



# Financial Report

## with Supplemental Information

June 30, 2017

**City of Bloomfield Hills  
Oakland County, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2017**

# **City of Bloomfield Hills, Michigan**

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## Independent Auditor's Report

To the Members of the City Commission  
City of Bloomfield Hills, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bloomfield Hills, Michigan (the "City") as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the City of Bloomfield Hills, Michigan's basic financial statements as listed in the table of contents.

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

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

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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bloomfield Hills, Michigan as of June 30, 2017 and the respective changes in its financial position, and, where applicable, cash flows, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Members of the City Commission  
City of Bloomfield Hills, Michigan

## **Other Matters**

### *Required Supplemental Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bloomfield Hills, Michigan's basic financial statements. The other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

*Plante & Moran, PLLC*

October 16, 2017

# **City of Bloomfield Hills, Michigan**

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

### **Overview of the Financial Statements**

Our discussion and analysis of the City of Bloomfield Hills, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2017. Please read it along with the City's financial statements, as it refers to many of the statements.

This annual report consists of a series of financial statements. The statement of net position and the statement of activities provide general information about 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 indicate whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they convey how the taxpayers' resources were consumed 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 government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statement (i.e., Tax Collection Fund) provides financial information about activities for which the City acts solely as a trustee or agent.

### **Government-wide Financial Statements**

The government-wide statements provide information about the City as a whole, using accounting methods similar to those used by private sector companies. The statement of net position includes all of the City's assets and liabilities. One of the major differences between the government-wide statements and the fund financial statements is the inclusion of depreciation in the government-wide statements.

We saw an increase in combined net position of \$1,336,222 this year. Net position, the difference between the City's assets and liabilities, is one way to measure the City's overall financial health. The statement of activities reflects all of the current year's revenue and expenses, regardless of when cash is actually received or paid. The government-wide financial statements of the City are divided into two categories. These two categories will be discussed in more detail later in this management's discussion and analysis.

**Governmental Activities** - Most of the City's basic services are included in governmental activities such as public safety, public works, and general administration, all of which are accounted for in the General Fund. Property taxes, state-shared revenue, charges for services, licenses and permits, and other revenue comprise total revenue for governmental activities. Also included as governmental activities are the Major and Local Streets Funds, General Obligation Debt Fund, Drug Enforcement Fund, and Road Construction Fund.

**Business-type Activities** - Commonly referred to as an enterprise fund, this accounts for our water and sewer activity. These activities are funded through user fees in the form of water and sewer rates, meter charges, industrial surcharges, and capital projects fees.

# **City of Bloomfield Hills, Michigan**

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

### **The City as a Whole**

The following table shows, in a condensed format, the net position for the current and prior fiscal year:

**Summary Condensed Statement of Net Position**

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Assets</b>						
Other assets	\$ 8,276,340	\$ 7,946,506	\$ 6,497,159	\$ 6,318,168	\$ 14,773,499	\$ 14,264,674
Capital assets	<u>14,844,671</u>	<u>14,845,361</u>	<u>9,293,060</u>	<u>8,611,451</u>	<u>24,137,731</u>	<u>23,456,812</u>
Total assets	23,121,011	22,791,867	15,790,219	14,929,619	38,911,230	37,721,486
<b>Deferred Outflows of Resources</b>						
	2,771,896	3,860,684	-	-	2,771,896	3,860,684
<b>Liabilities</b>						
Current liabilities	2,092,435	1,985,908	643,323	268,764	2,735,758	2,254,672
Long-term liabilities	<u>23,854,655</u>	<u>24,639,707</u>	<u>2,736,379</u>	<u>3,667,679</u>	<u>26,591,034</u>	<u>28,307,386</u>
Total liabilities	25,947,090	26,625,615	3,379,702	3,936,443	29,326,792	30,562,058
<b>Net Position</b>						
Net investment in capital assets	10,562,180	9,988,964	6,239,632	4,943,772	16,801,812	14,932,736
Restricted	562,120	501,067	828,079	1,440,544	1,390,199	1,941,611
Unrestricted	<u>(11,178,483)</u>	<u>(10,463,095)</u>	<u>5,342,806</u>	<u>4,608,860</u>	<u>(5,835,677)</u>	<u>(5,854,235)</u>
Total net position	<u>\$ (54,183)</u>	<u>\$ 26,936</u>	<u>\$ 12,410,517</u>	<u>\$ 10,993,176</u>	<u>\$ 12,356,334</u>	<u>\$ 11,020,112</u>

The City's combined net position is approximately \$12,400,000, as compared to approximately \$11,000,000 for the prior year. This represents a 12 percent increase. The governmental activities portion of net position decreased by approximately \$81,000, while the business-type activities increased by approximately \$1,417,000, for a net total change of approximately \$1,336,000.

# City of Bloomfield Hills, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in net position during the current year and in the prior year:

### Summary Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 1,059,685	\$ 809,772	\$ 3,508,157	\$ 2,322,612	\$ 4,567,842	\$ 3,132,384
Operating grants and contributions	446,818	401,666	-	-	446,818	401,666
Capital grants and contributions	-	378,900	1,957,431	1,186,926	1,957,431	1,565,826
General revenue:						
Property taxes	8,736,640	8,444,988	-	-	8,736,640	8,444,988
State-shared revenue	334,580	350,164	-	-	334,580	350,164
Unrestricted investment earnings	37,491	32,420	29,589	19,093	67,080	51,513
Franchise fees	162,998	155,628	-	-	162,998	155,628
Miscellaneous	198,553	262,201	155,541	85,231	354,094	347,432
Total revenue	10,976,765	10,835,739	5,650,718	3,613,862	16,627,483	14,449,601
<b>Program Expenses</b>						
General government	2,744,133	2,370,977	-	-	2,744,133	2,370,977
Public safety	5,609,561	4,877,613	-	-	5,609,561	4,877,613
Public works	2,190,266	1,968,849	-	-	2,190,266	1,968,849
Water and sewer	-	-	4,233,377	3,693,535	4,233,377	3,693,535
Interest on long-term debt	513,924	604,226	-	-	513,924	604,226
Total program expenses	11,057,884	9,821,665	4,233,377	3,693,535	15,291,261	13,515,200
<b>Change in Net Position</b>	<b>\$ (81,119)</b>	<b>\$ 1,014,074</b>	<b>\$ 1,417,341</b>	<b>\$ (79,673)</b>	<b>\$ 1,336,222</b>	<b>\$ 934,401</b>

### Governmental Activities

As you read through the next several paragraphs, it is important to keep in mind that governmental activities include not only the General Fund, but also the General Obligation Debt Fund, Road Construction Fund, Major and Local Streets Funds, and Drug Enforcement Fund.

The City's total governmental revenue totaled \$10,976,765 in 2017. Property taxes represent \$8,736,640, or 80 percent, of the total. Charges for services totaled \$1,059,685, or 10 percent, of total revenue. Charges for services primarily support the building department and public safety activities.

In the past, municipalities were required to fund their pension plan each year while detailing the pension liability in the notes to the financial statements. However, for the 2015 reporting year, the Governmental Accounting Standards Board required implementation of GASB Statement No. 68, which requires all municipalities to account for net pension liability in the government-wide statements. The standard changed how we account for pensions, not how we fund pensions.

# **City of Bloomfield Hills, Michigan**

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

### **Business Activities**

The City's only business-type activity is the Water and Sewer Fund. The City purchases water from the Southeastern Oakland County Water Authority (SOCWA), which in turn purchases water from the Great Lakes Water Authority. Sewage treatment is provided through Oakland County, Michigan through the water resource commissioner's office, formerly the Oakland County Drain Commission, which is a customer of the Detroit water and sewage department.

The Water and Sewer Fund's major revenue is fees paid by city residents based on actual metered water usage. The debt recorded in this fund is for the retirement of capital improvement bonds for water and sanitary sewer system improvements. The Water and Sewer revenue increased compared to last year; however, expenses increased over the last year because the cost of water and sewage treatment increased. Both revenue and expense are also influenced by weather, which affects consumption from year to year.

The business-type activity revenue totaled approximately \$5,650,000. Of this total, the City received capital improvement revenue of approximately \$1,957,000 to fund current and future improvements to the water and sewer infrastructure. With expenditures totaling approximately \$4,233,000, there was a net position increase of approximately \$1,417,000 in the current year.

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

At the end of fiscal year 2017, the City had \$24,138,000 invested in a wide range of capital assets in both governmental and business-type activities, including land, buildings, equipment, roads, and water and sewer lines. This amount increased \$681,000 from the previous year. See Note 5 to the financial statements for additional information.

The City continues to be committed to road improvement projects. In 2017, the City completed the first half of the Manorwood, Renton, Chestnut, and Woodwind road improvement project.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the City's significant funds, not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of revenue and expenditures for particular purposes. Some funds are required by state law and bonding requirements. Other funds are established to control and manage money for particular purposes.

The City has the following fund types:

**Governmental Funds** - All of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash, flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps the reader determine if there are more or fewer financial resources available to spend in the near future to finance the City's programs. In the annual financial statements, we refer to our funds as the General Fund, Road Construction Fund, General Obligation Debt Fund, and other nonmajor governmental funds.

# **City of Bloomfield Hills, Michigan**

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

The following represents financial highlights for the year ended June 30, 2017:

- The City's operating tax millage was 10.60 for 2017. Of this, 1.10 mills were allocated by the commission for road improvements. A voter-approved library millage was .3843 for 2017. This millage gives residents and businesses access to the Baldwin Library.
- Property tax revenue in 2017 was \$8,737,616 compared to \$8,444,988 in the prior year, an increase of approximately \$293,000, or 3.5 percent. Property taxes are the City's largest source of General Fund revenue.
- As a commitment to improving the city roads, the commission dedicates 1.10 of general operating mills to roads each year. In 2017, this equated to approximately \$868,000 of tax dollars, which was used for the reconstruction of Manorwood, Renton, Chestnut, and Woodwind streets.

**Proprietary Fund** - The City has one proprietary fund, the Water and Sewer Fund, which is considered an enterprise fund. An enterprise fund is a proprietary fund that is intended to be entirely self-supporting by customer usage fees. Proprietary fund statements, such as government-wide statements, provide both short- and long-term financial information.

### **General Fund Budgetary Highlights**

Over the course of the fiscal year, the city administration and city commission monitored and, if necessary, amended the budget to prevent expenditures in excess of budget as required by the State of Michigan Budget Act. General Fund actual revenue was approximately \$94,000 more than budgeted revenue, and actual expenditures were \$47,000 less than budgeted expenditures. The net effect added \$396,661 to the fund balance in the General Fund. The majority of this increase was due to increase in the amount of property tax revenue, offset by an increase in legal fees and building and planning expenditures.

### **Economic Factors and the Future**

There are several economic factors that will continue to challenge the City. In 2014, in an attempt to save the taxpayers money over the next 20 years, smooth the cost of the unfunded liability for future budgeting, and to keep promises made to current employees and retirees, the City decided to issue bonds to pay off the defined benefit pension accrued unfunded liability. This decision was made after much consideration and analysis.

The most current MERS (Municipal Employees' Retirement System) actuarial report as of December 31, 2016 shows an unfunded accrued liability of \$6.2 million dollars. The liability was due to a five-year study performed by MERS after the City had paid off its accrued liability. The MERS study increased the mortality rate and decreased the interest rate used in actuarial assumptions. During the bonding process in 2014, the City was aware that by eliminating the unfunded accrued liability in 2014, there was no guarantee that the pension plan could not become unfunded in the future. However, the City is confident that the potential savings over the next 20 years will be more than adequate to cover any additional unknown liabilities.

# **City of Bloomfield Hills, Michigan**

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

The commission, in its continuing effort to restore roads, has approved phase two road improvements to Manorwood, Renton, Chestnut, and Woodwind streets in 2018. This improvement is funded by the road millage.

To supplement the road millage, the 2018 General Fund includes a \$1,225,000 appropriation for additional road improvement projects.

The City continues to look for ways to reduce expenditures through union negotiations, staffing, and possible consolidation of services with neighboring communities. Furthermore, the City's fund balances are evaluated during each budget approval process, making sure the requirements of the fund balance policy is met and ensuring the balance remains healthy. The City continues to receive a AAA bond rating, the highest rating given by Standard & Poor's.

### **Contacting the City's Financial Management**

This financial report is intended to provide 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, please contact the city administration at (248) 644-1520 and, as always, you are welcome to visit our website at [www.bloomfieldhillsmi.net](http://www.bloomfieldhillsmi.net).

# City of Bloomfield Hills, Michigan

## Statement of Net Position June 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 6,278,080	\$ 5,022,019	\$ 11,300,099
Receivables (Note 1):			
Customers	-	1,032,705	1,032,705
Other receivables	149,754	-	149,754
Due from other governmental units	168,551	442,435	610,986
Delinquent personal property taxes	9,314	-	9,314
Special assessments receivable	3,175	-	3,175
Inventory	27,155	-	27,155
Prepaid expenses and other assets	89,024	-	89,024
Net OPEB asset (Note 11)	1,551,287	-	1,551,287
Capital assets - Net (Note 5):			
Assets not subject to depreciation	339,638	-	339,638
Assets subject to depreciation	14,505,033	9,293,060	23,798,093
Total assets	23,121,011	15,790,219	38,911,230
<b>Deferred Outflows of Resources</b> - Deferred outflows related to pensions (Note 9)	2,771,896	-	2,771,896
<b>Liabilities</b>			
Accounts payable	269,059	310,248	579,307
Accrued liabilities and other	315,609	16,026	331,635
Noncurrent liabilities:			
Due within one year (Note 7):			
Compensated absences	70,945	-	70,945
Current portion of long-term debt	1,436,822	317,049	1,753,871
Due in more than one year:			
Compensated absences (Note 7)	287,239	-	287,239
Net pension liability (Note 9)	6,196,747	-	6,196,747
Long-term debt (Note 7)	17,370,669	2,736,379	20,107,048
Total liabilities	25,947,090	3,379,702	29,326,792
<b>Net Position</b>			
Net investment in capital assets	10,562,180	6,239,632	16,801,812
Restricted for:			
Roads	279,342	-	279,342
Drug enforcement	1,120	-	1,120
Construction code activity	281,658	-	281,658
Water capital improvements	-	193,740	193,740
Sewer capital improvements	-	634,339	634,339
Unrestricted	(11,178,483)	5,342,806	(5,835,677)
Total net position	\$ (54,183)	\$ 12,410,517	\$ 12,356,334

# City of Bloomfield Hills, Michigan

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Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 2,744,133	\$ 584,363	\$ -	\$ -
Public safety	5,609,561	459,273	23,678	-
Public works	2,190,266	16,049	423,140	-
Interest on long-term debt	513,924	-	-	-
Total governmental activities	11,057,884	1,059,685	446,818	-
Business-type activities - Water and Sewer Fund	4,233,377	3,508,157	-	1,957,431
Total primary government	<b>\$ 15,291,261</b>	<b>\$ 4,567,842</b>	<b>\$ 446,818</b>	<b>\$ 1,957,431</b>
General revenue:				
Property taxes				
State-shared revenue				
Unrestricted investment income				
Franchise fees				
Miscellaneous				
Total general revenue				
<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, 2017**

Net (Expense) Revenue and Changes in Net Position		
<hr/>		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (2,159,770)	\$ -	\$ (2,159,770)
(5,126,610)	-	(5,126,610)
(1,751,077)	-	(1,751,077)
<u>(513,924)</u>	<u>-</u>	<u>(513,924)</u>
 (9,551,381)	 -	 (9,551,381)
 -	 <u>1,232,211</u>	 <u>1,232,211</u>
 (9,551,381)	 1,232,211	 (8,319,170)
 8,736,640	 -	 8,736,640
 334,580	 -	 334,580
 37,491	 29,589	 67,080
 162,998	 -	 162,998
 198,553	 155,541	 354,094
 <u>9,470,262</u>	 <u>185,130</u>	 <u>9,655,392</u>
 (81,119)	 1,417,341	 1,336,222
 <u>26,936</u>	 <u>10,993,176</u>	 <u>11,020,112</u>
 <u>\$ (54,183)</u>	 <u>\$ 12,410,517</u>	 <u>\$ 12,356,334</u>

# City of Bloomfield Hills, Michigan

## Governmental Funds Balance Sheet June 30, 2017

	General Fund	Road Construction Fund	General Obligation Debt Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents (Note 3)	\$ 5,923,093	\$ 149,505	\$ 625	\$ 204,857	\$ 6,278,080
Receivables:					
Special assessments receivable	3,175	-	-	-	3,175
Other receivables	149,754	-	-	-	149,754
Due from other governmental units	60,409	-	-	108,142	168,551
Delinquent personal property taxes	9,314	-	-	-	9,314
Due from other funds	10,815	-	-	36,595	47,410
Inventory	27,155	-	-	-	27,155
Prepaid expenses and other assets	89,024	-	-	-	89,024
Total assets	<b>\$ 6,272,739</b>	<b>\$ 149,505</b>	<b>\$ 625</b>	<b>\$ 349,594</b>	<b>\$ 6,772,463</b>
<b>Liabilities</b>					
Accounts payable	\$ 244,674	\$ 10,663	\$ -	\$ 13,722	\$ 269,059
Due to other funds	-	-	-	47,410	47,410
Accrued liabilities and other	161,092	-	-	-	161,092
Total liabilities	405,766	10,663	-	61,132	477,561
<b>Deferred Inflows of Resources -</b>					
Unavailable revenue (Note 1)	12,489	-	-	-	12,489
<b>Fund Balances</b>					
Nonspendable:					
Inventory	27,155	-	-	-	27,155
Prepays	89,024	-	-	-	89,024
Restricted:					
Roads	-	-	-	279,342	279,342
Construction code activity	281,658	-	-	-	281,658
Drug enforcement	-	-	-	1,120	1,120
Assigned:					
Subsequent year's budget	822,971	-	-	-	822,971
Road projects	-	138,842	-	-	138,842
Debt service	-	-	625	-	625
Compensated absences	358,184	-	-	-	358,184
Capital projects	-	-	-	8,000	8,000
Unassigned	4,275,492	-	-	-	4,275,492
Total fund balances	<b>5,854,484</b>	<b>138,842</b>	<b>625</b>	<b>288,462</b>	<b>6,282,413</b>
Total liabilities, deferred inflows of resources, and fund balances	<b>\$ 6,272,739</b>	<b>\$ 149,505</b>	<b>\$ 625</b>	<b>\$ 349,594</b>	<b>\$ 6,772,463</b>

# **City of Bloomfield Hills, Michigan**

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

<b>Fund Balance Reported in Governmental Funds</b>	<b>\$</b> <b>6,282,413</b>
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	14,844,671
Deferred outflows from the difference between projected and actual investment earnings of the pension plan, changes in assumptions, the difference between expected and actual experience, as well as City contributions made after the measurement date of the net pension liability are not reported in the funds	2,771,896
Special assessment receivables and other receivables are expected to be collected but are not available to pay for current year expenditures	12,489
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(18,807,491)
Accrued interest payable is not due and payable in the current period and is not reported in the funds	(154,517)
Compensated absences are not due and payable in the current period and are not reported in the funds	(358,184)
Other postemployment benefits are contributed in excess of requirement and the asset is not reported in the funds	1,551,287
Net pension liabilities are not reported in the funds	<u>(6,196,747)</u>
<b>Net Position of Governmental Activities</b>	<b>\$ <u>(54,183)</u></b>

# City of Bloomfield Hills, Michigan

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

	General Fund	Road Construction Fund	General Obligation Debt Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>					
Property taxes (Note 1)	\$ 7,868,961	\$ 868,655	\$ -	\$ -	\$ 8,737,616
Licenses and permits	729,614	-	-	16,049	745,663
State sources	402,176	-	-	379,222	781,398
Charges for services	71,247	-	-	-	71,247
Fines and forfeitures	415,603	-	-	-	415,603
Interest income	37,491	-	-	-	37,491
Other	165,133	-	-	23,590	188,723
Total revenue	9,690,225	868,655	-	418,861	10,977,741
<b>Expenditures</b>					
Current:					
General government	2,111,359	-	-	-	2,111,359
District court	391,508	-	-	-	391,508
Public safety	3,825,676	-	-	-	3,825,676
Public works	695,101	-	-	371,258	1,066,359
Capital outlay	-	1,093,144	-	320,657	1,413,801
Debt service	-	-	1,852,919	34,732	1,887,651
Total expenditures	7,023,644	1,093,144	1,852,919	726,647	10,696,354
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>2,666,581</b>	<b>(224,489)</b>	<b>(1,852,919)</b>	<b>(307,786)</b>	<b>281,387</b>
<b>Other Financing Sources (Uses)</b>					
Face value of debt issue (Note 7)	-	-	-	36,725	36,725
Insurance claim proceeds	-	-	-	86,226	86,226
Transfers in (Note 6)	-	217,000	1,852,920	328,329	2,398,249
Transfers out (Note 6)	(2,269,920)	-	-	(128,329)	(2,398,249)
Total other financing (uses) sources	(2,269,920)	217,000	1,852,920	322,951	122,951
<b>Net Change in Fund Balances</b>	<b>396,661</b>	<b>(7,489)</b>	<b>1</b>	<b>15,165</b>	<b>404,338</b>
<b>Fund Balances - Beginning of year</b>	<b>5,457,823</b>	<b>146,331</b>	<b>624</b>	<b>273,297</b>	<b>5,878,075</b>
<b>Fund Balances - End of year</b>	<b>\$ 5,854,484</b>	<b>\$ 138,842</b>	<b>\$ 625</b>	<b>\$ 288,462</b>	<b>\$ 6,282,413</b>

# **City of Bloomfield Hills, Michigan**

## **Governmental Funds** **Reconciliation of the Statement of Revenue, Expenditures,** **and Changes in Fund Balances of Governmental Funds** **to the Statement of Activities** **Year Ended June 30, 2017**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 404,338</b>
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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	1,334,069
Depreciation expense	(1,334,759)

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

(976)
-------

Proceeds from debt issuance provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position

(36,725)
----------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)

1,280,631
-----------

Interest expense is recorded when incurred in the statement of activities

6,870
-------

Decrease 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

(42,034)
----------

Change in deferred outflow related to pensions

(1,088,788)
-------------

Increase in net pension liability does not require the use of current resources and therefore, is not reported in the fund until it becomes due for payment

(587,420)
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Decrease in net OPEB asset is not reported in the fund statements

<u>(16,325)</u>
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<b>Change in Net Position of Governmental Activities</b>	<b>\$ (81,119)</b>
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# City of Bloomfield Hills, Michigan

## Proprietary Funds Statement of Net Position June 30, 2017

	Enterprise Fund
	Water and
	Sewer Fund
<b>Assets</b>	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 5,022,019
Receivables	<u>1,475,140</u>
Total current assets	6,497,159
Noncurrent assets - Capital assets (Note 5)	<u>9,293,060</u>
Total assets	15,790,219
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	310,248
Accrued liabilities and other	16,026
Current portion of long-term debt (Note 7)	<u>317,049</u>
Total current liabilities	643,323
Noncurrent liabilities - Long-term debt (Note 7)	<u>2,736,379</u>
Total liabilities	<u>3,379,702</u>
<b>Net Position</b>	
Net investment in capital assets	6,239,632
Restricted:	
Water capital improvements	193,740
Sewer capital improvements	634,339
Unrestricted	<u>5,342,806</u>
Total net position	<u>\$ 12,410,517</u>

# City of Bloomfield Hills, Michigan

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

	Enterprise Fund
	Water and
	Sewer Fund
<b>Operating Revenue</b>	
Sale of water	\$ 2,313,055
Sewage disposal charges	<u>1,195,102</u>
	3,508,157
<b>Operating Expenses</b>	
Cost of water	2,298,857
Cost of sewage treatment	1,062,138
Operation and maintenance	84,941
Billing and administrative costs	159,480
Other operating expense	45,915
Depreciation (Note 5)	<u>518,788</u>
	4,170,119
<b>Operating Loss</b>	(661,962)
<b>Nonoperating Revenue (Expenses)</b>	
Investment income	29,589
Interest expense	(63,258)
Other nonoperating revenue	<u>155,541</u>
	121,872
<b>Loss Before Contributions</b>	(540,090)
<b>Capital Contributions</b> - Tap fees and capital charges	<u>1,957,431</u>
<b>Change in Net Position</b>	1,417,341
<b>Net Position</b> - Beginning of year	<u>10,993,176</u>
<b>Net Position</b> - End of year	<u><b>\$ 12,410,517</b></u>

# City of Bloomfield Hills, Michigan

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

	Enterprise Fund
	Water and
	Sewer Fund
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 3,688,438
Payments to suppliers	(3,468,057)
Payments to employees	<u>(125,108)</u>
Net cash provided by operating activities	95,273
<b>Cash Flows from Capital and Related Financing Activities</b>	
Receipt of operating grants	105,566
Tap fees and capital charges	2,007,406
Purchase of capital assets	(1,200,397)
Principal and interest paid on capital debt	<u>(678,165)</u>
Net cash provided by capital and related financing activities	234,410
<b>Cash Flows from Investing Activities - Investment income</b>	
	<u>29,589</u>
<b>Net Increase in Cash and Cash Equivalents</b>	
	359,272
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>4,662,747</u>
<b>Cash and Cash Equivalents - End of year</b>	<u><b>\$ 5,022,019</b></u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>	
Operating loss	\$ (661,962)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	518,788
Changes in assets and liabilities:	
Receivables	180,281
Accounts payable and other liabilities	57,942
Accrued and other liabilities	<u>224</u>
Net cash provided by operating activities	<u><b>\$ 95,273</b></u>

# **City of Bloomfield Hills, Michigan**

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## **Fiduciary Funds** **Statement of Fiduciary Assets and Liabilities** **June 30, 2017**

	<u>Agency Funds</u>
<b>Assets</b> - Cash and cash equivalents	<u>\$ 690,249</u>
<b>Liabilities</b> - Refundable deposits	<u>\$ 690,249</u>

# **City of Bloomfield Hills, Michigan**

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## **Notes to Financial Statements** **June 30, 2017**

### **Note I - Summary of Significant Accounting Policies**

#### **Reporting Entity**

The City of Bloomfield Hills, Michigan (the "City") is governed by an elected five-member commission. The accompanying financial statements present the City.

#### **Accounting and Reporting Principles**

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

#### **Report Presentation**

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

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

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

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

# **City of Bloomfield Hills, Michigan**

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## **Notes to Financial Statements** **June 30, 2017**

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

#### **Fund Accounting**

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

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

- **The General Fund** - The General Fund is the primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund.
- **The General Obligation Debt Fund** - The General Obligation Debt Fund is used to account for the debt payments on bonds and other long-term liabilities.
- **The Road Construction Fund** - The Road Construction Fund is used to account for the activity related to various road construction in the City.

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

- **The Water and Sewer Fund** - The Water and Sewer Fund is used to account for the results of operations that provide water and sewer services to citizens that are financed primarily by a user charge for the provision of those services. The activity of the water distribution and sewage collection systems is administered by Oakland County, Michigan.

**Fiduciary funds** include amounts held in a fiduciary capacity for others. These amounts will not be used to operate our City's programs. The City has an agency fund that accounts for assets held by the City. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

# **City of Bloomfield Hills, Michigan**

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## **Notes to Financial Statements** **June 30, 2017**

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

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

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

#### **Basis of Accounting**

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

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

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

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2017

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

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

#### Specific Balances and Transactions

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

**Prepaid Items** - 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.

**Capital Assets** - Capital assets, which include property, plant, equipment, intangible assets, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Capital Asset Class	Years
Land improvements	20
Computer equipment	3
Building improvements	50
Machinery, equipment, and vehicles	5-20
Sewer drains	50
Infrastructure	20-50

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

# **City of Bloomfield Hills, Michigan**

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## **Notes to Financial Statements** **June 30, 2017**

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

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The City has one item that qualifies for reporting in this category, which is the deferred outflows of resources related to the defined benefit pension plan. The deferred outflows of resources related to the defined benefit pension plan are reported in the government-wide financial statements. The deferred outflows of resources result from the following transactions: contributions to the defined benefit pension plan subsequent to the plan's year end through the City's fiscal year end, variances that result from changes in actuarial assumptions, the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings, and the difference between expected and actual experience.

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 City has items that qualify for reporting in this category, deferred inflows of resources related to unavailable revenue. Unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from two sources: special assessments of \$3,175 and delinquent personal property taxes of \$9,314 at June 30, 2017. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

# **City of Bloomfield Hills, Michigan**

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## **Notes to Financial Statements** **June 30, 2017**

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

**Fund Balance Flow Assumption** - Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. 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 Commission is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Commission has by resolution authorized the finance director to assign fund balance. The City Commission 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 property taxes become a lien on December 1 of the following year. The taxes are due on February 28, after which point they are added to the county tax rolls and penalties and interest are assessed.

# **City of Bloomfield Hills, Michigan**

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## **Notes to Financial Statements** **June 30, 2017**

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

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

The 2016 taxable valuation of the City totaled approximately \$790,000,000, on which taxes levied consisted of 10.6000 mills for operating and road purposes and 0.3843 mills for library services. This resulted in approximately \$7,500,000 for operating, \$869,000 for road projects, and \$303,000 for the library. The operating and library amounts are recognized in the General Fund and the road projects amount is recognized in the Capital Projects Fund financial statements as tax revenue.

**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 pension, 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 receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any. The General Fund is generally used to liquidate the OPEB liabilities.

**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. There is a liability for half of the unpaid accumulated sick leave since the City has a policy to pay half the amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. The General Fund is generally used to liquidate compensated absences.

# **City of Bloomfield Hills, Michigan**

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## **Notes to Financial Statements** **June 30, 2017**

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

**Proprietary Funds Operating Classification** - Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water and Sewer Fund is charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

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

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

Cumulative surplus - July 1, 2016	\$ 281,343
Current year building permit revenue	580,391
Related expenses:	
Direct costs	\$ 512,644
Estimated indirect costs	67,432
	<hr/>
Current year surplus	315
Cumulative surplus - June 30, 2017	\$ 281,658

# **City of Bloomfield Hills, Michigan**

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## **Notes to Financial Statements** **June 30, 2017**

### **Note 3 - Deposits and Investments**

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

The City has designated two institutions for the deposit of its funds. Each financial intermediary, broker, or dealer that holds the City's funds must be provided with a copy of the investment policy and comply with the policy. The investment policy adopted by the City Commission in accordance with Public Act 196 of 1997 has authorized investment in all of the above securities. The City's deposits and investments are currently in compliance with its investment policy and statutory authority.

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

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$8,036,320 of bank deposits (certificates of deposit and checking and savings accounts), of which \$251,001 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, \$3,323,329 of investment securities were uninsured and unregistered, with securities held by the Oakland County Investment Pool.

**Concentration of Custodial Credit Risk of Investments** - Oakland County Investment Pool's investment policy allows for no more than 15 percent to be invested with any single financial institution.

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2017

### 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 City had the following investments:

Investment	Fair Value	Weighted Average Maturity (Days)
<b>Primary Government</b>		
Pooled investment - Oakland County	\$ <u>3,323,329</u>	484

#### 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 Type	Fair Value	Rating	Organization
<b>Primary Government</b>			
Pooled investment - Oakland County	\$ <u>3,323,329</u>	Not rated	N/A

### Note 4 - Fair Value Measurement

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

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

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2017

### Note 4 - Fair Value Measurement (Continued)

#### Investments in Entities that Calculate Net Asset Value per Share

The City holds interests in an external investment pool whereby the fair value of the investments is measured on a recurring basis using net asset value per share.

At the year ended June 30, 2017, the fair value is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Total investments measured at				
NAV - Oakland County				
Government Investment Pool	\$ 3,323,329	\$ -	-	-

### Note 5 - Capital Assets

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

Governmental Activities	Balance July 1, 2016	Reclassifications	Additions	Disposals	Balance June 30, 2017
Capital assets not being depreciated:					
Land	\$ 339,638	\$ -	\$ -	\$ -	\$ 339,638
Construction in progress	97,402	(97,402)	-	-	-
Subtotal	437,040	(97,402)	-	-	339,638
Capital assets being depreciated:					
Buildings and improvements	6,982,289	-	12,160	-	6,994,449
Machinery, equipment, and vehicles	3,368,551	-	228,765	(123,346)	3,473,970
Land improvements	240,500	-	-	-	240,500
Infrastructure	22,471,558	97,402	1,093,144	-	23,662,104
Subtotal	33,062,898	97,402	1,334,069	(123,346)	34,371,023
Accumulated depreciation:					
Buildings and improvements	2,460,264	-	155,552	-	2,615,816
Machinery, equipment, and vehicles	2,387,563	-	339,349	(123,346)	2,603,566
Land improvements	222,463	-	12,025	-	234,488
Infrastructure	13,584,287	-	827,833	-	14,412,120
Subtotal	18,654,577	-	1,334,759	(123,346)	19,865,990
Net capital assets being depreciated	14,408,321	97,402	(690)	-	14,505,033
Net capital assets	\$ 14,845,361	\$ -	\$ (690)	\$ -	\$ 14,844,671

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2017

### Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Capital assets being depreciated:				
Sewer drains	\$ 1,388,637	\$ -	\$ -	\$ 1,388,637
Infrastructure	9,508,612	1,200,397	-	10,709,009
Subtotal	10,897,249	1,200,397	-	12,097,646
Accumulated depreciation:				
Sewer drains	277,731	39,676	-	317,407
Infrastructure	2,008,067	479,112	-	2,487,179
Subtotal	2,285,798	518,788	-	2,804,586
Net capital assets being depreciated	\$ 8,611,451	\$ 681,609	\$ -	\$ 9,293,060

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

Governmental activities:		
General government		\$ 102,419
Public safety		307,724
Public works		924,616
Total governmental activities		\$ 1,334,759
Business-type activities - Water and sewer		\$ 518,788

### Note 6 - Interfund Receivables, Payables, and Transfers

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Other nonmajor governmental funds - Major Streets Fund	\$ 7,320
	Other nonmajor governmental funds - Local Streets Fund	3,495
	Total General Fund	10,815
Other nonmajor governmental funds - Local Streets Fund	Other nonmajor governmental funds - Major Streets Fund	36,595
	Total	\$ 47,410

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

# **City of Bloomfield Hills, Michigan**

## **Notes to Financial Statements** **June 30, 2017**

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

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

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	General Obligation Debt Fund	\$ 1,852,920
	Road Construction Fund	217,000
	Other nonmajor governmental funds - Capital Improvement Fund	<u>200,000</u>
	Total	<u>\$ 2,269,920</u>
Other nonmajor governmental funds - Major Streets Fund	Other nonmajor governmental funds - Local Streets Fund	<u>\$ 128,329</u>

The transfer from the General Fund to the General Obligation Debt Fund represent the use of unrestricted resources to service debt payments. The transfers from the General Fund to the Road Construction Fund and the Capital Improvement Fund were for construction projects, in accordance with budgetary authorizations. The transfer from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenue in accordance with Act 51.

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2017

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities and to prefund pension obligations. 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.

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
Road Construction Bonds:						
Amount of issue - \$3,000,000						
Maturing through 2018	3.75%-5.25%	\$ 1,250,000	\$ -	\$ (350,000)	\$ 900,000	\$ 400,000
General Obligation Limited Tax Bonds, Series 2010:						
Amount of issue - \$4,000,000						
Maturing through 2025	2.0%-3.5%	3,400,000	-	(200,000)	3,200,000	300,000
2014 General Obligation Limited Tax Pension Bonds:						
Amount of issue - \$15,860,000						
Maturing through 2034	0.40%-4.00%	15,195,000	-	(670,000)	14,525,000	675,000
2015 Installment Purchase Obligation - Salt Truck:						
Amount of issue - \$165,169						
Maturing through 2020	1.67%	165,169	-	(31,928)	133,241	32,477
2017 Backhoe Loader - Installment Purchase Obligation:						
Amount of issue - \$36,275						
Maturing through 2019	4.25%	-	36,725	(12,764)	23,961	12,676
2014 Telephone System - Installment Purchase Obligation:						
Amount of issue - \$67,201						
Maturing through 2018	4.07%	35,290	-	(13,659)	21,631	14,263
2015 Advanced Wireless Telecom Installment Purchase Obligation						
Amount of issue - \$2,406						
Total bonds payable		20,051,397	36,725	(1,280,631)	18,807,491	1,436,822
Other long-term obligations - Employee compensated absences		316,150	418,537	(376,503)	358,184	70,945
Total governmental activities		<u>\$ 20,367,547</u>	<u>\$ 455,262</u>	<u>\$ (1,657,134)</u>	<u>\$ 19,165,675</u>	<u>\$ 1,507,767</u>

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2017

### Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type Activities</b>						
2009 General Obligation Debt - SOCWA bonds:						
Amount of issue - \$945,000						
Maturing through 2017	2.00%-3.25%	\$ 220,000	\$ -	\$ (220,000)	\$ -	\$ -
County contractual obligations:						
Bloomfield Village CSO Drainage Bonds, Series 1994 A:						
Amount of issue - \$161,233						
Maturing through 2017	2.00%	9,257	-	(9,257)	-	-
Bloomfield Village CSO Drainage District Refunding Bonds, Series 2001A:						
Amount of issue - \$141,432						
Maturing through 2017	5.14%	4,115	-	(4,115)	-	-
Bloomfield Village CSO Drain Bonds Series, C/2001B:						
Amount of issue - \$242,750						
Maturing through 2017	2.0%-3.0%	24,171	-	(24,171)	-	-
City of Bloomfield Hills CSO Drainage District Drain Refunding Bonds, Series 2003:						
Amount of issue - \$1,125,000						
Maturing through 2017	2.25%-3.38%	44,660	-	(44,660)	-	-
2015 Water Infrastructure Improvement General Obligation Debt:						
Amount of issue - \$3,295,000						
Maturing through 2026	2.00%-2.25%	3,295,000	-	(305,000)	2,990,000	310,000
Issuance premiums		70,476	-	(7,048)	63,428	7,049
Total business-type activities		\$ 3,667,679	\$ -	\$ (614,251)	\$ 3,053,428	\$ 317,049

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

Years Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 1,436,822	\$ 605,367	\$ 2,042,189	\$ 310,000	\$ 58,650	\$ 368,650
2019	1,539,364	568,474	2,107,838	310,000	51,675	361,675
2020	1,028,585	536,602	1,565,187	315,000	44,644	359,644
2021	1,147,720	509,793	1,657,513	325,000	37,850	362,850
2022	1,130,000	478,250	1,608,250	330,000	31,300	361,300
2023-2027	5,505,000	1,827,348	7,332,348	1,400,000	124,500	1,524,500
2028-2032	4,810,000	938,400	5,748,400	-	3,650	3,650
2033-2034	2,210,000	198,400	2,408,400	-	-	-
Total	\$ 18,807,491	\$ 5,662,634	\$ 24,470,125	\$ 2,990,000	\$ 352,269	\$ 3,342,269

**County Contractual Obligations** - The above contractual obligations to the county are the result of the county issuance of bonds on the City's behalf. The City has pledged substantially all revenue of the Water and Sewer Fund, net of operating expenses, to repay the obligations; in addition, it has pledged to raise property taxes, to the extent permitted by law, if necessary to fund the obligation to repay the county. Proceeds from the county bonds provided financing for various drain projects. The remaining principal and interest were paid off in 2017.

# **City of Bloomfield Hills, Michigan**

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## **Notes to Financial Statements** **June 30, 2017**

### **Note 8 - Risk Management**

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

The City is self insured for health coverage through Blue Cross/Blue Shield for all eligible active employees and retirees under the age of 65 (eligible retirees over 65 are covered under a premium-based coverage with Blue Cross/Blue Shield). Self-insurance coverage pays costs based on claims after any relevant deductible, co-pays, or co-insurance. The City's policy includes a stop-loss provision to limit liability for catastrophic events. All eligible active employees and retirees are covered under a self-insurance policy for dental through Delta Dental.

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

The Michigan Municipal Risk Management Authority's state pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the authority itself.

### **Note 9 - Defined Benefit Pension Plan**

**Plan Description** - The City participates in an agent multiple-employer defined benefit pension plan administered by the Municipal Employees' Retirement System of Michigan (MERS, or MERS of Michigan) that covers all public safety union employees and department of public works union employees. MERS was established as a statewide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine-member retirement board. MERS issues a publicly available financial report, which includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at [www.mersofmichigan.com](http://www.mersofmichigan.com) or in writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

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

# **City of Bloomfield Hills, Michigan**

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## **Notes to Financial Statements** **June 30, 2017**

### **Note 9 - Defined Benefit Pension Plan (Continued)**

Retirement benefits for employees are calculated as 2.50-3.00 percent of the employee's final three to five-year average compensation times the employee's years of service. Employees covered under this plan can retire with 25 years of service at age 50 or 55 depending on the date of hire. The vesting period is 8 to 10 years.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustments are 2.50 percent, noncompounding.

Benefit terms, within the parameters established by MERS, are generally established and amended by authority of the City Council, generally after negotiations of these terms with the affected unions. Police and fire employees' benefit terms may be subject to binding arbitration in certain circumstances.

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

Inactive plan members or beneficiaries currently receiving benefits	48
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	<hr/> 23
Total employees covered by MERS	<hr/> 74

**Contributions** - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the year ended June 30, 2017, the average active employee contribution rate was 5.0 percent of annual pay and the City's average contribution rate was 14.5 percent of annual payroll.

### **Net Pension Liability**

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

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2017

### Note 9 - Defined Benefit Pension Plan (Continued)

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
<b>Balance at December 31, 2015</b>	\$ 33,963,578	\$ 28,354,251	\$ 5,609,327
Service cost	303,737	-	303,737
Interest	2,637,009	-	2,637,009
Differences between expected and actual experience	1,101,092	-	1,101,092
Contributions - Employer	-	269,316	(269,316)
Contributions - Employee	-	98,682	(98,682)
Net investment income	-	3,148,653	(3,148,653)
Benefit payments, including refunds	(2,305,661)	(2,305,661)	-
Administrative expenses	-	(62,233)	62,233
Net changes	<u>1,736,177</u>	<u>1,148,757</u>	<u>587,420</u>
<b>Balance at December 31, 2016</b>	<b>\$ 35,699,755</b>	<b>\$ 29,503,008</b>	<b>\$ 6,196,747</b>

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

For the year ended June 30, 2017, the City recognized pension expense of \$1,939,020. At June 30, 2017, the City reported deferred outflows of resources related to pensions from the following sources:

	Net Deferred Outflows of Resources
Difference between expected and actual experience	\$ 772,975
Changes in assumptions	807,459
Net difference between projected and actual earnings on pension plan investments	1,060,056
Employer contributions to the plan subsequent to the measurement date	<u>131,406</u>
Total	<u>\$ 2,771,896</u>

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2017

### Note 9 - Defined Benefit Pension Plan (Continued)

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

Years Ending June 30	Amount
2018	\$ 1,223,068
2019	1,223,068
2020	386,415
2021	(192,061)

These amounts are exclusive of the employer contributions to the plan made subsequent to the measurement date (\$131,406), which will impact the net pension liability in fiscal year 2018, rather than pension expense.

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

Inflation	2.50 %
Salary increases	3.75 %
Investment rate of return	8.00 % Net of pension plan investment expense, including inflation

Mortality rates were based on a 50 percent male and 50 percent female blend of the following tables:

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

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

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

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2017

### Note 9 - Defined Benefit Pension Plan (Continued)

#### Projected Cash Flows

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

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2016, the measurement date, for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	58 %	5.0 %
Global fixed income	20	2.2
Real assets	12	4.2
Diversifying strategies	10	6.6

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

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the City, calculated using the discount rate of 8.00 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.00 percent) or 1 percentage point higher (9.00 percent) than the current rate:

	Current		
	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
Net pension liability of the City	\$ 10,484,865	\$ 6,196,747	\$ 2,630,391

# **City of Bloomfield Hills, Michigan**

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## **Notes to Financial Statements** **June 30, 2017**

### **Note 9 - Defined Benefit Pension Plan (Continued)**

**Pension Plan Fiduciary Net Position** - Detailed information about the plan's fiduciary net position is available in the separately issued financial report found at [www.mersofmich.com](http://www.mersofmich.com). For the purpose of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pension and pension expense, information about the plan's fiduciary net position and addition to/deduction from fiduciary net position have been determined on the same basis as they are reported by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

### **Note 10 - Defined Contribution Pension Plan**

The City participates in two defined contributions plans, whereby benefits depend solely on the amount contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment, and are fully vested immediately.

The first plan is open to full-time nonunion employees and is administered by ICMA-RC. The City contributes 15 percent of employee's compensation to this plan. For the current year, the City contributed \$80,828 based on employee compensation of \$538,855. All full-time City employees can elect to contribute to this plan.

The City also participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined contribution pension plan. This plan is provided to full-time nonunion employees, DPW union employees hired after June 30, 2014, dispatch full-time union employees hired after August 14, 2014, public safety officers hired after August 21, 2014, and public safety command officers hired after September 9, 2014. The City contributes a percent of covered payroll as follows: 1 percent for nonunion employees, 10 percent for dispatch and DPW employees, and 12 percent for public safety officers including command officers. The City's contribution for the fiscal year ended June 30, 2017 was \$56,818 based on compensation of \$705,530.

### **Note 11 - Other Postemployment Benefits**

**Plan Description** - The City provides retiree healthcare benefits to eligible employees and their spouses. This is a pay-as-you-go plan administered by the City. The City also pre-funds the plan with an account through ICMA-RC.

**Funding Policy** - The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, as shown below, the City has made contributions to advance-fund these benefits, as determined by the City Commission through annual budget resolutions.

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2017

### Note 11 - Other Postemployment Benefits (Continued)

**Funding Progress** - For the year ended June 30, 2017, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of July 1, 2014. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years for active employees and current retirees. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 670,697
Interest on net OPEB asset	(117,571)
Adjustment to the annual required contribution	<u>60,202</u>
Annual OPEB cost	613,328
Amounts contributed - Payments of current premiums	<u>597,003</u>
Decrease in net OPEB asset	(16,325)
OPEB asset - Beginning of year	<u>1,567,612</u>
OPEB asset - End of year	<u>\$ 1,551,287</u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB asset for the current year were as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed	Net OPEB Obligation (Asset)
6/30/15	7/1/14	\$ 629,451	118.1 %	\$ (1,283,941)
6/30/16	7/1/14	650,982	136.4	(1,567,612)
6/30/17	7/1/14	670,697	89.0	(1,551,287)

\* The required contribution is expressed to the City as a percentage of payroll.

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2017

### Note 11 - Other Postemployment Benefits (Continued)

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
1/1/09	\$ -	\$ 11,358,067	\$ 11,358,067	- %	\$ 1,910,384	594.5 %
1/1/12	428,359	9,817,918	9,389,559	4.4	1,999,296	469.6
7/1/14	1,512,555	11,044,714	9,532,159	13.7	1,715,716	555.6

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

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

In the July 1, 2014 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements of 0.5 percent to an ultimate rate of 4 percent after 10 years. Both rates included a 3.0 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The amortization period at June 30, 2017 is 28 years for active and retiree participants.

# **City of Bloomfield Hills, Michigan**

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## **Notes to Financial Statements** **June 30, 2017**

### **Note 12 - Upcoming Accounting Pronouncements**

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

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

In March 2017, the Governmental Accounting Standards Board issued GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB statements. The statement addresses a variety of topics, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits). 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 2017-2018 fiscal year.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2020-2021 fiscal year.

## **Required Supplemental Information**

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# City of Bloomfield Hills, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 7,831,915	\$ 7,891,287	\$ 7,868,961	\$ (22,326)
Licenses and permits	516,800	713,373	729,614	16,241
State sources	338,077	402,620	402,176	(444)
Charges for services -	261,890	246,090	287,343	41,253
Fines and forfeitures	364,824	364,824	415,603	50,779
Investment income	30,634	30,634	37,491	6,857
Other revenue:				
Special assessments	5,287	5,287	3,175	(2,112)
Other miscellaneous income	152,075	157,832	161,958	4,126
Total revenue	9,501,502	9,811,947	9,906,321	94,374
<b>Expenditures - Current</b>				
General government:				
City Commission	600	600	587	13
City manager	159,661	131,027	128,913	2,114
Treasurer	171,893	192,930	192,008	922
Assessing	49,434	51,805	50,506	1,299
General administration	264,088	255,562	267,036	(11,474)
Clerk	121,862	129,644	124,111	5,533
Buildings and grounds	179,955	228,187	201,451	26,736
Attorney	194,645	277,802	284,052	(6,250)
Building and planning	422,405	545,167	520,639	24,528
Engineering	48,960	55,036	53,444	1,592
Library	287,998	290,498	288,612	1,886
Total general government	1,901,501	2,158,258	2,111,359	46,899
48th District Court	364,824	367,324	391,508	(24,184)
Public safety	4,054,329	3,842,309	3,825,676	16,633
Public works	938,942	919,573	911,197	8,376
Total expenditures	7,259,596	7,287,464	7,239,740	47,724
<b>Excess of Revenue Over Expenditures</b>				
Other Financing Uses - Transfers out	(2,269,920)	(2,269,920)	(2,269,920)	-
<b>Net Change in Fund Balance</b>	<b>(28,014)</b>	<b>254,563</b>	<b>396,661</b>	<b>142,098</b>
<b>Fund Balance - Beginning of year</b>	<b>5,457,823</b>	<b>5,457,823</b>	<b>5,457,823</b>	<b>-</b>
<b>Fund Balance - End of year</b>	<b>\$ 5,429,809</b>	<b>\$ 5,712,386</b>	<b>\$ 5,854,484</b>	<b>\$ 142,098</b>

# City of Bloomfield Hills, Michigan

## Required Supplemental Information Schedule of Changes in the City's Net Pension Liability and Related Ratios Fiscal Year Ended

	2017	2016	2015
<b>Total Pension Liability</b>			
Service cost	\$ 303,737	\$ 321,098	\$ 349,720
Interest	2,637,009	2,527,139	2,464,654
Differences between expected and actual experience	1,101,092	77,828	-
Changes in assumptions	-	1,614,918	-
Benefit payments, including refunds	<u>(2,305,661)</u>	<u>(2,097,680)</u>	<u>(1,987,664)</u>
<b>Net Change in Total Pension Liability</b>	<u>1,736,177</u>	<u>2,443,303</u>	<u>826,710</u>
<b>Total Pension Liability - Beginning of year</b>	<u>33,963,578</u>	<u>31,520,275</u>	<u>30,693,565</u>
<b>Total Pension Liability - End of year</b>	<b><u>\$ 35,699,755</u></b>	<b><u>\$ 33,963,578</u></b>	<b><u>\$ 31,520,275</u></b>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	\$ 269,316	\$ 283,701	\$ 16,952,688
Contributions - Member	98,682	109,331	118,386
Net investment income (loss)	3,148,653	(443,538)	937,384
Administrative expenses	(62,233)	(65,737)	(34,875)
Benefit payments, including refunds	<u>(2,305,661)</u>	<u>(2,097,680)</u>	<u>(1,987,664)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	<u>1,148,757</u>	<u>(2,213,923)</u>	<u>15,985,919</u>
<b>Plan Fiduciary Net Position - Beginning of year</b>	<u>28,354,251</u>	<u>30,568,174</u>	<u>14,582,255</u>
<b>Plan Fiduciary Net Position - End of year</b>	<b><u>\$ 29,503,008</u></b>	<b><u>\$ 28,354,251</u></b>	<b><u>\$ 30,568,174</u></b>
<b>City's Net Pension Liability - Ending</b>	<b><u>\$ 6,196,747</u></b>	<b><u>\$ 5,609,327</u></b>	<b><u>\$ 952,101</u></b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	82.64 %	83.48 %	96.98 %
<b>Covered Employee Payroll</b>	\$ 1,859,858	\$ 2,025,423	\$ 2,211,532
<b>City's Net Pension Liability as a Percentage of Covered Employee Payroll</b>	333.2 %	276.9 %	43.1 %

# City of Bloomfield Hills, Michigan

## Required Supplemental Information Schedule of Pension Contributions Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 269,316	\$ 275,820	\$ 1,262,614	\$ 1,025,420	\$ 967,279	\$ 860,958	\$ 858,747	\$ 875,875	\$ 789,697	\$ 655,283
Contributions in relation to the actuarially determined contribution	<u>269,316</u>	<u>275,820</u>	<u>1,262,614</u>	<u>1,025,420</u>	<u>967,279</u>	<u>860,958</u>	<u>858,747</u>	<u>875,875</u>	<u>789,697</u>	<u>655,283</u>
<b>Contribution Deficiency</b>	<b>\$ -</b>									
<b>Covered Employee Payroll</b>	<b>\$ 1,859,858</b>	<b>\$ 2,025,423</b>	<b>\$ 2,211,532</b>	<b>\$ 1,981,561</b>	<b>\$ 2,423,543</b>	<b>\$ 2,221,442</b>	<b>\$ 2,244,043</b>	<b>\$ 2,531,426</b>	<b>\$ 2,353,244</b>	<b>\$ 2,112,739</b>
<b>Contributions as a Percentage of Covered Employee Payroll</b>	<b>14.5 %</b>	<b>13.6 %</b>	<b>57.1 %</b>	<b>51.7 %</b>	<b>39.9 %</b>	<b>38.8 %</b>	<b>38.3 %</b>	<b>34.6 %</b>	<b>33.6 %</b>	<b>31.0 %</b>

### Notes to Schedule of Pension Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date

Actuarially determined contribution rates are calculated as of December 31 each year, which is six months prior to the beginning of the fiscal year in which the contributions are required

Methods and assumptions used to determine contribution rates:

Actuarial cost method

Entry age

Amortization method

Level percentage of pay, open

Remaining amortization period

22 years

Asset valuation method

Five-year smoothed

Inflation

2.5 percent

Salary increases

3.75 percent

Investment rate of return

8.00 percent

Retirement age

60 years

Mortality

Mortality rates were based on a 50 percent male and 50 percent female blend of the following tables:

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

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

Other information

None

# **City of Bloomfield Hills, Michigan**

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

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)		Actuarial Accrued Liability (AAL)			Unfunded AAL (UAAL)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
				(b)	(b-a)				
1/1/09	\$	-	\$ 11,358,067	\$ 11,358,067			- %	\$ 1,910,384	594.5 %
1/1/12		428,359	9,817,918	9,389,559			4.4	1,999,296	469.6
7/1/14		1,512,555	11,044,714	9,532,159			13.7	1,715,716	555.6

# **City of Bloomfield Hills, Michigan**

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## **Note to Required Supplemental Information Year Ended June 30, 2017**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all special revenue funds. During the year, the budget was amended in a legally permissible manner.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

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

1. On or before the second Tuesday in May, the finance director/treasurer and the city manager prepare a proposed operating budget for the fiscal year commencing July 1 and submit it to the City Commission. The budget must be adopted through a passage of a budget resolution no later than June 30.
2. Public hearings are conducted to obtain citizen comments.
3. The legislative budget is adopted by department and fund on a departmental basis. Line item detail is provided as a general guideline. Throughout the year, the commission receives the requests to amend the activity budget. All amendments must be approved by a vote of the City Commission. Changes in line items within an activity may be made and approved by the finance director/treasurer.

The table below reconciles difference between the operating statement and the budget schedule:

	<u>Total Revenue</u>	<u>Total Expenditures</u>
Amounts per operating statement	\$ 9,690,225	\$ 7,023,644
Operating reimbursements budgeted as revenue and expenditures	216,096	216,096
Amounts per budget statement	<u>\$ 9,906,321</u>	<u>\$ 7,239,740</u>

# **City of Bloomfield Hills, Michigan**

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## **Note to Required Supplemental Information (Continued)**

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City of Bloomfield Hills incurred expenditures that were in excess of the amounts budgeted as follows:

	Amended			
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	
General administration	\$ 255,562	\$ 267,036	\$ (11,474)	
Attorney	277,802	284,052	(6,250)	
48th District Court	367,324	391,508	(24,184)	

The City Commissioners approved the final budget amendment in June 2017, based on anticipated expenditures for all activities. Because of year-end closing entries subsequent to June 30, 2017, actual expenditures for the above activities overran the anticipated expenditures included in the June 2017 budget amendment.

## **Other Supplemental Information**

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# City of Bloomfield Hills, Michigan

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

	Special Revenue Funds				Capital Projects Funds		Total Nonmajor Governmental Funds
	Major Streets Fund	Local Streets Fund	Drug Enforcement Fund	Capital Improvement Fund			
<b>Assets</b>							
Cash and investments	\$ 87,777	\$ 95,800	\$ 1,120	\$ 20,160	\$ 204,857		
Receivables	73,191	34,951	-	-	-	108,142	
Due from other funds	-	36,595	-	-	-	36,595	
<b>Total assets</b>	<b>\$ 160,968</b>	<b>\$ 167,346</b>	<b>\$ 1,120</b>	<b>\$ 20,160</b>	<b>\$ 349,594</b>		
<b>Liabilities</b>							
Accounts payable	\$ 1,542	\$ 20	\$ -	\$ 12,160	\$ 13,722		
Due to other funds	43,915	3,495	-	-	-	47,410	
<b>Total liabilities</b>	<b>45,457</b>	<b>3,515</b>	<b>-</b>	<b>12,160</b>	<b>61,132</b>		
<b>Fund Balances</b>							
Restricted:							
Roads	115,511	163,831	-	-	-	279,342	
Drug enforcement	-	-	1,120	-	-	1,120	
Assigned - Capital projects	-	-	-	8,000	8,000		
<b>Total fund balances</b>	<b>115,511</b>	<b>163,831</b>	<b>1,120</b>	<b>8,000</b>	<b>8,000</b>	<b>288,462</b>	
<b>Total liabilities and fund balances</b>	<b>\$ 160,968</b>	<b>\$ 167,346</b>	<b>\$ 1,120</b>	<b>\$ 20,160</b>	<b>\$ 349,594</b>		

# City of Bloomfield Hills, Michigan

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

					Capital Projects		Total Nonmajor Governmental Funds
	Special Revenue Funds			Fund			
	Major Streets Fund	Local Streets Fund	Drug Enforcement Fund	Capital Improvement Fund			
<b>Revenue</b>							
Licenses and permits	\$ 4,012	\$ 12,037	\$ -	\$ -			16,049
State sources	256,658	122,564	-	-			379,222
Other revenue	-	-	-	23,590			23,590
<b>Total revenue</b>	<b>260,670</b>	<b>134,601</b>	<b>-</b>	<b>23,590</b>			<b>418,861</b>
<b>Expenditures</b>							
Current - Public works	97,358	237,175	-	36,725			371,258
Capital outlay	-	-	-	320,657			320,657
Debt service	-	-	-	34,732			34,732
<b>Total expenditures</b>	<b>97,358</b>	<b>237,175</b>	<b>-</b>	<b>392,114</b>			<b>726,647</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>163,312</b>	<b>(102,574)</b>	<b>-</b>	<b>(368,524)</b>			<b>(307,786)</b>
<b>Other Financing Sources (Uses)</b>							
Face value of debt issue	-	-	-	36,725			36,725
Insurance claim proceeds	-	-	-	86,226			86,226
Transfers in	-	128,329	-	200,000			328,329
Transfers out	(128,329)	-	-	-			(128,329)
<b>Total other financing (uses) sources</b>	<b>(128,329)</b>	<b>128,329</b>	<b>-</b>	<b>322,951</b>			<b>322,951</b>
<b>Net Change in Fund Balances</b>	<b>34,983</b>	<b>25,755</b>	<b>-</b>	<b>(45,573)</b>			<b>15,165</b>
<b>Fund Balances - Beginning of year</b>	<b>80,528</b>	<b>138,076</b>	<b>1,120</b>	<b>53,573</b>			<b>273,297</b>
<b>Fund Balances - End of year</b>	<b>\$ 115,511</b>	<b>\$ 163,831</b>	<b>\$ 1,120</b>	<b>\$ 8,000</b>			<b>\$ 288,462</b>