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# City of Dearborn Heights, Michigan

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**Financial Report  
with Supplemental Information  
June 30, 2019**

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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, 2019 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Dearborn Heights, Michigan as of June 30, 2019 and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the City Council  
City of Dearborn Heights, Michigan

**Emphasis of Matter**

*Other Matters*

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

*Other Information*

Our audit was conducted for the purpose of forming 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 were 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2019 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.



November 14, 2019

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, 2019. Please read it in conjunction with the City's financial statements.

### ***Financial Highlights***

- Property taxes related to governmental operations are the number one revenue source for the City. Property tax revenue increased by nearly \$600,000 (in the Corporate Fund) for the fiscal year ended June 30, 2019.
- State-shared revenue is the City's second largest source of revenue. State-shared revenue has decreased significantly since 2002, although it has seen increases over the last few years.
- During the year ended June 30, 2019, trusts were created for the City of Dearborn Heights, Michigan's retiree healthcare benefit plans. On August 30, 2019, the City transferred \$472,950 and \$1,062,233 from the Corporate Fund to the General Government Employees' and Police and Fire retirement systems, respectively.

### ***Using This Annual Report***

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

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

### ***Government-wide Overall Financial Analysis***

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City, liabilities and deferred inflows exceeded assets and deferred outflows of resources by \$45,156,747 at the close of the most recent fiscal year.

# City of Dearborn Heights, Michigan

## Management's Discussion and Analysis (Continued)

### The City's Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2019	2018	2019	2018	2019
<b>Assets</b>						
Current and other assets	\$ 18,254,403	\$ 20,523,803	\$ 20,605,741	\$ 21,191,007	\$ 38,860,144	\$ 41,714,810
Capital assets	87,131,176	86,074,485	93,542,712	95,961,748	180,673,888	182,036,233
Total assets	105,385,579	106,598,288	114,148,453	117,152,755	219,534,032	223,751,043
<b>Deferred Outflows of Resources</b>	8,409,371	14,872,375	645,610	484,297	9,054,981	15,356,672
<b>Liabilities</b>						
Current liabilities	3,372,716	2,431,504	2,231,233	3,066,991	5,603,949	5,498,495
Long-term liabilities:						
Due within one year:						
Compensated absences	2,721,041	2,792,436	67,900	63,562	2,788,941	2,855,998
Provision for general and medical claims	567,240	632,697	200,272	247,396	767,512	880,093
Workers' compensation	116,367	102,487	-	-	116,367	102,487
Current portion of long-term debt	798,500	941,500	2,124,026	1,861,198	2,922,526	2,802,698
Due in more than one year:						
Compensated absences	4,283,384	4,367,656	271,599	254,247	4,554,983	4,621,903
Provision for general and medical claims	716,569	341,616	274,314	154,461	990,883	496,077
Workers' compensation	71,296	74,235	96,936	96,936	168,232	171,171
Net pension liability	36,071,753	43,302,814	2,171,732	2,500,115	38,243,485	45,802,929
Total OPEB liability	158,738,812	168,958,826	6,961,447	8,103,637	165,700,259	177,062,463
Long-term debt	9,517,845	9,196,741	10,607,310	11,739,412	20,125,155	20,936,153
Total liabilities	216,975,523	233,142,512	25,006,769	28,087,955	241,982,292	261,230,467
<b>Deferred Inflows of Resources</b>	24,555,419	20,130,277	1,419,784	962,984	25,975,203	21,093,261
<b>Net Position</b>						
Net investment in capital assets	76,858,868	75,980,773	80,811,376	82,361,138	157,670,244	158,341,911
Restricted	7,796,165	10,866,749	7,861,105	7,106,981	15,657,270	17,973,730
Unrestricted	(212,391,025)	(218,649,648)	(304,971)	(882,006)	(212,695,996)	(219,531,654)
Total net position	\$ (127,735,992)	\$ (131,802,126)	\$ 88,367,510	\$ 88,586,113	\$ (39,368,482)	\$ (43,216,013)

The City's combined net position decreased from approximately \$(39,368,000) to approximately \$(43,216,000), primarily due to a decrease in the unrestricted fund balance.

# City of Dearborn Heights, Michigan

## Management's Discussion and Analysis (Continued)

### Governmental Activities

	Governmental Activities		
	2018	2019	Change
<b>Revenue</b>			
Program revenue:			
Charges for services	\$ 7,611,601	\$ 8,002,504	\$ 390,903
Operating grants	7,087,262	7,464,289	377,027
Capital grants	326,580	252,717	(73,863)
General revenue:			
Property taxes	27,155,755	27,736,089	580,334
State-shared revenue	6,090,030	6,301,984	211,954
Investment earnings	230,041	474,202	244,161
Franchise fees and miscellaneous	1,599,460	2,417,844	818,384
Total revenue	50,100,729	52,649,629	2,548,900
<b>Expenses</b>			
General government	8,133,946	12,842,609	4,708,663
District court	500,746	339,960	(160,786)
Public safety	14,330,205	31,049,224	16,719,019
Public works	9,905,108	8,072,387	(1,832,721)
Community and economic development	1,262,610	1,307,551	44,941
Other	2,840,126	3,028,049	187,923
Debt service	93,328	75,983	(17,345)
Total expenses	37,066,069	56,715,763	19,649,694
<b>Change in Net Position</b>	13,034,660	(4,066,134)	(17,100,794)
<b>Net Position - Beginning of year</b>	(140,770,652)	(127,735,992)	13,034,660
<b>Net Position - End of year</b>	<b>\$ (127,735,992)</b>	<b>\$ (131,802,126)</b>	<b>\$ (4,066,134)</b>

	Business-type Activities		
	2018	2019	Change
<b>Revenue</b>			
Program revenue - Charges for services	\$ 23,093,158	\$ 21,660,208	\$ (1,432,950)
General revenue:			
Property tax revenue	1,422,956	1,241,818	(181,138)
Interest income	24,197	21,521	(2,676)
Other revenue	947,000	-	(947,000)
Total revenue	25,487,311	22,923,547	(2,563,764)
<b>Expenses</b>	20,423,428	21,575,924	1,152,496
<b>Special Items</b>	-	(1,129,020)	(1,129,020)
<b>Change in Net Position</b>	5,063,883	218,603	(4,845,280)
<b>Net Position - Beginning of year - As adjusted</b>	83,303,627	88,367,510	5,063,883
<b>Net Position - End of year</b>	<b>\$ 88,367,510</b>	<b>\$ 88,586,113</b>	<b>\$ 218,603</b>

Reviewing the above governmental activities chart, it can be noted that overall revenue increased by approximately 5 percent, while expenses increased by approximately 53 percent. This was primarily caused by a significant increase in pension and OPEB expenses.

#### ***Financial Analysis of Individual Funds***

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for discretionary use, as it represents the portion of the fund balance that has not yet been limited to use for a particular purpose by an external party. Uncommitted or unassigned fund balance provides further information about the resources that have not been constrained by either the City Council or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City Council.

Within the governmental funds, the Corporate Fund is the most significant to understanding the City's financial activities. In addition, the Water and Sewer Fund is a significant enterprise activity for the City.

#### ***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.

#### ***Capital Assets and Debt Administration***

At the end of fiscal year 2019, the City (excluding component units) had approximately \$182 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 balance related to the acquisition and construction of these assets at June 30, 2019 was approximately \$23.7 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, Michigan 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, 2019, state-shared revenue remained relatively consistent; this trend is expected to continue in the year ending June 30, 2020 (with potential slight increases forecasted). 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, is still in place and will continue for 2020. Property taxes experienced a slight increase from the prior year, where they are expected to hold at current levels for 2020.

#### ***Requests for Further Information***

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, MI 48127 or via the City's website at [lvance@ci.dearborn-heights.mi.us](mailto:lvance@ci.dearborn-heights.mi.us).

June 30, 2019

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 12,168,887	\$ 9,370,241	\$ 21,539,128	\$ 3,471,187
Receivables:				
Property taxes receivable	15,282	-	15,282	-
Customers	-	7,670,166	7,670,166	-
Other receivables	1,383,222	630,128	2,013,350	-
Due from other governmental units	2,268,423	-	2,268,423	-
Due from fiduciary funds	4,022,890	-	4,022,890	-
Internal balances	1,048	(1,048)	-	-
Inventory	57,500	434,843	492,343	-
Restricted assets	44,529	3,086,677	3,131,206	-
Capital assets: (Note 4)				
Assets not subject to depreciation	8,206,395	3,070,651	11,277,046	2,769,084
Assets subject to depreciation - Net	77,868,090	92,891,097	170,759,187	13,375,146
Other assets	562,022	-	562,022	972
<b>Total assets</b>	<b>106,598,288</b>	<b>117,152,755</b>	<b>223,751,043</b>	<b>19,616,389</b>
<b>Deferred Outflows of Resources</b>				
Bond refunding loss being amortized	-	-	-	110,414
Pensions (Note 8)	7,285,209	151,564	7,436,773	-
Deferred OPEB costs (Note 9)	7,587,166	332,733	7,919,899	-
<b>Total deferred outflows of resources</b>	<b>14,872,375</b>	<b>484,297</b>	<b>15,356,672</b>	<b>110,414</b>
<b>Liabilities</b>				
Accounts payable	1,231,121	2,393,284	3,624,405	15,141
Due to other governmental units	46,023	-	46,023	-
Refundable deposits, bonds, etc.	-	209,745	209,745	-
Accrued liabilities and other	993,989	153,792	1,147,781	62,948
Unearned revenue	160,371	310,170	470,541	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences (Note 6)	2,792,436	63,562	2,855,998	-
Provision for general and medical claims (Note 7)	632,697	247,396	880,093	-
Workers' compensation (Note 7)	102,487	-	102,487	-
Current portion of long-term debt (Note 6)	941,500	1,861,198	2,802,698	945,000
Due in more than one year:				
Compensated absences (Note 6)	4,367,656	254,247	4,621,903	-
Provision for general and medical claims (Note 7)	341,616	154,461	496,077	-
Workers' compensation (Note 7)	74,235	96,936	171,171	-
Net pension liability (Note 8)	43,302,814	2,500,115	45,802,929	-
Total OPEB liability (Note 9)	168,958,826	8,103,637	177,062,463	-
Long-term debt (Note 6)	9,196,741	11,739,412	20,936,153	11,785,000
<b>Total liabilities</b>	<b>233,142,512</b>	<b>28,087,955</b>	<b>261,230,467</b>	<b>12,808,089</b>
<b>Deferred Inflows of Resources</b>				
Pension (Note 8)	2,717,908	107,082	2,824,990	-
OPEB (Note 9)	17,412,369	855,902	18,268,271	-
<b>Total deferred inflows of resources</b>	<b>20,130,277</b>	<b>962,984</b>	<b>21,093,261</b>	<b>-</b>

# City of Dearborn Heights, Michigan

## Statement of Net Position (Continued)

June 30, 2019

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Net Position</b>				
Net investment in capital assets	\$ 75,980,773	\$ 82,361,138	\$ 158,341,911	\$ 3,524,644
Restricted:				
Roads	3,609,673	-	3,609,673	-
District Court	160,371	-	160,371	-
Debt service	-	3,086,677	3,086,677	-
Construction Code fees	82,435	-	82,435	-
Grants	139,934	-	139,934	-
Housing Commission	6,521	-	6,521	-
Special levy	-	4,020,304	4,020,304	-
Drug enforcement	776,443	-	776,443	-
Traffic immobilization	127,162	-	127,162	-
Library	2,713,945	-	2,713,945	-
Capital projects	44,529	-	44,529	-
Sanitation levy reserves	1,254,047	-	1,254,047	-
Cable PEG fees	970,676	-	970,676	-
Transportation-SMART	327,064	-	327,064	-
Act 345 Levy	653,949	-	653,949	-
Unrestricted (deficit)	(218,649,648)	(882,006)	(219,531,654)	3,394,070
	<b>\$ (131,802,126)</b>	<b>\$ 88,586,113</b>	<b>\$ (43,216,013)</b>	<b>\$ 6,918,714</b>

# City of Dearborn Heights, Michigan

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 12,842,609	\$ 445,754	\$ -	\$ -
District court	339,960	-	-	-
Public safety	31,049,224	5,208,338	940,531	22,954
Public works	8,072,387	1,899,808	5,267,033	-
Community and economic development	1,307,551	-	1,256,725	-
Recreation and culture	3,028,049	448,604	-	229,763
Interest on long-term debt	75,983	-	-	-
Total governmental activities	56,715,763	8,002,504	7,464,289	252,717
Business-type activities - Water and sewer	20,935,568	21,986,046	-	-
Total primary government	<b>\$ 77,651,331</b>	<b>\$ 29,988,550</b>	<b>\$ 7,464,289</b>	<b>\$ 252,717</b>
Component units:				
Tax Increment Financing Authority	\$ 1,550,450	\$ -	\$ 159,100	\$ -
Brownfield Redevelopment Authority	23,921	-	-	-
Total component units	<b>\$ 1,574,371</b>	<b>\$ -</b>	<b>\$ 159,100</b>	<b>\$ -</b>
General revenue:				
State-shared revenue				
Unrestricted state-shared revenue				
Unrestricted investment income				
Cable franchise fees				
Loss on disposal of capital assets				
Other miscellaneous income				
Total general revenue				
Special items				
<b>Change in Net Position</b>				
<b>Net Position</b> - Beginning of year				
<b>Net Position</b> - End of year				

# Statement of Activities

**Year Ended June 30, 2019**

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (12,396,855)	\$ -	\$ (12,396,855)	\$ -
(339,960)	-	(339,960)	-
(24,877,401)	-	(24,877,401)	-
(905,546)	-	(905,546)	-
(50,826)	-	(50,826)	-
(2,349,682)	-	(2,349,682)	-
(75,983)	-	(75,983)	-
(40,996,253)	-	(40,996,253)	-
-	1,050,478	1,050,478	-
(40,996,253)	1,050,478	(39,945,775)	-
-	-	-	(1,391,350)
-	-	-	(23,921)
-	-	-	(1,415,271)
27,736,089	1,241,818	28,977,907	2,100,372
6,301,984	-	6,301,984	-
474,202	21,521	495,723	70,480
949,510	-	949,510	-
-	(966,194)	(966,194)	-
1,468,334	-	1,468,334	56,898
36,930,119	297,145	37,227,264	2,227,750
-	(1,129,020)	(1,129,020)	-
(4,066,134)	218,603	(3,847,531)	812,479
(127,735,992)	88,367,510	(39,368,482)	6,106,235
<b>\$ (131,802,126)</b>	<b>\$ 88,586,113</b>	<b>\$ (43,216,013)</b>	<b>\$ 6,918,714</b>

# City of Dearborn Heights, Michigan

## Governmental Funds Balance Sheet

June 30, 2019

	Corporate Fund	Nonmajor Governmental Funds	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 5,029,023	\$ 7,139,864	\$ 12,168,887
Receivables:			
Property taxes receivable	15,282	-	15,282
Other receivables	1,309,267	73,955	1,383,222
Due from other governmental units	1,104,815	1,163,608	2,268,423
Due from fiduciary funds	4,022,890	-	4,022,890
Due from other funds (Note 5)	555,368	257,228	812,596
Inventory	-	57,500	57,500
Restricted assets	-	44,529	44,529
Other assets	562,022	-	562,022
	<u>\$ 12,598,667</u>	<u>\$ 8,736,684</u>	<u>\$ 21,335,351</u>
Total assets			
<b>Liabilities</b>			
Accounts payable	\$ 797,093	\$ 434,028	\$ 1,231,121
Due to other governmental units	5,000	41,023	46,023
Due to other funds (Note 5)	257,125	554,423	811,548
Accrued liabilities and other	915,041	29,234	944,275
Unearned revenue	-	160,371	160,371
	<u>1,974,259</u>	<u>1,219,079</u>	<u>3,193,338</u>
Total liabilities			
<b>Deferred Inflows of Resources</b> - Unavailable revenue	245,826	240,204	486,030
<b>Fund Balances</b>			
Nonspendable - MMRMA deposits	287,871	-	287,871
Restricted:			
Roads	-	3,609,673	3,609,673
Cable PEG fees	970,676	-	970,676
Transportation - SMART	327,064	-	327,064
Drug enforcement	-	776,443	776,443
Grants	-	139,934	139,934
Sanitation levy	1,254,047	-	1,254,047
Act 345 levy	653,949	-	653,949
Housing Commission	-	6,521	6,521
Traffic immobilization	-	127,162	127,162
Library	-	2,713,945	2,713,945
Capital projects	-	44,529	44,529
Construction Code fees	82,435	-	82,435
Committed - Building authority	-	95,400	95,400
Assigned - General government retiree health care	2,000,000	-	2,000,000
Unassigned	4,802,540	(236,206)	4,566,334
	<u>10,378,582</u>	<u>7,277,401</u>	<u>17,655,983</u>
Total fund balances			
	<u>\$ 12,598,667</u>	<u>\$ 8,736,684</u>	<u>\$ 21,335,351</u>
Total liabilities and fund balances			

**Governmental Funds**

**Reconciliation of the Balance Sheet to the Statement of Net Position**

**June 30, 2019**

<b>Fund Balances Reported in Governmental Funds</b>	<b>\$ 17,655,983</b>
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	86,074,485
Receivables that are not collected soon after year end are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	486,030
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(10,138,241)
Accrued interest is not due and payable in the current period and is not reported in the funds	(49,714)
Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities:	
Employee compensated absences	(7,160,092)
Pension benefits	(43,302,814)
Retiree healthcare benefits	(168,958,826)
Pension and OPEB-related deferred inflows and outflows are not current financial resources and are not reported in the funds	(5,257,902)
General and medical insurance liability is not included as a liability of the funds	(974,313)
Workers' compensation liability is not included as a liability of the funds	(176,722)
<b>Net Position of Governmental Activities</b>	<b><u><u>\$ (131,802,126)</u></u></b>

**City of Dearborn Heights, Michigan**

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

**Year Ended June 30, 2019**

	Corporate Fund	Nonmajor Governmental Funds	Total
<b>Revenue</b>			
Property taxes	\$ 25,590,649	\$ 2,145,440	\$ 27,736,089
Intergovernmental:			
Federal grants	461,357	1,074,633	1,535,990
State-shared revenue and grants	6,301,984	5,949,503	12,251,487
Local grants and contributions	-	1,750	1,750
Charges for services	1,500,748	-	1,500,748
Fines and forfeitures	3,222,047	332,407	3,554,454
Licenses and permits	1,880,845	-	1,880,845
Interest income	392,809	150,343	543,152
Other revenue:			
Other miscellaneous income	2,566,167	333,463	2,899,630
Cable revenue	949,510	-	949,510
Total revenue	42,866,116	9,987,539	52,853,655
<b>Expenditures</b>			
Current services:			
General government	13,135,627	1,750	13,137,377
Drug enforcement	-	104,621	104,621
Public safety	24,010,451	-	24,010,451
Public works	3,884,007	4,352,419	8,236,426
Community and economic development	126,862	1,212,324	1,339,186
Other:			
Library	-	1,671,825	1,671,825
Recreation and culture	1,080,733	-	1,080,733
Other capital outlay	-	214,646	214,646
Debt service	544,483	541,894	1,086,377
Total expenditures	42,782,163	8,099,479	50,881,642
<b>Other Financing Sources</b> - Face value of debt issue (Note 6)	620,396	-	620,396
<b>Net Change in Fund Balances</b>	704,349	1,888,060	2,592,409
<b>Fund Balances</b> - Beginning of year	9,674,233	5,389,341	15,063,574
<b>Fund Balances</b> - End of year	<u>\$ 10,378,582</u>	<u>\$ 7,277,401</u>	<u>\$ 17,655,983</u>

**Governmental Funds**

**Reconciliation of the Statement of Revenue, Expenditures, and Changes in  
Fund Balances to the Statement of Activities**

**Year Ended June 30, 2019**

<b>Net Change in Fund Balances Reported in Governmental Funds</b>	<b>\$ 2,592,409</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	6,570,475
Depreciation expense	(6,891,139)
Net book value of assets disposed of	<u>(736,027)</u>
Total	(1,056,691)
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	
	(6,562,929)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	
	798,500
Issuing debt provides current financial resources to governmental funds, but increases long-term liabilities in the statement of net position	
	(620,396)
Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	
	240,536
Change in estimated workers' compensation liability is recorded in the statement of activities	
	10,941
Change 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	
	(155,667)
Change in estimated general and medical liability claims is recorded in the statement of activities	
	309,496
Interest expense is recognized in the government-wide statements as it accrues	
	<u>377,667</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u><u>\$ (4,066,134)</u></u></b>

Proprietary Funds  
Statement of Net Position

**June 30, 2019**

	Enterprise - Water and Sewer Fund
<b>Assets</b>	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 9,370,241
Receivables:	
Customers	7,670,166
Other receivables	630,128
Inventory	434,843
Total current assets	18,105,378
Noncurrent assets:	
Restricted assets	3,086,677
Capital assets (Note 4)	95,961,748
Total noncurrent assets	99,048,425
Total assets	117,153,803
<b>Deferred Outflows of Resources</b>	
Pensions (Note 8)	151,564
Deferred OPEB costs (Note 9)	332,733
Total deferred outflows of resources	484,297
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	2,393,284
Due to other funds (Note 5)	1,048
Refundable deposits, bonds, etc.	209,745
Accrued liabilities and other	153,792
Unearned revenue	310,170
Compensated absences (Note 6)	63,562
Provision for general and medical claims (Note 7)	247,396
Current portion of long-term debt (Note 6)	1,861,198
Total current liabilities	5,240,195
Noncurrent liabilities:	
Compensated absences (Note 6)	254,247
Provision for general and medical claims (Note 7)	154,461
Workers' compensation (Note 7)	96,936
Net pension liability (Note 8)	2,500,115
Total OPEB liability (Note 9)	8,103,637
Long-term debt (Note 6)	11,739,412
Total noncurrent liabilities	22,848,808
Total liabilities	28,089,003
<b>Deferred Inflows of Resources</b>	
Pension (Note 8)	107,082
OPEB (Note 9)	855,902
Total deferred inflows of resources	962,984
<b>Net Position</b>	
Net investment in capital assets	82,361,138
Restricted:	
Debt service	3,086,677
Special levy	4,020,304
Unrestricted	(882,006)
Total net position	\$ 88,586,113

**City of Dearborn Heights, Michigan**

**Proprietary Funds**  
**Statement of Revenue, Expenses, and Changes in Net Position**

**Year Ended June 30, 2019**

	<u>Enterprise - Water and Sewer Fund</u>
<b>Operating Revenue</b>	
Water and sewer services	\$ 19,900,879
Other operating revenue	<u>1,759,329</u>
Total operating revenue	21,660,208
<b>Operating Expenses</b>	
Water and sewage disposal charges	9,234,033
Transmission and distribution expense	1,728,137
Billing and administrative costs	4,871,333
Other operating expenses	1,354,181
Depreciation	<u>3,157,557</u>
Total operating expenses	<u>20,345,241</u>
<b>Operating Income</b>	1,314,967
<b>Nonoperating Revenue (Expense)</b>	
Property tax revenue	1,241,818
Interest earned on investments	21,521
Interest expense	(175,797)
Other nonoperating expenses	(414,530)
Loss on disposal of capital assets	(966,194)
Nonoperating grant revenue	<u>325,838</u>
Total nonoperating revenue	32,656
<b>Special Item</b>	<u>(1,129,020)</u>
<b>Change in Net Position</b>	218,603
<b>Net Position - Beginning of year</b>	<u>88,367,510</u>
<b>Net Position - End of year</b>	<u><u>\$ 88,586,113</u></u>

**Proprietary Funds  
Statement of Cash Flows**

**Year Ended June 30, 2019**

	Enterprise - Water and Sewer Fund
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 21,880,339
Internal activity - Receipts from other funds	38,154
Payments to suppliers	(11,481,184)
Payments to employees	(3,456,205)
Claims	(642,305)
Other receipts	(158,128)
	6,180,671
<b>Net cash provided by operating activities</b>	
<b>Cash Flows from Capital and Related Financing Activities</b>	
Special assessment collections	310,170
Grant proceeds	325,838
Proceeds from property tax levy (restricted for debt service)	1,241,818
Purchase of capital assets (direct purchases by the City)	(3,442,283)
Principal and interest paid on long-term debt (direct payments by the City)	(694,962)
Distributions to the county related to special tax levy collections (restricted for debt service)	(1,241,818)
	(3,501,237)
<b>Net cash used in capital and related financing activities</b>	
<b>Cash Flows Provided by Investing Activities</b> - Unrestricted interest received (directly by the City) on investments held by the City	
	10,161
<b>Net Increase in Cash and Cash Equivalents</b>	
	2,689,595
<b>Cash and Cash Equivalents</b> - Beginning of year	
	6,680,646
<b>Cash and Cash Equivalents</b> - End of year	
	<b>\$ 9,370,241</b>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>	
Operating income	\$ 1,314,967
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	3,157,557
Changes in assets and liabilities:	
Receivables	62,003
Due to and from other funds	38,154
Inventory	1,556
Receipt of prior year advance to other funds	(33,035)
Accrued liabilities and other	1,122,940
Accounts payable and refundable deposits	589,258
Estimated claims liability	(72,729)
	6,180,671
<b>Net cash provided by operating activities</b>	
	<b>\$ 6,180,671</b>

**Noncash Investing, Capital, and Financing Activities** - During the year ended June 30, 2019, Wayne County, Michigan used \$1,799,851 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 \$2,744,217. The debt proceeds are being used for the construction of various improvements. Interest income totaling \$11,360 was earned on funds held at Wayne County, Michigan. The investment in the the Downriver Sewage Disposal System joint venture of \$1,129,020 was written off to zero. See Note 1 - Downriver Sewage Disposal System for additional information.

**Fiduciary Funds  
Statement of Fiduciary Net Position**

**June 30, 2019**

	Pension and Other Employee Benefits	Agency Funds
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 4,667,053	\$ 600,179
Investments: (Note 3)		
U.S. government securities	3,991,258	-
Common stock	62,833,080	-
Bonds	4,726,773	-
Real estate	1,345,225	-
Mutual funds	153,814,444	-
Receivables - Other receivables	1,341,482	73,506
Total assets	232,719,315	<b>\$ 673,685</b>
<b>Liabilities</b>		
Accounts payable	60,228	\$ 768
Due to other governmental units	-	325,788
Due to primary government	4,113,256	-
Accrued liabilities and other	-	347,129
Collateral for securities lending (Note 3)	8,175,311	-
Total liabilities	12,348,795	<b>\$ 673,685</b>
<b>Net Position Restricted for Pension and Other Employee Benefits</b>	<b>\$ 220,370,520</b>	

Fiduciary Funds  
Statement of Changes in Fiduciary Net Position  
Pension and Other Employee Benefits

Year Ended June 30, 2019

**Additions**

Investment income:	
Interest and dividends	\$ 7,571,604
Net increase in fair value of investments	3,551,778
Investment-related expenses	<u>(517,957)</u>
Total investment income	10,605,425
Contributions:	
Employer	9,430,987
Employee	<u>449,508</u>
Total contributions	<u>9,880,495</u>
Total additions	20,485,920

**Deductions**

Benefit payments	17,068,318
Fringe benefits	<u>4,113,256</u>
Total deductions	<u>21,181,574</u>

**Net Decrease in Net Position Restricted for Pension and Other Employee Benefits** (695,654)

**Net Position Restricted for Pension and Other Employee Benefits - Beginning of year** 221,066,174

**Net Position Restricted for Pension and Other Employee Benefits - End of year** \$ 220,370,520

**City of Dearborn Heights, Michigan**

**Component Units  
Statement of Net Position**

**June 30, 2019**

	Tax Increment Financing Authority	Brownfield Redevelopment Authority	Economic Development Corporation	Total
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 3,209,881	\$ 261,306	\$ -	\$ 3,471,187
Capital assets: (Note 4)				
Assets not subject to depreciation	2,769,084	-	-	2,769,084
Assets subject to depreciation - Net	13,375,146	-	-	13,375,146
Other assets	182	-	790	972
Total assets	19,354,293	261,306	790	19,616,389
<b>Deferred Outflows of Resources</b> - Bond refunding loss being amortized	110,414	-	-	110,414
<b>Liabilities</b>				
Accounts payable	15,133	8	-	15,141
Accrued liabilities and other	62,948	-	-	62,948
Noncurrent liabilities: (Note 6)				
Due within one year - Current portion of long-term debt	945,000	-	-	945,000
Due in more than one year - Long-term debt	11,785,000	-	-	11,785,000
Total liabilities	12,808,081	8	-	12,808,089
<b>Net Position</b>				
Net investment in capital assets	3,524,644	-	-	3,524,644
Unrestricted	3,131,982	261,298	790	3,394,070
Total net position	<b>\$ 6,656,626</b>	<b>\$ 261,298</b>	<b>\$ 790</b>	<b>\$ 6,918,714</b>

**City of Dearborn Heights, Michigan**

**Component Units  
Statement of Activities**

**Year Ended June 30, 2019**

	Expenses	Program Revenue	Net (Expense) Revenue and Changes in Net Position			
		Operating Grants and Contributions	Tax Increment Financing Authority	Brownfield Redevelopment Authority	Economic Development Corporation	Total
<b>Functions/Programs</b>						
Tax Increment Financing Authority	\$ 1,550,450	\$ 159,100	\$ (1,391,350)	\$ -	\$ -	\$ (1,391,350)
Brownfield Redevelopment Authority	23,921	-	-	(23,921)	-	(23,921)
Economic Development Corporation	-	-	-	-	-	-
Total component units	<b>\$ 1,574,371</b>	<b>\$ 159,100</b>	(1,391,350)	(23,921)	-	(1,415,271)
General revenue:						
Property taxes			2,100,372	-	-	2,100,372
Unrestricted investment income			70,480	-	-	70,480
Other miscellaneous income			-	56,898	-	56,898
Total general revenue			2,170,852	56,898	-	2,227,750
<b>Change in Net Position</b>			779,502	32,977	-	812,479
<b>Net Position - Beginning of year</b>			5,877,124	228,321	790	6,106,235
<b>Net Position - End of year</b>			<b>\$ 6,656,626</b>	<b>\$ 261,298</b>	<b>\$ 790</b>	<b>\$ 6,918,714</b>

**Note 1 - 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) applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Dearborn Heights, Michigan:

***Report 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 legally separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

**Blended Component Units**

The City Building Authority (the "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:

***Tax Increment Finance Authority***

The Tax Increment Finance Authority (the "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, MI 48125.

***Brownfield Redevelopment Authority***

The Brownfield Redevelopment Authority (the "Authority") was created to identify and assist in the redevelopment of abandoned, underutilized, or contaminated parcels of property located in Dearborn Heights. The Authority's governing body, which consists of 11 individuals, is composed 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.

***Economic Development Corporation***

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.

**Note 1 - Significant Accounting Policies (Continued)**

**Jointly Governed Organization**

*Central Wayne County Sanitation Authority*

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 \$761,000 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 3850 Second Street, Wayne, MI 48184.

*Downriver Sewage Disposal System*

The City, along with 12 other communities, jointly participates in the Downriver Sewage Disposal System (the "System"). On September 27, 2018, the System transferred from the County of Wayne, Michigan (the "County") to the Downriver Utility Wastewater Authority (DUWA). DUWA is a consortium formed in 2010 under Public Act 233 of 1955 to acquire and operate the sewer system. The same 12 communities that originally jointly participated in the System are now the members of DUWA and are effectively owners of the System. The transfer price was \$54 million, which was paid at closing with \$55 million in revenue bonds (Senior Lien bond proceeds) issued by DUWA, plus an obligation for an additional payment of \$3.5 million to be paid in September 2023.

Existing county debt related to the System was handled as follows:

- Judgment levy debt remains as an obligation of the County and will continue to be paid directly from the communities to the County.
- 2007D series bonds were refunded and reissued as part of the \$55 million Senior Lien bond issuance.
- The outstanding State Revolving Fund (SRF) debt of \$62 million was exchanged into DUWA's name and has now become a liability of DUWA.

In addition to transferring the treatment plant, distribution system, and other capital assets with a net book value of approximately \$190 million, the County also transferred approximately \$40 million of cash. In exchange for these assets, DUWA is obligated for the exchanged SRF debt in the principal amount of approximately \$62 million, the new 2018 Senior Lien debt issuance with a face amount of \$55 million, and the \$3.5 million remaining transfer obligation. All DUWA debt is revenue bond debt that will be paid by the communities through rates and charges.

The City's share of capital assets, restricted assets (for debt service), and related debt is recorded in the Water and Sewer Fund. During the year, the City accrued approximately \$5.3 million for operations of the system and paid \$1.7 million for debt service. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Financial statements for the joint venture can be obtained from the administrative offices at 25605 Northline Road, Taylor, MI 48180.

As a result of the transfer of the Downriver Sewage Disposal System asset to DUWA, the City reduced the investment in joint ventures to zero. The loss on the transfer of asset of \$1,129,020 was recorded as a special item on the proprietary funds statement of revenue, expenses, and changes in net position.

**Note 1 - Significant Accounting Policies (Continued)**

***Accounting and Reporting Principles***

The City follows accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies used by the City:

***Report Presentation***

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units, as applicable. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

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

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

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

***Basis of Accounting***

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

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

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

**Note 1 - Significant Accounting Policies (Continued)**

Proprietary funds and fiduciary funds, as applicable, use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

***Fund Accounting***

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

**Governmental Funds**

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

- The Corporate Fund is the primary operating fund. It accounts for all financial resources used to provide government services other than those specifically assigned to another fund.

**Proprietary Funds**

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

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

**Fiduciary Funds**

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

- The pension trust funds account for the activities of the Police and Fire Retirement System and General Government 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 City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

**Note 1 - 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. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

***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 \$15,000,000, or 6.87 percent, of the pension plan's investments that are subject to fair market valuation as of June 30, 2019 are not publicly traded and, therefore, do not always have readily determinable market values. 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. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements, when applicable.

**Restricted Assets**

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. In the Water and Sewer Fund, restricted assets relate to reserves held at Downriver Utility Wastewater Authority (DUWA), a joint venture of the City, and EPA tax levy funds held with the County. Within the capital projects governmental fund, restricted assets relate to unspent bond proceeds from a prior year's issuance.

**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 estimated acquisition value at the date of donation.

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

**Note 1 - Significant Accounting Policies (Continued)**

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

Capital Asset Class	Depreciable Life - Years
Roads, sidewalks, and street signs	10-20
Water systems	50-75
Sewer systems	40-50
Buildings and building improvements	50
Machinery, furniture, equipment, and vehicles	5-15
Library books	3

**Long-term Obligations**

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

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government 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 and OPEB for the difference between projected and actual experiences and changes in assumptions. The Corporate Fund also has recognized a deferred inflow for revenue that has not been received within 60 days of year end.

**Net Position Flow Assumption**

The City will sometimes fund outlays for a particular purpose from both restricted 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 (as applicable), a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**Note 1 - Significant Accounting Policies (Continued)**

**Fund Balance Flow Assumptions**

The City will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**Fund Balance Policies**

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

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

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The City 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 2018 property tax revenue was levied and collectible on July 1, 2018 and is recognized as revenue in the year ended June 30, 2019 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2018 adjusted taxable valuation of the City approximated \$1.239 billion, a portion of which is captured by the TIFA, on which taxes levied consisted of 8.3167 mills for operating purposes, 1.9568 mills for public safety expenditures, 0.9784 mills for solid waste expenditures, 7.2500 mills for Act 345 contributions, 2.1833 mills for sanitation expenditures, 1.8283 mills for library operations and debt service, and 1.0538 mills for EPA debt service. This resulted in approximately \$10,305,000 for operating expenditures, \$2,425,000 for public safety expenditures, \$1,212,000 for solid waste expenditures, \$8,983,000 for Act 345 contributions (used for pension and retiree healthcare and other benefits), \$2,705,000 for sanitation expenditures, \$2,265,000 for library operations and debt service, and \$1,306,000 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.

**Note 1 - Significant Accounting Policies (Continued)**

**Pension**

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

**Other Postemployment Benefit Costs**

The City offers retiree healthcare benefits to retirees. The City records the total OPEB liability calculated by the actuary. For the purpose of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position has been determined on the same basis as it is reported by the OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

The net pension liability and total OPEB liability 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. Sick pay is accrued for the estimated amount that the City will pay upon employment termination; vacation pay is accrued when incurred. Both of these are reported in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. Generally, the funds that report each employee's compensation are used to liquidate the obligations.

**Proprietary Funds Operating Classification**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of proprietary funds is charges to customers for sales or services. Operating expenses for these funds include the cost of sales or services and administrative expenses and may include 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.

**Note 1 - Significant Accounting Policies (Continued)**

***Upcoming Accounting Pronouncements***

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2020.

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

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement are effective for the City's financial statements for the December 31, 2020 fiscal year.

**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, 2019 has not been calculated.

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.

June 30, 2019

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

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.

**Excess of Expenditures Over Appropriations in Budgeted Funds**

The City adopts the budget based on a total revenue and total expenditure basis. The Corporate Fund had budget over runs in the comptroller's office, general government, corporate counsel, building maintenance, sanitation, and debt service categories as of June 30, 2019.

**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 on 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:

Cumulative shortfall at July 1, 2018		\$ (82,918)
Current year permit revenue		1,018,807
Related expenses:		
Direct costs	\$ 682,763	
Estimated indirect costs	170,691	853,454
		<u>165,353</u>
Current year surplus		<u>165,353</u>
Cumulative surplus June 30, 2019		<u>\$ 82,435</u>

**Note 3 - Deposits and Investments**

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

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

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. At June 30, 2019, the pension trust funds were in compliance with the investment portfolio composition requirements under Michigan Public Act 347 of 2012.

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

As permitted by state statutes, and under the provisions of a securities lending authorization agreement, the Police and Fire Retirement 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, 2019, only United States currency was received as collateral.

The Police and Fire Retirement 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.

The Police and Fire Retirement 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 Police and Fire Retirement System as of June 30, 2019 were \$8,175,311 and \$8,058,281, 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 \$8,294,496 of bank deposits (certificates of deposit and checking and savings accounts), of which \$7,050,503 was uninsured and uncollateralized. Of the total bank deposits, \$307,290 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.

June 30, 2019

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

**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 investment	\$ 5,801	\$ 5,801	\$ -	\$ -	\$ -
Corporate asset-backed securities (pension)	503	-	485	-	18
Corporate bonds (pension)	4,224	305	2,207	1,022	690
U.S. government mortgage-backed securities (pension)	168	-	1	15	152
U.S. government treasuries, notes, and bonds (pension)	3,823	351	-	2,113	1,359
Collateral pool	8,096	8,096	-	-	-
Commercial paper	9,469	9,469	-	-	-
<b>Total</b>	<b>\$ 32,084</b>	<b>\$ 24,022</b>	<b>\$ 2,693</b>	<b>\$ 3,150</b>	<b>\$ 2,219</b>

**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	\$ 5,801	A1	Moody's
Corporate asset-backed securities (pension)	503	AAA	Moody's
Corporate bonds (pension)	417	AAA	Moody's
Corporate bonds (pension)	772	AA	Moody's
Corporate bonds (pension)	2,553	A	Moody's
Corporate bonds (pension)	482	BBB	Moody's
U.S. government mortgage-backed securities (pension)	168	Not Rated	
U.S. government treasuries, notes, and bonds (pension)	3,823	AAA	Moody's
Collateral pool	8,096	A1	S&P
Commercial paper	9,469	A1	Moody's
<b>Total</b>	<b>\$ 32,084</b>		

At year end, the City's component units had \$413,740 held in an investment pool with a credit rating by Moody's of A1. The component units also have commercial paper totaling approximately \$2,790,297 with a credit rating of A2 (also rated by Moody's). All investments held by the component units have maturities of less than a year.

June 30, 2019

**Note 4 - Capital Assets**

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

**Governmental Activities**

	Balance July 1, 2018	Additions	Disposals and Adjustments	Balance June 30, 2019
Capital assets not being depreciated - Land	\$ 6,650,050	\$ 1,556,345	\$ -	\$ 8,206,395
Capital assets being depreciated:				
Roads, sidewalks, and street signs	109,315,746	3,313,039	-	112,628,785
Buildings and improvements	26,493,758	311,464	-	26,805,222
Machinery, equipment, and vehicles	20,539,534	1,389,627	(10,267,272)	11,661,889
Library books	2,804,642	-	-	2,804,642
Subtotal	159,153,680	5,014,130	(10,267,272)	153,900,538
Accumulated depreciation:				
Roads, sidewalks, and street signs	52,509,367	4,433,110	-	56,942,477
Buildings and improvements	9,753,370	683,688	-	10,437,058
Machinery, equipment, and vehicles	13,955,108	1,485,461	(9,531,245)	5,909,324
Library books	2,454,709	288,880	-	2,743,589
Subtotal	78,672,554	6,891,139	(9,531,245)	76,032,448
Net capital assets being depreciated	80,481,126	(1,877,009)	(736,027)	77,868,090
Net capital assets	\$ 87,131,176	\$ (320,664)	\$ (736,027)	\$ 86,074,485

June 30, 2019

**Note 4 - Capital Assets (Continued)**

***Business-type Activities***

	Balance July 1, 2018	Additions	Disposals and Adjustments	Balance June 30, 2019
Capital assets not being depreciated:				
Land	\$ 451,171	\$ -	\$ -	\$ 451,171
Construction in progress - Flow right asset	-	2,619,480	-	2,619,480
Subtotal	451,171	2,619,480	-	3,070,651
Capital assets being depreciated:				
Water system	32,704,869	1,906,844	(190,684)	34,421,029
Sewer system	111,429,090	325,389	(16,703)	111,737,776
Buildings and improvements	838,722	-	-	838,722
Equipment, vehicles, furniture, and fixtures	7,776,599	932,267	-	8,708,866
Subtotal	152,749,280	3,164,500	(207,387)	155,706,393
Accumulated depreciation:				
Water system	11,761,669	613,294	-	12,374,963
Sewer system	40,086,975	2,144,314	-	42,231,289
Buildings and improvements	507,549	16,045	-	523,594
Equipment, vehicles, furniture, and fixtures	7,301,546	383,904	-	7,685,450
Subtotal	59,657,739	3,157,557	-	62,815,296
Net capital assets being depreciated	93,091,541	6,943	(207,387)	92,891,097
Net capital assets	<u>\$ 93,542,712</u>	<u>\$ 2,626,423</u>	<u>\$ (207,387)</u>	<u>\$ 95,961,748</u>

Capital asset activity for the City's component units was as follows:

***Component Units***

	Balance July 1, 2018	Additions	Disposals	Balance June 30, 2019
Capital assets not being depreciated - Land	\$ 2,769,084	\$ -	\$ -	\$ 2,769,084
Capital assets being depreciated:				
Roads and sidewalks	5,000,000	-	-	5,000,000
Buildings and improvements	22,063,424	-	-	22,063,424
Subtotal	27,063,424	-	-	27,063,424
Accumulated depreciation:				
Roads and sidewalks	4,800,000	200,000	-	5,000,000
Buildings and improvements	8,210,779	477,499	-	8,688,278
Subtotal	13,010,779	677,499	-	13,688,278
Net capital assets being depreciated	14,052,645	(677,499)	-	13,375,146
Net capital assets	<u>\$ 16,821,729</u>	<u>\$ (677,499)</u>	<u>\$ -</u>	<u>\$ 16,144,230</u>

June 30, 2019

**Note 4 - Capital Assets (Continued)**

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

Governmental activities:	
General government	\$ 972,567
Public safety	1,485,462
Public works	<u>4,433,110</u>
Total governmental activities	<u>\$ 6,891,139</u>
Business-type activities - Water and sewer	\$ 3,157,557
Component unit activities - TIFA	\$ 677,499

**Construction Commitments**

The City has various active construction projects 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>Contract Total</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Water main replacement program	\$ 2,332,109	\$ 2,168,170	\$ 163,939
Street repair program	4,519,881	3,844,957	674,924
Other	<u>228,452</u>	<u>224,737</u>	<u>3,715</u>
Total	<u>\$ 7,080,442</u>	<u>\$ 6,237,864</u>	<u>\$ 842,578</u>

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

The composition of interfund balances is as follows:

**Due to/from Other Funds**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Corporate Fund	Community Development Block Grant Fund	\$ 171,215
	Major Streets Fund	146,206
	Local Streets Fund	236,894
	Housing Commission	5
	Water and Sewer Fund	<u>1,048</u>
	Total Corporate Fund	555,368
Other nonmajor governmental funds	Corporate Fund	257,125
	Community Development Block Grant Fund	<u>103</u>
	Total other nonmajor governmental funds	<u>257,228</u>
Total	<u>\$ 812,596</u>	

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

**Transactions between the Primary Government and Component Units**

The Building Authority nonmajor special revenue fund contributed \$159,100 to the TIFA component unit for current year debt service payments. The TIFA component unit contributed \$229,763 to the library nonmajor special revenue fund for current year debt service payments.

June 30, 2019

**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.

**Governmental Activities**

	Interest Rate Ranges	Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable - Other debt - 2016 Tax Increment Development Refunding Bonds							
Direct borrowings and direct placements:							
Act 99 - Phone and copier system	2.53%	2023	\$ 177,219	\$ -	\$ (29,500)	\$ 147,719	\$ 29,500
Act 99 - Ambulance purchase	1.65%	2019	180,000	-	(90,000)	90,000	90,000
Act 99 - Trash and recycling containers	2.25%	2026	1,809,126	-	(184,000)	1,625,126	188,000
Act 99 - Fire truck	3.37%	2023	-	620,396	-	620,396	124,000
Total direct borrowings and direct placements principal outstanding			2,166,345	620,396	(303,500)	2,483,241	431,500
Other debt:							
Building Authority Refunding Bonds	2.00%-3.00%	2028	1,850,000	-	(165,000)	1,685,000	170,000
Library bonds	2.00%-4.00%	2033	6,300,000	-	(330,000)	5,970,000	340,000
Total other debt principal outstanding			8,150,000	-	(495,000)	7,655,000	510,000
Total bonds and contracts payable			10,316,345	620,396	(798,500)	10,138,241	941,500
Accumulated compensated absences			7,004,425	2,876,708	(2,721,041)	7,160,092	2,792,436
Total governmental activities long-term debt			<u>\$ 17,320,770</u>	<u>\$ 3,497,104</u>	<u>\$ (3,519,541)</u>	<u>\$ 17,298,333</u>	<u>\$ 3,733,936</u>

June 30, 2019

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

**Business-type Activities**

	Interest Rate Ranges	Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable - Other debt - 2016 Tax Increment							
Development Refunding Bonds							
Direct borrowings and direct placements:							
Street sweeper	2.70%	2023	\$ -	\$ 489,066	\$ -	\$ 489,066	\$ 95,179
State revolving loan funds	2.25%-6.60%	2033	2,879,287	-	(1,085,649)	1,793,638	906,195
State revolving loan funds	2.25%	2032	2,909,444	11,063	(313,105)	2,607,402	170,423
State revolving loan funds	2.50%	2029	225,368	-	(15,000)	210,368	15,000
State revolving loan funds	2.50%	2032	1,800,555	2,441	(90,000)	1,712,996	90,000
Downriver Sewage Disposal Completion Bonds	4.50%-5.125%	2019	89,041	-	(89,041)	-	-
Downriver Sewage Disposal Completion Bonds	4.50%-5.125%	2029	1,010,524	-	(79,993)	930,531	84,122
Downriver Sewage Disposal Completion Bonds	4.50%-5.125%	2029	126,880	-	(126,880)	-	-
Ecorse Creek pollution - Level 2	2.50%	2030	1,730,367	-	(127,571)	1,602,796	127,571
Ecorse Creek pollution - Level 1	N/A	2022	595,524	-	(148,881)	446,643	148,881
Upper Rouge Installment Debt	N/A	2020	137,180	-	(102,912)	34,268	34,268
Ecorse Creek pollution - Drain No. 1 Improvement Bonds	1.75%-5.25%	2023	1,227,166	-	(184,977)	1,042,189	189,559
DUWA Senior Lien	5.00%	2037	-	2,567,963	-	2,567,963	-
DUWA Junior Lien	5.00%	2037	-	162,750	-	162,750	-
Total direct borrowings and direct placements principal outstanding			12,731,336	3,233,283	(2,364,009)	13,600,610	1,861,198
Accumulated compensated absences			339,499	46,210	(67,900)	317,809	63,562
Total business-type activities long-term debt			<u>\$ 13,070,835</u>	<u>\$ 3,279,493</u>	<u>\$ (2,431,909)</u>	<u>\$ 13,918,419</u>	<u>\$ 1,924,760</u>

**Component Unit**

	Interest Rate Ranges	Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable - Other debt - 2016 Tax Increment							
Development Refunding Bonds	2.00%-2.63%	2031	\$ 13,925,000	\$ -	\$ (1,195,000)	\$ 12,730,000	\$ 945,000

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

**Debt Service Requirements to Maturity**

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

Years Ending June 30	Governmental Activities				
	Direct Borrowings and Direct Placements		Other Debt		Total
	Principal	Interest	Principal	Interest	
2020	\$ 431,500	\$ 57,375	\$ 510,000	\$ 245,194	\$ 1,244,069
2021	434,219	47,432	525,000	234,194	1,240,845
2022	320,000	38,142	540,000	223,519	1,121,661
2023	325,000	28,751	560,000	209,069	1,122,820
2024	329,396	19,249	570,000	194,219	1,112,864
2025-2029	643,126	21,911	2,925,000	682,138	4,272,175
2030-2034	-	-	2,025,000	201,900	2,226,900
2035-2039	-	-	-	-	-
Thereafter	-	-	-	-	-
<b>Total</b>	<b>\$ 2,483,241</b>	<b>\$ 212,860</b>	<b>\$ 7,655,000</b>	<b>\$ 1,990,233</b>	<b>\$ 12,341,334</b>

Years Ending June 30	Business-type Activities				
	Direct Borrowings and Direct Placements		Other Debt		Total
	Principal	Interest	Principal	Interest	
2020	\$ 1,861,197	\$ 383,331	\$ -	\$ -	\$ 2,244,528
2021	1,890,428	339,587	-	-	2,230,015
2022	1,029,339	294,577	-	-	1,323,916
2023	1,075,150	270,960	-	-	1,346,110
2024	940,202	246,816	-	-	1,187,018
2025-2029	3,223,140	933,277	-	-	4,156,417
2030-2034	1,825,805	453,844	-	-	2,279,649
2035-2039	877,688	269,504	-	-	1,147,192
Thereafter	877,661	71,523	-	-	949,184
<b>Total</b>	<b>\$ 13,600,610</b>	<b>\$ 3,263,419</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 16,864,029</b>

Years Ending June 30	Component Unit Activities				
	Direct Borrowings and Direct Placements		Other Debt		Total
	Principal	Interest	Principal	Interest	
2020	\$ -	\$ -	\$ 945,000	\$ 262,668	\$ 1,207,668
2021	-	-	965,000	243,568	1,208,568
2022	-	-	985,000	224,068	1,209,068
2023	-	-	1,005,000	204,168	1,209,168
2024	-	-	1,025,000	183,868	1,208,868
2025-2029	-	-	5,445,000	596,842	6,041,842
2030-2034	-	-	2,360,000	61,615	2,421,615
2035-2039	-	-	-	-	-
Thereafter	-	-	-	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,730,000</b>	<b>\$ 1,776,797</b>	<b>\$ 14,506,797</b>

**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, 2019, approximately \$22.0 million of bonds outstanding are considered defeased.

**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 "Risk 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 Risk Authority that it uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

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 and those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	General and Medical Liability		Workers' Compensation	
	2019	2018	2019	2018
Estimated liability - Beginning of year	\$ 1,758,395	\$ 1,264,515	\$ 284,599	\$ 531,367
Estimated claims incurred, including changes in estimates	62,440	811,048	114,320	(103,997)
Claim payments	(444,665)	(317,168)	(125,261)	(142,771)
Estimated liability - End of year	<u>\$ 1,376,170</u>	<u>\$ 1,758,395</u>	<u>\$ 273,658</u>	<u>\$ 284,599</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 Plans**

***Plan Description***

The City of Dearborn Heights, Michigan provides a monthly retirement benefit (with alternative lump-sum payment options) to employees who meet the eligibility requirements, including age and years of service. The benefits are provided through the General Government Employees' Retirement System, a single-employer plan administered by the City of Dearborn Heights Pension Board, and Police and Fire Retirement System, a single-employer plan administered by the City of Dearborn Heights Pension Board.

The financial statements of each pension system 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.

***Benefits Provided***

The General Government Employees' Retirement System and the Police and Fire Retirement System provide retirement, disability, and death benefits.

**Note 8 - Pension Plans (Continued)**

**General Government Employees' Retirement System**

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 nonduty 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 0.5 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 0.5 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.

**Police and Fire Retirement System**

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 nonduty 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. Nonduty 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 nonduty 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.

June 30, 2019

**Note 8 - Pension Plans (Continued)**

**Members Covered by Benefit Terms**

At the June 30, 2019 measurement date, the following members were covered by the benefit terms:

	General Government Employees' Retirement System	Police and Fire Retirement System
Inactive plan members or beneficiaries currently receiving benefits	152	240
Inactive plan members entitled to but not yet receiving benefits	59	26
Active plan members	119	103
Total employees covered by the plan	<u>330</u>	<u>369</u>

**Contributions**

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, 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, 2019, the City's average contribution rate for general plan members was 21.44 percent of covered payroll. For police and fire members, the average active member contribution rate was between 5 and 43 percent of annual pay, and the City's average contribution rate was 35.38 percent of covered payroll.

**Net Pension Liability**

The components of the net pension liability of the City at June 30, 2019 were as follows:

	General Government Employees' Retirement System	Police and Fire Retirement System	Total
Total pension liability	\$ 52,804,970	\$ 213,368,479	\$ 266,173,449
Plan fiduciary net position	<u>(40,101,140)</u>	<u>(180,269,380)</u>	<u>(220,370,520)</u>
City's net pension liability	<u>\$ 12,703,830</u>	<u>\$ 33,099,099</u>	<u>\$ 45,802,929</u>

The City has chosen to use June 30, 2019 as its measurement date for the net pension liability. The June 30, 2019 reported net pension liability was determined using a measure of the total pension liability and the pension net position as of June 30, 2019. The June 30, 2019 total pension liability was determined by an actuarial valuation performed as of June 30, 2018, rolled forward to June 30, 2019.

June 30, 2019

**Note 8 - Pension Plans (Continued)**

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

**General Government Employees' Retirement System**

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
<b>Balance at June 30, 2018</b>	\$ 51,922,064	\$ 39,999,925	\$ 11,922,139
Changes for the year:			
Service cost	611,390	-	611,390
Interest	3,531,025	-	3,531,025
Differences between expected and actual experience	309,579	-	309,579
Contributions - Employer	-	1,091,515	(1,091,515)
Contributions - Employee	-	67,134	(67,134)
Net investment income	-	2,540,777	(2,540,777)
Benefit payments, including refunds	(3,569,088)	(3,569,088)	-
Administrative expenses	-	(29,123)	29,123
<b>Net changes</b>	<b>882,906</b>	<b>101,215</b>	<b>781,691</b>
<b>Balance at June 30, 2019</b>	<b>\$ 52,804,970</b>	<b>\$ 40,101,140</b>	<b>\$ 12,703,830</b>

**Police and Fire Retirement System**

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
<b>Balance at June 30, 2018</b>	\$ 207,387,595	\$ 181,066,249	\$ 26,321,346
Changes for the year:			
Service cost	1,412,365	-	1,412,365
Interest	14,591,231	-	14,591,231
Differences between expected and actual experience	3,370,573	-	3,370,573
Contributions - Employer	-	3,838,635	(3,838,635)
Contributions - Employee	-	430,163	(430,163)
Net investment income	-	8,790,624	(8,790,624)
Benefit payments, including refunds	(13,393,285)	(13,393,285)	-
Administrative expenses	-	(517,957)	517,957
Miscellaneous other	-	54,951	(54,951)
<b>Net changes</b>	<b>5,980,884</b>	<b>(796,869)</b>	<b>6,777,753</b>
<b>Balance at June 30, 2019</b>	<b>\$ 213,368,479</b>	<b>\$ 180,269,380</b>	<b>\$ 33,099,099</b>

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

For the year ended June 30, 2019, the City recognized pension expense of \$2,479,176 and \$10,513,151 for the General Government Employees' Retirement System and Police and Fire Retirement System, respectively.

June 30, 2019

**Note 8 - Pension Plans (Continued)**

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	General Government Employees' Retirement System		Police and Fire Retirement System		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,683,576	\$ (75,068)	\$ 4,790,674	\$ -	\$ 6,474,250	\$ (75,068)
Changes in assumptions	212,141	(1,554,646)	-	-	212,141	(1,554,646)
Net difference between projected and actual earnings on pension plan investments	750,382	-	-	(1,195,276)	750,382	(1,195,276)
<b>Total</b>	<b>\$ 2,646,099</b>	<b>\$ (1,629,714)</b>	<b>\$ 4,790,674</b>	<b>\$ (1,195,276)</b>	<b>\$ 7,436,773</b>	<b>\$ (2,824,990)</b>

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	General Government Employees' Retirement System	Police and Fire Retirement System	Total
2020	\$ 587,177	\$ 3,676,913	\$ 4,264,090
2021	360,078	(895,236)	(535,158)
2022	34,364	468,407	502,771
2023	34,766	345,314	380,080
<b>Total</b>	<b>\$ 1,016,385</b>	<b>\$ 3,595,398</b>	<b>\$ 4,611,783</b>

**Actuarial Assumptions**

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

	General Government Employees' Retirement System	Police and Fire Retirement System
Inflation	3.00%	2.75
Salary increases (including inflation)	4.25%	3.50% to 4.50%
Investment rate of return (net of investment expenses)	7.00%	7.00%
Mortality rates	RP-2014 Healthy Annuitant Mortality Table with MP 2017	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)

**Note 8 - Pension Plans (Continued)**

***Discount Rate***

**General Government Employees' Retirement System**

The discount rate used to measure the total pension liability was 6.96 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.

**Police and Fire Retirement System**

The discount rate used to measure the total pension liability was 7.00 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***

**General Government Employees' Retirement System**

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 2.29 percent. The source of that bond rate is the Standard & Poor's Municipal Bond 20-year high-grade index as of June 29, 2019. The resulting single discount rate is 6.96 percent. The long-term expected rate of return was applied to projected benefit payments from July 1, 2019 through July 1, 2059.

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, 2019 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:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
Domestic equity	5.90 %	43.10 %
International equity	5.70	23.00
Fixed Income	2.90	26.20
Alternative	3.60	3.70
Cash	1.00	4.00

**Note 8 - Pension Plans (Continued)**

**Police and Fire Retirement System**

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, 2018 for each major asset class included in the pension plan’s target asset allocation, as disclosed in the investment footnote, are summarized in the following table.

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. large-cap equities	5.60 %	24.00 %
U.S. mid-cap equities	6.40	13.00
U.S. small-cap equities	5.45	8.00
International equities	5.20	14.00
Emerging market equities	6.90	7.50
Cash	1.00	1.70
U.S. investment-grade fixed income	1.80	7.50
International investment-grade fixed income	1.50	2.50
Emerging-market fixed income	4.60	5.70
Global high-yield fixed income	3.60	6.00
Alternative fixed income	3.80	1.40
Real estate/REIT	5.00	4.50
Domestic MLPs	5.10	3.00
Alternative	3.60	1.20

***Investment Rate of Return***

The pension plans' 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 plans' 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.

***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 6.96 percent and 7.00 percent for the General Government Employees' Retirement System and Police and Fire Retirement System, respectively, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease	Current Discount Rate	1 Percent Increase
Net pension liability of the General Government Employees' Retirement System	\$ 17,922,900	\$ 12,703,830	\$ 7,539,258
Net pension liability of the Police and Fire Retirement System	53,325,570	33,099,099	16,424,655

**Note 8 - Pension Plans (Continued)**

***Benefit Changes***

Effective July 1, 2018, police patrol members of the Police and Fire Retirement System may purchase an additional 12 months of service credits at a rate of 24.5 percent of the member's current base pay. This time shall be paid for in accordance with Section 10(D) and shall be at no cost to the City.

Members currently in the DROP program and members who enter the DROP or retire from active employment after July 1, 2018 will receive a guaranteed 13th check payment after being retired for at least five years or five years after entering the DROP program. Current retirees will not have a guaranteed 13th check.

***Concentrations***

At June 30, 2019, the General Government Employees' Retirement System and Fire and Police Retirement System plans held approximately 66 percent and 67 percent of their investment portfolios in equity securities, respectively.

***Rate of Return***

For the year ended June 30, 2019, the annual money-weighted rate of return on the General Government Employees' Retirement System and Police and Fire Retirement System pension plan investments, net of pension plan investment expense, was 6.98 percent and 7.00 percent, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

***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 7.00 percent assumed rate of return is applied to all assets for the purpose of the actuarial valuation. 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.

June 30, 2019

**Note 8 - Pension Plans (Continued)**

The balances of the reserve accounts at June 30, 2019 are as follows:

	<u>Required Reserve</u>	<u>Amount Funded</u>
Retiree reserve	\$ 34,661,793	\$ 34,661,793
Employee reserve	192,449	192,449
Employer and supplemental benefit reserve	<u>5,246,898</u>	<u>5,246,898</u>
Total	<u>\$ 40,101,140</u>	<u>\$ 40,101,140</u>

**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.

The balances of the reserve accounts at June 30, 2019 are as follows:

	<u>Required Reserve</u>	<u>Amount Funded</u>
Retiree reserve	\$ 183,534,982	\$ 183,534,982
Employee reserve	3,632,534	3,632,534
Employer and supplemental benefit reserve	<u>(6,898,136)</u>	<u>(6,898,136)</u>
Total	<u>\$ 180,269,380</u>	<u>\$ 180,269,380</u>

**Police and Fire Retirement System - 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, 2019, the plan has \$35,571,516 accumulated in DROP accounts.

**Note 9 - Other Postemployment Benefit Plan**

***Plan Description***

The City provides retiree healthcare benefits to certain full-time employees upon retirement, in accordance with labor contracts.

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 separate stand-alone financial statements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

June 30, 2019

**Note 9 - Other Postemployment Benefit Plan (Continued)**

**Benefits Provided**

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 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.

**Members Covered by Benefit Terms**

The following members were covered by the benefit terms:

Inactive plan members currently receiving benefits	331
Active plan members	<u>243</u>
Total plan members	<u><u>574</u></u>

**Contributions**

Retiree healthcare costs are paid by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended June 30, 2019, the City made payments for postemployment health benefit premiums of \$6,100,053.

**Total OPEB Liability**

The City's total OPEB liability of \$177,062,463 was measured as of June 30, 2019 and was determined by an actuarial valuation as of that date.

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

Changes in Total OPEB Liability	Total OPEB Liability
<b>Balance at July 1, 2018</b>	\$ 165,700,259
Changes for the year:	
Service cost	3,613,510
Interest	6,435,527
Differences between expected and actual experience	(2,090,659)
Changes in assumptions	9,503,879
Benefit payments, including refunds	<u>(6,100,053)</u>
Net changes	<u>11,362,204</u>
<b>Balance at June 30, 2019</b>	<u><u>\$ 177,062,463</u></u>

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

For the year ended June 30, 2019, the City recognized OPEB expense of \$(324,164).

June 30, 2019

**Note 9 - Other Postemployment Benefit Plan (Continued)**

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (9,276,592)
Changes in assumptions	7,919,899	(8,991,679)
<b>Total</b>	<b>\$ 7,919,899</b>	<b>\$ (18,268,271)</b>

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

Years Ending June 30	Amount
2020	\$ (4,273,148)
2021	(4,273,148)
2022	(4,273,148)
2023	1,235,537
2024	1,235,535
<b>Total</b>	<b>\$ (10,348,372)</b>

**Actuarial Assumptions**

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using an inflation assumption of 2.75 percent; assumed salary increases (including inflation) of 3.50 - 4.50 percent; a healthcare cost trend rate of 8.50 percent for 2019, decreasing 0.50 percent per year to an ultimate rate of 4.50 percent for 2027 and later years; and the RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017. These assumptions were applied to all periods included in the measurement.

**Discount Rate**

The discount rate used to measure the total OPEB liability was 3.51 percent. The discount rate was based on a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher tax-exempt, high-quality 20-year municipal bonds, based on the Bond Buyer 20-Bond GO index.

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.51 percent, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (2.51%)	Current Discount Rate (3.51%)	1 Percent Increase (4.51%)
Total OPEB liability	\$ 204,141,258	\$ 177,062,463	\$ 148,781,604

June 30, 2019

**Note 9 - Other Postemployment Benefit Plan (Continued)**

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

The following presents the total OPEB liability of the City, calculated using the healthcare cost trend rate of 8.50 percent, as well as what the City's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (7.50%)	Current Healthcare Cost Trend Rate (8.50%)	1 Percent Increase (9.50%)
Total OPEB liability	\$ 146,582,270	\$ 177,062,463	\$ 207,201,710

**Assumption Changes**

Actuarial assumptions for computing the City's OPEB liability included decreases in both the inflation rate (2.75 percent) and discount rate (3.51 percent) and an increase in the payroll growth rate range (3.50-4.50 percent).

**Benefit Changes**

Effective July 1, 2017, members hired after April 2011 will receive a maximum \$5,000 healthcare stipend in retirement. Additionally, new DROP participants will contribute to healthcare in accordance with Public Act 152.

**Subsequent Event**

During the year ended June 30, 2019, trusts were created for the City of Dearborn Heights, Michigan's retiree healthcare benefit plans. On August 30, 2019, the City transferred \$472,950 and \$1,062,233 from the Corporate Fund to the General Government Employees' and Police and Fire retirement systems, respectively.

**Note 10 - 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
<b>Statement of Net Position</b>		
Cash and Investments	\$ 39,732,947	\$ 191,644,886
Other assets	368,193	973,289
Liabilities	-	(12,348,795)
Net position	<u>\$ 40,101,140</u>	<u>\$ 180,269,380</u>
<b>Statement of Changes in Net Position</b>		
Investment income - Net of expenses	\$ 2,555,023	\$ 8,050,402
Contributions	1,141,771	8,738,724
Benefit payments	(3,595,579)	(13,472,739)
Refunds of contributions	-	(4,113,256)
Net change in net position	<u>\$ 101,215</u>	<u>\$ (796,869)</u>

June 30, 2019

**Note 11 - Fair Value Measurements**

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

In instances whereby inputs used to measure fair value fall into different levels in the 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.

The City has the following recurring fair value measurements as of June 30, 2019:

	Fair Value Measurement Using			Balance at June 30, 2019
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
ADR	\$ 245,546	\$ -	\$ -	\$ 245,546
Asset-backed securities	-	503,132	-	503,132
Closed-end MF - Equity	27,935,015	-	-	27,935,015
Close-end MF - Fixed income tax	155,890	-	-	155,890
Closely held equity	-	-	3,177,772	3,177,772
Common stock	51,689,845	-	-	51,689,845
Corporate bonds	-	4,223,642	-	4,223,642
Foreign stock	1,602,409	-	-	1,602,409
Mortgage-backed securities	-	168,085	-	168,085
Open-end MF - Equity	77,773,983	-	-	77,773,983
Open-end MF - Fixed income tax	34,138,489	-	-	34,138,489
Real estate investment trusts	1,345,225	-	-	1,345,225
U.S. government obligations	3,823,173	-	-	3,823,173
<b>Total Investments</b>	<b>\$ 198,709,575</b>	<b>\$ 4,894,859</b>	<b>\$ 3,177,772</b>	<b>206,782,206</b>
Investments measured at NAV:				
CIF - Equity				3,510,546
Closely held equity				2,607,400
Fixed income				5,714,342
<b>Total investments measured at NAV</b>				<b>11,832,288</b>
<b>Total investments measured at fair value</b>				<b>\$ 218,614,494</b>

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 and corporate bonds at June 30, 2019 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.

June 30, 2019

**Note 11 - Fair Value Measurements (Continued)**

The fair value of collective investment fund equities, closely held equity, corporate bond funds, and publicly traded partnerships at June 30, 2019 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.

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

At June 30, 2019, the investments measured at NAV have no unfunded commitments or redemption rules.

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## Required Supplemental Information

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# City of Dearborn Heights, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Corporate Fund

Year Ended June 30, 2019

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 25,550,441	\$ 25,550,441	\$ 25,590,649	\$ 40,208
Reimbursement from other funds	2,905,000	2,905,000	3,255,668	350,668
State-shared revenue and grants:				
Federal grants	335,500	335,500	461,357	125,857
State-shared revenue and grants	6,123,052	6,123,052	6,301,984	178,932
Charges for services	1,687,300	1,750,568	1,500,748	(249,820)
Fines and forfeitures	3,700,000	3,700,000	3,222,047	(477,953)
Licenses and permits	1,744,000	1,744,000	1,880,845	136,845
Interest income	166,000	166,000	392,809	226,809
Other revenue	3,729,769	5,963,285	3,515,677	(2,447,608)
<b>Total revenue</b>	<b>45,941,062</b>	<b>48,237,846</b>	<b>46,121,784</b>	<b>(2,116,062)</b>
<b>Expenditures</b>				
Current services:				
General government:				
Legislative	119,412	119,412	81,488	37,924
Executive	371,010	416,401	416,243	158
Comptroller's office	236,419	228,919	135,752	93,167
General government	8,808,763	10,782,881	10,847,988	(65,107)
Treasurer	513,013	513,013	488,777	24,236
Assessing	253,912	261,912	261,667	245
Board of appeals	3,161	3,161	1,843	1,318
Clerk	367,470	372,520	337,482	35,038
Elections	139,644	138,204	123,545	14,659
Personnel	175,380	187,880	183,549	4,331
Employees' Pension Commission	209,921	209,921	148,295	61,626
Civil Service Commission	36,945	36,945	5,137	31,808
Civil Service - Act No. 78	72,485	72,485	23,654	48,831
Data processing	86,250	86,250	80,207	6,043
Public safety:				
Police department	13,499,451	13,438,451	12,426,060	1,012,391
Fire department	8,076,151	8,696,547	8,330,487	366,060
Protective inspection	643,263	643,263	599,494	43,769
Judicial	2,124,841	2,124,841	1,845,946	278,895
Corporation counsel	190,200	235,200	265,988	(30,788)
Ordinance	613,949	592,949	542,476	50,473
Public works:				
Building maintenance	1,226,941	1,311,941	1,327,848	(15,907)
Sanitation	3,239,000	3,239,000	3,241,133	(2,133)
Highways, streets, and bridges	2,740,214	2,814,214	2,570,694	243,520
Community and economic development - Planning				
Commission	146,302	214,102	126,862	87,240
Other	1,364,361	1,317,626	1,080,733	236,893
Debt service	530,298	530,298	544,483	(14,185)
<b>Total expenditures</b>	<b>45,788,756</b>	<b>48,588,336</b>	<b>46,037,831</b>	<b>2,550,505</b>
<b>Other Financing Sources</b>	<b>-</b>	<b>620,396</b>	<b>620,396</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>152,306</b>	<b>269,906</b>	<b>704,349</b>	<b>434,443</b>
<b>Fund Balance - Beginning of year</b>	<b>9,674,233</b>	<b>9,674,233</b>	<b>9,674,233</b>	<b>-</b>
<b>Fund Balance - End of year</b>	<b>\$ 9,826,539</b>	<b>\$ 9,944,139</b>	<b>\$ 10,378,582</b>	<b>\$ 434,443</b>

**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 Six Fiscal Years**

	2019	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>						
Service cost	\$ 611,390	\$ 709,424	\$ 802,393	\$ 632,181	\$ 589,762	\$ 497,213
Interest	3,531,025	3,119,464	2,919,405	3,017,800	2,845,638	2,747,066
Differences between expected and actual experience	309,579	1,355,395	2,637,378	(825,743)	152,265	2,634,974
Changes in assumptions	-	(2,543,927)	(1,042,904)	2,333,552	1,930,049	-
Benefit payments, including refunds	(3,569,088)	(3,510,151)	(3,377,352)	(3,326,657)	(3,317,015)	(3,440,584)
<b>Net Change in Total Pension Liability</b>	882,906	(869,795)	1,938,920	1,831,133	2,200,699	2,438,669
<b>Total Pension Liability - Beginning of year</b>	51,922,064	52,791,859	50,852,939	49,021,806	46,821,107	44,382,438
<b>Total Pension Liability - End of year</b>	<b>\$ 52,804,970</b>	<b>\$ 51,922,064</b>	<b>\$ 52,791,859</b>	<b>\$ 50,852,939</b>	<b>\$ 49,021,806</b>	<b>\$ 46,821,107</b>
<b>Plan Fiduciary Net Position</b>						
Contributions - Employer	\$ 1,091,515	\$ 1,005,503	\$ 904,328	\$ 782,306	\$ 842,786	\$ 587,546
Contributions - Member	67,134	28,173	-	52,625	12,334	46,839
Net investment income (loss)	2,540,777	2,973,703	4,192,367	(490,247)	1,599,295	6,059,689
Administrative expenses	(29,123)	(9,867)	-	(109)	-	-
Benefit payments, including refunds	(3,569,088)	(3,510,151)	(3,377,352)	(3,326,657)	(3,317,015)	(3,558,707)
Other	-	-	6,053	10,531	(28,677)	-
<b>Net Change in Plan Fiduciary Net Position</b>	101,215	487,361	1,725,396	(2,971,551)	(891,277)	3,135,367
<b>Plan Fiduciary Net Position - Beginning of year</b>	39,999,925	39,512,564	37,787,168	40,758,719	41,649,996	38,514,629
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 40,101,140</b>	<b>\$ 39,999,925</b>	<b>\$ 39,512,564</b>	<b>\$ 37,787,168</b>	<b>\$ 40,758,719</b>	<b>\$ 41,649,996</b>
<b>City's Net Pension Liability - Ending</b>	<b>\$ 12,703,830</b>	<b>\$ 11,922,139</b>	<b>\$ 13,279,295</b>	<b>\$ 13,065,771</b>	<b>\$ 8,263,087</b>	<b>\$ 5,171,111</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	75.94 %	77.04 %	74.85 %	74.31 %	83.14 %	88.96 %
<b>Covered Payroll</b>	\$ 5,225,523	\$ 4,879,894	\$ 5,005,340	\$ 5,227,945	\$ 4,684,463	\$ 4,693,816
<b>City's Net Pension Liability as a Percentage of Covered Payroll</b>	243.11 %	244.31 %	265.30 %	249.92 %	176.39 %	110.17 %

**City of Dearborn Heights, Michigan**

**Required Supplemental Information**

**Police and Fire Retirement System Schedule of Changes in the Net Pension Liability and Related Ratios**

**Last Six Fiscal Years**

	2019	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>						
Service cost	\$ 1,412,365	\$ 1,258,966	\$ 1,112,327	\$ 1,094,183	\$ 1,031,111	\$ 1,004,200
Interest	14,591,231	13,286,569	13,202,158	12,856,071	12,261,841	12,037,075
Changes in benefit terms	-	1,350,162	-	-	-	-
Differences between expected and actual experience	3,370,573	4,941,596	5,058,549	4,430,262	1,509,406	-
Changes in assumptions	-	-	-	-	3,883,047	-
Benefit payments, including refunds	(13,393,285)	(12,922,605)	(11,563,419)	(10,888,291)	(13,290,041)	(9,746,166)
Other	-	-	(848,598)	-	-	-
<b>Net Change in Total Pension Liability</b>	5,980,884	7,914,688	6,961,017	7,492,225	5,395,364	3,295,109
<b>Total Pension Liability - Beginning of year</b>	207,387,595	199,472,907	192,511,890	185,019,665	179,624,301	176,329,192
<b>Total Pension Liability - End of year</b>	<b>\$ 213,368,479</b>	<b>\$ 207,387,595</b>	<b>\$ 199,472,907</b>	<b>\$ 192,511,890</b>	<b>\$ 185,019,665</b>	<b>\$ 179,624,301</b>
<b>Plan Fiduciary Net Position</b>						
Contributions - Employer	\$ 3,838,635	\$ 3,595,919	\$ 3,181,017	\$ 3,008,614	\$ 6,796,498	\$ 6,340,593
Contributions - Member	430,163	575,054	344,374	491,119	498,200	486,849
Net investment income (loss)	8,790,624	15,411,544	22,430,165	(4,998,994)	3,448,028	30,199,954
Administrative expenses	(517,957)	(21,277)	(29,106)	(31,006)	(32,965)	(540,644)
Benefit payments, including refunds	(13,393,285)	(12,922,605)	(11,563,419)	(10,888,291)	(13,081,626)	(13,005,066)
Other	54,951	60,340	12,339	36,301	(147,331)	-
<b>Net Change in Plan Fiduciary Net Position</b>	(796,869)	6,698,975	14,375,370	(12,382,257)	(2,519,196)	23,481,686
<b>Plan Fiduciary Net Position - Beginning of year</b>	181,066,249	174,367,274	159,991,904	172,374,161	174,893,357	151,411,671
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 180,269,380</b>	<b>\$ 181,066,249</b>	<b>\$ 174,367,274</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>\$ 33,099,099</b>	<b>\$ 26,321,346</b>	<b>\$ 25,105,633</b>	<b>\$ 32,519,986</b>	<b>\$ 12,645,504</b>	<b>\$ 4,730,944</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	84.49 %	87.31 %	87.41 %	83.11 %	93.17 %	97.37 %
<b>Covered Payroll</b>	\$ 8,985,517	\$ 7,229,460	\$ 6,517,359	\$ 6,188,918	\$ 5,637,835	\$ 6,016,818
<b>City's Net Pension Liability as a Percentage of Covered Payroll</b>	368.36 %	364.08 %	385.21 %	525.46 %	224.30 %	78.63 %





**City of Dearborn Heights, Michigan**

Required Supplemental Information  
General Government Employees' Retirement System Schedule of Investment Returns

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	<b>Last Six Fiscal Years Years Ended June 30</b>					
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	6.98 %	7.66 %	11.70 %	(1.30)%	3.90 %	14.90 %

**City of Dearborn Heights, Michigan**

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

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	<b>Last Six Fiscal Years Years Ended June 30</b>					
	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	4.54 %	9.26 %	14.30 %	(2.90)%	1.90 %	19.80 %

**City of Dearborn Heights, Michigan**

**Required Supplemental Information**  
**Schedule of Changes in the Total OPEB Liability and Related Ratios**

	<b>Last Two Fiscal Years</b>	
	<u>2019</u>	<u>2018</u>
<b>Total OPEB Liability</b>		
Service cost	\$ 3,613,510	\$ 4,418,740
Interest	6,435,527	7,459,013
Changes in benefit terms	-	(20,227,512)
Differences between expected and actual experience	(2,090,659)	(12,557,294)
Changes in assumptions	9,503,879	(14,986,131)
Benefit payments, including refunds	<u>(6,100,053)</u>	<u>(4,639,479)</u>
<b>Net Change in Total OPEB Liability</b>	11,362,204	(40,532,663)
<b>Total OPEB Liability - Beginning of year</b>	<u>165,700,259</u>	<u>206,232,922</u>
<b>Total OPEB Liability - End of year</b>	<b><u>\$ 177,062,463</u></b>	<b><u>\$ 165,700,259</u></b>
<b>Covered Payroll</b>	\$ 13,233,971	\$ 11,199,009
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	1,337.94 %	1,479.60 %

# City of Dearborn Heights, Michigan

## Required Supplemental Information Schedule of OPEB Contributions

### Last Ten Fiscal Years Years Ended June 30

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ -	\$ -	\$ 13,983,925	\$ 13,119,306	\$ 12,638,402	\$ 10,565,915	\$ 13,004,954	\$ 9,828,454	\$ 9,828,454	\$ 11,879,203
Contributions in relation to the actuarially determined contribution	-	-	5,777,612	4,978,865	4,567,766	5,193,837	4,992,985	3,504,566	3,504,566	3,151,000
<b>Contribution Deficiency</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (8,206,313)</b>	<b>\$ (8,140,441)</b>	<b>\$ (8,070,636)</b>	<b>\$ (5,372,078)</b>	<b>\$ (8,011,969)</b>	<b>\$ (6,323,888)</b>	<b>\$ (6,323,888)</b>	<b>\$ (8,728,203)</b>
<b>Covered Employee Payroll</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,467,969</b>	<b>\$ 12,104,825</b>	<b>\$ 11,752,257</b>	<b>\$ 11,674,708</b>	<b>\$ 11,334,668</b>	<b>\$ 12,578,298</b>	<b>\$ 12,578,298</b>	<b>\$ 14,935,722</b>
<b>Contributions as a Percentage of Covered Employee Payroll</b>	<b>- %</b>	<b>- %</b>	<b>46.34 %</b>	<b>41.13 %</b>	<b>38.87 %</b>	<b>44.49 %</b>	<b>44.05 %</b>	<b>27.86 %</b>	<b>27.86 %</b>	<b>21.10 %</b>

#### Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date N/A

Methods and assumptions used to determine contribution rates:

Actuarial cost method N/A  
 Amortization method N/A  
 Remaining amortization period N/A  
 Asset valuation method N/A  
 Inflation N/A  
 Healthcare cost trend rates N/A  
 Salary increase N/A  
 Retirement age N/A  
 Mortality N/A

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## Other Supplemental Information

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Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2019

	Special Revenue Funds										Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
	Major Streets	Local Streets	Drug Enforcement	Miscellaneous Grants	Community Development Block Grant	Building Authority	Housing Commission	Traffic Immobilization	Library	MIDC Special Assessment	Capital Projects	
<b>Assets</b>												
Cash and investments	\$ 2,432,075	\$ 857,219	\$ 796,885	\$ 82,434	\$ 44,137	\$ -	\$ 6,526	\$ 127,162	\$ 2,793,426	\$ -	\$ -	\$ 7,139,864
Due from other governmental units	658,119	265,285	-	-	314,159	-	-	-	-	-	-	1,237,563
Due from other funds	-	-	124	-	-	95,400	-	-	1,333	160,371	-	257,228
Housing inventory	-	-	-	57,500	-	-	-	-	-	-	-	57,500
Restricted assets	-	-	-	-	-	-	-	-	-	-	44,529	44,529
<b>Total assets</b>	<b>\$ 3,090,194</b>	<b>\$ 1,122,504</b>	<b>\$ 797,009</b>	<b>\$ 139,934</b>	<b>\$ 358,296</b>	<b>\$ 95,400</b>	<b>\$ 6,526</b>	<b>\$ 127,162</b>	<b>\$ 2,794,759</b>	<b>\$ 160,371</b>	<b>\$ 44,529</b>	<b>\$ 8,736,684</b>
<b>Liabilities</b>												
Accounts payable	\$ 178,902	\$ -	\$ 20,566	\$ -	\$ 182,980	\$ -	\$ -	\$ -	\$ 51,580	\$ -	\$ -	\$ 434,028
Due to other governmental units	29,234	11,789	-	-	-	-	-	-	-	-	-	41,023
Due to other funds	146,206	236,894	-	-	171,318	-	5	-	-	-	-	554,423
Accrued liabilities and other	-	-	-	-	-	-	-	-	29,234	-	-	29,234
Unearned revenue	-	-	-	-	-	-	-	-	-	160,371	-	160,371
<b>Total liabilities</b>	<b>354,342</b>	<b>248,683</b>	<b>20,566</b>	<b>-</b>	<b>354,298</b>	<b>-</b>	<b>5</b>	<b>-</b>	<b>80,814</b>	<b>160,371</b>	<b>-</b>	<b>1,219,079</b>
<b>Deferred Inflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>240,204</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>240,204</b>
<b>Total liabilities and deferred inflows of resources</b>	<b>354,342</b>	<b>248,683</b>	<b>20,566</b>	<b>-</b>	<b>594,502</b>	<b>-</b>	<b>5</b>	<b>-</b>	<b>80,814</b>	<b>160,371</b>	<b>-</b>	<b>1,459,283</b>
<b>Fund Balances</b>												
Restricted:												
Roads	2,735,852	873,821	-	-	-	-	-	-	-	-	-	3,609,673
Drug enforcement	-	-	776,443	-	-	-	-	-	-	-	-	776,443
Grants	-	-	-	139,934	-	-	-	-	-	-	-	139,934
Housing Commission	-	-	-	-	-	6,521	-	-	-	-	-	6,521
Traffic immobilization	-	-	-	-	-	-	127,162	-	-	-	-	127,162
Library	-	-	-	-	-	-	-	2,713,945	-	-	-	2,713,945
Capital projects	-	-	-	-	-	-	-	-	-	-	44,529	44,529
Committed - Capital projects	-	-	-	-	-	95,400	-	-	-	-	-	95,400
Unassigned	-	-	-	-	(236,206)	-	-	-	-	-	-	(236,206)
<b>Total fund balances</b>	<b>2,735,852</b>	<b>873,821</b>	<b>776,443</b>	<b>139,934</b>	<b>(236,206)</b>	<b>95,400</b>	<b>6,521</b>	<b>127,162</b>	<b>2,713,945</b>	<b>-</b>	<b>44,529</b>	<b>7,277,401</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 3,090,194</b>	<b>\$ 1,122,504</b>	<b>\$ 797,009</b>	<b>\$ 139,934</b>	<b>\$ 358,296</b>	<b>\$ 95,400</b>	<b>\$ 6,526</b>	<b>\$ 127,162</b>	<b>\$ 2,794,759</b>	<b>\$ 160,371</b>	<b>\$ 44,529</b>	<b>\$ 8,736,684</b>

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

Year Ended June 30, 2019

	Special Revenue Funds										Nonmajor Capital Project Fund	Total Nonmajor Governmental Funds
	Major Streets	Local Streets	Drug Enforcement	Miscellaneous Grants	Community Development Block Grant	Building Authority	Housing Commission	Traffic Immobilization	Library	MIDC Special Assessment	Capital Projects	
<b>Revenue</b>												
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,145,440	\$ -	\$ -	\$ 2,145,440
Intergovernmental:												
Federal grants	-	-	71,565	22,954	980,114	-	-	-	-	-	-	1,074,633
State-shared revenue and grants	4,375,669	1,512,902	60,932	-	-	-	-	-	-	-	-	5,949,503
Local grants and contributions - Operating grants	-	-	-	-	-	-	-	-	1,750	-	-	1,750
Fines and forfeitures	-	-	-	-	-	181,850	-	63,615	86,942	-	-	332,407
Interest income	47,603	22,443	-	-	-	-	1	-	79,804	-	492	150,343
Other revenue	-	-	31,201	3,592	-	-	-	26,860	271,810	-	-	333,463
<b>Total revenue</b>	<b>4,423,272</b>	<b>1,535,345</b>	<b>163,698</b>	<b>26,546</b>	<b>980,114</b>	<b>181,850</b>	<b>1</b>	<b>90,475</b>	<b>2,583,996</b>	<b>1,750</b>	<b>492</b>	<b>9,987,539</b>
<b>Expenditures</b>												
Current services:												
General government	-	-	-	-	-	-	-	-	-	1,750	-	1,750
Drug enforcement	-	-	104,621	-	-	-	-	-	-	-	-	104,621
Public works	2,661,249	1,691,170	-	-	-	-	-	-	-	-	-	4,352,419
Community and economic development	-	-	-	18	1,212,306	-	-	-	-	-	-	1,212,324
Other	-	-	-	-	-	-	-	-	1,671,825	-	-	1,671,825
Other capital outlay	-	-	-	-	-	159,100	-	55,546	-	-	-	214,646
Debt service	-	-	-	-	-	-	-	-	541,894	-	-	541,894
<b>Total expenditures</b>	<b>2,661,249</b>	<b>1,691,170</b>	<b>104,621</b>	<b>18</b>	<b>1,212,306</b>	<b>159,100</b>	<b>-</b>	<b>55,546</b>	<b>2,213,719</b>	<b>1,750</b>	<b>-</b>	<b>8,099,479</b>
<b>Net Change in Fund Balances</b>	<b>1,762,023</b>	<b>(155,825)</b>	<b>59,077</b>	<b>26,528</b>	<b>(232,192)</b>	<b>22,750</b>	<b>1</b>	<b>34,929</b>	<b>370,277</b>	<b>-</b>	<b>492</b>	<b>1,888,060</b>
<b>Fund Balances - Beginning of year</b>	<b>973,829</b>	<b>1,029,646</b>	<b>717,366</b>	<b>113,406</b>	<b>(4,014)</b>	<b>72,650</b>	<b>6,520</b>	<b>92,233</b>	<b>2,343,668</b>	<b>-</b>	<b>44,037</b>	<b>5,389,341</b>
<b>Fund Balances - End of year</b>	<b>\$ 2,735,852</b>	<b>\$ 873,821</b>	<b>\$ 776,443</b>	<b>\$ 139,934</b>	<b>\$ (236,206)</b>	<b>\$ 95,400</b>	<b>\$ 6,521</b>	<b>\$ 127,162</b>	<b>\$ 2,713,945</b>	<b>\$ -</b>	<b>\$ 44,529</b>	<b>\$ 7,277,401</b>

# City of Dearborn Heights, Michigan

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

**June 30, 2019**

	Pension Trust Funds			Agency Fund		
	General Government Employees' Retirement System	Police and Fire Retirement System	Total	Agency Fund	District Court	Total
<b>Assets</b>						
Cash and cash equivalents	\$ 1,528,300	\$ 3,138,753	\$ 4,667,053	\$ 123,323	\$ 476,856	\$ 600,179
Investments:						
U.S. government securities	2,061,010	1,930,248	3,991,258	-	-	-
Common stock	11,759,665	51,073,415	62,833,080	-	-	-
Bonds	2,429,019	2,297,754	4,726,773	-	-	-
Real estate	337,557	1,007,668	1,345,225	-	-	-
Mutual funds	21,617,396	132,197,048	153,814,444	-	-	-
Receivables	368,193	973,289	1,341,482	73,506	-	73,506
<b>Total assets</b>	<b>40,101,140</b>	<b>192,618,175</b>	<b>232,719,315</b>	<b>196,829</b>	<b>476,856</b>	<b>673,685</b>
<b>Liabilities</b>						
Accounts payable	-	60,228	60,228	768	-	768
Due to other governmental units	-	-	-	-	325,788	325,788
Due to primary government	-	4,113,256	4,113,256	-	-	-
Accrued liabilities and other	-	-	-	196,061	151,068	347,129
Collateral for securities lending	-	8,175,311	8,175,311	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>12,348,795</b>	<b>12,348,795</b>	<b>196,829</b>	<b>476,856</b>	<b>673,685</b>
<b>Net Position</b>	<b>\$ 40,101,140</b>	<b>\$ 180,269,380</b>	<b>\$ 220,370,520</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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

**Year Ended June 30, 2019**

	General Government Employees' Retirement System	Police and Fire Retirement System	Total
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ 1,230,661	\$ 6,340,943	\$ 7,571,604
Net increase in fair value of investments	1,324,362	2,227,416	3,551,778
Investment-related expenses	-	(517,957)	(517,957)
Total investment income	2,555,023	8,050,402	10,605,425
Contributions:			
Employer	1,107,058	8,323,929	9,430,987
Employee	34,713	414,795	449,508
Net contributions	1,141,771	8,738,724	9,880,495
Total additions	3,696,794	16,789,126	20,485,920
<b>Deductions</b>			
Benefit payments	3,595,579	13,472,739	17,068,318
Fringe benefits	-	4,113,256	4,113,256
Total deductions	3,595,579	17,585,995	21,181,574
<b>Net Increase (Decrease) in Net Position Restricted for Pension and Other Employee Benefits</b>	101,215	(796,869)	(695,654)
<b>Net Position Restricted for Pension and Other Employee Benefits - Beginning of year</b>	39,999,925	181,066,249	221,066,174
<b>Net Position Restricted for Pension and Other Employee Benefits - End of year</b>	<b>\$ 40,101,140</b>	<b>\$ 180,269,380</b>	<b>\$ 220,370,520</b>