

City of Southgate, Michigan

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

City of Southgate, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Southgate, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Southgate, 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 Southgate, Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

To the Honorable Mayor and
Members of the City Council
City of Southgate, Michigan

Emphasis of Matter

As described in Notes 20 and 21 to the financial statements, the City adopted the new accounting guidance of GASB 74, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans* which enhances accounting and financial reporting standards of OPEB plans. Our opinion is not modified with respect to this matter.

Required Supplemental Information

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

Other Information

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

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

Plante & Moran, PLLC

October 31, 2017

City of Southgate, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Southgate, Michigan's 2017 annual report is presented in conformity with the requirements of GASB No. 34. This annual report consists of a discussion and analysis of the City of Southgate, Michigan's (the "City") financial performance. This provides an overview of the City's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2017:

- Property taxes are the City's single largest source of revenue. The City's taxable value for fiscal year 2017 was \$660,065,840, which represents an increase of \$1,163,566, or 0.1 percent.
- The City closely monitors discretionary spending by performing periodic budget adjustments. As a result, fund balance in the General Fund increased by \$168,012.
- The City continues to eliminate its outstanding debt in the governmental activities. The City has reduced its outstanding debt since 2009 by 48.8 percent. As a result, the outstanding debt for fiscal year 2017 is \$7,204,987.

Using this Annual Report

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

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

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following tables show, in a condensed format, the net position as of June 30, 2017, compared to the prior year:

| | Governmental Activities | | | Percent Change |
|----------------------------------|-------------------------|----------------------|-----------------------|-------------------|
| | 2016 | 2017 | Change | |
| Other assets | \$ 19,786,837 | \$ 19,720,827 | \$ (66,010) | 0% |
| Capital assets | <u>63,167,823</u> | <u>62,874,706</u> | <u>(293,117)</u> | 0% |
| Total assets | 82,954,660 | 82,595,533 | (359,127) | 0% |
| Deferred outflows of resources | 10,101,196 | 8,190,846 | (1,910,350) | -19% |
| Current liabilities | 5,855,247 | 5,089,882 | (765,365) | -13% |
| Long-term liabilities | <u>63,619,145</u> | <u>64,556,913</u> | <u>937,768</u> | 1% |
| Total liabilities | 69,474,392 | 69,646,795 | 172,403 | 0% |
| Deferred inflows of resources | <u>1,582,439</u> | <u>1,441,435</u> | <u>(141,004)</u> | -9% |
| Net position: | | | | |
| Net investment in capital assets | 55,321,529 | 56,003,068 | 681,539 | 1% |
| Restricted | 11,890,752 | 12,216,524 | 325,772 | 3% |
| Unrestricted | <u>(45,213,256)</u> | <u>(48,521,443)</u> | <u>(3,308,187)</u> | 7% |
| Total net position | <u>\$ 21,999,025</u> | <u>\$ 19,698,149</u> | <u>\$ (2,300,876)</u> | -10% |

| | Business-type Activities | | | Percent Change |
|----------------------------------|--------------------------|----------------------|---------------------|-------------------|
| | 2016 | 2017 | Change | |
| Other assets | \$ 5,360,523 | \$ 6,081,136 | \$ 720,613 | 13% |
| Capital assets | <u>34,350,661</u> | <u>34,926,460</u> | <u>575,799</u> | 2% |
| Total assets | 39,711,184 | 41,007,596 | 1,296,412 | 3% |
| Deferred outflows of resources | 840,457 | 411,545 | (428,912) | -51% |
| Current liabilities | 2,105,875 | 1,860,885 | (244,990) | -12% |
| Long-term liabilities | <u>11,786,378</u> | <u>11,510,253</u> | <u>(276,125)</u> | -2% |
| Total liabilities | 13,892,253 | 13,371,138 | (521,115) | -4% |
| Deferred inflows of resources | <u>482,399</u> | <u>260,029</u> | <u>(222,370)</u> | -46% |
| Net position: | | | | |
| Net investment in capital assets | 26,586,831 | 27,325,846 | 739,015 | 3% |
| Restricted | 2,506,057 | 2,699,423 | 193,366 | 8% |
| Unrestricted | <u>(2,915,899)</u> | <u>(2,237,295)</u> | <u>678,604</u> | -23% |
| Total net position | <u>\$ 26,176,989</u> | <u>\$ 27,787,974</u> | <u>\$ 1,610,985</u> | 6% |

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

The City's combined net position decreased from approximately \$48.1 million to approximately \$47.5 million, a decrease of approximately 1.4 percent from a year ago. As we look at governmental activities separately from the business-type activities, we can see that net position decreased by approximately \$2,301,000 in governmental activities. Last fiscal year, the net position of the governmental activities decreased by \$1,076,000. The year-over-year change is primarily the result of slight increases in public safety program expenses.

Business-type activities net position increased by approximately \$1,611,000. Business-type activities comprise approximately \$27.8 million of the total net position. The year-over-year change is primarily due to various decreases in operating expenses.

Unrestricted net position, the portion of net position that can be used to finance day-to-day operations, decreased by \$3.3 million for governmental activities and increased by \$679,000 for business-type activities. The current level of unrestricted net position stands at a deficit of \$48.5 million for governmental activities and a deficit of \$2.2 million for business-type activities. Restricted net position for business-type activities totaled \$2,699,423 at June 30, 2017 and increased by 8 percent from the prior year. Restricted net position reported in governmental activities has limits on its use that are externally imposed by restrictions such as enabling legislation. These resources can only be used for the specific purpose for which they were intended, such as expenditures for the Southgate/Wyandotte drain operation and maintenance, library services, debt service, and narcotics enforcement.

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

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

| | Governmental Activities | | | |
|---------------------------------|------------------------------|------------------------------|------------------------------|----------------|
| | 2016 | 2017 | Change | Percent Change |
| Revenue | | | | |
| Program revenue: | | | | |
| Charges for services | \$ 4,685,139 | \$ 4,918,921 | \$ 233,782 | 5% |
| Operating grants | 3,138,668 | 3,434,090 | 295,422 | 9% |
| Capital grants | 162,508 | 165,990 | 3,482 | 2% |
| General revenue: | | | | |
| Property taxes | 15,469,245 | 15,743,976 | 274,731 | 2% |
| State-shared revenue | 3,019,662 | 3,074,335 | 54,673 | 2% |
| Investment earnings | 13,528 | 61,088 | 47,560 | 352% |
| Other revenue | - | 546 | 546 | 100% |
| Total revenue | <u>26,488,750</u> | <u>27,398,946</u> | <u>910,196</u> | <u>3%</u> |
| Program Expenses | | | | |
| General government | 5,196,595 | 5,302,476 | 105,881 | 2% |
| 28 th District Court | 1,200,404 | 1,235,893 | 35,489 | 3% |
| Public safety | 12,001,283 | 13,533,282 | 1,531,999 | 13% |
| Public works | 6,960,298 | 7,390,494 | 430,196 | 6% |
| Recreation and cultural | 1,949,679 | 1,995,331 | 45,652 | 2% |
| Interest on long-term debt | <u>256,920</u> | <u>242,346</u> | <u>(14,574)</u> | <u>-6%</u> |
| Total expenses | <u>27,565,179</u> | <u>29,699,822</u> | <u>2,134,643</u> | <u>8%</u> |
| Change in Net Position | <u>\$ (1,076,429)</u> | <u>\$ (2,300,876)</u> | <u>\$ (1,224,447)</u> | 114% |

The City's total governmental revenue increased by approximately \$910,000 from the prior year. The City had increases in property taxes, charges for services, state-shared revenue, investment earnings, and all other categories.

Overall, current year expenses increased from the prior year by \$2,134,643, or 8 percent, primarily due to increase pension expenses and workers compensation claims.

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

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

| | Business-type Activities | | | Percent |
|--|--------------------------|---------------------|---------------------|---------|
| | 2016 | 2017 | Change | Change |
| Operating revenue | \$ 7,201,186 | \$ 7,449,514 | \$ 248,328 | 3% |
| Operating expenses - Other than depreciation | 7,254,419 | 5,423,442 | (1,830,977) | -25% |
| Depreciation and amortization | <u>1,149,484</u> | <u>1,202,434</u> | <u>52,950</u> | 5% |
| Operating (Loss) Income | (1,202,717) | 823,638 | 2,026,355 | -168% |
| Property tax revenue | 915,795 | 978,915 | 63,120 | 7% |
| Interest income | 17,887 | 18,953 | 1,066 | 6% |
| Interest expense | <u>(240,225)</u> | <u>(210,521)</u> | <u>29,704</u> | -12% |
| Change in Net Position | <u>\$ (509,260)</u> | <u>\$ 1,610,985</u> | <u>\$ 2,120,245</u> | -416% |

The City's business-type activities consist of the Water and Sewer Fund and the Golf Course Fund. We provide water to residents from the Detroit water system. We also provide sewage treatment through the Wayne County downriver sewage disposal system. In the Golf Course Fund, the two biggest factors affecting business are weather and the economy. Since January 2012, the club house has been under new management and the City continues to focus on improving the operating results of the golf course. In the current year, the Water and Sewer Fund had an operating income of \$852,641, while the Golf Course Fund had operating loss of \$29,003. Excluding depreciation, the Water and Sewer Fund had an operating income of \$2,024,965 while the Golf Course Fund had an operating income of \$1,107.

The City's Funds

The analysis of the City's major funds begins on page 14, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2017 include the General Fund, the Community Development Block Grant Fund, and the Southgate-Wyandotte Operation and Maintenance Fund.

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of \$10,811,783 in the current year. The budget in the General Fund is basically a "maintenance" budget, which means it increases modestly from year to year. The fund balance of the City's General Fund represents 18.9 percent, or \$2,934,849, of total governmental fund balances. The General Fund's fund balance, which includes the Severance Reserve Fund, increased by \$168,012 from the prior year.

Fund balance of the Community Development Block Grant Fund decreased \$160,759 from the prior year primarily due to an increase in unavailable revenue due from Wayne County.

Fund balance of the Southgate-Wyandotte Operation and Maintenance Fund increased \$575,027 from the prior year. The increase in fund balance is due to a decrease in construction work performed in fiscal year 2017.

General Fund Budgetary Highlights

During the current year, actual revenue exceeded actual expenditures by \$79,402. The City departments overall were over budget by \$187,859 but revenue exceeded budget by \$259,628. The primary expenditure variance of \$194,034 in transfers to other funds related to increased workers' compensation claims reported in an internal service fund that is funded by transfers from the General Fund. Overall, the General Fund's unassigned fund balance increased by \$22,164 in the current year, from \$955,617 a year ago to \$977,781 at June 30, 2017.

Capital Asset and Debt Administration

The City continues to collect a dedicated millage approved by the voters in November 2001 for improvements to streets in conjunction with a five-year improvement plan.

At the end of 2017, the City had approximately \$97.8 million (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines as well as roads within the City. Additional information on the City's capital assets can be found in Note 5 to the financial statements.

The City's total indebtedness as of June 30, 2017 was \$14.8 million. Of this amount, \$7.5 million represents the City's portion of Wayne County bonds related to the Downriver Sewage Disposal System. Additional information on the City's long-term debt can be found in Note 7 to the financial statements.

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Because of the impact of Proposal A, the City needs to continue to watch its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions.

We anticipate that the water and sewer rates will have to increase somewhat in 2017. We are in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2017 to discuss the need for such an increase.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the administration offices at City Hall.

City of Southgate, Michigan

Statement of Net Position June 30, 2017

| | Primary Government | | | Component Units |
|--|----------------------------|-----------------------------|---------------|--------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Assets | | | | |
| Cash and cash equivalents | \$ 15,548,740 | \$ 943,994 | \$ 16,492,734 | \$ 1,511,556 |
| Receivables - Net: | | | | |
| Property taxes receivable | 935 | - | 935 | - |
| Customer accounts | 1,199,551 | 2,176,153 | 3,375,704 | - |
| Other receivables | 163,365 | - | 163,365 | 13,651 |
| Due from other governmental units | 1,294,114 | 63,734 | 1,357,848 | 174,452 |
| Special assessments receivable | 1,242,049 | - | 1,242,049 | - |
| Due from component units (Note 6) | 45,056 | - | 45,056 | - |
| Due from primary government (Note 6) | - | - | - | 14,700 |
| Internal balances (Note 6) | 199,021 | (199,021) | - | - |
| Inventory | - | 29,866 | 29,866 | - |
| Prepaid expenses | 27,996 | 3,088 | 31,084 | - |
| Restricted assets (Note 8) | - | 2,699,423 | 2,699,423 | - |
| Investment in joint venture (Note 18) | - | 363,899 | 363,899 | - |
| Capital assets - Net (Note 5): | | | | |
| Assets not subject to depreciation | 3,386,602 | 1,082,637 | 4,469,239 | - |
| Assets subject to depreciation | 59,488,104 | 33,843,823 | 93,331,927 | 566,416 |
| Total assets | 82,595,533 | 41,007,596 | 123,603,129 | 2,280,775 |
| Deferred Outflows of Resources | | | | |
| Deferred charges on refunding | 333,349 | - | 333,349 | - |
| Deferred outflows related to pensions (Notes 11 and 14) | 7,857,497 | 411,545 | 8,269,042 | - |
| Total deferred outflows of resources | 8,190,846 | 411,545 | 8,602,391 | - |
| Liabilities | | | | |
| Accounts payable | 903,785 | 418,002 | 1,321,787 | 39,021 |
| Due to component units (Note 6) | 14,700 | - | 14,700 | - |
| Due to primary government (Note 6) | - | - | - | 45,056 |
| Cash bonds and deposits | 224,908 | - | 224,908 | - |
| Accrued liabilities and other | 926,274 | 329,286 | 1,255,560 | 15,174 |
| Unearned revenue | 1,227,452 | - | 1,227,452 | 110,000 |
| Noncurrent liabilities: | | | | |
| Due within one year: | | | | |
| Current portion of compensated absences and other (Note 7) | 791,717 | 65,520 | 857,237 | - |
| Current portion of long-term debt (Note 7) | 1,001,046 | 1,048,077 | 2,049,123 | - |
| Due in more than one year: | | | | |
| Compensated absences and other - Net of current portion (Note 7) | 1,480,332 | 53,607 | 1,533,939 | - |
| Net retiree healthcare obligation (Notes 15 and 16) | 19,593,995 | 2,474,834 | 22,068,829 | - |
| Net pension liability (Notes 11 and 14) | 37,278,645 | 2,429,275 | 39,707,920 | - |
| Long-term debt- Net of current portion (Note 7) | 6,203,941 | 6,552,537 | 12,756,478 | - |
| Total liabilities | 69,646,795 | 13,371,138 | 83,017,933 | 209,251 |
| Deferred Inflows of Resources Related to Pensions (Notes 11 and 14) | 1,441,435 | 260,029 | 1,701,464 | - |

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

City of Southgate, Michigan

Statement of Net Position (Continued) June 30, 2017

| | Primary Government | | | Component Units |
|--|----------------------------|-----------------------------|----------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Net Position | | | | |
| Net investment in capital assets | \$ 56,003,068 | \$ 27,325,846 | \$ 83,328,914 | \$ 566,416 |
| Restricted for: | | | | |
| Street expenses | 4,937,924 | - | 4,937,924 | - |
| Building department | 3,727 | - | 3,727 | - |
| Debt service | 260,333 | - | 260,333 | - |
| Capital improvement | 214,643 | 2,699,423 | 2,914,066 | - |
| Police and fire retirement | 202,063 | - | 202,063 | - |
| Southgate/Wyandotte drain operation and maintenance | 5,768,248 | - | 5,768,248 | - |
| Library | 511,790 | - | 511,790 | - |
| Narcotics enforcement | 263,633 | - | 263,633 | - |
| Low-income housing | 9,163 | - | 9,163 | - |
| Recreation | 45,000 | - | 45,000 | - |
| Unrestricted | (48,521,443) | (2,237,295) | (50,758,738) | 1,505,108 |
| Total net position | \$ 19,698,149 | \$ 27,787,974 | \$ 47,486,123 | \$ 2,071,524 |

City of Southgate, Michigan

| Functions/Programs | Expenses | Program Revenue | | |
|---|----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 5,302,476 | \$ 945,721 | \$ 470,908 | \$ - |
| 28 th District Court | 1,235,893 | 1,552,930 | 45,724 | - |
| Public safety | 13,533,282 | 54,075 | 122,189 | 165,990 |
| Public services | 7,390,494 | 1,837,274 | 2,096,449 | - |
| Recreation and culture | 1,995,331 | 528,921 | 698,820 | - |
| Interest on long-term debt | 242,346 | - | - | - |
| Total governmental activities | 29,699,822 | 4,918,921 | 3,434,090 | 165,990 |
| Business-type activities: | | | | |
| Water and Sewer | 6,527,074 | 7,169,194 | - | - |
| Golf Course | 309,323 | 280,320 | - | - |
| Total business-type activities | 6,836,397 | 7,449,514 | - | - |
| Total primary government | \$ 36,536,219 | \$ 12,368,435 | \$ 3,434,090 | \$ 165,990 |
| Component units: | | | | |
| Tax Increment Financing Authority | \$ 699,885 | \$ - | \$ - | \$ - |
| Downtown Development Authority | 203,384 | - | - | - |
| Southern Michigan Information Alliance | 679,865 | 606,448 | - | 55,000 |
| Total component units | \$ 1,583,134 | \$ 606,448 | \$ - | \$ 55,000 |
| General revenue: | | | | |
| Property taxes | | | | |
| State-shared revenue | | | | |
| Investment income | | | | |
| Other miscellaneous income | | | | |
| Total general revenue | | | | |
| Change in Net Position | | | | |
| Net Position - Beginning of year | | | | |
| Net Position - End of year | | | | |

Statement of Activities
Year Ended June 30, 2017

| Net (Expense) Revenue and Changes in Net Position | | | |
|---|-----------------------------|----------------------|---------------------|
| Primary Government | | | |
| Governmental Activities | Business-type Activities | Total | Component Units |
| \$ (3,885,847) | \$ - | \$ (3,885,847) | \$ - |
| 362,761 | - | 362,761 | - |
| (13,191,028) | - | (13,191,028) | - |
| (3,456,771) | - | (3,456,771) | - |
| (767,590) | - | (767,590) | - |
| (242,346) | - | (242,346) | - |
| (21,180,821) | - | (21,180,821) | - |
| - | 642,120 | 642,120 | - |
| - | (29,003) | (29,003) | - |
| - | 613,117 | 613,117 | - |
| (21,180,821) | 613,117 | (20,567,704) | - |
| - | - | - | (699,885) |
| - | - | - | (203,384) |
| - | - | - | (18,417) |
| - | - | - | (921,686) |
| 15,743,976 | 978,915 | 16,722,891 | 663,976 |
| 3,074,335 | - | 3,074,335 | 120,492 |
| 61,088 | 18,953 | 80,041 | 9,831 |
| 546 | - | 546 | 75,145 |
| 18,879,945 | 997,868 | 19,877,813 | 869,444 |
| (2,300,876) | 1,610,985 | (689,891) | (52,242) |
| 21,999,025 | 26,176,989 | 48,176,014 | 2,123,766 |
| \$ 19,698,149 | \$ 27,787,974 | \$ 47,486,123 | \$ 2,071,524 |

City of Southgate, Michigan

Governmental Funds Balance Sheet June 30, 2017

| | General Fund | Community Development Block Grant Fund | Southgate - Wyandotte Operation and Maintenance Fund | Other Nonmajor Governmental Funds | Total |
|--|---------------------|---|--|--|----------------------|
| Assets | | | | | |
| Cash and investments | \$ 4,030,493 | \$ 21,331 | \$ 4,904,253 | \$ 6,592,663 | \$ 15,548,740 |
| Receivables - Net: | | | | | |
| Property taxes | 935 | - | - | - | 935 |
| Special assessments | - | - | 1,242,049 | - | 1,242,049 |
| Customer | - | 1,199,551 | - | - | 1,199,551 |
| Other | 163,365 | - | - | - | 163,365 |
| Due from other governments | 649,338 | 228,265 | - | 416,511 | 1,294,114 |
| Due from component units (Note 6) | - | - | - | 45,056 | 45,056 |
| Due from other funds (Note 6) | 176,562 | 4,000 | - | - | 180,562 |
| Advances to other funds (Note 6) | - | - | - | 194,089 | 194,089 |
| Prepaid expenses | 27,980 | - | - | 16 | 27,996 |
| Total assets | \$ 5,048,673 | \$ 1,453,147 | \$ 6,146,302 | \$ 7,248,335 | \$ 19,896,457 |
| Liabilities | | | | | |
| Accounts payable | \$ 422,772 | \$ 76,937 | \$ 352,303 | \$ 36,828 | \$ 888,840 |
| Due to component units (Note 6) | 14,700 | - | - | - | 14,700 |
| Due to other funds (Note 6) | 317,165 | 149,879 | 25,751 | - | 492,795 |
| Cash bonds and deposits | 224,908 | - | - | - | 224,908 |
| Accrued and other liabilities | 621,013 | - | - | 31,925 | 652,938 |
| Unearned revenue | 1,121 | 1,226,331 | - | - | 1,227,452 |
| Total liabilities | 1,601,679 | 1,453,147 | 378,054 | 68,753 | 3,501,633 |
| Deferred Inflows of Resources | | | | | |
| Unavailable revenue - State sources | 501,567 | - | - | - | 501,567 |
| Unavailable revenue - Special assessments | 10,578 | - | 118,746 | - | 129,324 |
| Unavailable revenue - Grants | - | 228,265 | - | - | 228,265 |
| Total deferred inflows of resources | 512,145 | 228,265 | 118,746 | - | 859,156 |

City of Southgate, Michigan

Governmental Funds Balance Sheet (Continued) June 30, 2017

| | General Fund | Community Development Block Grant Fund | Southgate - Wyandotte Operation and Maintenance Fund | Other Nonmajor Governmental Funds | Total |
|---|---------------------|---|--|--|----------------------|
| Fund Balances | | | | | |
| Nonspendable: | | | | | |
| Prepays | \$ 27,980 | \$ - | \$ - | \$ 16 | \$ 27,996 |
| Long-term receivable | - | - | - | 194,089 | 194,089 |
| Restricted: | | | | | |
| Roads | - | - | - | 4,743,835 | 4,743,835 |
| Narcotics enforcement | - | - | - | 263,633 | 263,633 |
| Debt service | - | - | - | 260,333 | 260,333 |
| Unspent property tax proceeds - | | | | | |
| Police and fire pension | 202,063 | - | - | - | 202,063 |
| Low-income housing | 9,163 | - | - | - | 9,163 |
| Southgate-Wyandotte O&M | - | - | 5,649,502 | - | 5,649,502 |
| Library | - | - | - | 511,774 | 511,774 |
| District Court capital improvement | - | - | - | 214,643 | 214,643 |
| Recreation | 45,000 | - | - | - | 45,000 |
| Building department (Note 2) | 3,727 | - | - | - | 3,727 |
| Committed (Note 9) | 291,635 | - | - | 765,422 | 1,057,057 |
| Assigned (Note 9) | 1,377,500 | - | - | 225,837 | 1,603,337 |
| Unassigned | 977,781 | (228,265) | - | - | 749,516 |
| Total fund balances | <u>2,934,849</u> | <u>(228,265)</u> | <u>5,649,502</u> | <u>7,179,582</u> | <u>15,535,668</u> |
| Total liabilities, deferred inflows of resources, and fund balances | | | | | |
| | <u>\$ 5,048,673</u> | <u>\$ 1,453,147</u> | <u>\$ 6,146,302</u> | <u>\$ 7,248,335</u> | <u>\$ 19,896,457</u> |

City of Southgate, Michigan

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

| | |
|---|-----------------------------|
| Fund Balance Reported in Governmental Funds | \$ 15,535,668 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | 62,874,706 |
| Net pension liabilities are not due and payable in the current period and are not reported in the funds | (37,278,645) |
| Grant revenue and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds | 859,156 |
| Bonds payable and long-term purchase agreements are not due and payable in the current period and are not reported in the funds | (7,204,987) |
| Deferred charges on bond refundings are amortized over the related bond terms and are not reported in the funds | 333,349 |
| Accrued interest is not due and payable in the current period and is not reported in the funds | (45,336) |
| Employee compensated absences and other long-term liabilities are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities | (2,272,049) |
| Net retiree healthcare obligations are not due and payable in the current period and are not reported in the funds | (19,593,995) |
| Deferred inflows of resources related to pensions are not reported in the funds | (3,619,979) |
| Deferred outflows of resources related to pensions are not reported in the funds | 10,036,041 |
| Internal service funds are included as part of governmental activities | <u>74,220</u> |
| Net Position of Governmental Activities | <u>\$ 19,698,149</u> |

City of Southgate, Michigan

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

| | General Fund | Community Development Block Grant Fund | Southgate - Wyandotte Operation and Maintenance Fund | Other Nonmajor Governmental Funds | Total |
|--|---------------------|---|--|--|----------------------|
| Revenue | | | | | |
| Property taxes | \$ 13,975,020 | \$ - | \$ - | \$ 1,768,956 | \$ 15,743,976 |
| Special assessments | - | - | 1,334,690 | - | 1,334,690 |
| Licenses and permits | 657,232 | - | - | - | 657,232 |
| Federal grants | 88,741 | 292,421 | - | 39,195 | 420,357 |
| State sources | 3,263,060 | - | - | 2,193,346 | 5,456,406 |
| Charges for services | 614,107 | - | - | 125,100 | 739,207 |
| Fines and forfeitures | 1,426,552 | - | - | - | 1,426,552 |
| Interest income | 19,482 | - | 11,896 | 29,710 | 61,088 |
| Rental income | 775,914 | - | - | - | 775,914 |
| Other revenue | 106,474 | - | - | 679,877 | 786,351 |
| Total revenue | 20,926,582 | 292,421 | 1,346,586 | 4,836,184 | 27,401,773 |
| Expenditures - Current | | | | | |
| General government | 4,806,638 | - | - | 500 | 4,807,138 |
| 28 th District Court | 1,020,903 | - | - | - | 1,020,903 |
| Public safety | 10,811,783 | - | - | 114,609 | 10,926,392 |
| Public services | 3,211,102 | 453,180 | 771,559 | 3,122,696 | 7,558,537 |
| Cultural and recreation | 607,169 | - | - | 616,672 | 1,223,841 |
| Capital outlay | - | - | - | 74,966 | 74,966 |
| Debt service | - | - | - | 1,195,770 | 1,195,770 |
| Total expenditures | 20,457,595 | 453,180 | 771,559 | 5,125,213 | 26,807,547 |
| Excess of Revenue Over (Under) Expenditures | 468,987 | (160,759) | 575,027 | (289,029) | 594,226 |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | - | - | - | 1,554,962 | 1,554,962 |
| Transfers out | (300,975) | - | - | (1,253,987) | (1,554,962) |
| Net Change in Fund Balances | 168,012 | (160,759) | 575,027 | 11,946 | 594,226 |
| Fund Balances - Beginning of year | 2,766,837 | (67,506) | 5,074,475 | 7,167,636 | 14,941,442 |
| Fund Balances - End of year | \$ 2,934,849 | \$ (228,265) | \$ 5,649,502 | \$ 7,179,582 | \$ 15,535,668 |

City of Southgate, Michigan

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

| | |
|---|------------------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 594,226 |
| 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 | 2,757,789 |
| Depreciation expense | (3,005,439) |
| Net book value of assets disposed of | (45,467) |
| Net change in revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds | 60,350 |
| State-shared revenue earned but not received within 60 days of year end is recorded on the statement of activities | 17,679 |
| Increase in net retiree healthcare obligation reported in the statement of activities does not require the use of current resources, and therefore is not reported in the fund statement until it comes due for payment | (2,184,598) |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) | 1,021,264 |
| The change of the deferred charges on bond refunding balance is recorded in the statement of activities | (46,608) |
| Change in accrued interest payable on governmental debt is recorded in the statement of activities | 8,431 |
| Net increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, 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 | (2,430) |
| The change in net pension liability and deferred inflows and outflows related to pension amounts do not require the use of current resources and are not reported in the governmental funds | (1,476,073) |
| Change in Net Position of Governmental Activities | <u>\$ (2,300,876)</u> |

City of Southgate, Michigan

Proprietary Funds Statement of Net Position June 30, 2017

| | Enterprise Funds | | | Governmental Activities |
|--|----------------------|---|----------------------|---|
| | Water and Sewer | Nonmajor Enterprise - Golf Course | Total | Internal Service Fund - Workers' Compensation |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 912,318 | \$ 31,676 | \$ 943,994 | \$ - |
| Receivables: | | | | |
| Receivables from sales to customers on account | 2,176,153 | - | 2,176,153 | - |
| Due from other governmental units | 63,734 | - | 63,734 | - |
| Due from other funds (Note 6) | - | - | - | 317,165 |
| Inventory | 29,866 | - | 29,866 | - |
| Prepaid expenses | 2,240 | 848 | 3,088 | - |
| Total current assets | 3,184,311 | 32,524 | 3,216,835 | 317,165 |
| Noncurrent assets: | | | | |
| Restricted assets (Note 8) | 2,699,423 | - | 2,699,423 | - |
| Investment in joint ventures (Note 18) | 363,899 | - | 363,899 | - |
| Capital assets - Net (Note 5) | 34,422,033 | 504,427 | 34,926,460 | - |
| Total noncurrent assets | 37,485,355 | 504,427 | 37,989,782 | - |
| Total assets | 40,669,666 | 536,951 | 41,206,617 | 317,165 |
| Deferred Outflows of Resources Related to Pensions (Note 14) | 411,545 | - | 411,545 | - |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 409,508 | 8,494 | 418,002 | 14,945 |
| Due to other funds | 4,932 | - | 4,932 | - |
| Accrued liabilities and other | 324,663 | 4,623 | 329,286 | 228,000 |
| Current portion of compensated absences (Note 7) | 65,520 | - | 65,520 | - |
| Current portion of long-term debt (Note 7) | 1,048,077 | - | 1,048,077 | - |
| Total current liabilities | 1,852,700 | 13,117 | 1,865,817 | 242,945 |
| Noncurrent liabilities: | | | | |
| Advances from other funds (Note 6) | - | 194,089 | 194,089 | - |
| Compensated absences - Net of current portion (Note 7) | 53,607 | - | 53,607 | - |
| Net pension liability | 2,429,275 | - | 2,429,275 | - |
| Net retiree healthcare obligation (Note 15) | 2,474,834 | - | 2,474,834 | - |
| Long-term debt - Net of current portion (Note 7) | 6,552,537 | - | 6,552,537 | - |
| Total noncurrent liabilities | 11,510,253 | 194,089 | 11,704,342 | - |
| Total liabilities | 13,362,953 | 207,206 | 13,570,159 | 242,945 |
| Deferred Inflows of Resources Related to Pensions (Note 14) | 260,029 | - | 260,029 | - |
| Net Position | | | | |
| Net investment in capital assets | 26,821,419 | 504,427 | 27,325,846 | - |
| Restricted (Note 8) | 2,699,423 | - | 2,699,423 | - |
| Unrestricted | (2,062,613) | (174,682) | (2,237,295) | 74,220 |
| Total net position | \$ 27,458,229 | \$ 329,745 | \$ 27,787,974 | \$ 74,220 |

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

City of Southgate, Michigan

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

| | Enterprise Funds | | | Governmental Activities |
|---|----------------------|-----------------------------|----------------------|---------------------------------|
| | Nonmajor | | | Internal Service |
| | Water and Sewer | Enterprise - Golf Course | Total | Fund - Workers' Compensation |
| Operating Revenue | | | | |
| Sale of water | \$ 2,739,339 | \$ - | \$ 2,739,339 | \$ - |
| Sewage disposal charges | 3,462,679 | - | 3,462,679 | - |
| Assessments | 693,689 | - | 693,689 | - |
| Other | 273,487 | - | 273,487 | - |
| Greens fees and miscellaneous | - | 280,320 | 280,320 | - |
| Charges to other funds | - | - | - | 314,035 |
| Total operating revenue | 7,169,194 | 280,320 | 7,449,514 | 314,035 |
| Operating Expenses | | | | |
| Cost of water produced/purchased | 2,123,816 | - | 2,123,816 | - |
| Cost of sewage treatment | 957,709 | - | 957,709 | - |
| Operation and maintenance | 1,253,554 | 254,131 | 1,507,685 | - |
| Overhead and other | 809,150 | 25,082 | 834,232 | - |
| Contractual services | - | - | - | 314,035 |
| Depreciation | 1,172,324 | 30,110 | 1,202,434 | - |
| Total operating expenses | 6,316,553 | 309,323 | 6,625,876 | 314,035 |
| Operating Income (Loss) | 852,641 | (29,003) | 823,638 | - |
| Nonoperating Revenue (Expenses) | | | | |
| Property tax collections - EPA levy | 978,915 | - | 978,915 | - |
| Investment income | 18,953 | - | 18,953 | - |
| Interest expense | (210,521) | - | (210,521) | - |
| Total nonoperating revenue | 787,347 | - | 787,347 | - |
| Change in Net Position | 1,639,988 | (29,003) | 1,610,985 | - |
| Net Position - Beginning of year | 25,818,241 | 358,748 | 26,176,989 | 74,220 |
| Net Position - End of year | \$ 27,458,229 | \$ 329,745 | \$ 27,787,974 | \$ 74,220 |

City of Southgate, Michigan

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

| | Enterprise Funds | | Governmental Activities |
|---|----------------------------|---|----------------------------|
| | Water and Sewer | Nonmajor Enterprise - Golf Course | Workers' Compensation |
| | | | |
| Cash Flows from Operating Activities | | | |
| Receipts from customers | \$ 7,096,740 | \$ 282,679 | \$ - |
| Receipts from interfund services and reimbursements | - | - | 168,870 |
| Payments to suppliers | (4,340,474) | (262,118) | - |
| Payments to employees | (1,174,636) | (20,688) | - |
| Internal activity - Payments to other funds | (110,068) | - | - |
| Claims paid | - | - | (171,090) |
| Net cash provided by (used in) operating activities | <u>1,471,562</u> | <u>(127)</u> | <u>(2,220)</u> |
| Cash Flows from Capital and Related Financing Activities | | | |
| Property taxes (restricted for capital or capital debt) | 978,915 | - | - |
| Purchase of capital assets | (865,041) | - | - |
| Principal and interest paid on capital debt | (1,350,663) | - | - |
| Net cash used in capital and related financing activities | <u>(1,236,789)</u> | <u>-</u> | <u>-</u> |
| Cash Flows from Investing Activities - Interest received on investments | <u>18,953</u> | <u>-</u> | <u>-</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 253,726 | (127) | (2,220) |
| Cash and Cash Equivalents - Beginning of year | <u>3,358,015</u> | <u>31,803</u> | <u>2,220</u> |
| Cash and Cash Equivalents - End of year | <u>\$ 3,611,741</u> | <u>\$ 31,676</u> | <u>\$ -</u> |
| Statement of Net Position Classification of Cash and Cash Equivalents | | | |
| Cash and investments | \$ 912,318 | \$ 31,676 | \$ - |
| Restricted cash | <u>2,699,423</u> | <u>-</u> | <u>-</u> |
| Total cash and cash equivalents | <u>\$ 3,611,741</u> | <u>\$ 31,676</u> | <u>\$ -</u> |
| Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities | | | |
| Operating income (loss) | \$ 852,641 | \$ (29,003) | \$ - |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | |
| Depreciation and amortization | 1,172,324 | 30,110 | - |
| Changes in assets and liabilities: | | | |
| Receivables | (72,454) | 2,359 | - |
| Due from other funds | - | - | (145,165) |
| Inventories | 3,183 | - | - |
| Prepaid and other assets | (341,490) | 190 | - |
| Accounts payable | (246,810) | (3,852) | - |
| Due to other funds | 4,932 | - | - |
| Estimated claims liability | - | - | 142,945 |
| Accrued and other liabilities | 99,236 | 69 | - |
| Net cash provided by (used in) operating activities | <u>\$ 1,471,562</u> | <u>\$ (127)</u> | <u>\$ (2,220)</u> |

Noncash Capital and Related Financing Activities - During the current year, debt was issued on behalf of the City in the amount of \$913,192 for construction related to the Downriver Sewage Disposal System. This activity is administered by Wayne County, Michigan.

City of Southgate, Michigan

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2017

| | Pension and Other Employee Benefit Trust Funds | Agency Funds |
|---|--|--------------|
| Assets | | |
| Cash and cash equivalents | \$ 5,316,484 | \$ 674,404 |
| Investments: | | |
| Certificate of deposits | 2,090,843 | - |
| U.S. government securities | 3,565 | - |
| Stocks and mutual funds | 40,016,441 | - |
| Mortgage-backed securities | 46,624 | - |
| Receivables: | | |
| Accrued interest receivable | 73,637 | - |
| Other receivables | 88,776 | 318 |
| Prepaid expenses | 93,040 | - |
| | 47,729,410 | \$ 674,722 |
| Liabilities | | |
| Accounts payable | 6,009 | \$ - |
| Due to other governmental units | - | 79,457 |
| Cash bonds and deposits | - | 595,265 |
| | 6,009 | \$ 674,722 |
| Net Position Held in Trust for Pension and Other Employee Benefits | \$ 47,723,401 | |

City of Southgate, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Position - Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2017

Additions

| | |
|--|-----------------------------|
| Investment income (loss): | |
| Interest and dividends | \$ 1,032,433 |
| Net increase in fair value of investments | 4,510,454 |
| Investment-related expenses | <u>(290,084)</u> |
| Net investment income | 5,252,803 |
| Contributions: | |
| Employer | 6,349,798 |
| Employee | <u>377,556</u> |
| Total contributions | <u>6,727,354</u> |
| Total additions - Net | 11,980,157 |
| Deductions - Benefit payments | <u>7,958,931</u> |
| Net Increase in Net Position Held in Trust | 4,021,226 |
| Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year | <u>43,702,175</u> |
| Net Position Held in Trust for Pension and Other Employee Benefits - End of year | <u><u>\$ 47,723,401</u></u> |

City of Southgate, Michigan

Component Units Statement of Net Position June 30, 2017

| | Tax Increment Financing Authority | Downtown Development Authority | Southern Michigan Information Alliance | Total |
|---|--|--------------------------------------|---|---------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 1,288,543 | \$ 150,698 | \$ 72,315 | \$ 1,511,556 |
| Due from other governmental units | - | 13,651 | 174,452 | 188,103 |
| Due from primary government (Note 6) | - | - | 14,700 | 14,700 |
| Capital assets - Net (Note 5) | - | 562,254 | 4,162 | 566,416 |
| Total assets | 1,288,543 | 726,603 | 265,629 | 2,280,775 |
| Liabilities | | | | |
| Accounts payable | - | 14,086 | 24,935 | 39,021 |
| Due to primary government (Note 6) | - | - | 45,056 | 45,056 |
| Accrued liabilities and other | 13,651 | 1,523 | - | 15,174 |
| Unearned revenue | - | - | 110,000 | 110,000 |
| Total liabilities | 13,651 | 15,609 | 179,991 | 209,251 |
| Net Position | | | | |
| Net investment in capital assets | - | 562,254 | 4,162 | 566,416 |
| Unrestricted | 1,274,892 | 148,740 | 81,476 | 1,505,108 |
| Total net position | \$ 1,274,892 | \$ 710,994 | \$ 85,638 | \$ 2,071,524 |

City of Southgate, Michigan

| Functions/Programs | Program Revenue | | | |
|--|---------------------|----------------------|------------------------------------|----------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Tax Increment Financing Authority - Redevelopment | \$ 699,885 | \$ - | \$ - | \$ - |
| Downtown Development Authority - General government | 203,384 | - | - | - |
| Southern Michigan Information Alliance - Public safety | 679,865 | 606,448 | - | 55,000 |
| Total component units | \$ 1,583,134 | \$ 606,448 | \$ - | \$ 55,000 |
| General revenue: | | | | |
| Property taxes | | | | |
| State-shared revenue | | | | |
| Investment income | | | | |
| Other miscellaneous income | | | | |
| Total general revenue | | | | |
| Transfers | | | | |
| Change in Net Position | | | | |
| Net Position - Beginning of year | | | | |
| Net Position - End of year | | | | |

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

| Net (Expense) Revenue and Changes in Net Position | | | |
|---|--------------------------------------|---|---------------------|
| Tax Increment Financing Authority | Downtown Development Authority | Southern Michigan Information Alliance | Total |
| \$ (699,885) | \$ - | \$ - | \$ (699,885) |
| - | (203,384) | - | (203,384) |
| - | - | (18,417) | (18,417) |
| (699,885) | (203,384) | (18,417) | (921,686) |
| 536,748 | 127,228 | - | 663,976 |
| 120,492 | - | - | 120,492 |
| 7,395 | 2,380 | 56 | 9,831 |
| 19,200 | 55,945 | - | 75,145 |
| 683,835 | 185,553 | 56 | 869,444 |
| (5,000) | 5,000 | - | - |
| (21,050) | (12,831) | (18,361) | (52,242) |
| 1,295,942 | 723,825 | 103,999 | 2,123,766 |
| \$ 1,274,892 | \$ 710,994 | \$ 85,638 | \$ 2,071,524 |

Note I - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by the City of Southgate, Michigan:

Reporting Entity

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

Blended Component Units - The City of Southgate Building Authority (the "Building Authority") is governed by a board that is appointed by the mayor and approved by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because the sole purpose is to finance and construct the City's public buildings. The City is involved in the purchase, by lease contract, of recreation facilities and related improvements and a library building addition from the Building Authority. Building Authority operations consist of the issuance and repayment of debt and the construction of facilities. The financial statements of the Building Authority are consolidated with the financial statements of the City as follows:

- a. The assets of the Building Authority held for payment of outstanding bond issues are reported in the debt service funds.
- b. Fixed assets (completed construction projects) and remaining amounts due on bonds issued by the Building Authority are reported in the governmental activities statement of net position.

Discretely Presented Component Units - The following component units are presented discretely from the City:

Tax Increment Financing Authority - The Tax Increment Financing Authority's (the "Authority") governing body, which consists of 11 individuals, is appointed by the mayor and approved by the City Council. In addition, the Authority's budget is subject to approval by the City Council.

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

Note I - Summary of Significant Accounting Policies (Continued)

Southeastern Michigan Information Alliance - The Southeastern Michigan Information Alliance (the "SMIA") was created to enhance public safety through the sharing of technology and information resources to support the public safety services of the member communities. The SMIA's governing body consists of one representative appointed by each governmental unit who is a member of SMIA. In addition, SMIA's budget is subject to approval by the City.

Jointly Governed Organization - Jointly governed organizations are discussed in Note 18.

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 Government Accounting Standards Board.

Report Presentation

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

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

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's component units' 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.

Note I - Summary of Significant Accounting Policies (Continued)

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

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, certain state-shared revenue, special assessments, and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with deferred inflows of resources.

Proprietary funds, fiduciary funds, and component units 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. 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.

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:

Note I - Summary of Significant Accounting Policies (Continued)

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

- **General Fund** - The General Fund is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- **Community Development Block Grant Fund** - The Community Development Block Grant Fund accounts for community development grants and rehabilitation lien activity.
- **Southgate-Wyandotte Operations and Maintenance Fund** - The Southgate-Wyandotte Operations and Maintenance Fund accounts for the resources from special assessments that are restricted for the operation and maintenance of the Southgate-Wyandotte Drainage District.

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 funds as “major” enterprise funds:

- **Water and Sewer Fund** - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.
- **Internal Service Fund** - The Internal Service Fund accounts for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, mainly on a cost-reimbursement basis.

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

- **Pension and Other Employee Benefit Trust Funds** - The Pension and Other Employee Benefit Trust Funds account for the activities of the Policemen and Firemen Retirement System, Municipal Employees' Retiree Health Care, and Act 345 Health Insurance, which accumulate resources for pension benefit payments and postemployment healthcare costs to qualified police and fire and municipal retirees.
- **Agency Funds** - Agency funds account for assets held by the City for individuals, organizations, other governments, or other funds. They are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note I - Summary of Significant Accounting Policies (Continued)

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

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

Specific Balances and Transactions

Cash, Cash Equivalents, and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. To the extent that cash from various funds has been pooled, pooled investment income is generally allocated to each fund using a weighted average of the balance for the principal.

Receivables - All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

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

Restricted Assets - A portion of the water and sewer user fee has been restricted by ordinance to be used solely for the purpose of making capital improvements in the City's water and sewer system. In addition, restricted assets result from the establishment of debt reserves related to Wayne County Sewage Disposal System bonds.

Note I - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, intangible assets, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 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.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was capitalized as part of the cost of assets under construction.

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

| Capital Asset Class | Lives |
|--------------------------------------|-------------|
| Infrastructure | 30-50 years |
| Water and sewer distribution systems | 50-75 years |
| Buildings and building improvements | 50 years |
| Vehicles | 5-10 years |
| Equipment and machinery | 10-20 years |

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Note I - Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position 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 four items that qualify for reporting in this category. One of the deferred outflows is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item reported as deferred outflows in the government-wide statement of net position and proprietary statement of net position is the difference between projected and actual earnings on pension plan investments. This amount is deferred and amortized over five years. The next item reported as a deferred outflow on the government-wide statement of net position is the change in pension assumptions related to projected and actual experience in the measurement of the total net pension liability. This is deferred and amortized over the expected remaining service lives of all active and inactive employees who are provided with pensions. The last item reported as a deferred outflow on the government-wide statement of net position and proprietary statement of net position is the change in pension assumptions related to economic and demographic factors. This is deferred and amortized over the expected remaining service lives of all active and inactive employees who are provided with pensions.

In addition to liabilities, the statement of net position 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 three items that qualify for reporting in this category. The deferred inflows of resources related to unavailable revenue is only reported in the governmental fund balance sheet. The governmental funds report unavailable revenue from three sources: grants, state-shared revenue, and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The deferred inflows of resources related to the differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability are reported in the government-wide statement of net position and proprietary statement of net position. These amounts are deferred and amortized over the expected remaining service lives of all active and inactive employees who are provided with pensions.

Note I - Summary of Significant Accounting Policies (Continued)

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

Fund Balance Flow Assumption - Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. 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 government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

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

Note I - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue - Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1 of the following year. These taxes are due without penalty during the period from July 1 through August 31 with the final collection date of February 28 before they are added to the county tax rolls.

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 \$660 million, a portion of which is captured by the Downtown Development Authority and the Tax Increment Finance Authority, on which ad valorem taxes levied consisted of 10.1366 mills for the City's operating purposes, 2.4326 mills for refuse, 8.0260 mills for Act 345 police and fire retirement, 0.880 mills for the library's operating purposes, 1.9334 mills for road construction, 0.0740 mills for Act 349 parks and recreation, and 1.5260 mills for the EPA judgment levy. Prior to the Downtown Development Authority and Tax Increment Finance Authority tax captures, the ad valorem taxes levied raised approximately \$6,681,000 for operations, \$1,603,000 for refuse, \$5,290,000 for police and fire retirement, \$580,000 for the library's operations, \$1,274,000 for road construction, \$49,000 for parks and recreation, and \$1,006,000 for the EPA judgment levy. In the current year, the City executed a sharing agreement with the Downtown Development Authority (DDA) and Tax Increment Finance Authority (TIFA) in which the DDA and TIFA agreed to forego their allowable capture. In 2017, this amounted to \$81,931 and \$291,881 in foregone captures for the DDA and TIFA, respectively. These amounts are recognized in the General Fund as tax revenue.

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

Note I - Summary of Significant Accounting Policies (Continued)

Other Postemployment Benefit Costs - The City offers retiree healthcare benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

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. Employees may receive payment of the accumulated sick leave and vacation balance at the rate determined by union contracts, which vary from unit to unit. All vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only for employee terminations as of year end. Compensated absences attributable to the governmental activities will be liquidated by the fund from which the employee's salary and wage was earned.

Proprietary Funds Operating Classification - Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for water and sewer sales and greens fees. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

City of Southgate, Michigan

Notes to Financial Statements June 30, 2017

Note 2 - Stewardship, Compliance, and Accountability

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

| | | | |
|-------------------------------------|----|---------------|---------------------|
| Cumulative deficit at July 1, 2016 | | \$ | (138,254) |
| Current year permit revenue | | | 564,704 |
| Related expenses: | | | |
| Direct costs | \$ | 352,057 | |
| Estimated indirect costs | | <u>70,666</u> | <u>422,723</u> |
| Current year surplus | | | <u>141,981</u> |
| Cumulative surplus at June 30, 2017 | | \$ | <u><u>3,727</u></u> |

Note 3 - Deposits and Investments

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

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

The City has designated two banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized under the state statutory authority as listed above.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2017

Note 3 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City and its component units had approximately \$18,409,000 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The City's component units have certain cash, deposits, and investments that are maintained in pooled accounts of the City; therefore, the amount of insured deposits specific to the component units' deposits cannot be determined.

The component units also maintain separate cash accounts from the City's pooled cash account. At year end, the component units had approximately \$127,315 of bank deposits, all of which were insured.

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 and maturities:

| <u>Fiduciary Funds</u> | <u>Fair Value</u> | <u>Less than 5 Years</u> | <u>5 to 15 Years</u> | <u>Over 15 Years</u> |
|----------------------------|-------------------|------------------------------|--------------------------|--------------------------|
| Mortgage-backed securities | \$ 46,624 | \$ - | \$ 1,221 | \$ 45,403 |
| Federal agencies | 3,565 | - | 564 | 3,001 |
| Total | <u>\$ 50,189</u> | <u>\$ -</u> | <u>\$ 1,785</u> | <u>\$ 48,404</u> |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2017

Note 3 - Deposits and Investments (Continued)

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

| <u>Investment</u> | <u>Fair Value</u> | <u>Rating</u> | <u>Rating Organization</u> |
|----------------------------|---------------------|---------------|----------------------------|
| Fiduciary Funds | | | |
| Mortgage-backed securities | \$ 46,624 | Not rated | N/A |
| Federal agencies | 3,565 | Not rated | N/A |
| Money market funds | <u>3,021,852</u> | AAA | Moody's |
| Total | <u>\$ 3,072,041</u> | | |

Concentration of Credit Risk - The City is authorized by the State's Pension Investment Act to invest in common stocks, real estate, and various other investment vehicles, subject to certain limitations. As of year end, the Police and Fire Retirement plan had multiple investments, which consisted mostly of pooled investments that exceed 5.00 percent of the total portfolio. The plan had 11.33 percent invested in PNC Intermediate Bond Fund, 9.08 percent invested in iShares Russell 300 and 8.47 percent invested in Edgewood Growth Fund.

Risk and Uncertainties - The City invests in various securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

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 assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using 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 Southgate, Michigan

Notes to Financial Statements June 30, 2017

Note 4 - Fair Value Measurement (Continued)

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

Assets Measured at Fair Value on a Recurring Basis

| | Balance at June 30, 2017 | Fair Value Measurement Using | | |
|--|-----------------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Debt securities: | | | | |
| Mortgage-backed securities | \$ 46,624 | \$ - | \$ 46,624 | \$ - |
| Federal agencies bonds | 3,565 | - | 3,565 | - |
| Mutual funds - Fixed income | 8,924,135 | 8,924,135 | - | - |
| Total debt securities | 8,974,324 | 8,924,135 | 50,189 | - |
| Equity securities: | | | | |
| Stock | 19,994,120 | 19,994,120 | - | - |
| ETF - Equity | 6,618,402 | 6,618,402 | - | - |
| Mutual funds - Equity | 4,044,654 | 4,044,654 | - | - |
| Other | 435,130 | - | 435,130 | - |
| Total equity securities | 31,092,306 | 30,657,176 | 435,130 | - |
| Total investments by fair value level | \$ 40,066,630 | \$ 39,581,311 | \$ 485,319 | \$ - |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2017

Note 5 - Capital Assets

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

| | Balance July 1, 2016 | Additions | Disposals | Balance June 30, 2017 |
|--|-------------------------|--------------|-------------|--------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated - | | | | |
| Land | \$ 3,386,602 | \$ - | \$ - | \$ 3,386,602 |
| Capital assets being depreciated: | | | | |
| Infrastructure | 83,260,731 | 2,372,126 | - | 85,632,857 |
| Buildings and improvements | 34,473,118 | 213,999 | - | 34,687,117 |
| Machinery and equipment | 9,034,250 | 119,144 | (232,000) | 8,921,394 |
| Vehicles | 3,480,548 | 52,520 | - | 3,533,068 |
| Land improvements | 2,701,182 | - | - | 2,701,182 |
| Subtotal | 132,949,829 | 2,757,789 | (232,000) | 135,475,618 |
| Accumulated depreciation: | | | | |
| Infrastructure | 47,173,275 | 1,906,145 | - | 49,079,420 |
| Buildings and improvements | 13,529,297 | 713,805 | - | 14,243,102 |
| Machinery and equipment | 8,228,841 | 121,448 | (186,533) | 8,163,756 |
| Vehicles | 2,554,273 | 166,086 | - | 2,720,359 |
| Land improvements | 1,682,922 | 97,955 | - | 1,780,877 |
| Subtotal | 73,168,608 | 3,005,439 | (186,533) | 75,987,514 |
| Net capital assets being depreciated | 59,781,221 | (247,650) | (45,467) | 59,488,104 |
| Net capital assets | \$ 63,167,823 | \$ (247,650) | \$ (45,467) | \$ 62,874,706 |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2017

Note 5 - Capital Assets (Continued)

| | Balance July 1, 2016 | Reclassifications | Additions | Disposals | Balance June 30, 2017 |
|---------------------------------------|-------------------------|-------------------|-------------|-----------|--------------------------|
| Business-type Activities | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | \$ 169,445 | \$ - | \$ - | \$ - | \$ 169,445 |
| Construction in progress | 237,195 | (237,195) | 913,192 | - | 913,192 |
| Subtotal | 406,640 | (237,195) | 913,192 | - | 1,082,637 |
| Capital assets being depreciated: | | | | | |
| Water and sewer lines | 52,868,635 | 237,195 | 530,896 | - | 53,636,726 |
| Buildings and improvements | 938,581 | - | - | - | 938,581 |
| Machinery and equipment | 2,277,939 | - | - | - | 2,277,939 |
| Vehicles | 1,995,005 | - | 334,145 | (90,380) | 2,238,770 |
| Land improvements | 631,708 | - | - | - | 631,708 |
| Subtotal | 58,711,868 | 237,195 | 865,041 | (90,380) | 59,723,724 |
| Accumulated depreciation: | | | | | |
| Water and sewer lines | 20,857,797 | - | 932,305 | - | 21,790,102 |
| Buildings and improvements | 511,519 | - | 20,941 | - | 532,460 |
| Machinery and equipment | 1,343,335 | - | 119,028 | - | 1,462,363 |
| Vehicles | 1,706,614 | - | 112,016 | (90,380) | 1,728,250 |
| Land improvements | 348,582 | - | 18,144 | - | 366,726 |
| Subtotal | 24,767,847 | - | 1,202,434 | (90,380) | 25,879,901 |
| Net capital assets being depreciated | 33,944,021 | 237,195 | (337,393) | - | 33,843,823 |
| Net capital assets | \$ 34,350,661 | \$ - | \$ 575,799 | \$ - | \$ 34,926,460 |
| | Balance July 1, 2016 | Reclassifications | Additions | Disposals | Balance June 30, 2017 |
| Component Unit Activities | | | | | |
| Capital assets being depreciated: | | | | | |
| Machinery and equipment | \$ 210,903 | \$ - | \$ - | \$ - | \$ 210,903 |
| Land improvements | 652,316 | - | 8,022 | - | 660,338 |
| Subtotal | 863,219 | - | 8,022 | - | 871,241 |
| Accumulated depreciation: | | | | | |
| Machinery and equipment | 185,733 | - | 21,008 | - | 206,741 |
| Land improvements | 65,067 | - | 33,017 | - | 98,084 |
| Subtotal | 250,800 | - | 54,025 | - | 304,825 |
| Net capital assets | \$ 612,419 | \$ - | \$ (46,003) | \$ - | \$ 566,416 |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2017

Note 5 - Capital Assets (Continued)

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

Governmental activities:

| | |
|-------------------------------|---------------------|
| General government | \$ 933,424 |
| Public safety | 246,527 |
| Public works | 1,201,633 |
| Recreation and culture | 570,884 |
| District court | <u>52,971</u> |
| Total governmental activities | <u>\$ 3,005,439</u> |

Business-type activities:

| | |
|--------------------------------|---------------------|
| Water and Sewer | \$ 1,172,324 |
| Golf | <u>30,110</u> |
| Total business-type activities | <u>\$ 1,202,434</u> |

Component unit activities:

| | |
|--|------------------|
| Downtown Development Authority | \$ 33,017 |
| Southeastern Michigan Information Alliance | <u>21,008</u> |
| Total component unit activities | <u>\$ 54,025</u> |

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| Receivable Fund | Payable Fund | Amount |
|--|--|-------------------|
| Due to/from Other Funds | | |
| General Fund | Community Development Block Grant Fund | \$ 149,879 |
| | Southgate - Wyandotte Operation and Maintenance Fund | 21,751 |
| | Proprietary Fund - Water and Sewer Fund | <u>4,932</u> |
| | Total General Fund | 176,562 |
| Community Development Block Grant Fund | Southgate - Wyandotte Operation and Maintenance Fund | 4,000 |
| Internal Service Fund - Workers' Compensation Fund | General Fund | <u>317,165</u> |
| | Total | <u>\$ 497,727</u> |
| Advances from/to Other Funds | | |
| Street Paving Fund | Proprietary Fund - Golf Course Fund | <u>\$ 194,089</u> |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2017

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

| Receivable Fund | Payable Fund | Amount |
|---|--|-----------|
| Due to/from Primary Government and Component Units | | |
| Nonmajor governmental funds | Southeastern Michigan Information Alliance | \$ 45,056 |
| Southeastern Michigan Information Alliance | General Fund | 14,700 |

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

The advance from the Street Paving Fund to the Golf Course Fund was to assist in the financing of the golf course operations.

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

| Transfers In | Transfers Out | Amount |
|-----------------------------|-----------------------------|---------------------|
| Nonmajor governmental funds | General Fund | \$ 300,975 |
| | Nonmajor governmental funds | 1,253,987 |
| | Total | <u>\$ 1,554,962</u> |

The transfer from the General Fund to the nonmajor governmental funds represents the transfer of funds for debt service. The remaining transfers represent transfers of funds for debt service and to finance operations.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements and capital leases are also general obligations of the City.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2017

Note 7 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

| | Interest Rate Ranges | Principal Maturity Ranges | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|-------------------------|---------------------------------|----------------------|--------------|--------------|----------------|------------------------|
| Governmental Activities | | | | | | | |
| General obligations: | | | | | | | |
| Capital Improvement Refunding Bond | | | | | | | |
| Series 2015A: | | | | | | | |
| Original issue: \$2,400,000 | 2.0% - | \$95,000 - | | | | | |
| Maturing through 2023 | 3.0% | \$375,000 | \$ 2,030,000 | \$ - | \$ 355,000 | \$ 1,675,000 | \$ 370,000 |
| Issuance premiums | | | 53,594 | - | 8,245 | 45,349 | 8,245 |
| Capital Improvement Refunding Bond | | | | | | | |
| Series 2015B: | | | | | | | |
| Original issue: \$6,360,000 | | \$510,000 - | | | | | |
| Maturing through 2026 | 2.6% | \$650,000 | 5,810,000 | - | 510,000 | 5,300,000 | 525,000 |
| Parking lot improvements installment purchase agreement: | | | | | | | |
| Original issue: \$649,500 | | | | | | | |
| Maturing through 2018 | 5.17% | \$43,300 | 43,300 | - | 43,300 | - | - |
| 28 th District Court expansion installment purchase agreement: | | | | | | | |
| Original issue: \$950,000 | | \$73,230 - | | | | | |
| Maturing through 2018 | 4.35% | \$81,236 | 154,472 | - | 81,242 | 73,230 | 73,230 |
| 2006 City Hall heating/cooling capital lease: | | | | | | | |
| Original issue: \$313,000 | | \$7,243 - | | | | | |
| Maturing through 2021 | 4.98% | \$28,522 | 134,885 | - | 23,477 | 111,408 | 24,571 |
| Total bonds payable | | | 8,226,251 | - | 1,021,264 | 7,204,987 | 1,001,046 |
| Compensated absences | | | 2,199,619 | 582,936 | 580,506 | 2,202,049 | 770,717 |
| Self-insurance claims | | | 70,000 | 56,508 | 56,508 | 70,000 | 21,000 |
| Total governmental activities | | | \$ 10,495,870 | \$ 639,444 | \$ 1,658,278 | \$ 9,477,036 | \$ 1,792,763 |
| Business-type Activities | | | | | | | |
| General obligation bonds - | | | | | | | |
| Sewage Disposal System Bonds (26 issues): | | | | | | | |
| Original issue: \$18,742,353 | 2.0% - | \$882,456 - | | | | | |
| Maturing through 2033 | 5.45% | \$1,131,478 | \$ 7,533,476 | \$ 913,192 | \$ 1,121,926 | \$ 7,324,742 | \$ 1,029,069 |
| Tank rehabilitation bonds - | | | | | | | |
| Original issue: \$423,640 | | \$18,925 - | | | | | |
| Maturing through 2027 | 8.9% | \$31,751 | 230,354 | - | 18,216 | 212,138 | 19,008 |
| Act 94 - Water & Sewer System revenue bonds - DWRF: | | | | | | | |
| Original issue: \$4,000,000 | | \$155,000 - | | | | | |
| Maturing through 2039 | 2.5% | \$250,000 | - | 63,734 | - | 63,734 | - |
| Total bonds payable | | | 7,763,830 | 976,926 | 1,140,142 | 7,600,614 | 1,048,077 |
| Compensated absences | | | 113,859 | 34,229 | 28,961 | 119,127 | 65,520 |
| Total business-type activities | | | \$ 7,877,689 | \$ 1,011,155 | \$ 1,169,103 | \$ 7,719,741 | \$ 1,113,597 |

During the year ended June 30, 2017, the City was approved for \$4,000,000 of Drinking Water Revolving Fund Bonds (DWRF). Under the DWRF program, bond proceeds are received as project costs are incurred. The amount outstanding at June 30, 2017 is \$63,734.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2017

Note 7 - Long-term Debt (Continued)

The Building Authority bonds represent the financing to construct the Fun and Fitness Center, ice arena, and library expansion. The assets of the Tax Increment Financing Authority district have been pledged for repayment of the Fun and Fitness Center debt.

Annual debt service requirements to maturity for the above obligations are as follows (other than self-insurance claims and compensated absences):

| Years Ending June 30 | Governmental Activities | | | Business-type Activities | | |
|-------------------------|-------------------------|-------------------|---------------------|--------------------------|---------------------|---------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2018 | \$ 992,801 | \$ 184,765 | \$ 1,177,566 | \$ 1,048,077 | \$ 195,205 | \$ 1,243,282 |
| 2019 | 935,823 | 159,790 | 1,095,613 | 1,035,866 | 163,569 | 1,199,435 |
| 2020 | 947,139 | 137,034 | 1,084,173 | 627,749 | 141,018 | 768,767 |
| 2021 | 978,522 | 113,922 | 1,092,444 | 579,615 | 125,114 | 704,729 |
| 2022 | 690,353 | 88,642 | 778,995 | 383,967 | 111,489 | 495,456 |
| 2023-2027 | 2,615,000 | 168,490 | 2,783,490 | 2,097,276 | 378,742 | 2,476,018 |
| 2028-2032 | - | - | - | 1,535,463 | 99,422 | 1,634,885 |
| 2033-2037 | - | - | - | 292,601 | 1,133 | 293,734 |
| Total | <u>\$ 7,159,638</u> | <u>\$ 852,643</u> | <u>\$ 8,012,281</u> | <u>\$ 7,600,614</u> | <u>\$ 1,215,692</u> | <u>\$ 8,816,306</u> |

Note 8 - Restricted Assets

Enterprise Funds

A portion of the water and sewer user fee has been restricted by ordinance to be used solely for the purpose of making capital improvements in the City's water and sewer system. In addition, restricted assets result from the establishment of debt reserves related to Wayne County Sewage Disposal System bonds. The restricted assets at June 30, 2017 consist of the following:

| | |
|---|---------------------|
| User fee - Cash and certificates of deposit | \$ 895,114 |
| Wayne County Sewage Disposal System bonds - Assets held at the County for future debt payments | <u>1,804,309</u> |
| Total restricted net position | <u>\$ 2,699,423</u> |

Net position in the amount of \$2,699,423 has been restricted. This amount represents restricted assets arising from the water and sewer public improvement, program user charge, as well as unspent property tax collections remitted to the county for future debt service payments on the Wayne County bonds noted above.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2017

Note 9 - Fund Balance Constraints

The detail of the committed and assigned components of fund balance is as follows:

| Fund Balances | General Fund | Capital Projects Funds |
|---|---------------------|---------------------------|
| Committed: | | |
| County property tax chargebacks/MTT settlements | \$ 289,000 | \$ - |
| Computer software acquisition | 2,635 | - |
| Police cars | - | 290,306 |
| Property acquisition | - | 115,116 |
| Fire rescue equipment | - | 10,000 |
| Fire pumper | - | 350,000 |
| Total committed | <u>291,635</u> | <u>765,422</u> |
| Assigned: | | |
| Workers' compensation | 330,000 | - |
| Severance reserve | 687,500 | - |
| Future working capital | 300,000 | - |
| Capital projects | 60,000 | 225,837 |
| Total assigned | <u>1,377,500</u> | <u>225,837</u> |
| Total committed and assigned fund balances | <u>\$ 1,669,135</u> | <u>\$ 991,259</u> |

Note 10 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims and a portion of general claims. 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 estimates the liability for general liability and workers' compensation claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

| | 2017 | 2016 |
|---|-------------------|-------------------|
| Unpaid claims - Beginning of year | \$ 170,000 | \$ 120,000 |
| Incurred claims, including claims incurred but not reported | 294,950 | 163,586 |
| Claim payments | <u>(166,950)</u> | <u>(113,586)</u> |
| Unpaid claims - End of year | <u>\$ 298,000</u> | <u>\$ 170,000</u> |

Note 10 - Risk Management (Continued)

Recorded in the accrued and other liabilities of the Workers' Compensation Fund is a liability for \$228,000 related to workers' compensation claims. The remaining amount of unpaid claims liability is recorded as long-term debt.

Note 11 - Agent Defined Benefit Pension Plan Description

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

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

The MERS plan covers all full-time municipal employees hired before July 2, 2011.

The pension plan provides retirement, disability, and death benefits. Plan members are eligible for retirement at age 60 with 10 or more years of service, age 50 with 25 or more years of service, or the date at which the sum of age plus years of service equals 80 or more. The annual amount of benefits provided is calculated by total service times 2.25 percent of final average salary for employees hired before July 1, 2008; total service times 1.50 percent of final average salary for employees hired after July 1, 2008; and after December 31, 2014, 70 percent of base wages after annuity withdrawal for all employees.

Plan members are eligible for deferred retirement at 10 or more years of service. The benefit begins at age 60 and is computed as a regular retirement but based on service and final average salary at the time of termination.

Plan members are eligible for duty disability retirement at any age or service requirements and in receipt of workers' compensation. Duty disability retirement benefits are computed as a regular benefit. The minimum benefit is 20 percent of final average salary. Upon termination of workers' compensation, additional service credit, to age 65, is granted and benefit is recomputed.

Plan members are eligible for nonduty disability retirement at 10 or more years of service and is computed as a regular retirement.

Note 11 - Agent Defined Benefit Pension Plan Description (Continued)

Plan members are eligible for duty death before retirement benefits at any age or service and must be in receipt of workers' compensation. The annual amount is a refund of accumulated contributions.

Plan members are eligible for nonduty death before retirement benefits with 15 or more years of service or age 60 with 10 or more years of service. The annual amount is computed as a regular retirement but actuarially reduced in accordance with a 100 percent joint and survivor election.

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 0.50 percent, noncompounding.

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 | 82 |
| Inactive plan members entitled to but not yet receiving benefits | 5 |
| Active plan members | <u>44</u> |
| Total employees covered by MERS | <u><u>131</u></u> |

The Municipal Employees' Retirement System is closed to new hires after July 2, 2011.

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 10.0 percent of annual pay and the City's average contribution rate was 36.38 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 Southgate, Michigan

Notes to Financial Statements June 30, 2017

Note 11 - Agent Defined Benefit Pension Plan Description (Continued)

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

| Changes in Net Pension Liability | Increase (Decrease) | | |
|--|-------------------------|----------------------|-----------------------|
| | Total Pension Liability | Plan Net Position | Net Pension Liability |
| Balance at December 31, 2015 | \$ 28,886,716 | \$ 17,654,714 | \$ 11,232,002 |
| Service cost | 288,352 | - | 288,352 |
| Interest | 2,239,130 | - | 2,239,130 |
| Differences between expected and actual experience | (166,169) | - | (166,169) |
| Contributions - Employer | - | 973,239 | (973,239) |
| Contributions - Employee | - | 237,005 | (237,005) |
| Net investment income | - | 1,976,870 | (1,976,870) |
| Benefit payments, including refunds | (2,083,502) | (2,083,502) | - |
| Administrative expenses | - | (39,037) | 39,037 |
| Net changes | 277,811 | 1,064,575 | (786,764) |
| Balance at December 31, 2016 | <u>\$ 29,164,527</u> | <u>\$ 18,719,289</u> | <u>\$ 10,445,238</u> |

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 \$949,239. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------|-------------------------------|
| Difference between expected and actual experience | \$ - | \$ (1,118,053) |
| Changes in assumptions | 215,707 | - |
| Net difference between projected and actual earnings on pension plan investments | 1,133,033 | - |
| Employer contributions to the plan subsequent to the measurement date | 420,793 | - |
| Total | <u>\$ 1,769,533</u> | <u>\$ (1,118,053)</u> |

Note 11 - Agent Defined Benefit Pension Plan Description (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 | \$ (319,656) |
| 2019 | 471,910 |
| 2020 | 198,625 |
| 2021 | (120,192) |

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

| | |
|---------------------------|--|
| Inflation | 2.5 % |
| Salary increases | 3.75 % |
| 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 percent
2. The RP-2014 Employee Mortality Tables
3. The RP-2014 Juvenile Mortality Tables

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

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of the most recent actuarial experience study from 2009-2013.

Discount Rate - The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumes that 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.

Note 11 - Agent Defined Benefit Pension Plan Description (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 % | 5.00 % |
| Global fixed income | 20 % | 2.20 % |
| Real assets | 12 % | 4.20 % |
| Diversifying strategies | 10 % | 6.60 % |

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 for the Municipal Employees' Retirement Plan, calculated using the discount rate of 8.00 percent, as well as what the City's net pension liability for the Municipal Employees' Retirement Plan 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:

| | 1 Percent Decrease (7.00%) | Current Discount Rate (8.00%) | 1 Percent Increase (9.00%) |
|-----------------------------------|----------------------------|-------------------------------|----------------------------|
| Net pension liability of the City | \$ 13,565,601 | \$ 10,445,238 | \$ 7,821,707 |

Note 11 - Agent Defined Benefit Pension Plan Description (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.mersofmichigan.com. The plan's fiduciary net position has been determined on the same basis used by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefits payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Note 12 - Pension Plan Description

Policemen and Firemen Retirement System

Plan Administration - The Policemen and Firemen Retirement Board administers the Policemen and Firemen Retirement System (the "Plan") - a single-employer defined benefit pension plan that provides pensions for certain police and fire personnel. Benefit terms have been established by contractual agreements between the City and the various employee union representations; amendments are subject to the same process.

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

Management of the Plan is vested in the retirement board, which consists of five members: the Mayor, or a resident of the City designated by the Mayor; a member of City Council to be selected by City Council; a resident who is an elector of the City appointed by Council, and who is not eligible to participate in the retirement system as a member; and two members of the retirement system elected by plan members.

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

| | |
|---|-------------------|
| Inactive plan members or beneficiaries currently receiving benefits | 95 |
| Inactive plan members entitled to but not yet receiving benefits | 3 |
| Active plan members | <u>64</u> |
| Total | <u><u>162</u></u> |

Note 12 - Pension Plan Description (Continued)

Benefits Provided - The pension plan provides retirement, disability, and death benefits. All groups are eligible for service retirement at the age of 50 with 25 or more years of service or age 60 regardless of service. For IAFF Local 1307 members hired before July 1, 2008, the annual benefit is calculated as 2.69 percent of final average compensation times first 25 years of service plus 1 percent of final average compensation times years of service in excess of 25 years, subject to a maximum annual benefit cap of \$80,000 after annuity withdrawal, and payable as straight life annuity. For IAFF Local 1307 members hired after July 1, 2008, the annual benefit is calculated the same as those hired before July 1, 2008 but is subject to a maximum annual benefit cap of \$70,000. Members promoted to command positions on or after July 1, 2006 will be provided the same pension calculations and payout at retirement as they were provided as noncommand officers. For Police (COA) members promoted to COA prior to July 1, 2008, the annual benefits are calculated as 2.69 percent of final average compensation times first 25 years of service plus 1 percent of final average compensation times years of service in excess of 25 years, payable as a straight life annuity. Members promoted to COA on or after July 1, 2006 will maintain their current benefits unless the COA agreement provides less. For all current and future COA members, the benefit will be subject to a maximum annual benefit of \$89,447.43, after annuity withdrawal. For police patrol members, the annual benefit is calculated as 2.69 percent of final average compensation times the first 25 years of service plus 1 percent of final average compensation times years of service in excess of 25 years, subject to a maximum annual benefit cap of \$89,447.43, after annuity withdrawal, payable as a straight life annuity. The current fire chief and public safety director are subject to a maximum annual benefit cap of \$97,950 after annuity withdrawal, payable as a straight life annuity.

All pension plan members are eligible for deferred retirement benefits at 10 or more years of service and the annual amount is computed as service retirement but based upon service, final average compensation, and benefit in effect at termination. Benefits begin at the date retirement would have occurred had the member remained in employment.

All pension plan members are eligible for death after retirement survivor's pension, which is payable to a surviving spouse, if any, upon the death of a retired member who was receiving a straight life pension which was effective July 1, 1975 or later. The spouse's pension equals 60 percent of the pension the retiree was receiving.

All pension plan members are eligible for nonduty death-in-service survivor's pension, which is payable to a surviving spouse, if any, upon the death of a member with 10 or more years of service. The amount is calculated by the accrued straight life pension actuarially reduced in accordance with an Option I election.

Note 12 - Pension Plan Description (Continued)

All pension plan members are eligible for a duty death-in-service survivor's pension, which is payable upon the expiration of workers' compensation to the survivors of a member who died in the line of duty. The amount will be the same amount that was paid by workers' compensation.

All pension plan members are eligible for nonduty disability, which is payable upon the total and permanent disability of a member with five or more years of service. The amount is calculated to age 55 as 1.5 percent of final average compensation times years of service and at age 55 as the same as service retirement pension.

All pension plan members are eligible for duty disability, which is payable upon the total and permanent disability of a member in the line of duty. The amount is calculated to age 55 as 50 percent of final average compensation and at age 55 as the same as service retirement pension with service credit from date of disability to age 55.

Contributions - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the retirement board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by City ordinances and negotiations with the City's collective bargaining units. For the year ended June 30, 2017, the average active member contribution rate was 7.05 percent of annual pay, and the City's average contribution rate was 68.38 percent of annual payroll.

Rate of Return - For the year ended June 30, 2017, the annual money weighted rate of return on pension plan investments, net of pension plan investment expense, was 12.62 percent. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 12 - Pension Plan Description (Continued)

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

| Asset Class | Target Allocation |
|-----------------------------|-------------------|
| Domestic large cap equities | 50 % |
| Domestic small cap equities | 10 % |
| International equities | 10 % |
| Domestic fixed income | 28 % |
| Cash and cash equivalents | 2 % |

Note 13 - Pension Plan Reserves

Policemen and Firemen Retirement System

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

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

The employee reserve is credited as employee contributions are received throughout the year; the Plan maintains a record of the amount contributed by each employee, and credits interest annually at a rate of 2 percent. For any employee who terminates before vesting in the pension plan, his or her balance is returned to him or her; for those who stay until retirement, the balance is transferred into the retiree reserve.

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

The balances of the reserve accounts at June 30, 2017 are as follows:

| | <u>Required Reserve</u> | <u>Amount Funded</u> |
|------------------|-------------------------|----------------------|
| Retiree reserve | \$ 67,295,840 | \$ 38,033,158 |
| Employee reserve | 5,217,737 | 5,217,737 |
| Employer reserve | N/A | - |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2017

Note 14 - Net Pension Liability - Policemen and Firemen Retirement System

| | |
|------------------------------|----------------------|
| Total pension liability | \$ 72,513,577 |
| Plan fiduciary net position | <u>(43,250,895)</u> |
| City's net pension liability | <u>\$ 29,262,682</u> |

Plan fiduciary net position as a percentage of the total pension liability 59.6 %

The City has chosen to use September 30, 2017 as its measurement date for the net pension liability. The June 30, 2017 reported net pension liability was determined using a measure of the total pension liability and the pension net position as of June 30, 2017. The June 30, 2017 total pension liability was determined by an actuarial valuation performed as of June 30, 2016, which used updated procedures to roll forward the estimated liability to June 30, 2017.

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

| Changes in Net Pension Liability | Increase (Decrease) | | |
|--|-------------------------|----------------------|-----------------------|
| | Total Pension Liability | Plan Net Position | Net Pension Liability |
| Balance at June 30, 2016 | \$ 68,489,438 | \$ 39,572,048 | \$ 28,917,390 |
| Service cost | 979,925 | - | 979,925 |
| Interest | 4,979,248 | - | 4,979,248 |
| Differences between expected and actual experience | (710,257) | - | (710,257) |
| Changes in assumptions | 3,954,073 | - | 3,954,073 |
| Contributions - Employer | - | 3,244,840 | (3,244,840) |
| Contributions - Employee | - | 377,556 | (377,556) |
| Net investment income | - | 5,173,828 | (5,173,828) |
| Benefit payments, including refunds | (5,178,850) | (5,178,850) | - |
| Miscellaneous other charges | - | 61,473 | (61,473) |
| Net changes | <u>4,024,139</u> | <u>3,678,847</u> | <u>345,292</u> |
| Balance at June 30, 2017 | <u>\$ 72,513,577</u> | <u>\$ 43,250,895</u> | <u>\$ 29,262,682</u> |

Assumption Changes - For the June 30, 2016 actuarial report, there was a change to the assumed investment rate of return. Prior to this actuarial report, the assumed investment rate of return was 7.5 percent. For the June 30, 2016 actuarial report, the investment rate of return was reduced to 7.25 percent. The result of this change increases the total pension liability by approximately \$3.9 million.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2017

Note 14 - Net Pension Liability - Policemen and Firemen Retirement System (Continued)

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

For the year ended June 30, 2017, the City recognized pension expense of \$4,638,277. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference between expected and actual experience | \$ 882,326 | \$ (583,411) |
| Changes in assumptions | 3,247,913 | - |
| Net difference between projected and actual earnings on pension plan investments | <u>2,369,270</u> | <u>-</u> |
| Total | <u>\$ 6,499,509</u> | <u>\$ (583,411)</u> |

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

| <u>Years Ending June 30</u> | <u>Amount</u> |
|---------------------------------|---------------|
| 2018 | \$ 2,029,975 |
| 2019 | 2,029,975 |
| 2020 | 1,248,490 |
| 2021 | 260,415 |
| 2022 | 347,243 |

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

| | |
|---------------------------|--|
| Inflation | 4.5 % |
| Investment rate of return | 7.25 % Net of pension plan investment expense, including inflation |

Mortality rates were based on 90 percent of the 1983 Group Annuity Mortality Table.

Discount Rate - The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that city contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Note 14 - Net Pension Liability - Policemen and Firemen Retirement System (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 building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2017 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table.

| Asset Class | Long-term Expected Real Rate of Return |
|-----------------------------|--|
| Domestic large cap equities | 6.9 % |
| Domestic small cap equities | 8.0 % |
| International equities | 6.9 % |
| Domestic fixed income | 2.9 % |
| Cash or cash equivalents | 1.4 % |

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the City, calculated using the discount rate of 7.25 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25 percent) or 1 percentage point higher (8.25 percent) than the current rate:

| | 1 Percent Decrease (6.25%) | Current Discount Rate (7.25%) | 1 Percent Increase (8.25%) |
|-----------------------------------|----------------------------------|-------------------------------------|----------------------------------|
| Net pension liability of the City | \$ 37,173,913 | \$ 29,262,682 | \$ 22,601,566 |

Note 15 - Other Postemployment Benefits - Municipal Employees

Plan Description - The City provides healthcare and life insurance benefits to all full-time employees upon retirement, in accordance with labor contracts. As of June 30, 2015, the date of the most recent actuarial valuation, 77 general retirees are eligible. In addition, 45 active general employees may be entitled to benefits upon retirement.

The City has established a Municipal Employees' Retiree Health Care Fund to prefund the liability for postemployment benefits related to employees covered under the Municipal Employees' Retirement System. This is a single-employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions.

Funding Policy - The collective bargaining agreements do not require a contribution from employees. Retiree healthcare costs are recognized when paid by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended June 30, 2016, the City made payments for postemployment health benefit premiums for current general retirees in the age-adjusted amount of \$984,952, which was paid from governmental funds.

Funding Progress - For the year ended June 30, 2017, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2016. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

| | |
|---|-----------------------------|
| Annual required contribution (recommended) | \$ 2,695,949 |
| Interest on the prior year's net OPEB obligation | 480,710 |
| Less adjustment to the annual required contribution | <u>(933,414)</u> |
| Annual OPEB cost | 2,243,245 |
| Amounts contributed: | |
| Payments of current premiums - Age adjusted | (984,952) |
| Advance funding | <u>(75,000)</u> |
| Increase in net OPEB obligation | 1,183,293 |
| OPEB obligation - Beginning of year | <u>12,017,752</u> |
| OPEB obligation - End of year | <u><u>\$ 13,201,045</u></u> |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2017

Note 15 - Other Postemployment Benefits - Municipal Employees (Continued)

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

| Fiscal Year Ended | Actuarial Valuation Date | Annual Required Contribution | Employer Contributions Percentage of ARC Contributed | Net OPEB Obligation |
|-------------------|--------------------------|------------------------------|--|---------------------|
| 6/30/12 | 6/30/09 | \$ 2,368,796 | 37.1 % | \$ 6,788,176 |
| 6/30/13 | 6/30/11 | 2,427,465 | 42.8 | 8,061,788 |
| 6/30/14 | 6/30/11 | 2,426,703 | 46.3 | 9,216,726 |
| 6/30/15 | 6/30/13 | 2,757,529 | 41.5 | 10,649,262 |
| 6/30/16 | 6/30/13 | 2,762,035 | 42.3 | 12,017,752 |
| 6/30/17 | 6/30/15 | 2,695,949 | 39.3 | 13,201,045 |

The funding progress of the plan is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (Percent) (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll |
|--------------------------|-------------------------------|---------------------------------------|---------------------------|------------------------------|---------------------|---|
| 6/30/11 | \$ 2,242,636 | \$ 26,947,800 | \$ 24,705,164 | 8.3 % | \$ 2,994,723 | 825.0 % |
| 6/30/13 | 2,336,803 | 31,211,885 | 28,875,082 | 7.5 | 2,428,924 | 1,188.8 |
| 6/30/15 | 2,494,510 | 32,557,811 | 30,063,301 | 7.7 | 2,387,488 | 1,259.2 |

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.

Note 15 - Other Postemployment Benefits - Municipal Employees (Continued)

In the June 30, 2015 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.0 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 9.00 percent initially, reduced by decrements to an ultimate rate of 3.5 percent after 10 years. Both rates included a 2.75 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 on a dollar amount for all covered members. The remaining amortization period at June 30, 2017 was 22 years.

Note 16 - Other Postemployment Benefits - Police and Fire

Plan Description - The City provides healthcare and life insurance benefits to all full-time employees upon retirement, in accordance with labor contracts. As of June 30, 2015, the date of the most recent actuarial valuation, 85 police and fire retirees are eligible. In addition, 63 active police and fire employees may be entitled to benefits upon retirement.

The healthcare benefit activity related to the employees covered under the Policemen and Firemen Retirement System is recorded in the Act 345 Health Insurance Fund. This is a single-employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions.

Funding Policy - The collective bargaining agreements do not require a contribution from employees. Retiree healthcare costs are recognized when paid by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended June 30, 2017, the City made payments for postemployment health benefit premiums for current police and fire retirees in the age-adjusted amount of \$1,787,754, which was paid from the Act 345 Health Insurance Fund, which is reported in these financial statements as a pension and other employee benefit trust fund type.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2017

Note 16 - Other Postemployment Benefits - Police and Fire (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 June 30, 2015. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

| | |
|---|---------------------|
| Annual required contribution (recommended) | \$ 3,125,869 |
| Interest on the prior year's net OPEB obligation | 311,012 |
| Less adjustment to the annual required contribution | <u>(299,386)</u> |
| Annual OPEB cost | 3,137,495 |
| Amounts contributed: | |
| Payments of current premiums | - |
| Advance funding | <u>(2,045,006)</u> |
| Increase in net OPEB obligation | 1,092,489 |
| OPEB obligation - Beginning of year | <u>7,775,295</u> |
| OPEB obligation - End of year | <u>\$ 8,867,784</u> |

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

| Fiscal Year Ended | Actuarial Valuation Date | Annual Required Contribution * | Employer Contributions Percentage of ARC Contributed | Net OPEB Obligation |
|-------------------|-----------------------------|--------------------------------------|--|------------------------|
| 6/30/12 | 6/30/09 | \$ 2,348,689 | 66.3 % | \$ 4,407,701 |
| 6/30/13 | 6/30/11 | 2,350,185 | 77.3 | 5,014,227 |
| 6/30/14 | 6/30/11 | 2,411,044 | 73.2 | 5,743,982 |
| 6/30/15 | 6/30/13 | 2,668,891 | 67.7 | 6,701,468 |
| 6/30/16 | 6/30/13 | 2,738,480 | 58.4 | 7,775,295 |
| 6/30/17 | 6/30/15 | 3,125,869 | 65.4 | 8,867,784 |

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

City of Southgate, Michigan

Notes to Financial Statements June 30, 2017

Note 16 - Other Postemployment Benefits - Police and Fire (Continued)

The funding progress of the plan is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (Percent) (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll |
|--------------------------------|--|--|---------------------------------|------------------------------------|---------------------------|--|
| 6/30/11 | \$ 1,212,227 | \$ 37,133,343 | \$ 35,921,116 | 3.3 % | \$ 4,922,456 | 729.7 % |
| 6/30/13 | 1,232,182 | 41,643,541 | 40,411,359 | 3.0 | 4,966,288 | 813.7 |
| 6/30/15 | 1,392,279 | 51,415,585 | 50,023,306 | 2.7 | 5,051,311 | 990.3 |

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

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

In the June 30, 2015 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.0 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 9.0 percent initially, reduced by decrements to an ultimate rate of 3.5 percent after 10 years. Both rates included a 3.5 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 an open basis. The remaining amortization period at June 30, 2017 was 30 years.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2017

Note 17 - Pension and Other Employee Benefit Trust Funds

The following are condensed financial statements for the individual pension plans and postemployment healthcare plans:

| | Policemen and Firemen Retirement System | Municipal Employees' Retiree Health Care | Act 345 Health Insurance | Total |
|--|--|---|--------------------------------|----------------------|
| <u>Statement of Net Position</u> | | | | |
| Cash and investments | \$ 43,088,482 | \$ 2,739,101 | \$ 1,646,374 | \$ 47,473,957 |
| Other assets | 162,413 | - | 93,040 | 255,453 |
| Liabilities | - | - | 6,009 | 6,009 |
| Net position | <u>\$ 43,250,895</u> | <u>\$ 2,739,101</u> | <u>\$ 1,733,405</u> | <u>\$ 47,723,401</u> |
| <u>Statement of Changes in Net Position</u> | | | | |
| Investment income | \$ 5,235,301 | \$ 14,189 | \$ 3,313 | \$ 5,252,803 |
| Contributions | 3,622,396 | 1,059,952 | 2,045,006 | 6,727,354 |
| Benefit payments | 5,178,850 | 992,327 | 1,787,754 | 7,958,931 |
| Net change in net position | <u>\$ 3,678,847</u> | <u>\$ 81,814</u> | <u>\$ 260,565</u> | <u>\$ 4,021,226</u> |

Note 18 - Joint Ventures

Southgate-Wyandotte Drainage District

The City is a member of the Southgate-Wyandotte Drainage District, a joint venture with the City of Wyandotte that provides drainage services to the residents of Southgate and Wyandotte. The venture is administered by the Wayne County Drainage Board. The City paid \$626,602 to Wayne County during the year for operation and maintenance.

The City of Southgate, Michigan does not have an explicit equitable interest in the venture. The operations of the fund will be financed through assessments to the participating cities, Wayne County, and the State of Michigan. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Downriver Sewage Disposal System

The City, along with 12 other communities, jointly participates in the Downriver Sewage Disposal System. The City's share of capital assets, restricted assets (for debt service), and related debt is recorded in the Water and Sewer Fund as "investment in joint ventures" and was \$363,899 at June 30, 2017. During the year, the City paid \$1,525,221 for operations of the system and \$1,355,557 for debt service.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2017

Note 18 - Joint Ventures (Continued)

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Financial statements for both joint ventures can be obtained from the County of Wayne's administrative offices at 415 Clifford, Detroit, MI 48226.

Note 19 - Tax Abatements

The City uses the Industrial Facilities Tax exemption (PA 198 of 1974) to enter into agreements with local businesses to construct new industrial facilities or rehabilitate historical facilities. Under the program, the City grants reductions of 50 percent of the property tax bill for new property or it can freeze taxable values for rehabilitation properties.

For the fiscal year ended June 30, 2017, the City abated \$55,946 of taxes under this program. There are no provisions to recapture taxes; however, the abatement may be eliminated if taxes are not paid timely.

There are no significant abatements made by other governments that reduce the City's tax revenue.

Note 20 - OPEB Plan - Municipal Employees

Plan Administration - The City of Southgate, Michigan administers the City of Southgate Retiree Health Care Plan - Municipal Employees which is a single-employer defined benefit OPEB plan that is used to provide postemployment benefits other than pensions (OPEB) for permanent full-time general and public works employees of the City.

Management of the Plan is vested with the City Council, which consists of seven elected members.

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

| | |
|---|-------------------|
| Inactive plan members or beneficiaries currently receiving benefits | 77 |
| Active plan members | <u>45</u> |
| Total | <u><u>122</u></u> |

Benefits Provided - The OPEB Plan provides medical, prescription, and dental coverage for retirees and spouses who are 60 years of age with 10 years of service, or are 50 years of age with 25 years of service. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the plan.

Note 20 - OPEB Plan - Municipal Employees (Continued)

Contributions - The OPEB plan's funding policy is that the employer will make discretionary contributions. There are no long-term contracts for contributions to the plan. The plan has no legally required reserves. For the year ended June 30, 2017, the City contributed \$1,059,952 to the plan. Plan members are not required to contribute to the plan.

OPEB Plan Investments

Investment Policy - The Retiree Health Care Plan - Municipal Employees does not have an investment policy in regard to the allocation of invested assets. The OPEB plan only invests in cash and certificates of deposits.

Rate of Return - For the year ended June 30, 2017, the annual money weighted rate of return on plan investments, net of investment expense, was 0.5 percent. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability

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

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

| | |
|-----------------------------|----------------------|
| Total OPEB liability | \$ 36,153,645 |
| Plan fiduciary net position | <u>(2,739,101)</u> |
| Net OPEB liability | <u>\$ 33,414,544</u> |

Plan fiduciary net position as a percentage of the total OPEB liability 8 %

Note 20 - OPEB Plan - Municipal Employees (Continued)

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2015, which used updated procedures to roll forward the estimated liability to June 30, 2017. The valuation used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | | |
|----------------------------|--------|--|
| Inflation | 2.75 % | |
| Healthcare cost trend rate | 9.00 % | Graded down to 3.5 percent in 2024 |
| Salary increases | 3.50 % | Average, including inflation |
| Investment rate of return | 3.56 % | Net of OPEB plan investment expense, including inflation |

Mortality rates were based on the RP-2014 Healthy Annuitant Generational Mortality Tables with blue collar adjustments for postretirement members and RP-2015 Employee Generational Mortality Tables with blue collar adjustments for preretirement members.

Actuarial Assumptions - The total OPEB liability was determined by utilizing the alternative measurement method as of June 30, 2017, using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Expected point in time at which benefit payments will begin to be made - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 65, or at the first subsequent year in which the member would qualify for benefits.

Marital status - Marital status of members at the calculation date was assumed to be 100 percent at the time of decrement.

Mortality - Mortality rates were based on two tables, one for preretirement and one postretirement. The preretirement mortality table is the RP-2014 Employee Generational Mortality Tables, with blue collar adjustments. The postretirement mortality table is the RP-2014 Healthy Annuitant Generational Mortality Table, with blue collar adjustments.

Turnover - Nongroup-specific age-based turnover data from GASB Statement 74 was used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for the purpose of allocating to periods the present value of total benefits to be paid.

Note 20 - OPEB Plan - Municipal Employees (Continued)

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on Office of the Actuary at the Centers for Medicare and Medicaid Services. A rate of 9.0 percent initially, reduced to an ultimate rate of 3.5 percent after 10 years, was used.

Health insurance premiums - 2016 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate - The expected long-term inflation assumption of 2.75 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds for an intermediate growth scenario.

Payroll growth rate - The expected long-term payroll growth rate was assumed to be 3.5 percent.

Investment rate of return - The investment rate of return was assumed to be 3.56 percent, net of OPEB plan investment expense, including inflation.

The long-term expected rate of return on OPEB plan investments was determined by the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating. The OPEB plan does not have an investment policy and only invests in cash and certificates of deposits.

Discount Rate - The discount rate used to measure the total OPEB liability was 3.56 percent. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rates.

Projected Cash Flows

The discount rate is the same as the municipal bond rate, which was 3.56 percent. The source of that bond rate was the tax-exempt municipal bond rate based on an index of 20-year general obligation with an average of AA credit rating. No projections of the ability of the fund to meet benefit obligations in the future were made since the discount rate is equivalent as the municipal bond rate. The discount rate of 3.56 was applied to all remaining periods.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2017

Note 20 - OPEB Plan - Municipal Employees (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the net OPEB liability, calculated using the discount rate of 3.56 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.56 percent) or 1 percentage point higher (4.56 percent) than the current rate:

| | 1 Percent Decrease (2.56%) | Current Discount Rate (3.56%) | 1 Percent Increase (4.56%) |
|--------------------|----------------------------------|-------------------------------------|----------------------------------|
| Net OPEB liability | \$ 39,363,859 | \$ 33,414,544 | \$ 28,676,848 |

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the net OPEB liability, calculated using the healthcare cost trend rate of 9.0 percent, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (8.0 percent, decreasing to 2.5%) or 1 percentage point higher (10.0 percent, decreasing to 4.5%) than the current rate:

| | 1 Percent Decrease (8.0% decreasing to 2.5%) | Current Healthcare Cost Trend Rate (9.0% decreasing to 3.5%) | 1 Percent Increase (10.0% decreasing to 4.5%) |
|--------------------|--|---|---|
| Net OPEB liability | \$ 27,890,498 | \$ 33,414,544 | \$ 40,430,805 |

Note 21 - OPEB Plan - Police and Fire

Plan Administration - The City of Southgate, Michigan administers the City of Southgate Retiree Health Care Plan - Police and Fire Employees, which is a single-employer defined benefit OPEB plan that is used to provide postemployment benefits other than pensions (OPEB) for permanent full-time general and public works employees of the City.

Management of the Plan is vested with the City Council, which consists of seven elected members.

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

| | |
|---|-----|
| Inactive plan members or beneficiaries currently receiving benefits | 85 |
| Active plan members | 63 |
| Total | 148 |

Note 21 - OPEB Plan - Police and Fire (Continued)

Benefits Provided - The OPEB Plan provides medical, prescription, and dental coverage for retirees and spouses who are 60 years of age with 10 years of service, or are 50 years of age with 25 years of service. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the plan.

Contributions - The OPEB plan's funding policy is that the employer will make discretionary contributions. There are no long-term contracts for contributions to the plan. The plan has no legally required reserves. For the year ended June 30, 2017, the City contributed \$2,045,006 to the plan. Plan members are not required to contribute to the plan.

OPEB Plan Investments

Investment Policy - The Retiree Health Care Plan - Fire and Police does not have an investment policy in regard to the allocation of invested assets. The OPEB plan only invests in cash.

Rate of Return - For the year ended June 30, 2017, the annual money weighted rate of return on plan investments, net of investment expense, was 0.0 percent. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability

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

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

| | |
|-----------------------------|----------------------|
| Total OPEB liability | \$ 58,164,367 |
| Plan fiduciary net position | <u>(1,733,405)</u> |
| Net OPEB liability | <u>\$ 56,430,962</u> |

Plan fiduciary net position as a percentage of the total OPEB liability 3 %

Note 21 - OPEB Plan - Police and Fire (Continued)

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2015, which used updated procedures to roll forward the estimated liability to June 30, 2017. The valuation used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|----------------------------|---|
| Inflation | 2.75 % |
| Healthcare cost trend rate | 9.00 % Graded down to 3.5 percent in 2024 |
| Salary increases | 3.50 % Average, including inflation |
| Investment rate of return | 3.56 % Net of OPEB plan investment expense, including inflation |

Mortality rates were based on the RP-2014 Healthy Annuitant Generational Mortality Tables with blue collar adjustments for postretirement members and RP-2015 Employee Generational Mortality Tables with blue collar adjustments for preretirement members.

Actuarial Assumptions - The total OPEB liability was determined by utilizing the alternative measurement method as of June 30, 2017, using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Expected point in time at which benefit payments will begin to be made - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 60, or at the first subsequent year in which the member would qualify for benefits.

Marital status - Marital status of members at the calculation date was assumed to be 100 percent at the time of decrement.

Mortality - Mortality rates were based on two tables, one for preretirement and one postretirement. The preretirement mortality table is the RP-2014 Employee Generational Mortality Tables, with blue collar adjustments. The postretirement mortality table is the RP-2014 Healthy Annuitant Generational Mortality Table, with blue collar adjustments.

Turnover - Nongroup-specific age-based turnover data from GASB Statement 74 was used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for the purpose of allocating to periods the present value of total benefits to be paid.

Note 21 - OPEB Plan - Police and Fire (Continued)

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on Office of the Actuary at the Centers for Medicare and Medicaid Services. A rate of 9.0 percent initially, reduced to an ultimate rate of 3.5 percent after 10 years, was used.

Health insurance premiums - 2016 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate - The expected long-term inflation assumption of 2.75 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds for an intermediate growth scenario.

Payroll growth rate - The expected long-term payroll growth rate was assumed to be 3.5 percent.

Investment rate of return - The investment rate of return was assumed to be 3.56 percent, net of OPEB plan investment expense, including inflation.

The long-term expected rate of return on OPEB plan investments was determined by the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating. The OPEB plan does not have an investment policy and only invests in cash.

Discount Rate - The discount rate used to measure the total OPEB liability was 3.56 percent. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rates.

Projected Cash Flows

The discount rate is the same as the municipal bond rate which was 3.56 percent. The source of that bond rate was the tax-exempt municipal bond rate based on an index of 20-year general obligation with an average of AA credit rating. No projections of the ability of the fund to meet benefit obligations in the future were made since the discount rate is equivalent as the municipal bond rate. The discount rate of 3.56 was applied to all remaining periods.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2017

Note 21 - OPEB Plan - Police and Fire (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the net OPEB liability, calculated using the discount rate of 3.56 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.56 percent) or 1 percentage point higher (4.56 percent) than the current rate:

| | 1 Percent Decrease (2.56%) | Current Discount Rate (3.56%) | 1 Percent Increase (4.56%) |
|--------------------|----------------------------------|-------------------------------------|----------------------------------|
| Net OPEB liability | \$ 66,571,453 | \$ 56,430,962 | \$ 48,469,507 |

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the net OPEB liability, calculated using the healthcare cost trend rate of 9.0 percent, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (8.0 percent, decreasing to 2.5%) or 1 percentage point higher (10.0 percent, decreasing to 4.5%) than the current rate:

| | 1 Percent Decrease (8.0% decreasing to 2.5%) | Current Healthcare Cost Trend Rate (9.0% decreasing to 3.5%) | 1 Percent Increase (10.0% decreasing to 4.5%) |
|--------------------|--|---|---|
| Net OPEB liability | \$ 46,988,221 | \$ 56,430,962 | \$ 68,740,841 |

Note 22 - 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. This OPEB standard will require the City to recognize on the face of the financial statements its net OPEB liability. 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.

Note 22 - Upcoming Accounting Pronouncements (Continued)

In November 2016, the Governmental Accounting Standards Board issued GASB Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2018-2019 fiscal year.

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 May 2017, the Governmental Accounting Standards Board issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. 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.

Note 22 - Upcoming Accounting Pronouncements (Continued)

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that 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

City of Southgate, Michigan

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

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|--|---------------------|---------------------|---------------------|---------------------------------|
| Revenue | | | | |
| Property taxes | \$ 14,026,482 | \$ 14,026,482 | \$ 13,975,020 | \$ (51,462) |
| Reimbursements from other funds | 1,276,379 | 1,276,379 | 1,246,656 | (29,723) |
| Licenses and permits | 543,500 | 543,500 | 657,232 | 113,732 |
| Federal grants | 40,000 | 40,000 | 88,741 | 48,741 |
| State sources | 3,210,649 | 3,210,649 | 3,263,060 | 52,411 |
| Charges for services | 735,200 | 735,200 | 614,107 | (121,093) |
| Fines and forfeitures | 1,267,800 | 1,267,800 | 1,426,552 | 158,752 |
| Interest income | 2,000 | 2,000 | 19,482 | 17,482 |
| Rental income | 702,100 | 702,100 | 775,914 | 73,814 |
| Other revenue | 109,500 | 109,500 | 106,474 | (3,026) |
| Total revenue | 21,913,610 | 21,913,610 | 22,173,238 | 259,628 |
| Expenditures - Current | | | | |
| General government: | | | | |
| City Council | 34,915 | 34,915 | 35,416 | (501) |
| Executive | 214,879 | 214,879 | 212,749 | 2,130 |
| Finance | 417,302 | 417,302 | 403,379 | 13,923 |
| Treasurer | 210,537 | 210,537 | 212,088 | (1,551) |
| Assessor | 173,400 | 173,400 | 186,345 | (12,945) |
| Clerk | 147,877 | 147,877 | 154,228 | (6,351) |
| Elections | 87,250 | 87,250 | 21,063 | 66,187 |
| Attorney | 145,500 | 145,500 | 145,597 | (97) |
| Civil Service Commission | 1,000 | 1,000 | - | 1,000 |
| Nondepartmental | 3,716,076 | 3,716,076 | 3,718,727 | (2,651) |
| Total general government | 5,148,736 | 5,148,736 | 5,089,592 | 59,144 |
| 28 th District Court | 1,027,946 | 1,027,946 | 1,020,903 | 7,043 |
| Public safety: | | | | |
| Police | 6,651,764 | 6,651,764 | 6,592,330 | 59,434 |
| Fire | 3,740,656 | 3,740,656 | 3,873,397 | (132,741) |
| Emergency preparedness | 4,790 | 4,790 | 3,011 | 1,779 |
| Building inspections and related | 331,932 | 331,932 | 338,703 | (6,771) |
| Police and Fire Civil Service Commission | 11,000 | 11,000 | 4,342 | 6,658 |
| Total public safety | 10,740,142 | 10,740,142 | 10,811,783 | (71,641) |
| Public works: | | | | |
| Public services | 1,761,185 | 1,761,185 | 1,826,690 | (65,505) |
| Sanitation | 1,459,083 | 1,459,083 | 1,471,088 | (12,005) |
| Planning | 6,500 | 6,500 | 13,354 | (6,854) |
| City garage | 530,475 | 530,475 | 483,247 | 47,228 |
| Total public works | 3,757,243 | 3,757,243 | 3,794,379 | (37,136) |
| Recreation and culture: | | | | |
| Recreation | 574,443 | 574,443 | 562,033 | 12,410 |
| Senior Citizen Center | 78,492 | 78,492 | 43,379 | 35,113 |
| Cultural Commission | 3,000 | 3,000 | 1,757 | 1,243 |
| Total recreation and culture | 655,935 | 655,935 | 607,169 | 48,766 |
| Transfers to other funds | 575,975 | 575,975 | 770,010 | (194,035) |
| Total expenditures | 21,905,977 | 21,905,977 | 22,093,836 | (187,859) |
| Net Change in Fund Balance | 7,633 | 7,633 | 79,402 | 71,769 |
| Fund Balance - Beginning of year | 2,579,670 | 2,579,670 | 2,579,670 | - |
| Fund Balance - End of year | \$ 2,587,303 | \$ 2,587,303 | \$ 2,659,072 | \$ 71,769 |

City of Southgate, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Southgate - Wyandotte Operation and Maintenance Fund Year Ended June 30, 2017

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|--|---------------------|---------------------|---------------------|------------------------------------|
| Revenue | | | | |
| Special assessments | \$ 1,241,000 | \$ 1,241,000 | \$ 1,334,690 | \$ 93,690 |
| Interest income | - | - | 11,896 | 11,896 |
| Total revenue | 1,241,000 | 1,241,000 | 1,346,586 | 105,586 |
| Expenditures - Current - Public works | 2,965,392 | 2,965,392 | 771,559 | 2,193,833 |
| Net Change in Fund Balance | (1,724,392) | (1,724,392) | 575,027 | 2,299,419 |
| Fund Balance - Beginning of year | 5,074,475 | 5,074,475 | 5,074,475 | - |
| Fund Balance - End of year | <u>\$ 3,350,083</u> | <u>\$ 3,350,083</u> | <u>\$ 5,649,502</u> | <u>\$ 2,299,419</u> |

City of Southgate, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Community Development Block Grant Fund Year Ended June 30, 2017

| | <u>Original Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance with Amended Budget</u> |
|--|---------------------------|---------------------------|----------------------------|---|
| Revenue | | | | |
| Federal grants | \$ 155,658 | \$ 155,658 | \$ 292,421 | \$ 136,763 |
| Investment income | 5 | 5 | - | (5) |
| Total revenue | <u>155,663</u> | <u>155,663</u> | <u>292,421</u> | <u>136,758</u> |
| Expenditures - Current - Public works | <u>155,658</u> | <u>155,658</u> | <u>453,180</u> | <u>(297,522)</u> |
| Net Change in Fund Balance | 5 | 5 | (160,759) | (160,764) |
| Fund Balance - Beginning of year | <u>(67,506)</u> | <u>(67,506)</u> | <u>(67,506)</u> | <u>-</u> |
| Fund Balance - End of year | <u><u>\$ (67,501)</u></u> | <u><u>\$ (67,501)</u></u> | <u><u>\$ (228,265)</u></u> | <u><u>\$ (160,764)</u></u> |

City of Southgate, Michigan

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

| | 2017 | 2016 | 2015 | 2014* |
|---|----------------------|----------------------|----------------------|----------------------|
| Total Pension Liability | | | | |
| Service cost | \$ 288,352 | \$ 288,542 | \$ 441,569 | \$ 452,058 |
| Interest | 2,239,130 | 1,064,707 | 2,160,600 | 2,132,671 |
| Changes in benefit terms | - | - | - | - |
| Differences between expected and actual experience | (166,169) | - | (269,570) | - |
| Changes in assumptions | - | (2,921,481) | 1,959,499 | - |
| Benefit payments, including refund | (2,083,502) | (1,349,679) | (2,149,366) | (2,264,831) |
| Net Change in Total Pension Liability | 277,811 | (2,917,911) | 2,142,732 | 319,898 |
| Total Pension Liability - Beginning of year | 28,886,716 | 31,804,627 | 29,661,895 | 29,341,997 |
| Total Pension Liability - End of year | \$ 29,164,527 | \$ 28,886,716 | \$ 31,804,627 | \$ 29,661,895 |
| Plan Fiduciary Net Position | | | | |
| Contributions - Employer | \$ 973,239 | \$ 569,014 | \$ 969,014 | \$ 882,147 |
| Contributions - Member | 237,005 | 135,680 | 286,249 | 305,790 |
| Net investment income (loss) | 1,976,870 | (311,386) | (284,404) | 2,418,590 |
| Administrative expenses | (39,037) | (71,346) | - | - |
| Benefit payments, including refunds | (2,083,502) | (1,349,679) | (2,149,366) | (2,264,831) |
| Other | - | - | - | - |
| Net Change in Plan Fiduciary Net Position | 1,064,575 | (1,027,717) | (1,178,507) | 1,341,696 |
| Plan Fiduciary Net Position - Beginning of year | 17,654,714 | 18,682,431 | 19,860,938 | 18,519,242 |
| Plan Fiduciary Net Position - End of year | \$ 18,719,289 | \$ 17,654,714 | \$ 18,682,431 | \$ 19,860,938 |
| City's Net Pension Liability - Ending | \$ 10,445,238 | \$ 11,232,002 | \$ 13,122,196 | \$ 9,800,957 |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 64.19 % | 61.12 % | 58.74 % | 66.96 % |
| Covered Employee Payroll | \$ 2,350,053 | \$ 2,351,603 | \$ 2,380,521 | \$ 2,501,902 |
| City's Net Pension Liability as a Percentage of Covered Employee Payroll | 444.5 % | 477.6 % | 551.2 % | 391.7 % |

* GASB 67 was implemented for FYE June 30, 2014 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.

City of Southgate, Michigan

Required Supplemental Information Municipal Employees' Retirement System Schedule of City Contributions Last Ten Fiscal Years

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Actuarially determined contribution | \$ 854,841 | \$ 413,647 | \$ 969,014 | \$ 882,147 | \$ 875,326 | \$ 680,346 | \$ 759,141 | \$ 862,425 | \$ 889,043 | \$ 767,755 |
| Contributions in relation to the actuarially determined contribution | 854,841 | 569,014 | 969,014 | 882,147 | 891,193 | 680,346 | 759,141 | 862,425 | 889,043 | 767,755 |
| Contribution Excess | \$ - | \$ (155,367) | \$ - | \$ - | \$ (15,867) | \$ - |
| Covered Employee Payroll | \$ 2,350,053 | \$ 2,351,603 | \$ 2,380,521 | \$ 2,501,902 | \$ 2,603,000 | \$ 2,995,000 | \$ 3,678,000 | \$ 3,700,000 | \$ 3,800,000 | \$ 3,700,000 |
| Contributions as a Percentage of Covered Employee Payroll | 36.4 % | 24.2 % | 40.7 % | 35.3 % | 34.2 % | 22.7 % | 20.6 % | 23.3 % | 23.4 % | 20.8 % |

Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

| | |
|---|--|
| Valuation date | The actuarially determined contribution rates are calculated as of December 31 each year, which is 18 months prior to the beginning of the fiscal year in which the contributions are required. Below are the methods and assumptions used from the December 31, 2015 valuation report |
| Methods and assumptions used to determine contribution rates: | |
| Actuarial cost method | Entry-age normal |
| Amortization method | Level percentage of pay, open |
| Remaining amortization period | 23 years |
| Asset valuation method | Five-year smoothed market |
| Inflation | 2.5 percent |
| Salary increases | 3.75 percent, including inflation |
| Investment rate of return | 8.0 percent |
| Retirement age | Experience-based table of rates that are specific to the type of eligibility condition. |
| Mortality | 50 percent male - 50 percent female blend of the RP-2014 Health Annuitant Mortality Tables, with rates multiplied by 105%; RP-2014 Employee Mortality Tables; and RP-2014 Juvenile Mortality Tables |
| Other information | None |

City of Southgate, Michigan

Required Supplemental Information Policemen and Firemen Retirement System Schedule of Investment Returns Last Ten Fiscal Years

| | 2017 | 2016 | 2015 | 2014 | 2013* | 2012* | 2011* | 2010* | 2009* | 2008* |
|--|---------|--------|--------|--------|-------|-------|-------|-------|-------|-------|
| Annual money weighted rate of return, net of investment expense | 12.62 % | (3.0)% | 68.9 % | 15.8 % | - % | - % | - % | - % | - % | - % |

* GASB 67 was implemented for FYE June 30, 2014 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.

City of Southgate, Michigan

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

| | 2017 | 2016 | 2015 | 2014* |
|---|----------------------|----------------------|----------------------|----------------------|
| Total Pension Liability | | | | |
| Service cost | \$ 979,925 | \$ 1,005,271 | \$ 1,093,031 | \$ 1,058,512 |
| Interest | 4,979,248 | 4,915,376 | 4,844,541 | 4,771,821 |
| Changes in benefit terms | - | (993,322) | - | - |
| Differences between expected and actual experience | (710,257) | 1,155,057 | 273,660 | - |
| Changes in assumptions | 3,954,073 | - | - | - |
| Benefit payments, including refunds | (5,178,850) | (5,257,307) | (5,188,467) | (4,567,523) |
| Net Change in Total Pension Liability | 4,024,139 | 825,075 | 1,022,765 | 1,262,810 |
| Total Pension Liability - Beginning of year | 68,489,438 | 67,664,363 | 66,641,598 | 65,378,788 |
| Total Pension Liability - End of year | \$ 72,513,577 | \$ 68,489,438 | \$ 67,664,363 | \$ 66,641,598 |
| Plan Fiduciary Net Position | | | | |
| Contributions - Employer | \$ 3,244,840 | \$ 2,580,266 | \$ 2,604,211 | \$ 2,649,082 |
| Contributions - Member | 377,556 | 337,603 | 331,809 | 359,953 |
| Net investment income (loss) | 5,173,828 | (1,219,003) | (538,420) | 6,412,966 |
| Administrative expenses | - | - | - | - |
| Benefit payments, including refunds | (5,178,850) | (5,257,307) | (5,188,467) | (4,567,523) |
| Other | 61,473 | - | - | - |
| Net Change in Plan Fiduciary Net Position | 3,678,847 | (3,558,441) | (2,790,867) | 4,854,478 |
| Plan Fiduciary Net Position - Beginning of year | 39,572,048 | 43,130,489 | 45,921,356 | 41,066,878 |
| Plan Fiduciary Net Position - End of year | \$ 43,250,895 | \$ 39,572,048 | \$ 43,130,489 | \$ 45,921,356 |
| City's Net Pension Liability - Ending | \$ 29,262,682 | \$ 28,917,390 | \$ 24,533,874 | \$ 20,720,242 |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 59.65 % | 57.78 % | 63.74 % | 68.9 % |
| Covered Employee Payroll | \$ 4,745,297 | \$ 4,633,108 | \$ 5,047,949 | \$ 4,708,305 |
| City's Net Pension Liability as a Percentage of Covered Employee Payroll | 616.7 % | 624.1 % | 486.0 % | 68.9 % |

* GASB 67 was implemented for FYE June 30, 2014 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.

City of Southgate, Michigan

Required Supplemental Information Policemen and Firemen Retirement System Schedule of City Contributions Last Ten Fiscal Years

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|----------------------------|---------------------|---------------------|----------------------------|---------------------------|--------------------------|---------------------------|---------------------------|-------------------------|-------------------------|
| Actuarially determined contribution | \$ 2,940,014 | \$ 2,580,266 | \$ 2,604,211 | \$ 2,649,082 | \$ 2,358,835 | \$ 1,813,622 | \$ 1,472,204 | \$ 1,175,192 | \$ 1,833,567 | \$ 1,811,563 |
| Contributions in relation to the actuarially determined contribution | <u>3,248,086</u> | <u>2,580,266</u> | <u>2,604,211</u> | <u>2,768,255</u> | <u>2,374,165</u> | <u>1,579,123</u> | <u>1,558,654</u> | <u>1,188,890</u> | <u>1,733,854</u> | <u>1,773,329</u> |
| Contribution (Excess) Deficiency | <u>\$ (308,072)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (119,173)</u> | <u>\$ (15,330)</u> | <u>\$ 234,499</u> | <u>\$ (86,450)</u> | <u>\$ (13,698)</u> | <u>\$ 99,713</u> | <u>\$ 38,234</u> |
| Covered Employee Payroll | \$ 4,633,108 | \$ 4,633,108 | \$ 5,047,949 | \$ 4,708,305 | \$ 4,966,288 | \$ 4,889,791 | \$ 4,922,456 | \$ 4,884,554 | \$ 5,759,174 | \$ 5,438,968 |
| Contributions as a Percentage of Covered Employee Payroll | 70.1 % | 55.7 % | 51.6 % | 58.8 % | 47.8 % | 32.3 % | 31.7 % | 24.3 % | 30.1 % | 32.6 % |

Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

| | |
|---|---|
| Valuation date | Actuarially determined contribution rates are calculated as of June 30 each year, which is 12 months prior to the beginning of the fiscal year in which contributions are reported. |
| Methods and assumptions used to determine contribution rates: | |
| Actuarial cost method | Entry-age actuarial cost method |
| Amortization method | Level percent-of-payroll, closed |
| Remaining amortization period | 11 years |
| Asset valuation method | Four-year smoothed market |
| Inflation | 4.5 percent |
| Salary increases | 4.7 percent - 8.3 percent, including inflation |
| Investment rate of return | 7.5 percent (net of investment and administrative expenses) |
| Retirement age | Experience-based table of rates that are specific to the type of eligibility condition |
| Mortality | 90 percent of the 1983 Group Annuity Mortality Table |
| Other information | None |

City of Southgate, Michigan

Required Supplemental Information Municipal Employees' Retiree Healthcare System Schedule of Funding Progress and Employer Contributions Year Ended June 30, 2017

The schedule of funding progress is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (Percent) (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll |
|-----------------------------|--|--|---------------------------------|------------------------------------|---------------------------|--|
| 6/30/11 | \$ 2,242,636 | \$ 26,947,800 | \$ 24,705,164 | 8.3 | \$ 2,994,723 | 825.0 |
| 6/30/13 | 2,336,803 | 31,211,885 | 28,875,082 | 7.5 | 2,428,924 | 1,188.8 |
| 6/30/15 | 2,494,510 | 32,557,811 | 30,063,301 | 7.7 | 2,387,488 | 1,259.2 |

The schedule of employer contributions is as follows:

| Fiscal Year Ended | Actuarial Valuation Date | Annual Required Contribution * | Percentage Contributed |
|-------------------|--------------------------|--------------------------------------|---------------------------|
| 6/30/12 | 6/30/09 | \$ 2,368,796 | 37.1 |
| 6/30/13 | 6/30/11 | 2,427,465 | 42.8 |
| 6/30/14 | 6/30/11 | 2,426,703 | 46.3 |
| 6/30/15 | 6/30/13 | 2,757,529 | 41.5 |
| 6/30/16 | 6/30/13 | 2,762,035 | 42.3 |
| 6/30/17 | 6/30/15 | 2,695,949 | 39.3 |

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

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

| | |
|---------------------------------|---------------------------|
| Amortization method | Level dollar |
| Amortization period (perpetual) | 22 years |
| Asset valuation method | Five-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 4.0% |
| Projected salary increases | 3.5% - 11.1% |
| *Includes inflation at | 2.75 |
| Cost-of-living adjustments | None |

City of Southgate, Michigan

Required Supplemental Information Policemen and Firemen Retiree Healthcare System Schedule of Funding Progress and Employer Contributions Year Ended June 30, 2017

The schedule of funding progress is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (Percent) (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll |
|-----------------------------|--|--|---------------------------------|------------------------------------|---------------------------|--|
| 6/30/11 | \$ 1,212,227 | \$ 37,133,343 | \$ 35,921,116 | 3.3 | \$ 4,922,456 | 729.7 |
| 6/30/13 | 1,232,182 | 41,643,541 | 40,411,359 | 3.0 | 4,966,288 | 813.7 |
| 6/30/15 | 1,392,279 | 51,415,585 | 50,023,306 | 2.7 | 5,051,311 | 990.3 |

The schedule of employer contributions is as follows:

| Fiscal Year Ended | Actuarial Valuation Date | Annual Required Contribution * | Percentage Contributed |
|-------------------|--------------------------|--------------------------------------|---------------------------|
| 6/30/12 | 6/30/09 | \$ 2,348,689 | 66.3 |
| 6/30/13 | 6/30/11 | 2,350,185 | 77.3 |
| 6/30/14 | 6/30/11 | 2,411,044 | 73.2 |
| 6/30/15 | 6/30/13 | 2,668,891 | 67.7 |
| 6/30/16 | 6/30/13 | 2,738,480 | 58.4 |
| 6/30/17 | 6/30/15 | 3,125,869 | 65.4 |

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

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2013, the latest actuarial valuation is as follows:

| | |
|---------------------------------|---------------------------|
| Amortization method | Level percent |
| Amortization period (perpetual) | 30 years |
| Asset valuation method | Five-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 4.0% |
| Projected salary increases | 3.50% - 6.38% |
| *Includes inflation at | 2.75% |
| Cost-of-living adjustments | None |

City of Southgate, Michigan

Note to Required Supplemental Information June 30, 2017

Note - Budgetary Information

Budgetary Information - The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the "Uniform Budgeting Act"). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and special revenue funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

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

1. On or before 90 days prior to the commencement of the fiscal and budget year (July 1), the mayor shall prepare and submit to the Council a complete itemized proposed budget for the next fiscal year.
2. A public hearing on the budget shall be held before its final adoption, at such time and place as the Council shall direct, and notice of such public hearing shall be published at least one month in advance thereof by the clerk.
3. The Council shall, on or before 30 days prior to the commencement of the next fiscal year, adopt a budget for the ensuing fiscal year.

Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2016 has not been calculated. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenue and expenditures, including budget variances, for the General Fund is presented as required supplemental information.

City of Southgate, Michigan

Note to Required Supplemental Information (Continued) June 30, 2017

Note - Budgetary Information (Continued)

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

- Operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."
- Reimbursements from other funds have been included in revenue, rather than as a reduction of general government nondepartmental expenditures.

A reconciliation of the budgetary comparison schedule to the fund based statement of changes in fund balance is as follows:

| | <u>Total Revenue</u> | <u>Total Expenditures</u> | <u>Change in Fund Balance</u> |
|--|----------------------|---------------------------|-------------------------------|
| General Fund | | | |
| Amounts per operating statement | \$ 20,926,582 | \$ 20,457,595 | \$ 168,012 |
| Operating transfers budgeted as expenditures | - | 300,975 | - |
| Reimbursements from other funds | 1,246,656 | 1,246,656 | - |
| Severance Reserve Fund budgeted separately from the General Fund | - | 88,610 | (88,610) |
| | <u>\$ 22,173,238</u> | <u>\$ 22,093,836</u> | <u>\$ 79,402</u> |
| Amounts per budget statement | | | |

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

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--|---------------|---------------|-----------------|
| General Fund: | | | |
| General government: | | | |
| City Council | \$ 34,915 | \$ 35,416 | \$ (501) |
| Treasurer | 210,537 | 212,088 | (1,551) |
| Assessor | 173,400 | 186,345 | (12,945) |
| Clerk | 147,877 | 154,228 | (6,351) |
| Attorney | 145,500 | 145,597 | (97) |
| Nondepartmental | 3,716,076 | 3,718,727 | (2,651) |
| Public safety: | | | |
| Fire | 3,740,656 | 3,873,397 | (132,741) |
| Building inspections and related | 331,932 | 338,703 | (6,771) |
| Public works: | | | |
| Public services | 1,761,185 | 1,826,690 | (65,505) |
| Sanitation | 1,459,083 | 1,471,088 | (12,005) |
| Planning | 6,500 | 13,354 | (6,854) |
| Community Development Block Grant Fund - | | | |
| Public Works | 155,658 | 453,180 | (297,522) |

These unfavorable variances in the General Fund and the Community Development Block Grant Fund were caused by unanticipated expenditures that became necessary during the year.

City of Southgate, Michigan

Required Supplemental Information Municipal Employees' Retiree Healthcare System Schedule of Changes in the City OPEB Liability and Related Ratios Last Ten Fiscal Years

| | 2017* |
|---|----------------------|
| Total OPEB Liability | |
| Service cost | \$ 620,007 |
| Interest | 1,256,504 |
| Changes in benefit terms | - |
| Differences between expected and actual experience | (215,429) |
| Changes in assumptions | - |
| Benefit payments, including refunds | (984,952) |
| | 676,130 |
| Net Change in Total OPEB Liability | 676,130 |
| Total OPEB Liability - Beginning of year | 35,477,515 |
| Total OPEB Liability - End of year | \$ 36,153,645 |
| Plan Fiduciary Net Position | |
| Contributions - Employer | \$ 1,059,952 |
| Contributions - Active and inactive plan members not yet receiving benefits | - |
| Net investment income | 14,189 |
| Administrative expenses | - |
| Benefit payments, including refunds | (984,952) |
| Other | (7,375) |
| | 81,814 |
| Net Change in Plan Fiduciary Net Position | 81,814 |
| Plan Fiduciary Net Position - Beginning of year | 2,657,287 |
| Plan Fiduciary Net Position - End of year | \$ 2,739,101 |
| Net OPEB Liability - Ending | \$ 33,414,544 |
| Plan Fiduciary Net Position as a Percentage of Total OPEB Liability | 7.58 % |
| Covered Employee Payroll | \$ 2,387,488 |
| Net OPEB Liability as a Percentage of Covered Employee Payroll | 1,399.6 % |

* GASB 74 was implemented for FYE June 30, 2017 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.

City of Southgate, Michigan

Required Supplemental Information Municipal Employees' Retiree Healthcare System Schedule of City Contributions Last Nine Fiscal Years

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Actuarially determined contribution | \$ 2,695,949 | \$ 2,762,035 | \$ 2,757,526 | \$ 2,426,703 | \$ 2,427,465 | \$ 2,368,796 | \$ 2,370,630 | \$ 2,858,040 | \$ 2,855,905 |
| Contributions in relation to the actuarially determined contribution | 1,059,952 | 1,169,526 | 1,144,813 | 1,125,097 | 1,038,778 | 914,088 | 731,027 | 919,222 | 931,940 |
| Contribution deficiency | <u>\$ 1,635,997</u> | <u>\$ 1,592,509</u> | <u>\$ 1,612,713</u> | <u>\$ 1,301,606</u> | <u>\$ 1,388,687</u> | <u>\$ 1,454,708</u> | <u>\$ 1,639,603</u> | <u>\$ 1,938,818</u> | <u>\$ 1,923,965</u> |
| Covered employee payroll | \$ 2,350,053 | \$ 2,351,603 | \$ 2,380,521 | \$ 2,501,902 | \$ 2,603,000 | \$ 2,995,000 | \$ 3,678,000 | \$ 3,700,000 | \$ 3,800,000 |
| Contributions as a percentage of covered employee payroll | 45.1 % | 49.7 % | 48.1 % | 45.0 % | 39.9 % | 30.5 % | 19.9 % | 24.8 % | 24.5 % |

Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

| | |
|---|--|
| Valuation date | Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. |
| Methods and assumptions used to determine contribution rates: | |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar, closed |
| Remaining amortization period | 22 years |
| Asset valuation method | Equal to market value of assets |
| Inflation | 2.75 percent |
| Healthcare cost trend rates | 9.00 percent trend for the first year, then gradually decreasing to an ultimate trend of 3.50 percent |
| Salary increases | 3.5 percent to 11.10 percent |
| Investment rate of return | 4.00 percent |
| Retirement age | 65 years of age |
| Mortality | Mortality rates were based on the RP-2014 Tables with blue collar adjustments for both preretirement and postretirement |
| Other information | None |

City of Southgate, Michigan

Required Supplemental Information Municipal Employees' Retiree Healthcare System Schedule of Investment Returns Last Ten Fiscal Years

2017*

Annual money weighted rate of return, net of investment expense

0.5 %

* GASB 74 was implemented for FYE June 30, 2017 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.

City of Southgate, Michigan

Required Supplemental Information Policemen and Firemen Retiree Healthcare System Schedule of Changes in the City OPEB Liability and Related Ratios Last Ten Fiscal Years

| | 2017* |
|---|----------------------|
| Total OPEB Liability | |
| Service cost | \$ 1,375,918 |
| Interest | 2,007,629 |
| Changes in benefit terms | - |
| Differences between expected and actual experience | (31,408) |
| Changes in assumptions | - |
| Benefit payments, including refunds | (1,787,754) |
| | 1,564,385 |
| Net Change in Total OPEB Liability | 1,564,385 |
| Total OPEB Liability - Beginning of year | 56,599,982 |
| Total OPEB Liability - End of year | \$ 58,164,367 |
| Plan Fiduciary Net Position | |
| Contributions - Employer | \$ 2,045,006 |
| Contributions - Active and inactive plan members not yet receiving benefits | - |
| Net investment income | 3,313 |
| Administrative expenses | - |
| Benefit payments, including refunds | (1,787,754) |
| Other | - |
| | 260,565 |
| Net Change in Plan Fiduciary Net Position | 260,565 |
| Plan Fiduciary Net Position - Beginning of year | 1,472,840 |
| Plan Fiduciary Net Position - End of year | \$ 1,733,405 |
| Net OPEB Liability - Ending | \$ 56,430,962 |
| Plan Fiduciary Net Position as a Percentage of Total OPEB Liability | 2.98 % |
| Covered Employee Payroll | \$ 5,051,311 |
| Net OPEB Liability as a Percentage of Covered Employee Payroll | 1,117.2 % |

* GASB 74 was implemented for FYE June 30, 2017 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.

City of Southgate, Michigan

Required Supplemental Information Policemen and Firemen Retiree Healthcare System Schedule of City Contributions Last Nine Fiscal Years

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|----------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|----------------------------|----------------------------|
| Actuarially determined contribution | \$ 3,125,869 | \$ 2,738,480 | \$ 2,668,891 | \$ 2,411,044 | \$ 2,350,185 | \$ 2,348,689 | \$ 2,287,952 | \$ 2,651,134 | \$ 2,536,970 |
| Contributions in relation to the actuarially determined contribution | <u>2,045,006</u> | <u>1,775,195</u> | <u>1,806,153</u> | <u>1,764,000</u> | <u>1,816,366</u> | <u>1,556,376</u> | <u>1,336,576</u> | <u>1,275,156</u> | <u>1,369,147</u> |
| Contribution deficiency | <u>\$ 1,080,863</u> | <u>\$ 963,285</u> | <u>\$ 862,738</u> | <u>\$ 647,044</u> | <u>\$ 533,819</u> | <u>\$ 792,313</u> | <u>\$ 951,376</u> | <u>\$ 1,375,978</u> | <u>\$ 1,167,823</u> |
| Covered employee payroll | \$ 4,633,108 | \$ 5,047,949 | \$ 4,708,305 | \$ 4,966,288 | \$ 4,889,791 | \$ 4,922,456 | \$ 4,884,554 | \$ 5,759,174 | \$ 5,438,968 |
| Contributions as a percentage of covered employee payroll | 44.1 % | 35.2 % | 38.4 % | 35.5 % | 37.1 % | 31.6 % | 27.4 % | 22.1 % | 25.2 % |

Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

| | |
|---|--|
| Valuation date | Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. |
| Methods and assumptions used to determine contribution rates: | |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percent of payroll |
| Remaining amortization period | 30 years |
| Asset valuation method | Equal to market value of assets |
| Inflation | 2.75 percent |
| Healthcare cost trend rates | 9.00 percent trend for the first year, then gradually decreasing to an ultimate trend of 3.50 percent |
| Salary increases | 3.50 percent to 6.38 percent |
| Investment rate of return | 4.00 percent |
| Retirement age | 60 years of age |
| Mortality | Mortality rates were based on the RP-2014 Tables with blue collar adjustments for both preretirement and postretirement |
| Other information | None |

City of Southgate, Michigan

Required Supplemental Information Policemen and Firemen Retiree Healthcare System Schedule of Investment Returns Last Ten Fiscal Years

2017*

Annual money weighted rate of return, net of investment expense

0.0 %

* GASB 74 was implemented for FYE June 30, 2017 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available

Other Supplemental Information

City of Southgate, Michigan

| | Special Revenue Funds | | | | |
|--|-----------------------|--------------------|-------------------|-------------------|-------------------|
| | Major Street | Local Street | Street Paving | Narcotics | |
| | Fund | Fund | Fund | Enforcement | Library |
| Assets | | | | | |
| Cash and investments | \$ 1,820,244 | \$ 2,188,611 | \$ 376,329 | \$ 265,866 | \$ 531,409 |
| Receivables - Net | 292,952 | 112,584 | - | - | - |
| Due from component units | - | - | - | - | - |
| Advances to other funds | - | - | 194,089 | - | - |
| Prepaid expenses and other assets | - | - | - | - | 16 |
| Total assets | \$2,113,196 | \$2,301,195 | \$ 570,418 | \$ 265,866 | \$ 531,425 |
| Liabilities | | | | | |
| Accounts payable | \$ 17,174 | \$ 3,552 | \$ 3,659 | \$ 2,233 | \$ 10,210 |
| Accrued liabilities and other | - | - | 22,500 | - | 9,425 |
| Total liabilities | 17,174 | 3,552 | 26,159 | 2,233 | 19,635 |
| Fund Balances | | | | | |
| Nonspendable: | | | | | |
| Prepays | - | - | - | - | 16 |
| Long-term receivable | - | - | 194,089 | - | - |
| Restricted: | | | | | |
| Roads | 2,096,022 | 2,297,643 | 350,170 | - | - |
| Narcotics enforcement | - | - | - | 263,633 | - |
| Debt service | - | - | - | - | - |
| Library | - | - | - | - | 511,774 |
| District court capital improvement | - | - | - | - | - |
| Committed | - | - | - | - | - |
| Assigned | - | - | - | - | - |
| Total fund balances | 2,096,022 | 2,297,643 | 544,259 | 263,633 | 511,790 |
| Total liabilities and fund balances | \$2,113,196 | \$2,301,195 | \$ 570,418 | \$ 265,866 | \$ 531,425 |

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

| Debt Service Funds | | | Capital Projects Funds | | Total |
|--------------------|------------------------------------|-------------------------------|--------------------------------|--|-----------------------------------|
| SCI 541 Bond | Michigan Transportation Bond | Building Authority Fund | Capital Improvement Fund | District Court Capital Improvement | Nonmajor Governmental Funds |
| \$ 4,963 | \$ 108,556 | \$ 146,814 | \$ 946,203 | \$ 203,668 | \$ 6,592,663 |
| - | - | - | - | 10,975 | 416,511 |
| - | - | - | 45,056 | - | 45,056 |
| - | - | - | - | - | 194,089 |
| - | - | - | - | - | 16 |
| \$ 4,963 | \$ 108,556 | \$ 146,814 | \$ 991,259 | \$ 214,643 | \$ 7,248,335 |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 36,828 |
| - | - | - | - | - | 31,925 |
| - | - | - | - | - | 68,753 |
| - | - | - | - | - | 16 |
| - | - | - | - | - | 194,089 |
| - | - | - | - | - | 4,743,835 |
| - | - | - | - | - | 263,633 |
| 4,963 | 108,556 | 146,814 | - | - | 260,333 |
| - | - | - | - | - | 511,774 |
| - | - | - | - | 214,643 | 214,643 |
| - | - | - | 765,422 | - | 765,422 |
| - | - | - | 225,837 | - | 225,837 |
| 4,963 | 108,556 | 146,814 | 991,259 | 214,643 | 7,179,582 |
| \$ 4,963 | \$ 108,556 | \$ 146,814 | \$ 991,259 | \$ 214,643 | \$ 7,248,335 |

City of Southgate, Michigan

| | Special Revenue Funds | | | | |
|--|-----------------------|----------------------|-----------------------|--------------------------|-------------------|
| | Major Street Fund | Local Street Fund | Street Paving Fund | Narcotics Enforcement | Library |
| Revenue | | | | | |
| Property taxes | \$ - | \$ - | \$ 1,215,668 | \$ - | \$ 553,288 |
| Federal grants | - | - | - | 39,195 | - |
| State sources | 1,514,441 | 582,008 | - | 77,249 | 19,648 |
| Charges for services | - | - | - | - | - |
| Investment income | 6,173 | 3,023 | 11,575 | 2,380 | 2,122 |
| Other revenue | - | - | - | - | 18,592 |
| Total revenue | 1,520,614 | 585,031 | 1,227,243 | 118,824 | 593,650 |
| Expenditures - Current | | | | | |
| General government | - | - | - | - | - |
| Public safety | - | - | - | 114,609 | - |
| Public works | 1,667,833 | 522,226 | 932,637 | - | - |
| Recreation and culture - Library | - | - | - | - | 616,672 |
| Capital outlay | - | - | - | - | - |
| Debt service: | | | | | |
| Principal | - | - | - | - | - |
| Interest on long-term debt | - | - | - | - | - |
| Total expenditures | 1,667,833 | 522,226 | 932,637 | 114,609 | 616,672 |
| Excess of Revenue (Under) Over Expenditures | (147,219) | 62,805 | 294,606 | 4,215 | (23,022) |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | 1,153,212 | - | - | - | - |
| Transfers out | - | (1,153,212) | - | - | (100,775) |
| Total other financing sources (uses) | 1,153,212 | (1,153,212) | - | - | (100,775) |
| Net Change in Fund Balances | 1,005,993 | (1,090,407) | 294,606 | 4,215 | (123,797) |
| Fund Balances - Beginning of year | 1,090,029 | 3,388,050 | 249,653 | 259,418 | 635,587 |
| Fund Balances - End of year | \$ 2,096,022 | \$ 2,297,643 | \$ 544,259 | \$ 263,633 | \$ 511,790 |

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

| Debt Service Funds | | | Capital Projects Fund | | Total |
|--------------------|------------------------------------|----------------------------|--------------------------------|--|-----------------------------------|
| SCI 541 Bond | Michigan Transportation Bond | Building Authority Fund | Capital Improvement Fund | District Court Capital Improvement | Nonmajor Governmental Funds |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,768,956 |
| - | - | - | - | - | 39,195 |
| - | - | - | - | - | 2,193,346 |
| - | - | - | - | 125,100 | 125,100 |
| - | - | - | 4,437 | - | 29,710 |
| - | - | 661,285 | - | - | 679,877 |
| - | - | 661,285 | 4,437 | 125,100 | 4,836,184 |
| - | - | 500 | - | - | 500 |
| - | - | - | - | - | 114,609 |
| - | - | - | - | - | 3,122,696 |
| - | - | - | - | - | 616,672 |
| - | - | - | 74,966 | - | 74,966 |
| - | - | 865,000 | - | 124,542 | 989,542 |
| - | - | 197,360 | - | 8,868 | 206,228 |
| - | - | 1,062,860 | 74,966 | 133,410 | 5,125,213 |
| - | - | (401,575) | (70,529) | (8,310) | (289,029) |
| - | - | 401,750 | - | - | 1,554,962 |
| - | - | - | - | - | (1,253,987) |
| - | - | 401,750 | - | - | 300,975 |
| - | - | 175 | (70,529) | (8,310) | 11,946 |
| 4,963 | 108,556 | 146,639 | 1,061,788 | 222,953 | 7,167,636 |
| \$ 4,963 | \$ 108,556 | \$ 146,814 | \$ 991,259 | \$ 214,643 | \$ 7,179,582 |

City of Southgate, Michigan

| | Pension Trust Funds | | | |
|---|----------------------|---------------------|---------------------|----------------------|
| | Policemen and | Municipal | | |
| | Firemen | Employees' | | |
| | Retirement | Retiree Health | Act 345 Health | Total Pension |
| System | Care | Insurance | Trust Funds | |
| Assets | | | | |
| Cash and cash equivalents | \$ 3,021,852 | \$ 648,258 | \$ 1,646,374 | \$ 5,316,484 |
| Investments: | | | | |
| Certificate of deposits | - | 2,090,843 | - | 2,090,843 |
| U.S. government securities | 3,565 | - | - | 3,565 |
| Stocks and mutual funds | 40,016,441 | - | - | 40,016,441 |
| Mortgage-backed securities | 46,624 | - | - | 46,624 |
| Receivables: | | | | |
| Accrued interest receivable | 73,637 | - | - | 73,637 |
| Other receivables | 88,776 | - | - | 88,776 |
| Prepaid expenses | - | - | 93,040 | 93,040 |
| Total assets | 43,250,895 | 2,739,101 | 1,739,414 | 47,729,410 |
| Liabilities | | | | |
| Accounts payable | - | - | 6,009 | 6,009 |
| Due to other governmental units | - | - | - | - |
| Cash bonds and deposits | - | - | - | - |
| Total liabilities | - | - | 6,009 | 6,009 |
| Net Position Held in Trust for Pension and Other Employee Benefits | \$ 43,250,895 | \$ 2,739,101 | \$ 1,733,405 | \$ 47,723,401 |

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

Agency Funds

| Tax Collection | Senior Citizens' Trust | Escrow Fund | Total Agency Funds |
|------------------|---------------------------|-------------------|-----------------------|
| \$ 79,457 | \$ 78,828 | \$ 516,119 | \$ 674,404 |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | 318 | - | 318 |
| - | - | - | - |
| \$ 79,457 | \$ 79,146 | \$ 516,119 | \$ 674,722 |
| \$ - | \$ - | \$ - | \$ - |
| 79,457 | - | - | 79,457 |
| - | 79,146 | 516,119 | 595,265 |
| \$ 79,457 | \$ 79,146 | \$ 516,119 | \$ 674,722 |

City of Southgate, Michigan

Other Supplemental Information Combining Statement of Changes in Fiduciary Net Position Fiduciary Funds Year Ended June 30, 2017

| | Policemen and Firemen Retirement System | Municipal Employees' Retiree Health Care | Act 345 Health Insurance | Total |
|---|--|---|-----------------------------|----------------------|
| Additions | | | | |
| Investment income (loss): | | | | |
| Interest and dividends | \$ 993,584 | \$ 35,536 | \$ 3,313 | \$ 1,032,433 |
| Net increase (decrease) in fair value of investments | 4,531,801 | (21,347) | - | 4,510,454 |
| Investment-related expenses | (290,084) | - | - | (290,084) |
| Net investment income | 5,235,301 | 14,189 | 3,313 | 5,252,803 |
| Contributions: | | | | |
| Employer | 3,244,840 | 1,059,952 | 2,045,006 | 6,349,798 |
| Employee | 377,556 | - | - | 377,556 |
| Net contributions | 3,622,396 | 1,059,952 | 2,045,006 | 6,727,354 |
| Total additions - Net | 8,857,697 | 1,074,141 | 2,048,319 | 11,980,157 |
| Deductions - Benefit payments | 5,178,850 | 992,327 | 1,787,754 | 7,958,931 |
| Net Increase in Net Position Held in Trust | 3,678,847 | 81,814 | 260,565 | 4,021,226 |
| Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year | 39,572,048 | 2,657,287 | 1,472,840 | 43,702,175 |
| Net Position Held in Trust for Pension and Other Employee Benefits - End of year | <u>\$ 43,250,895</u> | <u>\$ 2,739,101</u> | <u>\$ 1,733,405</u> | <u>\$ 47,723,401</u> |