payroll</b>	525.5 %	224.3 %	78.6 %





# City of Dearborn Heights, Michigan

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## Required Supplemental Information General Government Employees' Retirement System Schedule of Investment Returns Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return - Net of investment expense	(1.3)%	3.9 %	14.9 %

# City of Dearborn Heights, Michigan

## Required Supplemental Information Police and Fire Retirement System Schedule of Investment Returns Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return - Net of investment expense	(2.9)%	1.9 %	19.8 %

# City of Dearborn Heights, Michigan

## Required Supplemental Information OPEB System Schedule Year Ended June 30, 2016

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/14	\$ -	\$132,728,325	\$132,728,325	-	\$ 11,674,708	1,136.9
6/30/15	-	153,108,364	153,108,364	-	11,752,257	1,302.8
6/30/16	-	158,567,674	158,567,674	-	12,104,825	1,310.0

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Costs	Percentage Contributed
6/30/14	6/30/14	\$ 9,965,946	52.0
6/30/15	6/30/15	11,960,210	38.0
6/30/16	6/30/16	12,319,941	22.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2015, the latest actuarial valuation, follows:

Amortization method	Level dollar
Amortization period	30 years
Actuarial assumptions:	
Investment rate of return	4.5%
Inflation rate	3.0%

## **Other Supplemental Information**

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# City of Dearborn Heights, Michigan

	Special Revenue Funds					
	Major Streets	Local Streets	Drug Enforcement	Miscellaneous Grants	Community Development Block Grant	Building Authority
<b>Assets</b>						
Cash and investments	\$ 559,895	\$ 829,434	\$ 775,274	\$ 127,405	\$ -	\$ -
Due from other governmental units	423,059	305,939	-	290,150	108,305	-
Due from other funds	-	-	-	-	-	196,998
Housing inventory	-	-	-	57,500	-	-
Restricted assets	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 982,954</b>	<b>\$ 1,135,373</b>	<b>\$ 775,274</b>	<b>\$ 475,055</b>	<b>\$ 108,305</b>	<b>\$ 196,998</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 65,041	\$ 148,090	\$ 4,107	\$ 243,110	\$ 39,200	\$ -
Due to other funds	55,776	77,761	-	158,030	69,105	-
Accrued liabilities and other	-	-	-	-	-	-
<b>Total liabilities</b>	<b>120,817</b>	<b>225,851</b>	<b>4,107</b>	<b>401,140</b>	<b>108,305</b>	<b>-</b>
<b>Fund Balances</b>						
Restricted:						
Roads	862,137	909,522	-	-	-	-
Drug enforcement	-	-	771,167	-	-	-
Grants	-	-	-	73,915	-	-
Housing commission	-	-	-	-	-	-
Traffic immobilization	-	-	-	-	-	-
Library	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Committed - Capital projects	-	-	-	-	-	196,998
<b>Total fund balances</b>	<b>862,137</b>	<b>909,522</b>	<b>771,167</b>	<b>73,915</b>	<b>-</b>	<b>196,998</b>
<b>Total liabilities and fund balances</b>	<b>\$ 982,954</b>	<b>\$ 1,135,373</b>	<b>\$ 775,274</b>	<b>\$ 475,055</b>	<b>\$ 108,305</b>	<b>\$ 196,998</b>

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

Special Revenue Funds			Nonmajor Debt Service Fund	Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
Housing Commission	Traffic Immobilization	Library	Fire Station Bonds	Capital Projects	
\$ 6,524	\$ 53,390	\$ 1,822,079	\$ -	\$ -	\$ 4,174,001
-	-	-	-	-	1,127,453
-	-	-	-	-	196,998
-	-	-	-	-	57,500
-	-	-	-	43,594	43,594
<b>\$ 6,524</b>	<b>\$ 53,390</b>	<b>\$ 1,822,079</b>	<b>\$ -</b>	<b>\$ 43,594</b>	<b>\$ 5,599,546</b>
\$ -	\$ -	\$ 66,722	\$ -	\$ -	\$ 566,270
5	-	3,395	-	-	364,072
-	-	33,315	-	-	33,315
5	-	103,432	-	-	963,657
-	-	-	-	-	1,771,659
-	-	-	-	-	771,167
-	-	-	-	-	73,915
6,519	-	-	-	-	6,519
-	53,390	-	-	-	53,390
-	-	1,718,647	-	-	1,718,647
-	-	-	-	43,594	43,594
-	-	-	-	-	196,998
6,519	53,390	1,718,647	-	43,594	4,635,889
<b>\$ 6,524</b>	<b>\$ 53,390</b>	<b>\$ 1,822,079</b>	<b>\$ -</b>	<b>\$ 43,594</b>	<b>\$ 5,599,546</b>

# City of Dearborn Heights, Michigan

	Special Revenue Funds				
	Major Streets Fund	Local Streets Fund	Drug Enforcement	Miscellaneous Grants	Community Development Block Grant
<b>Revenue</b>					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants	-	-	119,661	1,241,427	1,241,103
State-shared revenue and grants	2,572,521	1,578,776	494,539	46,500	-
Fines	-	-	-	-	-
Interest	5,339	939	-	-	-
Other revenue	-	4,270	-	145,288	-
<b>Total revenue</b>	<b>2,577,860</b>	<b>1,583,985</b>	<b>614,200</b>	<b>1,433,215</b>	<b>1,241,103</b>
<b>Expenditures</b>					
Current:					
General government	-	-	-	-	-
Drug enforcement	-	-	53,869	-	-
Public safety	-	-	-	1,381,175	-
Public works	3,719,508	1,144,739	-	-	-
Community and economic development	-	-	-	46,500	1,241,103
Library	-	-	-	-	-
Other	-	-	-	-	-
Debt service	-	-	-	-	-
<b>Total expenditures</b>	<b>3,719,508</b>	<b>1,144,739</b>	<b>53,869</b>	<b>1,427,675</b>	<b>1,241,103</b>
<b>Excess of Revenue (Under) Over Expenditures</b>	<b>(1,141,648)</b>	<b>439,246</b>	<b>560,331</b>	<b>5,540</b>	<b>-</b>
<b>Other Financing Sources -</b>					
Transfers in	-	-	-	-	-
<b>Net Change in Fund Balances</b>	<b>(1,141,648)</b>	<b>439,246</b>	<b>560,331</b>	<b>5,540</b>	<b>-</b>
<b>Fund Balances - Beginning of year</b>	<b>2,003,785</b>	<b>470,276</b>	<b>210,836</b>	<b>68,375</b>	<b>-</b>
<b>Fund Balances - End of year</b>	<b>\$ 862,137</b>	<b>\$ 909,522</b>	<b>\$ 771,167</b>	<b>\$ 73,915</b>	<b>\$ -</b>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2016**

Special Revenue Funds				Nonmajor Debt Service Fund	Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
Building Authority	Housing Commission	Traffic Immobilization	Library	Fire Station Bonds	Capital Projects	
\$ -	\$ -	\$ -	\$ 2,138,268	\$ -	\$ -	\$ 2,138,268
-	-	-	-	-	-	2,602,191
-	-	-	-	-	-	4,692,336
242,860	-	44,071	99,021	-	-	385,952
-	30	-	14,085	-	69	20,462
-	-	-	271,857	-	-	421,415
<u>242,860</u>	<u>30</u>	<u>44,071</u>	<u>2,523,231</u>	<u>-</u>	<u>69</u>	<u>10,260,624</u>
-	-	-	-	-	21,119	21,119
-	-	-	-	-	-	53,869
-	-	-	-	-	-	1,381,175
-	-	-	-	-	-	4,864,247
-	-	-	-	-	-	1,287,603
-	-	-	1,624,789	-	-	1,624,789
258,900	-	406	-	-	-	259,306
-	-	-	530,494	195,385	-	725,879
<u>258,900</u>	<u>-</u>	<u>406</u>	<u>2,155,283</u>	<u>195,385</u>	<u>21,119</u>	<u>10,217,987</u>
(16,040)	30	43,665	367,948	(195,385)	(21,050)	42,637
-	-	-	-	195,385	-	195,385
(16,040)	30	43,665	367,948	-	(21,050)	238,022
<u>213,038</u>	<u>6,489</u>	<u>9,725</u>	<u>1,350,699</u>	<u>-</u>	<u>64,644</u>	<u>4,397,867</u>
<b><u>\$ 196,998</u></b>	<b><u>\$ 6,519</u></b>	<b><u>\$ 53,390</u></b>	<b><u>\$ 1,718,647</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 43,594</u></b>	<b><u>\$ 4,635,889</u></b>

# City of Dearborn Heights, Michigan

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

	Pension Trust Funds			Agency Funds		
	General Government Employees' Retirement System	Police and Fire Retirement System	Total	Agency Funds	District Court	Total Agency Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 2,128,430	\$ 5,160,299	\$ 7,288,729	\$ 141,126	\$ 593,720	\$ 734,846
Investments:						
U.S. government securities	2,005,208	1,433,116	3,438,324	-	-	-
Common stock	19,644,995	63,141,906	82,786,901	-	-	-
Bonds	4,158,216	4,355,835	8,514,051	-	-	-
Real estate	633,291	1,376,352	2,009,643	-	-	-
Limited partnerships	65,485	196,455	261,940	-	-	-
Mutual funds	9,067,131	98,945,746	108,012,877	-	-	-
Receivables	84,412	163,813	248,225	25	-	25
Due from primary government	-	-	-	46,690	-	46,690
Total assets	37,787,168	174,773,522	212,560,690	<u>\$ 187,841</u>	<u>\$ 593,720</u>	<u>\$ 781,561</u>
<b>Liabilities</b>						
Accounts payable	-	93,438	93,438	\$ 904	\$ -	\$ 904
Due to other governmental units	-	-	-	-	399,622	399,622
Due to primary government	-	3,518,715	3,518,715	-	-	-
Accrued liabilities and other	-	-	-	186,937	194,098	381,035
Collateral for securities lending	-	11,169,465	11,169,465	-	-	-
Total liabilities	-	14,781,618	14,781,618	<u>\$ 187,841</u>	<u>\$ 593,720</u>	<u>\$ 781,561</u>
<b>Net Position Held in Trust for Pension Benefits</b>	<u>\$ 37,787,168</u>	<u>\$ 159,991,904</u>	<u>\$ 197,779,072</u>			

# City of Dearborn Heights, Michigan

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

	General Government Employees' Retirement System	Police and Fire Retirement System	Total
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ 783,332	\$ 5,217,262	\$ 6,000,594
Net decrease in fair value of investments	(1,199,334)	(9,651,795)	(10,851,129)
Investment-related expenses	-	(523,490)	(523,490)
Contributions:			
Employer	782,306	6,122,583	6,904,889
Employee	52,625	491,119	543,744
Net contributions	<u>834,931</u>	<u>6,613,702</u>	<u>7,448,633</u>
Total additions	418,929	1,655,679	2,074,608
<b>Deductions</b>			
Benefit payments	3,390,480	10,519,221	13,909,701
Refunds of contributions	-	3,518,715	3,518,715
Total deductions	<u>3,390,480</u>	<u>14,037,936</u>	<u>17,428,416</u>
<b>Net Decrease in Net Position Held in Trust</b>	(2,971,551)	(12,382,257)	(15,353,808)
<b>Net Position Held in Trust for Pension Benefits - Beginning of year</b>	<u>40,758,719</u>	<u>172,374,161</u>	<u>213,132,880</u>
<b>Net Position Held in Trust for Pension Benefits - End of year</b>	<u><b>\$ 37,787,168</b></u>	<u><b>\$ 159,991,904</b></u>	<u><b>\$ 197,779,072</b></u>